

# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of the Offer or this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shun Cheong Holdings Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance and transfer of the Shun Cheong Shares to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Offer contained herein.

**The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document.**

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## **UPSKY ENTERPRISES LIMITED**

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



## **SHUN CHEONG HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)  
(Stock code: 650)*

### **Voluntary conditional cash offer by**



### **on behalf of Upsky Enterprises Limited**

**to acquire all the issued shares in the capital of Shun Cheong Holdings Limited  
(other than those already owned by Upsky Enterprises Limited and parties acting in concert with it)**

### **Financial adviser to Upsky Enterprises Limited**



### **Independent financial adviser to the independent board committee and the independent shareholders of Shun Cheong Holdings Limited**

## **ALTUS CAPITAL LIMITED**

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A letter from the Shun Cheong Board is set out on pages 5 to 10 of this Composite Document.

A letter from Quam Capital containing, among other things, the details of the terms of the Offer is set out on pages 11 to 19 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Shun Cheong Independent Shareholders is set out on pages 20 to 21 of this Composite Document.

A letter from Altus Capital containing its advice to the Independent Board Committee and the Shun Cheong Independent Shareholders in respect of the Offer is set out on pages 22 to 39 of this Composite Document.

The procedures for acceptance of the Offer and related information are set out on pages 40 to 45 in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptance of the Offer should be received by the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by not later than 4:00 p.m. on Monday, 3 July 2006 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive.

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## EXPECTED TIMETABLE

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	<i>Date</i>
Despatch date of this Composite Document .....	Monday, 12 June 2006
Offer opens .....	Monday, 12 June 2006
Latest time for acceptance of the Offer on the Closing Date ( <i>Note 1</i> ) .....	4:00 p.m. on Monday, 3 July 2006
Announcement of the results of the Offer, as at the Closing Date, through the Stock Exchange .....	By 7:00 p.m. on Monday, 3 July 2006
Announcement of the results of the Offer, as at the Closing Date, in the newspapers in Hong Kong .....	Tuesday, 4 July 2006
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptance received on or before the Closing Date (assuming the Offer is declared unconditional on the Closing Date) ( <i>Note 2</i> ) .....	Thursday, 13 July 2006
Latest time and date for acceptance assuming the Offer is declared unconditional on the Closing Date ( <i>Note 3</i> ) .....	4:00 p.m. on Monday, 17 July 2006
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received on or before 4:00 p.m. on 17 July 2006 ( <i>Note 2</i> ) .....	Thursday, 27 July 2006
Latest time and date by which the Offer can become or be declared unconditional as to acceptances ( <i>Note 4</i> ) .....	7:00 p.m. on Friday, 11 August 2006

*Notes:*

1. Unless the Offer becomes or is declared unconditional as to acceptance or the Offeror revises or extends the Offer in accordance with the Takeovers Code, the Offer will be closed at 4:00 p.m. on Monday, 3 July 2006.
2. Under the terms of the Offer, payment will be made within ten days of the later of the date on which the Offer become, or is declared, unconditional and the date on which the Shun Cheong Shares are tendered under the Offer.
3. Pursuant to the Takeovers Code, where the Offer is declared unconditional, it will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes unconditional.
4. Pursuant to the Takeovers Code, except with the consent of the Executive, the Offer (whether revised or not) may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the despatch of this Composite Document.

Acceptance of the Offer shall be subject to the right of withdrawal in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his acceptance after 21 days from the Closing Date, if the Offer has not by then become unconditional as to acceptances or in the circumstances set out in the paragraph headed "Right of withdrawal" in Appendix I to this Composite Document.

All time references contained in this Composite Document refer to Hong Kong time.

