



Grand Field Group Holdings Limited

(incorporated in Bermuda with limited liability)
(Stock Code: 0115)



2005
Annual Report

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tsang Wai Lun, Wayland (*Chairman*)
Madam Kwok Wai Man, Nancy
Mr. Lau Tam Wah

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Pui Wai, Kimber
Mr. Lum Pak Sum
Dr. Wong Yun Kuen

COMPANY SECRETARY

Mr. Chau Tsun Ming, Jimmy

ASSISTANT SECRETARY

Mr. Ira Stuart Outerbridge III

QUALIFIED ACCOUNTANT

Mr. Kam Ying Fai

AUDIT COMMITTEE/REMUNERATION COMMITTEE

Mr. Hui Pui Wai, Kimber
Mr. Lum Pak Sum
Dr. Wong Yun Kuen

AUTHORIZED REPRESENTATIVES

Madam Kwok Wai Man, Nancy
Mr. Lau Tam Wah

REGISTERED OFFICE IN BERMUDA

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1201 Righteous Centre
585 Nathan Road, Kowloon
Hong Kong

LEGAL ADVISERS ON BERMUDA LAW

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Hong Kong

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants
12/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PROPERTY VALUERS

BMI Appraisals Limited
Suite 06-12
33/F Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited
The Industrial and Commercial Bank of China,
Shenzhen Branch

CHAIRMAN'S STATEMENT

On behalf of the board of directors of the Company and its subsidiaries (the "Group"), I am pleased to present the audited annual report of the Group for the year ended 31 December 2005 to the shareholders.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover decreased by 92.9% to HK\$9.8 million and recorded a profit attributable to shareholders of HK\$3.0 million when compared to last year's turnover of HK\$138.6 million and profit attributable to shareholders of HK\$40.6 million. No geographical analysis is presented for the year ended 31 December 2005 as all the Group's turnover and results were substantially derived from property business in the PRC. The decrease in turnover was largely due to no sales recorded from sales on investment properties and on properties held for development in 2005 in comparison of sales of HK\$8.8 million and 97.6 million respectively last year. Faced with decrease in turnover and profit attributable to shareholders, the Group exercised a more stringent control over the cost elements such as distribution costs, administrative expenses and finance costs and successfully kept such cost elements down by 56%, 23% and 55% to HK\$2.8 million, HK\$12.7 million and HK\$3.0 million respectively compared to last year.

BUSINESS REVIEW

With the continuing implementation of a series of macroeconomic measures by the PRC government in 2005 aiming to suppress the property market from over-booming, the Shenzhen property market was inevitably subject to adjustments in land, taxation and financial policies such as stringent land and properties sales administration, the levy of Land Appreciation Tax ("LAT") upon sale of commercial properties, the tightening of grant of loans by financial institutions and, in result, the Shenzhen property market price turned out to be reasonably upward in 2005.

Given the concurrent macro-environment and keen competition, the Directors took a more prudent view to maintain its leading image in the district and profit margin and it is more appropriate to put forward a more conservative marketing approach rather than to engage in price competition. In addition to adopting conservative marketing approach, the Group was upholding its existing resources for future suitable development opportunities and therefore there was no new property project under development in 2005.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's cash and bank deposits were approximately HK\$1.4 million (2004: HK\$15.1 million) and the percentage of cash and cash equivalent denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB") were 53% and 47% respectively (2004: 22% and 78%).

The Group had total current assets of approximately HK\$68 million (2004: HK\$113 million) and total current liabilities of approximately HK\$49 million (2004: HK\$73 million). The Group recorded total assets of approximately HK\$376 million (2004: HK\$412 million) and total bank loans and borrowings of HK\$31.7 million (2004: HK\$39.8 million). As at 31 December 2005, the Group's total interest-bearing borrowings amounted to HK\$31.7 million, of which HK\$26.8 million was repayable within 1 year (2004: HK\$32.6 million), HK\$2 million was repayable from 1-2 years (2004: HK\$2.8 million), HK\$2.9 million was repayable from 2-5 years (2004: HK\$3 million), nil was repayable after 5 years (2004: HK\$1.4 million). All the Group's borrowings were denominated at RMB and at interest rates ranged from 7.25% to 11.4% (2004: 6.9% to 11.4%).

CHAIRMAN'S STATEMENT

The gearing ratio for 31 December 2005, which was defined to be total interest-bearing borrowings over shareholders' equity, was 10% (2004: 12%).

The Group's major operations are located in the PRC and the main operational currencies are HKD and RMB. There was an exchange rate appreciation of RMB against HKD for more than 2% from the middle of 2005 and the movement of such was acting favourable to the Group. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

CHARGE OF ASSETS

Pledged bank deposits of the Group amounted to HK\$5.2 million (2004: HK\$5.5 million) have been acting as a security for the mortgage loans made available from the banks to the buyers of the Group's properties.

Investment properties of the Group amounted to HK\$24 million (2004: HK\$18 million), Properties held for sale of the Group amounted to HK\$8.5 million (2004: HK\$8.4 million) and the buildings of the Group amounted to HK\$4.9 million (2004: HK\$5 million) have been pledged to banks to secure bank loans and facilities granted to the Group.

SIGNIFICANT INVESTMENT

There is no investment activity by the Group during the years ended 31 December 2005 and 2004.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the years ended 31 December 2005 and 2004.

CONTINGENT LIABILITIES

The Company has given corporate guarantees to a bank in respect of fully utilized general banking facilities granted to a subsidiary amounting to HK\$4 million as at 31 December 2005 (2004: HK\$4 million).

During the year ended 31 December 2005, the local tax authorities of Shenzhen, the PRC commenced to levy LAT on property developers effective from 1 November 2005. In the opinion of the Directors, the total LAT related to the properties sold during the years ended 1999, 2000 and 2001 in the amount of HK\$17,254,000 has not yet been levied by the tax authorities of Shenzhen, the PRC and the Directors consider that there is low possibility that LAT will be levied. Should the levies applied to the properties sold in 1999, 2000 and 2001, then additional LAT attributable to the Group would amount to HK\$17,254,000 (2004: HK\$17,254,000).

EMPLOYEES

As of end of 2005, the Group employed 62 employees (2004: 42) and the staff cost for the year amounted to HK\$3.8 million (2004: HK\$4.1 million). The Group's emolument policies are formulated such that the emoluments are made by reference to the performance of individual employees and will be reviewed every year. Apart from basic salary and statutory provident fund scheme, employees will also be offered discretionary bonus based on the results of the Group and their individual performance.

PROSPECT

In 2005, the PRC economy in terms of gross domestic product ("GDP") continued its strong growth at a rate of over 9% than last year and such growth will certainly uplift the housing demand in the years ahead.

More specifically in Pearl River Delta region of the PRC, with the speed up of economic co-operation between Hong Kong and the Pearl River Delta region and the changes of housing subsidizes policies from the state-owned companies in the PRC, the demand on properties will further be strengthened surrounding the area. In turn, the Group's properties portfolio with its existing land related resources is highly likely to be benefited in appreciation of asset values within the area.

Looking ahead, the Group shall commence a preliminary plan on a project site located in Buji city of Shenzhen, the PRC for properties development into residential and commercial uses from a land with site area of approximately 26,000 sq.m. of which the Group already paid up the land premium and is awaiting for the issue of land title certificate by Land Bureau of Shenzhen, the PRC. A substantial contribution to the Group shall be anticipated upon successful development of this property project.

Besides the development of the above project, the Group is also actively to explore development opportunities in the PRC.

APPRECIATION

On behalf of the Board, I would like to extend our wholehearted gratitude to the Group's employees for their dedication and efforts in servicing the Group for the year as well as to our customers, suppliers, bankers and shareholders for their continued valuable supports.

Tsang Wai Lun, Wayland

Chairman

Hong Kong, 26 April 2006

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

(I) DIRECTORS

Executive Directors

Mr. TSANG Wai Lun, Wayland, aged 48, is the Chairman and Managing Director of the Group. Before founding the Group in 1992, Mr. Tsang was engaged in the trading of camera equipment in the PRC. In late 1991, Mr. Tsang began to explore opportunities in the property development business in Guangdong Province. Mr. Tsang has accumulated more than 14 years' experience in the field of property development and investment in the PRC. Mr. Tsang is responsible for formulating the overall strategy of the Group.

Madam KWOK Wai Man, Nancy, aged 45, is responsible for overseeing the overall financial management of the Group. Madam Kwok has more than 20 years' experience in the field of financial management and property development in the PRC. Before founding the Group, Madam Kwok worked for her father's garment trading business and was in charge of accounting. Madam Kwok is the spouse of Mr. Tsang Wai Lun, Wayland.

Mr. LAU Tam Wah, aged 53, is responsible for the overall coordination of the Group's operations in Hong Kong and maintaining banking relationships of the Group in Hong Kong. He joined the Group in December 1992 and has over 20 years' experience in the banking operation in Hong Kong.

Independent Non-Executive Directors

Mr. HUI Pui Wai, Kimber, aged 35, is an Independent Non-executive Director. Mr. Hui holds a Bachelor of Arts Degree majoring in Economics and Political Science from The University of New South Wales in Australia. He has over 9 years' experience in the marketing industry.

Mr. LUM Pak Sum, aged 45, is an Independent Non-executive Director. He is a professional accountant. He holds a master degree in business administration from the University of Warwick, UK and a LLB (Honor) degree from the University of Wolverhampton, UK. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants, HK and the Association of Chartered Certified Accountants, UK. He is a registered person with Securities and Futures Commission in Hong Kong. Mr. Lum has over 18 years' experience in the financial field, the money market and capital market. He is also the Independent Non-executive director of three other listed companies in Hong Kong.

Dr. WONG Yun Kuen, aged 48, is an Independent Non-executive Director. He received a Ph.D. Degree from Harvard University. Dr. Wong has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in Corporate Finance, Investment and Derivative Products. He is a Member of Hong Kong Securities Institute, Master Financial Professional and Fellow of American Academy of Financial Management and Certified E-Commerce Consultant of the Institute of E-Commerce Consultant, U.S.A. Dr. Wong is currently an executive director of UBA Investments Limited (Stock Code: 768), and an INED respectively of Harmony Asset Limited (Stock Code: 428), Golden Resorts Group Limited (Stock Code: 1031), Bauhaus International (Holdings) Limited (Stock Code: 483), Ultra Group Holdings Limited (Stock Code: 8203), and Poly Investments Holdings Limited (Stock Code: 263). Dr. Wong was an INED of Haywood Investments Limited (Stock Code: 905) until July 7, 2005.

(II) SENIOR MANAGEMENT

Mr. KAM Ying Fai, aged 37, joined the Group in December 2005 as the Group Financial Controller. Mr. Kam holds a fellow membership of the Association of Chartered Certified Accountants and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and he has over 13 years' experience in accounting fields in Hong Kong.

CORPORATE GOVERNANCE REPORT

The Group has complied with most of the code provisions on Corporate Governance Practices as set out in Appendix 14 Code on Corporate Governance (“the Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) throughout the year ended 31 December 2005. This report describes its corporate governance practices and explains the applications of the principles on the Code of the Listing Rules except for the deviations from Code Provisions A.2.1, A.4.1, B.1.4 and C.3.4 which are explained in the relevant paragraphs as below.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms as set out in Appendix 10 to the Listing Rules (“the Model Code”). Having made specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard in the Model Code for dealing in securities of the Company throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board comprises a total of six Directors, of whom three are executive Directors and three are Independent Non- executive Directors. Half of the Board is Independent Non-executive Directors and one of them has appropriate professional qualifications. Reviews are made regularly of the Board composition to ensure that it has a balance of expertises, skills and experience appropriate for the requirements of the business of the Company. All Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group’s overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of management. The Board is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. One of the important roles of the Chairman is to provide leadership to the Board to ensure the Board acts in the best interests 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 the Board’s approval. Decisions of the Board are put through to the management by the executive Directors who have attended the Board meetings.

During the year ended 31 December 2005, the Board met and held five meetings in April, June, July, September and December 2005. The attendance records of the abovementioned five Board meetings are as follows:

Directors	Attendance
Executive Directors:	
Tsang Wai Lun, Wayland	5/5
Kwok Wai Man, Nancy	5/5
Lau Tam Wah	4/5
Independent Non-executive Directors	
Hui Pui Wai, Kimber	2/5
Lum Pak Sum	2/5
Wong Yun Kuen	2/5

Minutes of Board/Committee members would be maintained, and draft minutes would be circulated to all Directors members for comments before being approved by the Chairman. Minutes of the Board meetings are kept by the Company Secretary and shall open for inspection by Directors. Minutes of the Audit Committee and the Remuneration Committee are kept by the secretary of these two Committees. Where Directors have a material or conflict of interests in any transaction discussed in the Board meeting would not be dealt with by way of written resolutions. The Directors concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with and for advising the Board on compliance matter.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (“CEO”)

The Code of the Listing Rules stipulates that the role of both the Chairman and CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2005, the Company does not have any officer with title of chief executive officer and Mr. Tsang Wai Lung, Wayland is the founder of the Group who assumes the role of both the Chairman and Managing Director of the Group and has been carrying out the duties of both the Chairman and CEO since the establishment of the Group. The Board is of the view that it is in the best interests of the Group to maintain this structure and has full confidence in Mr. Tsang that the Board can have the benefit of a Chairman who is knowledgeable about the business of the Group and is most capable to formulate and implement business strategies in a timely manner without compromising the balance of power and authority between the Board and the management. He as Chairman ensures that:

All Directors are properly briefed on issues arising at Board meetings.

CORPORATE GOVERNANCE REPORT

Directors receive adequate information, which must be complete and reliable, in a timely manner.

Although there is a deviation from the Code of the Listing Rules of not having a clear division of responsibilities between the Chairman and the CEO, the Board is of the view that this has not compromised accountability and independent decision making for the following grounds:

Half of Board composition is Independent Non-executive Directors.

Audit Committee composed exclusively of Independent Non-executive Directors.

Independent Non-executive Directors have free and direct access to the Company's external auditors and seek independent professional advice as necessary at the Company's expenses.

NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2005, the Non-executive Directors (including the Independent Non-executive Directors) were not appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-Laws.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprised of three Independent Non-executive Directors, namely Mr. Hui Pui Wai, Kimber ("Mr.Hui"), Mr. Lum Pak Sum ("Mr. Lum") and Dr. Wong Yun Kuen ("Dr. Wong") was established in September 2005 with written terms of reference in compliance with the requirement stipulated in the Code of the Listing Rules. About the written terms of reference of the Remuneration Committee, it is not currently posted on the Company's website and a copy of which will be made available upon request.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of all Directors and senior management on the establishment of a formal and transparent procedure for developing policy on such remuneration; reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objective resolved by the Board from time to time; ensuring no Director or any of his associates is involved in deciding his own remuneration and advising shareholders on how to vote with respect to any service contracts of directors that requires shareholder's approval.

One Remuneration Committee meeting was held for the financial year ended 31 December 2005 and all the Committee members attended the meeting.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference with the requirement stipulated in the Code of the Listing Rules. About the written terms of reference of the Audit Committee, it is not currently posted on the Company's website and a copy of which will be made available upon request.

The Audit Committee has three members comprising three Independent Non-executive Directors, Mr. Hui, Mr. Lum (with appropriate professional qualification in accounting) and Dr. Wong and its primary duties are to monitor integrity of the annual report and accounts and half-year report of the Company and to review significant reporting judgements contained in such reports; to review the Group's financial and accounting policies and practices; to review the Group's financial control, internal control and risk management system of the Group with particular regard to their effectiveness and to make recommendations to the Board where the monitoring activities of the committee reveal cause for concern or scope for improvement.