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## DEFINITIONS

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*In this Composite document, unless the context otherwise requires, the following terms shall have the following meanings:*

“Acquisition Shares”	32,000,000 Shun Cheong Shares acquired by the Offeror on 12 April 2006
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Altus Capital”	Altus Capital Limited, a licensed corporation permitted to conduct Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shun Cheong Independent Shareholders
“Announcement”	the joint announcement dated 16 May 2006 made by the Offeror and Shun Cheong regarding the terms and conditions of the Offer
“associate”	has the meaning ascribed thereto in the Takeovers Code
“Business Day”	a day (other than a Saturday and days on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Closing Date”	Monday, 3 July 2006, the first closing date of the Offer, being the 21st day after the date on which the Composite Document is posted
“Composite Document”	this composite document, which sets out, <i>inter alia</i> , the details of the Offer
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form of Acceptance”	means the accompanying form of acceptance and transfer of the Shun Cheong Shares in respect of the Offer
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Shun Cheong Board, comprising Yu Hon To, David and Ho Hin Kwan, Edmund who are the independent non-executive Shun Cheong Directors, which has been formed to make a recommendation to the Shun Cheong Independent Shareholders in respect of the Offer

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## DEFINITIONS

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“Last Trading Day”	8 May 2006, being the last trading day immediately before the suspension of trading in the Shun Cheong Shares prior to the issue of the Announcement
“Latest Practicable Date”	mean 9 June 2006, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information referred to in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Cao”	Ms. Cao Jing, a director of both the Offeror and Shun Cheong and the wife of Mr. Mo
“Mr. Mo”	Mr. Mo Tian Quan, the legal and beneficial owner and a director of the Offeror and a Shun Cheong Director
“Offer”	the voluntary conditional cash offer by Quam Securities on behalf of the Offeror to acquire all the issued Shun Cheong Shares other than those already owned by the Offeror and parties acting in concert with it at the Offer Price
“Offer Price”	HK\$0.30 per Shun Cheong Share
“Offeror”	Upsky Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Mo
“PRC”	People’s Republic of China, for the purpose of this Composite Document only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Quam Capital”	Quam Capital Limited, a licensed corporation authorised to conduct Type 6 (advising on corporate finance) of the regulated activities under the SFO and the financial adviser to the Offeror
“Quam Securities”	Quam Securities Company Limited, a licensed corporation under the SFO authorised to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) of the regulated activities under the SFO
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong share registrar and transfer office of Shun Cheong located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong

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## DEFINITIONS

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“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shun Cheong” or “Company”	Shun Cheong Holdings Limited (Stock code: 650), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Shun Cheong Board”	the board of Shun Cheong Directors
“Shun Cheong Director(s)”	director(s) of Shun Cheong
“Shun Cheong Disposal Circular”	the circular of Shun Cheong dated 10 March 2006 in connection with, <i>inter alia</i> , the disposal of Shun Cheong Investments Limited, a then wholly-owned subsidiary of Shun Cheong
“Shun Cheong Group” or “Group”	Shun Cheong and its subsidiaries
“Shun Cheong Independent Shareholders”	Shun Cheong Shareholder(s) other than the Offeror and parties acting in concert with it
“Shun Cheong Share(s)”	share(s) of HK\$0.01 each in the capital of Shun Cheong
“Shun Cheong Shareholder(s)”	holder(s) of the Shun Cheong Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Unconditional Date”	the date on which the Offer become or is declared unconditional
“HK\$”	Hong Kong dollars, the lawful currency in Hong Kong
“%”	per cent.

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# LETTER FROM THE SHUN CHEONG BOARD

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## SHUN CHEONG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock code: 650)

*Executive Directors:*

Chan Yuen Keung, Zuric (*Chairman*)

Hong Yiu

Yu Sek Kee, Stephen

Mo Tian Quan

Cao Jing

Au Yu Fai, Patrick

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton

HM 12

Bermuda

*Independent non-executive Directors:*

Ho Hin Kwan, Edmund

Yu Hon To, David

*Head Office and Principal*

*place of business:*

Block C, 9/F

Hong Kong Spinners

Industrial Building, Phase VI

481-483 Castle Peak Road

Kowloon

Hong Kong

12 June 2006

*To the Shun Cheong Shareholders,*

Dear Sir or Madam,

**Voluntary conditional cash offer by Quam Securities Company Limited  
on behalf of Upsky Enterprises Limited to acquire all the issued shares in the capital of  
Shun Cheong Holdings Limited (other than those already owned by Upsky Enterprises Limited  
and parties acting in concert with it)**