During the year ended 31 December, 2005, the Audit Committee met and held two meetings in April and September 2005 and the attendance records of the two audit committee meetings are as follows:

Members	Attendance
Hui Pui Wai, Kimber	2/2
Lum Pak Sum	2/2
Wong Yun Kuen	2/2

For the meeting held in April 2005, the members of Audit Committee reviewed the Group's annual report 2004 and met with external auditors to discuss auditing, internal control and financial reporting matters before recommending the report for Board's approval.

For the meeting held in September 2005, the members of Audit Committee reviewed the Group's interim report 2005 and had the opinion that the report was prepared in accordance with applicable accounting standards and requirement before recommending the report for Board's approval.

EXTERNAL AUDITORS

The external auditors of the Company for the two years ended 2005 and 2004 was Baker Tilly Hong Kong Limited and the auditor's responsibility is to form an independent opinion based on their audit results on the Company's financial statement and to report their opinion to the Company, as a body, and for no other purposes. They do not assume responsibilities towards or accept liability to any other person for the contents of the report of auditors.

The auditors' remuneration of approximately HK\$280,000 was charged to the Group's income statement for the year ended 31 December 2005 (2004: HK\$306,000). Apart from the provision of annual audit services, the Group's external auditors did not provide other services to the Group for the year ended 31 December 2005.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company values communication with shareholders and investors. Enquires and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

Telephone number: (852) 2399 0223

Fax number: (852) 2380 1996

Postal address: Room 1201 Righteous Centre
585 Nathan Road, Kowloon
Hong Kong

E-mail: gfgcosec@biznetvigator.com

On behalf of the Board

Tsang Wai Lun, Wayland

Chairman

Hong Kong, 26 April 2006

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements of Grand Field Group Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in the note 14 to the financial statements respectively. There have been no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

The Group's turnover and profit from operations are all derived from the sales of properties in the People's Republic of China (the "PRC"). No segment information is presented in the financial statements.

RESULTS

The consolidated results of the Group for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 25.

DIVIDENDS

The directors do not recommend the payment of final dividend in respect of the year ended 31 December 2005 (2004: HK 0.8 cents per share). No interim dividend was declared for the six months ended 30 June 2005 (2004: Nil)

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

Details of the movements in investment properties, property, plant and equipment of the Group during the year are set out in notes 12 and 13 to the financial statements respectively.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 26 of the financial statements.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the five years ended 31 December 2005.

Consolidated results

	Year ended 31 December,				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	9,776	138,628	68,956	72,161	82,865
Profit/(Loss) before income tax	3,103	47,707	(66,118)	(5,051)	(3,681)
Income tax	(68)	(7,089)	(733)	(383)	(137)
Profit/(Loss) attributable to shareholders	3,035	40,618	(66,851)	(5,434)	(3,818)

Consolidated assets and liabilities

	As at 31 December,				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	375,851	411,956	456,795	611,109	574,409
Total liabilities	(53,810)	(79,702)	(171,716)	(268,620)	(322,394)
Net assets	322,041	332,254	285,079	342,489	252,015

MAJOR PROPERTIES

Details of the major properties of the Group at 31 December 2005 are set out on pages 59 to 62.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made to the five largest customers of the Group accounted for approximately 19% (2004: 77%) of the Group's total turnover for the year. Turnover made to the Group's largest customer accounted for approximately 6% (2004: 70%) of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 91% (2004: 84%) of the Group's total purchases for the year. Purchases from the Group's largest supplier accounted for approximately 43% (2004: 44%) of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor the shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings are set out in note 22 to the financial statements.

PURCHASE, SALE REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities.

DIRECTORS

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

Executive Directors

Mr. Tsang Wai Lun, Wayland (*Chairman*)

Madam Kwok Wai Man, Nancy

Mr. Lau Tam Wah

Independent Non-executive Directors

Mr. Hui Pui Wai, Kimber

Mr. Lum Pak Sum

Dr. Wong Yun Kuen

In accordance with clause 111A of the Company's Bye-Laws, Mr. Tsang Wai Lun, Wayland (Chairman) and Madam Kwok Wai Man, Nancy will retire by rotation and, being eligible, offer themselves for re-election.

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

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the Company's annual report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND OPTIONS

(i) Short positions in shares of the Company

At 31 December 2005, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Name of director	Number of ordinary shares held			Total interests	Total interests as percentage of the issued share capital
	Personal Interests	Family interests	Corporate interests		
Mr. Tsang Wai Lun, Wayland	59,260,000	–	735,050,000 (Note)	794,310,000	38.81%
Madam Kwok Wai Man, Nancy	8,220,000	–	735,050,000 (Note)	743,270,000	36.32%
Mr. Lau Tam Wah	1,000,000	–	–	1,000,000	0.05%

Note: These shares are held through Rhenfield Development Corp., the entire issued capital of which is owned by Mr. Tsang Wai Lun, Wayland and Madam Kwok Wai Man, Nancy in equal share.

(ii) Warrants

Under an arrangement of bonus issue of warrants (the "Arrangement"), the Company granted and issued warrants to all shareholders on 15 March 2002 where all shareholders were given a warrant for every five shares held on 14 March 2002 and therefore, a total of 153,160,000 warrants were granted and issued to directors, Mr. Tsang Wai Lun, Wayland, Madam Kwok Wai Man, Nancy and Mr. Lau Tam Wah on 15 March 2002. Under the Arrangement, the warrant holders shall have the rights which may be exercised in whole or in part at any time within the period from 14 September 2004 to 13 March 2005 to subscribe for fully paid shares at a price of HK\$0.435 per share.

Warrants were expired during the year and none of the warrants granted to the above directors were exercised throughout the year.

(iii) Share options in the Company

Details of the share options granted to the directors of the Company under the share option are set out on pages 18 to 19.

(iv) Share in subsidiaries

Each of Mr. Tsang Wai Lun, Wayland and Madam Kwok Wai Man, Nancy also has interests in the following non-voting deferred shares in the following subsidiaries of the Company:

	Grand Field Group Limited	Ka Fong Industrial Company Limited	Kwan Cheung Holdings Limited	Shing Fat Hong Limited
Mr. Tsang Wai Lun, Wayland	1 share of HK\$100	1,000 shares of HK\$100 each	1 share of HK\$100	1 share of HK\$1
Madam Kwok Wai Man, Nancy	1 share of HK\$100	1,000 shares of HK\$100 each	1 share of HK\$100	1 share of HK\$1

Other than the shareholdings disclosed above and nominee shares in certain subsidiaries held in trust for the Group, at 31 December 2005, neither the directors nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the headings "Directors' interests in shares, warrants and options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any rights to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contracts of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year or at the end of the year.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2005, other than the interests disclosed above in respect of certain directors, so far as is known to the directors, the following parties (other than the directors and chief executives of the Company) had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholders	Number of ordinary shares	Percentage of interest
Worldgate Developments Ltd.	126,000,000	6.2%
Logistics China Enterprises Ltd.	126,000,000	6.2%

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme which became effective on 4 August 1999 (the "Share Option Scheme"), the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant of the options and the nominal value of the shares.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Share Option Scheme.