### INTRODUCTION

On 8 May 2006, the Shun Cheong Board received a notification from the Offeror setting out the terms of a voluntary conditional cash offer to acquire all the Shun Cheong Shares in issue (other than those owned by the Offeror and parties acting in concert with it). The Offer is made at the price of HK\$0.30 per Shun Cheong Share.

Details of the Offer were jointly announced by the Offeror and Shun Cheong on 16 May 2006 in the Announcement and are further set out in the letter from Quam Capital contained in this Composite Document and the accompanying Form of Acceptance.

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## LETTER FROM THE SHUN CHEONG BOARD

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The Independent Board Committee comprising the two independent non-executive Shun Cheong Directors has been established by the Shun Cheong Board to advise the Shun Cheong Independent Shareholders in respect of the terms of the Offer. Altus Capital has been appointed by the Shun Cheong Board as the independent financial adviser to advise the Independent Board Committee and the Shun Cheong Independent Shareholders. Such appointment has been approved by the Independent Board Committee.

The purpose of this letter is to provide you with, among other things, further information relating to the Shun Cheong Group and the Offer and the reasons for the recommendation of the Shun Cheong Board regarding the Offer.

### THE OFFER

The Offeror, through Quam Securities, offers to acquire all the Shun Cheong Shares in issue (other than those already owned by the Offeror and parties acting in concert with it) on the following basis:

**For each Shun Cheong Share ..... HK\$0.30 in cash**

**The Offer is subject to certain conditions which may or may not be fulfilled. Therefore, the Offer may or may not become unconditional.**

The Offer Price of HK\$0.30 in cash for each Shun Cheong Share was arrived with reference to the consideration of the Acquisition Shares and represents:

- (i) a discount of about 18.9% over the closing price of HK\$0.370 per Shun Cheong Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of about 21.7% over the average closing price of about HK\$0.383 per Shun Cheong Share for the last ten trading days up to and including the Last Trading Day;
- (iii) a discount of about 12.3% over the average closing price of about HK\$0.342 per Shun Cheong Share for the last 30 trading days up to and including the Last Trading Day;
- (iv) a discount of about 10.4% over the average closing price of about HK\$0.335 per Shun Cheong Share for the three months up to and including the Last Trading Day;
- (v) a discount of about 5.7% over the average closing price of about HK\$0.318 per Shun Cheong Share for the six months up to and including the Last Trading Day;
- (vi) a discount of about 9.1% over the closing price of HK\$0.330 per Shun Cheong Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a discount of about 34.9% over the pro forma unaudited net tangible asset value per Shun Cheong Share of about HK\$0.461 as at 30 September 2005 (based on the pro forma unaudited net tangible assets attributable to the Shun Cheong Shareholders of about HK\$53,406,000 as set out in the Shun Cheong Disposal Circular and 115,930,400 Shun Cheong Shares in issue).



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## LETTER FROM THE SHUN CHEONG BOARD

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The highest and lowest closing price at which Shun Cheong Shares were traded on the Stock Exchange in the six months period prior to the date of the Announcement up to and including the Latest Practicable Date was HK\$0.450 on 7 March 2006 and HK\$0.280 on 4 January and 5 January 2006 and from 11 January to 16 January 2006, respectively.

Shun Cheong currently has no options, warrants or other securities that carry rights to subscribe for or which are convertible into Shun Cheong Shares. As at the Latest Practicable Date, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror and the Shun Cheong Shares which might be material to the Offer.

Further details of the Offer are set out in the letter from Quam Capital contained in this Composite Document and the accompanying Form of Acceptance.

### INFORMATION OF THE SHUN CHEONG GROUP

Shun Cheong was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. It is principally engaged in the provision of building related maintenance services, including general building maintenance and the maintenance of the electrical equipment, water pump and fire services equipment, air conditioning systems and plumbing and drainage systems.

The current shareholding structure of Shun Cheong is summarised as follows:

	<b>Number of Shun Cheong Shares</b>	<b>Approximate percentage</b>
The Offeror and parties acting in concert with it	32,000,000	27.60
Mr. Chan Yuen Keung, Zuric ( <i>Note</i> )	2,500,000	2.16
Mr. Hong Yiu ( <i>Note</i> )	6,805,000	5.87
Mr. Au Yu Fai, Patrick ( <i>Note</i> )	88,500	0.08
Public	74,536,900	64.29
	<hr/>	<hr/>
Total	<u>115,930,400</u>	<u>100.00</u>

*Note:* Mr. Chan Yuen Keung, Zuric, Mr. Hong Yiu and Mr. Au Yu Fai, Patrick are Shun Cheong Directors.

Save for the 115,930,400 Shun Cheong Shares in issue, Shun Cheong does not have any other securities in issue as at the Latest Practicable Date. As at the Latest Practicable Date, none of the Offeror and parties acting in concert with it has received any irrevocable commitment from other Shun Cheong Shareholders to accept or reject the Offer.

## LETTER FROM THE SHUN CHEONG BOARD

Based on the annual report of Shun Cheong for the year ended 31 March 2005 and the Shun Cheong Disposal Circular, the audited consolidated results of the Shun Cheong Group for the two years ended 31 March 2005, the six months ended 30 September 2005, the unaudited consolidated results for the six months ended 30 September 2004 and the pro forma unaudited consolidated results for the year ended 31 March 2005 were as follows:

	Year ended 31 March			Six months ended 30 September	
	2005 <i>HK\$'000</i> (pro forma unaudited)	2005 <i>HK\$'000</i> (audited)	2004 <i>HK\$'000</i> (audited)	2005 <i>HK\$'000</i> (audited)	2004 <i>HK\$'000</i> (unaudited)
	<i>(Note)</i>				
Turnover	123,780	550,031	734,189	245,488	249,407
Profit/(loss) before tax	(45,563)	(33,826)	15,650	(7,856)	(9,198)
Profit/(loss) before minority interests	(45,616)	(34,567)	11,232	(7,957)	(10,429)
Profit/(loss) attributable to the Shun Cheong Shareholders	(44,497)	(33,729)	1,805	(7,613)	(12,446)

Based on the annual report of Shun Cheong for the year ended 31 March 2005 and the Shun Cheong Disposal Circular, the audited consolidated assets and liabilities of the Shun Cheong Group as at 31 March and 30 September 2005 and the pro forma unaudited consolidated assets and liabilities of the Shun Cheong Group as at 30 September 2005 were as follows:

	30 September 2005		31 March 2005
	<i>HK\$'000</i> (pro forma unaudited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
	<i>(Note)</i>		
Non-current assets	18,338	21,776	22,107
Current assets	117,146	308,259	329,002
Current liabilities	81,294	246,435	259,552
Non-current liabilities	–	6,926	6,926
Minority interests	784	17,873	18,217
Net tangible assets attributable to equity holders of the parent	53,406	58,801	66,414

*Note:* On 26 January 2006, Shun Cheong, Chinney Alliance Trading (BVI) Limited (“CAT (BVI)”) and Chinney Alliance Group Limited (“CAG”) entered into a sale and purchase agreement pursuant to which Shun Cheong conditionally agreed to dispose of and CAT (BVI) conditionally agreed to acquire the entire issued share capital of Shun Cheong Investments Limited and its subsidiaries (collectively known as the “Contracting Group”) for a cash consideration of HK\$35,000,000 (the “Disposal”). The Contracting Group is mainly engaged in the design and installation of building, electrical and mechanical systems, heating ventilation and air-conditioning systems for both public and private sectors.