The summary of movements in share options of certain directors and employees of the Group under the Share Option Scheme was as follows:

Name or category of participant	Date of grant	Exercise price (HK\$)	Exercise period	Outstanding at 1/1/2005	Number of share options		Outstanding at 31/12/2005
					Granted during the period	Lapsed during the period	
Mr. Tsang Wai Lun, Wayland	30/1/2002	0.1581	4/2/2002 to 29/1/2005	6,500,000	-	(6,500,000)	-
	25/11/2003	0.0650	25/11/2003 to 24/11/2006	4,950,000	-	-	4,950,000
Madam Kwok Wai Man, Nancy	30/1/2002	0.1581	4/2/2002 to 29/1/2005	6,500,000	-	(6,500,000)	-
	25/11/2003	0.0650	25/11/2003 to 24/11/2006	4,950,000	-	-	4,950,000
Mr. Lau Tam Wah	30/1/2002	0.1581	4/2/2002 to 29/1/2005	750,000	-	(750,000)	-
	25/11/2003	0.0650	25/11/2003 to 24/11/2006	3,200,000	-	-	3,200,000
Other employees, in aggregate	30/1/2002	0.1581	4/2/2002 to 29/1/2005	9,200,000	-	(9,200,000)	-
	25/11/2003	0.0650	25/11/2003 to 24/11/2006	65,950,000	-	(29,390,000)	36,560,000
				<u>102,000,000</u>	<u>-</u>	<u>(52,340,000)</u>	<u>49,660,000</u>

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

COMPLIANCE

In the opinion of the directors, the Company has complied with the code provisions set out in the Code on Corporate Governance in Appendix 14 of the Listing Rules throughout the year except deviations stated in the Corporate Governance Report on pages 8 to 12.

AUDIT COMMITTEE

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the audited financial statements for the year ended 31 December 2005 with external auditors. There were no disagreement from the auditors or the audit committee with the accounting policies adopted by the Company.

AUDITORS

Baker Tilly Hong Kong Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Tsang Wai Lun, Wayland

Chairman

Hong Kong
26 April 2006

REPORT OF THE AUDITORS



Auditors' report to the shareholders of

GRAND FIELD GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 58 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 the financial statements which give a true and fair view. In preparing 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, 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 Statements of Auditing Standards 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

REPORT OF THE AUDITORS

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

BAKER TILLY HONG KONG LIMITED

Certified Public Accountants

Hong Kong
26 April 2006

Chan Cheuk Chi

Practising Certificate number P01137



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	4	9,776	138,628
Cost of sales		(4,242)	(73,801)
Gross profit		5,534	64,827
Other revenue		661	822
Distribution costs		(2,841)	(6,585)
Administrative expenses		(12,683)	(16,488)
Write-back of doubtful debts and bad mortgage loans recoverable		2,137	–
(Loss)/Profit from operations	5	(7,192)	42,576
Write back of land appreciation tax		–	17,254
Impairment in value on investments in a property development joint venture		–	(5,392)
Fair value changes on investment properties	12	13,307	–
Finance costs	6	(3,012)	(6,731)
Profit before income tax		3,103	47,707
Income tax	8	(68)	(7,089)
Profit attributable to shareholders	9	3,035	40,618
Dividends	10	–	16,373
Earnings per share			
– Basic	11	0.15 cents	2.0 cents
– Diluted		N/A	N/A

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005 (IN HK DOLLARS)

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Investment properties	12	73,924	54,986
Property, plant and equipment	13	21,149	21,244
Prepaid premium for land leases	15	1,189	1,263
Mortgage loans receivables due after one year	16	12,501	18,909
Deposits for acquisition of land	17	179,669	176,779
Investments in a property development joint venture		–	6,488
Pledged bank deposits	18	5,212	5,503
Properties held for development	19	14,111	13,632
		307,755	298,804
CURRENT ASSETS			
Properties held for sale	20	32,242	30,192
Prepaid premium for land leases	15	74	74
Mortgage loans receivables	16	12,622	17,516
Other receivables, deposits and prepayments	21	21,783	50,239
Cash and bank balances		1,375	15,131
		68,096	113,152
TOTAL ASSETS		375,851	411,956
NON-CURRENT LIABILITIES			
	22	4,958	7,120
CURRENT LIABILITIES			
Current portion of interest-bearing borrowings	22	26,776	32,554
Trade payables, deposits and accruals	23	10,999	29,322
Deposits received on properties held for sale		302	248
Amounts due to a director	24	6,578	6,503
Taxes payable		4,197	3,955
		48,852	72,582
TOTAL LIABILITIES		53,810	79,702
EQUITY			
Share capital	25	40,933	40,933
Reserves	26	281,108	291,321
TOTAL EQUITY		322,041	332,254
TOTAL LIABILITIES AND EQUITY		375,851	411,956

Tsang Wai Lun, Wayland
Director

Kowk Wai Man, Nancy
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2005 (IN HK DOLLARS)

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	14	159,056	159,056
CURRENT ASSETS			
Other receivables, deposits and prepayments		290	–
Amounts due from subsidiaries	14	160,460	178,224
Cash and bank balances		41	–
		160,791	178,224
TOTAL ASSETS		319,847	337,280
CURRENT LIABILITIES			
Trade payables, deposits and accruals		238	227
TOTAL LIABILITIES		238	227
EQUITY			
Share capital	25	40,933	40,933
Reserves	26	278,676	296,120
TOTAL EQUITY		319,609	337,053
TOTAL LIABILITIES AND EQUITY		319,847	337,280

Tsang Wai Lun, Wayland

Director

Kwok Wai Man, Nancy

Director

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

The Group

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balances as at 1 January 2004	40,933	163,446	(2,215)	1,483	3,255	78,177	285,079
Surplus on revaluation of investment properties (Note 12)	-	-	-	7,461	-	-	7,461
Reversal of revaluation reserve in the previous years	-	-	-	(361)	-	361	-
Realized on disposals of investment properties	-	-	-	(904)	-	-	(904)
Net profit for the year	-	-	-	-	-	40,618	40,618
Balances as at 31 December 2004 and 1 January 2005 as previously reported	40,933	163,446	(2,215)	7,679	3,255	119,156	332,254
Opening balance adjustment as a result of adoption of HKAS 32 and 39 (Note 2)	-	-	-	-	-	(4,221)	(4,221)
Opening balance adjustment as a result of adoption of HKAS 40 (Note 2)	-	-	-	(7,679)	-	7,679	-
As restated	40,933	163,446	(2,215)	-	3,255	122,614	328,033
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	7,346	-	7,346
Net profit for the year	-	-	-	-	-	3,035	3,035
2004 final dividend	-	-	-	-	-	(16,373)	(16,373)
Balances as at 31 December 2005	40,933	163,446	(2,215)	-	10,601	109,276	322,041

The Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balances as at 1 January 2004	40,933	163,646	140,281	(6,420)	338,440
Share issue expenses undercharged in 2002	-	(200)	-	200	-
Net loss for the year	-	-	-	(1,387)	(1,387)
Balances as at 31 December 2004 and 1 January 2005	40,933	163,446	140,281	(7,607)	337,053
Net loss for the year	-	-	-	(1,071)	(1,071)
2004 final dividend	-	-	-	(16,373)	(16,373)
Balances as at 31 December 2005	40,933	163,446	140,281	(25,051)	319,609

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

	2005	2004
	HK\$'000	(Restated) HK\$'000
Operating activities		
Profit before income tax	3,103	47,707
Adjustments for:		
Write back of land appreciation tax	–	(17,254)
Amortization on investments in a property development joint venture	–	2,160
Impairments in value on investments in a property development joint venture	–	5,392
Depreciation	1,306	1,195
Amortization of prepaid premium for land lease	74	74
Interest income	(67)	(69)
Interest expenses	2,979	6,731
Gain on disposals of property, plant and equipment	(25)	–
(Write-back)/Provision for doubtful and bad mortgage loans recoverable	(2,137)	393
(Write-back)/Write-off of other receivables	(203)	203
Changes in fair value of investment properties	(13,307)	–
Operating cash flows before movements in working capital	(8,277)	46,532
(Increase)/Decrease in properties held for sale	(2,216)	19,491
Decrease in properties held for development	282	26,445
Decrease in investment properties	–	1,810
Decrease in mortgage loans receivables	9,966	4,527
Decrease in other receivables, deposits and prepayments	29,404	8,169
Increase in trade payables, deposits and accruals	(18,219)	(29,919)
Decrease in deposits received for sale of properties held for development	49	140
Cash generated from operations	10,989	77,195
Interest received	67	69
Interest paid	(2,979)	(6,731)
Overseas tax paid	(561)	(14,927)
Net cash inflow from operating activities	7,516	55,606