Details of the transaction were disclosed in the Shun Cheong Disposal Circular. The transaction was approved by the independent shareholders of Shun Cheong at a special general meeting held on 27 March 2006 and was completed on 31 March 2006.

The above pro forma unaudited financial information of the Shun Cheong Group is extracted from the Shun Cheong Disposal Circular. The pro forma financial information is unaudited and is to provide information about how the Disposal might have affected the historical financial information in respect of the Shun Cheong Group. The Shun Cheong Directors are of the view that the above pro forma unaudited financial information of the Shun Cheong Group is still valid.

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## LETTER FROM THE SHUN CHEONG BOARD

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### INFORMATION OF THE OFFEROR

The information in this section has been extracted from the letter from Quam Capital contained in this Composite Document.

The Offeror is a company incorporated in the British Virgin Islands on 8 December 2005 and is wholly and beneficially owned by Mr. Mo. As at the Latest Practicable Date, the Offeror and parties acting in concert with it together beneficially own 32,000,000 Shun Cheong Shares, representing about 27.60% of the issued share capital of Shun Cheong.

The directors of the Offeror are Mr. Mo and Ms. Cao, the wife of Mr. Mo. Mr. Mo is a director and chief executive officer of a wholly foreign owned company conducting business in the PRC. He has over ten years of experience in the provision of online information and analysis on the trading, leasing, financing and valuation of real estate properties. Mr. Mo holds a Bachelor's Degree in Mechanical Engineering from South China University of Technology, the PRC, a Master's Degree in Engineering from Tsinghua University, the PRC and a Degree of Master of Arts from Indiana University, the United States of America. Mr. Mo is also an independent non-executive director of Chinney Alliance Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange.

Ms. Cao has ten years of experience in architecting large-scale enterprise software, project management and leading development from various companies in the United States of America. She holds a Bachelor's Degree in Automation Engineering from Tsinghua University, the PRC and a Master's Degree in Engineering from Wright State University, the United States of America.

Both Mr. Mo and Ms. Cao are Shun Cheong Directors.

### THE OFFEROR'S INTENTIONS IN RELATION TO SHUN CHEONG

The information in this section has been extracted from the letter from Quam Capital contained in this Composite Document.

It is the intention of the Offeror that Shun Cheong, if the Offer is completed, will continue to carry on its existing business and that Shun Cheong's listing on the Stock Exchange will be maintained after the closing of the Offer. The Offeror does not intend to introduce any major changes to the business, including any redeployment of the fixed assets of Shun Cheong and has no intention to avail itself to, any powers of compulsory acquisition. The directors of the Offeror will conduct a review of the financial position, operations and management of the Shun Cheong Group with a view to determining the strategy of the Shun Cheong Group's business activities after the close of the Offer.

The Offeror has undertaken to the Stock Exchange that it will procure that each of the new directors to be nominated to the Shun Cheong Board will undertake to the Stock Exchange that, following their appointments, appropriate steps will be taken to ensure that not less than 25% of the Shun Cheong Shares will be held by the public.

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## LETTER FROM THE SHUN CHEONG BOARD

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The Stock Exchange has stated that if, at the closing of the Offer, less than 25% of the Shun Cheong Shares are held by the public or if the Stock Exchange believes that:

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

then it will consider exercising its discretion to suspend trading in the Shun Cheong Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float in the Shun Cheong Shares and therefore, trading in the Shun Cheong Shares may be suspended until a sufficient level of public float is attained.

If Shun Cheong remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of Shun Cheong. The Stock Exchange has indicated that it has the discretion to require Shun Cheong to issue an announcement and a circular to its shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of Shun Cheong. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of Shun Cheong and any such transactions may result in Shun Cheong being treated as if it were a new listing applicant and subject to the requirements for new applicants as set out in the Listing Rules.

### ADDITIONAL INFORMATION

In considering what action to take in connection with the Offer, Shun Cheong Independent Shareholders should consider their own tax position and, if they are in any doubt, they should consult their professional advisers.

Your attention is drawn to the general information set out in Appendix III to this Composite Document.

### RECOMMENDATION

Your attention is drawn to the additional information set out in the letter from the Independent Board Committee as set out on pages 20 to 21 of this Composite Document and the letter from Altus Capital as set out on pages 22 to 39 of this Composite Document, which set out their recommendations in relation to the Offer and the principal factors considered by them in arriving at their recommendations.

You are also recommended to read the Appendices to this Composite Document, the letter from Quam Capital as set out on pages 11 to 19 of this Composite Document and the accompanying Form of Acceptance.

Yours faithfully,  
For and on behalf of  
**Shun Cheong Holdings Limited**  
**Chan Yuen Keung, Zuric**  
*Chairman*



**Quam Capital Limited 華富嘉洛企業融資有限公司**

A Member of The Quam Group

12 June 2006

*To the Shun Cheong Shareholders,*

Dear Sir or Madam,

**Voluntary conditional cash offer by Quam Securities Company Limited on behalf of Upsky Enterprises Limited to acquire all the issued shares in the capital of Shun Cheong Holdings Limited (other than those already owned by Upsky Enterprises Limited and parties acting in concert with it)**

**INTRODUCTION**

On 16 May 2006, Shun Cheong and the Offeror jointly announced that Quam Securities, on behalf of the Offeror, proposes to make a voluntary conditional cash offer to acquire all the Shun Cheong Shares in issue (other than those already owned by the Offeror and parties acting in concert with it) at the Offer Price of HK\$0.30 per Shun Cheong Share.

The Offer will be subject to and conditional, among other things, upon valid acceptances of the Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of the Shun Cheong Shares which, together with the Shun Cheong Shares held by the Offeror and parties acting in concert with it, constitute more than 50% of the entire share capital of Shun Cheong as at the Closing Date, and such Shun Cheong Shares carrying more than 50% of the voting rights normally exercisable at general meetings of Shun Cheong.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it together beneficially own 32,000,000 Shun Cheong Shares, representing about 27.6% of the issued share capital of Shun Cheong. Save for the purchase of the Acquisition Shares on 12 April 2006, there have been no other dealings in the Shun Cheong Shares by the Offeror or parties acting in concert with it in the six-month period prior to the date of the Announcement and up to the Latest Practicable Date.

This letter sets out the details of the Offer, the information on the Offeror and the intention of the Offeror regarding the Shun Cheong Group. The terms of the Offer are set out below in this letter and in the Form of Acceptance.

Shun Cheong Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Shun Cheong Board, the letter from the Independent Board Committee, the letter from Altus Capital and the additional information contained in the Appendices to the Composite Document of which this letter forms part. Terms used herein shall have the same meanings as defined in the Composite Document, unless otherwise defined herein.

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## LETTER FROM QUAM CAPITAL

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### THE OFFER

The Offeror, through Quam Securities, offers to acquire all the Shun Cheong Shares in issue (other than those already owned by the Offeror and parties acting in concert with it) on the following basis:

**For each Shun Cheong Share ..... HK\$0.30 in cash**

Shun Cheong currently has no options, warrants or other securities that carry a right to subscribe for or which are convertible into Shun Cheong Shares. As at the Latest Practicable Date, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror and the Shun Cheong Shares which might be material to the Offer.

The Offeror has no intention to transfer, charge or pledge any Shun Cheong Shares acquired pursuant to the Offer to any other persons save for the possible disposal after the closing of the Offer to ensure that no less than 25% of the Shun Cheong Shares will be held by the public at all times in accordance with the Listing Rules.

The Offer is required to be open for acceptance for at least 21 days after the dispatch of the Composite Document. Your attention is drawn to the expected timetable set out in the Composite Document.