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

	2005	2004
	HK\$'000	(Restated) HK\$'000
Investing activities		
Purchases of property, plant and equipment	(897)	(1,064)
Sale proceeds on disposals of property, plant and equipment	56	67
Sale proceeds on disposals of an associate	-	513
Addition of investment properties	(2,460)	-
Decrease in investments in a property development joint venture	6,488	-
Payments for deposits for acquisition of land	-	(4,788)
Decrease/(Increase) in pledged bank deposits	396	(31)
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	3,583	(5,303)
	<hr/>	<hr/>
Financing activities		
New loans raised	26,923	80,292
Repayments of loans	(35,626)	(100,914)
Repayments of advances from a director	(50)	(12,312)
Dividend paid	(16,373)	-
	<hr/>	<hr/>
Net cash used in financing activities	(25,126)	(32,934)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(14,027)	17,369
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	15,131	(2,238)
	<hr/>	<hr/>
Effect of foreign exchange rate changes	271	-
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	1,375	15,131
	<hr/>	<hr/>
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	1,375	15,131
	<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

1 CORPORATE INFORMATION

The Company was incorporated in Bermuda on 13 May 1999 as an exempted company with limited liability under the Company Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in property development and investment.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as the "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Stock Exchange. The financial statements have been prepared under the historical cost convention, except for the revaluation of certain investment properties, which have been measured at fair value.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of New HKFRSs, which have become effective for accounting periods beginning on or after 1 January 2005 and have not been early adopted by the Group for the preparation of the financial statements of the Group for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The following New HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 31, 33, 36, 37 and HKFRS 3 did not result in substantial changes to the accounting policies and the methods of computation used in the financial statements.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

The following is a summary of changes in principal accounting policies or presentation of the financial statements as a result of the adoption of the New HKFRSs:

(a) HKAS 17 “Leases”

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to prepaid premium for land lease. The up-front prepayments made for the land use rights are initially stated at cost and amortized on a straight-line basis over the period of the leases. In all other cases the amortization charge for the period is recognized in the income statement immediately. Where there is impairment, the impairment is expensed in the income statement.

In the prior years, the land use rights as included in the property, plant and equipment were stated at cost less accumulated depreciation and accumulated impairment.

The revised accounting policy has been applied retrospectively with comparatives restated in accordance with HKAS 17. There were no impact on the retained profits at 1 January 2004 and 2005 and the results for the year ended 31 December 2005 as a result of the adoption of HKAS 17.

(b) HKAS 32 and HKAS 39 “Financial Instruments: Disclosures and Presentation and Financial Instruments” and “Recognition and Measurement”

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy relating to the classification and measurement of loans and receivables and resulted in the decrease in the retained profits as at 1 January 2005 of HK\$4,221,000 and the decrease of mortgage loans receivables as at 1 January 2005 of the same amount.

(c) HKAS 40 “Investment Property”

The adoption of HKAS 40 has resulted in a change in the accounting policy whereby changes in fair values of investment properties are recorded in the income statement.

In prior years, the increases in fair value were credited to the investment property revaluation reserve. Decreases in fair value were first setoff against increases on earlier valuations on a portfolio basis and thereafter recognized in the income statement.

The adoption of HKAS 40 resulted in the increase in the retained profits as at 1 January 2005 of HK\$7,679,000 and the decrease of investment property revaluation reserve as at 1 January 2005 of the same amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(d) HKFRS 2 "Share-based Payment"

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. In prior years, no amounts were recognized for the equity-settled share based payment transactions in the Group, including share options granted to employees or directors of the Group to acquire shares of the Company at specified exercise prices under the share option schemes operated by the Group.

If the employees or directors of the Group chose to exercise the share options, the nominal amount of share capital and share premium were credited only to the extent of the share option's exercise price receivable.

With adoption of HKFRS 2, the cost of share options is charged to the consolidated income statement and the corresponding amount is recognized in the employee share-based compensation reserve under equity. Where the employees or directors are required to meet vesting conditions before they become entitled to the share options or shares, the Group recognizes the fair value of the share options or shares granted as an expense over the vesting period.

If the employees or directors choose to exercise share options, the respective amount in employee share-based compensation reserve is transferred to share capital and share premium, together with exercise price. At each balance sheet date, the group revises its estimates of the number of share options or shares that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

The Group has taken advantage of the transitional provisions set out in HKFRS 2 as

- (i) all options granted by the Company to employees on or before 7 November 2002; and
- (ii) all options granted by the Company to employees after 7 November 2002 but which had vested before 1 January 2005.

Accordingly, the adoption of HKFRS 2 has no impact on the results of the Group for the years ended 31 December 2004 and 2005.

2.2 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

While the adoptions of HKAS 17 and HKFRS 2 have no impacts on the Group's consolidated income statement, the effect of the adoption of HKAS 32 and 39 and HKAS 40 is summarised as follows:

	2005 HK\$'000
HKAS 32 and 39: Decrease in administrative expenses	893
HKAS 40: Increase in fair value of investment properties	13,307
	<hr/>
Total increase in profit attributable to shareholders	14,200
	<hr/>
Increase in basic earnings per share	HK\$0.007
	<hr/>

The adoption of HKAS 32 and HKAS 39 and HKAS 40 resulted in the decrease and increase in the retained profits as at 1 January 2005 by HK\$4,221,000 and HK\$7,679,000 respectively. The effects of adoption of HKAS 17, HKAS 32 and HKAS 39 and HKAS 40 on the consolidated balance sheet as at 1 January 2005 and 31 December 2005 are as follows:

	31 December 2005		1 January 2005		
	HKAS 17 HK\$'000	HKAS 32 and 39 HK\$'000	HKAS 17 HK\$'000	HKAS 32 and 39 HK\$'000	HK AS 40 HK\$'000
Increase/(Decrease) in non-current assets					
– prepaid premium for land leases	1,189	-	1,263	-	-
– mortgage loans receivables	-	(4,538)	-	(2,909)	-
Increase/(Decrease) in current assets					
– prepaid premium for land leases	74	-	74	-	-
– mortgage loans receivables	-	5,431	-	(1,312)	-
Decrease in property, plant and equipment	(1,263)	-	(1,337)	-	-
Decrease in investment property revaluation reserve	-	-	-	-	7,679
(Increase)/Decrease in retained earnings	-	(893)	-	4,221	(7,679)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December, 2005. All significant inter-company balances and transactions within the Group are eliminated on consolidation.

(b) Subsidiaries

A subsidiary is a company controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from the activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment loss in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Investments in a property development joint venture

Investments in a property development joint venture represent the consideration paid to a third party for acquiring the 5% interest of the income arising from a property development project which is operated by the Group. The investment is stated at cost, less provision for impairment in value, if any, and the cost is amortized over the estimated economic life of the property development project.

(d) Investment properties

Investment properties are interests in land and building in respect of which construction work and development have been completed and which are held to earn rentals or for capital appreciation purposes, any rental income being negotiated at arm's length. Investment properties are measured using the fair value model, gains or losses arising in the fair value of investment properties are included in the income statement for the period in which they arise. All investment properties are stated at their open market values which are assessed annually by qualified external valuers.

(e) Properties held for development

Properties held for development are stated at cost, including land cost, construction cost, development expenditure and interest capitalized, less any impairment losses as are considered necessary by the directors. No depreciation is provided on properties held for development until they are completed and put into effective use.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realizable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs attributable to unsold properties. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of the property, plant and equipment.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives using the straight-line method. The annual rates used are as follows:

Buildings	2.5% or over the lease term, whichever is shorter
Leasehold improvements	20% – 33.3%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

For depreciation purpose, cost of buildings is deemed to be 50% of the total cost of land and buildings.

The gain or loss on disposal or retirement of a property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognized in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Prepaid premium for land leases and operating leases

Lease where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

The Group's prepaid premium for land leases represent the up-front prepayments made for the land use rights in the PRC. The prepayments are amortized on a straight-line basis over the remaining term of lease.

Where there is impairment, the impairment is expensed in the income statement.

(i) Mortgage loans receivables

Mortgage loans receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of mortgage loans receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statements. Once mortgage loans receivables have been written down as a result of impairment loss, the reversal of previous provision will be charged to the administrative expenses.

(j) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(k) Taxation

Hong Kong profits tax is provided for the prevailing rate on the estimated assessable profits less available tax relief for losses brought forward for each individual company comprising the Group. For subsidiary company incorporated in overseas, income tax is provided for at the applicable local rates on the estimated assessable profits. For the People's Republic of China (the "PRC") property development projects operated by the Hong Kong subsidiaries, income tax is provided at the applicable local rates on property sales amounts.

For deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date is used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Translation of foreign currencies

Transactions in foreign currency during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries and operations are translated into Hong Kong dollars at exchange rate prevailing on the balance sheet date. Income and expense items are translated into Hong Kong dollars at the average exchange rate during the year. Exchange differences arising, if any, are dealt with in the translation reserve.

(m) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(n) Provisions and contingencies

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition

- (i) Revenue derived from properties held for sale is recognized upon completion of sales agreements.
- (ii) Revenue derived from properties held for development and investment properties is recognized upon the completion of the sales agreement and deposits are received.
- (iii) Rental income under operating leases is recognized on a straight-line basis over the term of the relevant lease.
- (iv) Interest income is accrued on a time proportion basis on the principal outstanding and the rates applicable.

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, less any overdrafts in use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(ii) *Employee retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of this subsidiary in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme.

Pursuant to the relevant regulations of the PRC government, the Company and its subsidiaries operating in the PRC have participated in central pension schemes (the "Schemes") operated by local municipal governments, whereby the Company and its subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the income statement as incurred.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Employee benefits *(continued)*

(iii) Share-base payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in employee equity (Employee share-based compensation reserve).

As mention in note 2, the Group has taken advantage of the transitional provisions set out in HKFRS 2 and the changes in accounting policy has no impact on the results of the Group for the years ended 31 December 2004 and 2005.

4 TURNOVER

Turnover represents the aggregate of net amounts received and receivable for properties held for sale, investment properties and properties held for development sold by the Group to outside customers and property rental income for the years ended, after a deduction of 5% business tax, and is analyzed as follows:

	2005	2004
	HK\$'000	HK\$'000
Sales on properties held for sale	6,788	28,053
Sales on investment properties	–	8,798
Sales on properties held for development	–	97,642
Property rental	2,988	4,135
	<hr/> 9,776 <hr/>	<hr/> 138,628 <hr/>

No geographical analysis are presented for the year as substantially all the Group's turnover and contribution to results were derived from the business of property in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

5 (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after crediting and charging the following:

	2005	2004
	HK\$'000	(Restated) HK\$'000
Charging:		
Auditors' remuneration	314	374
Staff costs, including directors' remuneration as set out in note (7) below:		
– Contributions to defined contribution retirement plans	186	182
– Salaries and other staff costs	3,653	3,956
Depreciation	1,306	1,195
Provision for doubtful and bad mortgage loans receivables	–	393
Write-off of other receivables	–	203
Amortization on investments in a property development joint venture	–	2,160
Amortization of prepaid premium for land leases	74	74
Cost of properties held for sale sold	4,242	18,594
Cost of investment properties sold	–	4,801
Cost of properties held for development sold	–	50,406
Minimum lease payments under operating leases for land and buildings	243	202
Net exchange losses	206	1,618
Crediting:		
Gross rental income from investment properties (Note)	2,988	4,135
Write-back of doubtful debts and bad mortgage loans recoverable	2,137	–
Write-back of other receivables	203	–
Gain on disposals of property, plant and equipment	25	–
Interest income	67	69

Note: The outgoings related to the gross rents from investment properties for each of the two years ended 31 December 2005 and 2004 are negligible.

6 FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable		
– Within five years	2,082	5,451
– Over five years	897	1,280
Others	33	–
	3,012	6,731

7 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Director's emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	For the year ended 31 December 2005			Total HK\$'000
	Directors' fees HK\$'000	Basic salaries and other benefits HK\$'000	Provident fund contributions HK\$'000	
Executive Directors				
Mr. Tsang Wai Lun, Wayland (Chairman)	–	776	12	788
Madam Kwok Wai Man, Nancy	–	294	12	306
Mr. Lau Tam Wah	–	222	10	232
Independent Non-executive Directors				
Mr. Hui Pui Wai, Kimber	–	45	2	47
Mr. Lum Pak Sum	–	50	2	52
Dr. Wong Yun Kuen	–	50	2	52
	–	1,437	40	1,477

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

7 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Director's emoluments *(continued)*

	For the year ended 31 December 2004			Total HK\$'000
	Directors' fees HK\$'000	Basic salaries and other benefits HK\$'000	Provident fund contributions HK\$'000	
Executive Directors				
Mr. Tsang Wai Lun, Wayland (Chairman)	–	740	12	752
Madam Kwok Wai Man, Nancy	–	294	12	306
Mr. Lau Tam Wah	–	221	10	231
*Mr. Zen Qing Sheng	–	–	–	–
Independent Non-executive Directors				
Mr. Hui Pui Wai, Kimber	–	40	2	42
Mr. Lum Pak Sum	–	25	1	26
Dr. Wong Yun Kuen	–	16	1	17
*Mr. Ho Kwong Yue, Sidney	–	20	–	20
	–	1,356	38	1,394
	–	1,356	38	1,394

* Both Mr. Zen Qing Sheng and Mr. Ho Kwong Yue, Sidney resigned on 5 July 2004

7 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Director's emoluments *(continued)*

During the year, land and buildings of the Group with a carrying amount of HK\$4,882,000 (2004: HK\$4,977,000) was occupied by certain directors free of charge.

During the year, no options were granted to directors of the Company and the exercise of rights in respect of options granted to them to subscribe for the shares in the Company.

(b) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group for the year included three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries and other benefits	601	388
Provident fund contributions	22	14
	623	402

The emoluments of the remaining two highest paid individuals fell within the following bands:

Emoluments bands	Number of individuals	
	2005	2004
HK\$Nil to HK\$1,000,000	2	2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

8 INCOME TAX

	2005 HK\$'000	2004 HK\$'000
Subsidiaries		
Income tax in the PRC other than Hong Kong		
– The subsidiary incorporated in the PRC	–	362
– Subsidiaries incorporated in Hong Kong with property development investments in the PRC	68	6,727
	68	7,089

Enterprise income tax for the subsidiary incorporated in the PRC is calculated at 15% of the estimated assessable profit for the year (2004: 15%).

Enterprise income tax for the subsidiaries incorporated in Hong Kong which have property development investments in the PRC is calculated at 3% (2004: 3%) of the sales revenue on respective property development projects.

No provision for Hong Kong profits tax has been made in the financial statements as the Group's income neither arises, nor is derived from, Hong Kong in both financial years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

8 INCOME TAX (continued)

The provision for the year can be reconciled from taxation based on the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before income tax	3,103	47,707
Tax at the domestic tax rate of 17.5% (2004: 17.5%)	543	8,349
Effect of different tax rates of a subsidiary company incorporated in the PRC	(216)	(916)
Effect of different tax calculation basis for the PRC property development projects operated by the Hong Kong subsidiaries	(477)	570
Tax effect on non-deductible expenses	333	2,106
Tax effect on accelerated depreciation allowance	43	–
Tax effect on non-tax taxable income	(158)	(3,020)
Tax charge for the year	68	7,089

Deferred tax has not been provided (2004: Nil) because the Company and the Group had no significant temporary differences at the balance sheet date.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the Groups' consolidated profit attributable to shareholders of HK\$3,035,000 (2004: HK\$40,618,000), loss of HK\$1,071,000 (2004: HK\$1,387,000) have been dealt with in the financial statements of the Company.

10 DIVIDENDS

At the Board of Directors meeting held on 26 April 2006, the directors do not recommend the payment of any dividends in respect of the year ended 31 December 2005 (2004: HK 0.8 cents per share).

11 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to shareholders of HK\$3,035,000 (2004: HK\$40,618,000) and on the weighted average number of 2,046,650,000 (2004: 2,046,650,000) shares issued during the year.

Diluted earnings per share is not presented as there are no diluting events during the years ended 31 December 2004 and 2005.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

12 INVESTMENT PROPERTIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
FAIR VALUE		
At 1 January, as originally stated	54,986	42,398
Surplus on revaluation	-	7,461
As restated	54,986	49,859
Transfer from/(to) properties held for sale	746	(135)
Disposals	-	(4,801)
Transfer from property, plant and equipment	-	7,976
Leasehold improvements	2,460	2,087
Fair value changes on investment properties	13,307	-
Exchange adjustment	2,425	-
At 31 December	73,924	54,986

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of valuation by BMI Appraisals Limited, an independent professional valuer, using the basis date as at 31 December 2005 on an open market value basis.

All investment properties are situated outside Hong Kong and are held on long leases. As at 31 December 2005, property certificates of investment properties with carrying amounts of HK\$44,021,000 (2004: HK\$36,759,000) have not yet been issued.

Investment properties of a carrying amount of HK\$23,927,000 (2004: HK\$18,227,000) have been pledged to the banks as securities for the banking facilities granted to the companies within the Group.

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Furniture, fixtures and office equipment	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2005					
– as originally stated	25,451	3,879	562	2,076	31,968
– effect of HKAS 17	(1,482)	–	–	–	(1,482)
– as restated	23,969	3,879	562	2,076	30,486
Exchange adjustment	362	39	17	10	428
Additions	341	398	–	158	897
Disposals	–	–	–	(231)	(231)
At 31 December 2005	24,672	4,316	579	2,013	31,580
Accumulated depreciation					
At 1 January 2005					
– as originally stated	4,227	2,661	561	1,938	9,387
– effect of HKAS 17	(145)	–	–	–	(145)
– as restated	4,082	2,661	561	1,938	9,242
Exchange adjustment	32	22	11	18	83
Charge for the year	960	288	–	58	1,306
Elimination on disposals	–	–	–	(200)	(200)
At 31 December 2005	5,074	2,971	572	1,814	10,431
Net book value					
At 31 December 2005	19,598	1,345	7	199	21,149
At 31 December 2004 (restated)	19,887	1,218	1	138	21,244

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group *(continued)*

The carrying amount of the buildings, all being held on long term leases, shown above comprises:

	2005	2004 (Restated)
	HK\$'000	HK\$'000
Buildings situated in Hong Kong	4,882	4,977
Buildings situated in the PRC	14,716	14,910
	<u>19,598</u>	<u>19,887</u>

Buildings situated in the PRC mainly represents car park space and other facilities built in the construction projects.

Buildings with a net book value of HK\$4,882,000 (2004: HK\$4,977,000) have been pledged to the banks as securities for the banking facilities granted to the companies within the Group.

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted share at cost	159,056	159,056
Amounts due from subsidiaries	160,460	178,224

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganization in 1999.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

14 INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place/country of incorporation (or establishment)/ operations	Proportion of nominal value of issued capital/ registered capital held by the Company		Issued and fully paid share capital/ registered capital	Principal activities
		Directly	Indirectly		
Grand Field Group Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	100%	–	US\$1	Investment holding
Grand Field Group Investments (BVI) Limited	British Virgin Islands/ Hong Kong	100%	–	US\$1	Investment holding
Grand Field Group Limited	Hong Kong	–	100%	Ordinary shares of HK\$200 and non-voting deferred shares of HK\$200	Investment holding and property development
Grand Field Property Development (Shenzhen) Company Limited (Note)	PRC	–	100%	RMB 19,232,100	Property development
Ka Fong Industrial Company, Limited	Hong Kong/PRC	–	100%	Ordinary shares of HK\$200 and non-voting deferred shares of HK\$200	Property development
Kwan Cheung Holdings Limited	Hong Kong/PRC	–	100%	Ordinary shares of HK\$200 and non-voting deferred shares of HK\$200	Property development
Shing Fat Hong Limited	Hong Kong/PRC	–	100%	Ordinary shares of HK\$4 and deferred non-voting shares of HK\$2	Property development
Grand Field New Energy Company Limited	Hong Kong	–	100%	Ordinary shares of HK\$2	Property holding

Notes:

This is a wholly foreign owned enterprise established in the PRC for an operating period of 24 years up to 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

15 PREPAID PREMIUM FOR LAND LEASES

The Group's interest in land use rights represents prepaid operating lease payments and their net book value are analysed as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Leasehold land held in the PRC, leases of over 50 years	1,263	1,337

16 MORTGAGE LOANS RECEIVABLES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Total loans receivables, secured	22,347	42,696
Less: Specific provision for doubtful and bad debts	-	(6,271)
Add: Write-back of provision for doubtful and bad debts	2,776	-
	25,123	36,425
Less: Balance due within one year included under current assets	(12,622)	(17,516)
Balance due after one year	12,051	18,909

The carrying amount of the current portion and non-current portion of mortgage loans receivables approximates to fair value. The fair value is determined based on cash flows discounted using the Group's bank borrowings rate of 7.25% per annum (2004: 6.9% per annum).

Mortgage loans receivables represent the interest-free loans provided by the Group to the customers and are to be repaid on instalments basis as stipulated in the scheduled loan agreement.

17 DEPOSITS FOR ACQUISITION OF LAND

The balances as at 31 December 2005 and 2004 mainly represent the amounts paid to the local authority to obtain the title of a piece of land in the PRC.

18 PLEDGED BANK DEPOSITS

The balance represents the bank deposits pledged as a security for the mortgage loans made available from the banks to the buyers of the Group's properties. As the balance will continue to be pledged to the banks in the next twelve months, the balance is classified as a non-current asset.

19 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Land cost	3,552	3,259
Development costs	5,573	5,387
Interest capitalized	4,986	4,986
	14,111	13,632

The balance as at 31 December 2005 represents the costs incurred by the Group on the properties under construction in the PRC. Under the contracts of these property development projects entered into between the Group and the co-operative partner, the co-operative partner is responsible for making available the land use rights of the construction sites while the Group is responsible for, at its own costs, the construction of these properties. The certificates of the land use rights are now registered in the name of the co-operative partner and, under the contracts of these property development projects, the Group will be entitled to apply for the certificates of the land use rights for each separate construction sites in the name of the Group upon the completion of development.

Total interest capitalized in the properties held for development as at 31 December 2005, is HK\$4,986,000 (2004: HK\$4,986,000). The capitalisation rate is nil for the year ended 31 December 2005 (2004: nil) as there is no interest capitalized during the year.

20 PROPERTIES HELD FOR SALE

As at 31 December 2005 and 31 December 2004, all properties held for sale are situated outside Hong Kong and are held on long term leases.

As at 31 December 2005, property certificates of the properties held for sale with carrying amounts of HK\$15,675,000 (2004: HK\$14,632,000) have not yet been issued to the Group.

Properties held for sale with a carrying amount of HK\$8,531,000 (2004: HK\$8,370,000) have been pledged to the banks as securities for the banking facilities granted to the companies within the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount due from a co-operative developer amounting to HK\$9,022,000 (2004: HK\$32,067,000).

22 INTEREST-BEARING BORROWINGS

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Loan from a third party, unsecured and wholly repayable		
– On demand or within one year	1,834	1,799
– Between one and two years	2,039	2,790
– Between two and five years	2,919	2,970
– After five years	–	1,360
	6,792	8,919
Less: Portion classified as current liabilities	(1,834)	(1,799)
Total shown as non-current liabilities	4,958	7,120
Current portion of loan from a third party	1,834	1,799
Secured bank loans	24,942	30,755
Total shown as current liabilities	26,776	32,554
Total interest-bearing borrowings	31,734	39,674

Interest of the loan from a third party is charged on the outstanding balances at a rate of 11.4% (2004: 11.4%) per annum. The loans are repaid through monthly instalments up to 15 June 2010.

Interest of the bank loans is charged on the outstanding balances at a rate of 7.25% per annum (2004: 6.90% per annum). These are secured to the extent of the Group's assets as follows:

- (a) Investment properties of the Group with a carrying amounts of approximately HK\$23,927,000 (2004: HK\$18,227,000); and
- (b) Properties held for sale of the Group with a carrying amounts of approximately HK\$8,531,000 (2004: HK\$8,370,000).

Bank overdrafts are secured by the buildings of the Group with a carrying amount of approximately HK\$4,882,000 (2004: HK\$4,977,000).

23 TRADE PAYABLES, DEPOSITS AND ACCRUALS

Ageing analysis of trade payables is as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Current to 90 days	20	1,306
91 to 180 days	–	74
181 to 360 days	12	–
Over 360 days	4,346	9,246
	4,378	10,626

24 AMOUNTS DUE TO A DIRECTOR

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

25 SHARE CAPITAL

	The Group and the Company	
	2005	2004
	HK\$'000	HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.02 each	100,000	100,000
Issued and fully paid:		
2,046,650,000 ordinary shares of HK\$0.02 each	40,933	40,933

There have been no movements in share capital during the years ended 31 December 2004 and 2005.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

26 RESERVES

The movements of reserves of the Group and Company are set out under the statement of changes in equity.

Special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries and the nominal value of the Company's shares issued at part of the group reorganization in 1999 for the listing of the Company's shares on the Stock Exchange.

The contributed surplus of the Company arose as a result of the same group reorganization and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefore.

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

- (a) it is, or would after the payments be, unable to pay its liabilities as they become due; or
- (b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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

	2005	2004
	HK\$'000	HK\$'000
Contributed surplus	140,281	140,281
Accumulated losses	(25,051)	(7,607)
	<u>115,230</u>	<u>132,674</u>

27 CAPITAL COMMITMENTS

As at 31 December 2005, the Group had the following capital commitments:

	2005 HK\$'000	2004 HK\$'000
Capital expenditure in respect of property development projects:		
Contracted but not provided for	1,581	5,038
Authorized but not contracted for	–	8,083
	1,581	13,121

28 OPERATING LEASE COMMITMENTS

(a) The Group as lessee

As at 31 December 2005, the Group had total future minimum lease payments in respects of land and buildings under a non-cancelable operating lease, as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	282	186
In the second to fifth years inclusive	235	–
	517	186

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (IN HK DOLLARS)

28 OPERATING LEASE COMMITMENTS *(continued)*

(b) The Group as lessor

As at 31 December 2005, the Group had contracted with its tenants for the following total future minimum lease payments in respects of investment properties under non-cancelable operating leases:

	2005	2004
	HK\$'000	HK\$'000
Within one year	1,304	2,576
In the second to fifth years inclusive	1,725	1,758
Over five years	2,019	1,736
	<hr/> 5,048 <hr/>	<hr/> 6,070 <hr/>

- (c) As at 31 December 2005, the Company does not have any operating lease commitments as a lessee and any operating lease arrangements as a lessor.

29 CONTINGENT LIABILITIES

- (a) The Company has given corporate guarantees to a bank in respect of fully utilized general banking facilities granted to a subsidiary amounting to HK\$4,000,000 (2004: HK\$4,000,000).
- (b) On 10 November 2005 and 20 October 2005, the local tax authorities of Shenzhen issued the letters, namely Shen Dai Shui Fa [2005] No. 521 and 522 and Shen Dai Shui Han [2005] No. 110 respectively to commence the levies of the land appreciation tax ("LAT") for the property developers with effect from 1 November 2005. In the opinion of the Directors, the LAT for the properties sold during the years ended 1999, 2000 and 2001 totalling HK\$17,254,000 (which had been accrued in those years and written back as an increase in 2004) have not yet been levied by the tax authorities in Shenzhen. The Directors consider that there is low possibility that these amounts of LAT will be levied. Should the LAT be levied on the properties sold in 1999, 2000 and 2001 by the tax authorities in Shenzhen, there is an additional LAT payable of HK\$17,254,000 and this has not yet been provided for in the financial statements for the year ended 31 December 2005.

30 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 26 April 2006.

PARTICULARS OF PROPERTIES

Name/location	Type	Effective % held	Stage of completion	Anticipated completion
PROPERTIES HELD FOR DEVELOPMENT				
A parcel of land in Hua Du Da Dao and Yi An Street Zhangmutou Dongguan Guangdong Province The PRC	Residential and commercial	100%	Planning stage	N/A
A parcel of land in Xu Zhen Management District Zhangmutou Dongguan Guangdong Province The PRC	Residential and commercial	100%	Planning stage	N/A
PROPERTIES HELD FOR SALE				
Various units in Rado Garden Phase II Zhenxing Road Zhangmutou Dongguan Guangdong Province The PRC	Residential	100%	N/A	N/A
Various units in Elegance Garden Yongning Street and Guan-Hui Highway Zhang Luo Management District Zhangmutou Dongguan Guangdong Province The PRC	Residential and commercial	100%	N/A	N/A

PARTICULARS OF PROPERTIES

Name/location	Type	Effective % held	Stage of completion	Anticipated completion
PROPERTIES HELD FOR SALE <i>(continued)</i>				
Various units in Riviera Garden Phase II Lijing Dao Dao Xu Zhen Management District Zhangmutou Dongguan Guangdong Province The PRC	Residential	100%	N/A	N/A
Various units in Tao Ran Ju Longjin Zhuguang Industrial Area Maotou Shan Nan Shan District Shenzhen Guangdong Province The PRC	Residential	100%	N/A	N/A
Various units in Telford Garden Phase I Huanchengxi Road Buji Long Gang District Shenzhen Guangdong Province The PRC	Residential	100%	N/A	N/A
Various units in Telford Garden Phase II Huanchengxi Road Buji Long Gang District Shenzhen Guangdong Province The PRC	Residential	100%	N/A	N/A

PARTICULARS OF PROPERTIES

Name/location	Type	Effective % held	Stage of completion	Anticipated completion
PROPERTIES HELD FOR INVESTMENT				
Various units in Elegance Garden Yongning Street and Guan-Hui Highway Zhang Luo Management District Zhangmutou Dongguan Guangdong Province The PRC	Commercial	100%	N/A	N/A
Various units in Riviera Garden Phase I Lijing Da Dao Xu Zhen Management District Zhangmutou Dongguan Guangdong Province The PRC	Commercial	100%	N/A	N/A
Various units in Rado Garden Phase I Yonglong Street and Zhengxing Road Zhangmutou Dongguan Guangdong Province The PRC	Commercial	100%	N/A	N/A
Various units in Rado Garden Phase II Zhengxing Road Zhangmutou Dongguan Guangdong Province The PRC	Commercial	100%	N/A	N/A

PARTICULARS OF PROPERTIES

Name/location	Type	Effective % held	Stage of completion	Anticipated completion
PROPERTIES HELD FOR INVESTMENT <i>(continued)</i>				
Various units in Telford Garden Phase I Huanchengxi Road Buji Long Gang District Guangdong Province Shenzhen The PRC	Commercial	100%	N/A	N/A
Various units and car parking spaces in Telford Garden Phase II Huanchengxi Road Buji Long Gang District Shenzhen Guangdong Province The PRC	Commercial	100%	N/A	N/A
Flat A, 6th Floor and Car Parking Space No. 11 on the 2nd Lower Ground Floor Fortune Well Height 152 Boundary Street Hong Kong	Residential	100%	N/A	N/A