### Comparisons of value

Shun Cheong recorded an audited consolidated loss attributable to Shun Cheong Shareholders of about HK\$33,729,000 for the year ended 31 March 2005 compared to an audited consolidated profit attributable to Shun Cheong Shareholders of about HK\$1,805,000 for the year ended 31 March 2004.

The highest and lowest closing price at which Shun Cheong Shares were traded on the Stock Exchange in the six months period prior to the date of the Announcement up to and including the Latest Practicable Date was HK\$0.450 on 7 March 2006 and HK\$0.280 on 4 January and 5 January 2006 and from 11 January to 16 January 2006, respectively.

The Offer Price of HK\$0.30 in cash for each Shun Cheong Share was arrived with reference to the consideration of the Acquisition Shares and represents:

- (i) a discount of about 18.9% over the closing price of HK\$0.370 per Shun Cheong Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of about 21.7% over the average closing price of about HK\$0.383 per Shun Cheong Share for the last ten trading days up to and including the Last Trading Day;
- (iii) a discount of about 12.3% over the average closing price of about HK\$0.342 per Shun Cheong Share for the last 30 trading days up to and including the Last Trading Day;
- (iv) a discount of about 10.4% over the average closing price of about HK\$0.335 per Shun Cheong Share for the three months up to and including the Last Trading Day;

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## LETTER FROM QUAM CAPITAL

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- (v) a discount of about 5.7% over the average closing price of about HK\$0.318 per Shun Cheong Share for the six months up to and including the Last Trading Day;
- (vi) a discount of about 9.1% over the closing price of about HK\$0.330 per Shun Cheong Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a discount of about 34.9% over the pro forma unaudited net tangible asset value per Shun Cheong Share of about HK\$0.461 as at 30 September 2005 (based on the pro forma unaudited net tangible assets attributable to the Shun Cheong Shareholders of about HK\$53,406,000 as set out in the Shun Cheong Disposal Circular and 115,930,400 Shun Cheong Shares in issue).

### **Total consideration for the Offer**

As at the Latest Practicable Date, there were a total of 115,930,400 Shun Cheong Shares in issue. Based on the Offer Price of HK\$0.30 per Shun Cheong Share, the entire issued share capital of Shun Cheong is valued at about HK\$34.8 million. The consideration payable by the Offeror pursuant to the Offer, if the Offer is accepted in full, is about HK\$25.2 million.

Quam Capital is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer. The Offer will be financed by the personal financial resources of Mr. Mo, who owns the entire issued share capital of the Offeror. The directors of the Offeror confirm that no payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the amount of funds required for the full acceptance of the Offer will depend to any significant extent on the business of Shun Cheong.

### **Terms of the Offer**

Under the terms of the Offer, Shun Cheong Shares will be acquired with all rights attached thereto as at the date on which the Offer is made, i.e. the date of the Composite Document, or subsequently becoming attached thereto, including (as appropriate) the rights to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made, and free of all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

### **Payment**

Payment in cash in respect of acceptances of the Offer (less the relevant stamp duty) will be made within ten days on which the relevant documents of title are received by the Offeror to render each such acceptance complete and valid or of the Unconditional Date, whichever is the later.

### **Stamp duty**

Sellers' ad valorem stamp duty in connection with the acceptance of the Offer for the Shun Cheong Shares registered on the Registrar is HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such acceptance and will be deducted from the cash amount payable to those Shun Cheong Shareholders who accept the Offer. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of those Shun Cheong Shareholders who accept the Offer.

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## LETTER FROM QUAM CAPITAL

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### CONDITIONS OF THE OFFER

The Offer will be conditional upon:

- (i) Shun Cheong Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension of trading of the Shun Cheong Shares as a result of the Offer and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Shun Cheong Shares on the Stock Exchange is or is likely to be withdrawn;
- (ii) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having taken or instituted any action, proceedings, suit, investigation or enquiry or enacted or made or proposed and there not continuing to be outstanding any statute, regulation or order that would or is likely to make the Offer or any part of it or the acquisition of any of the Shun Cheong Shares by the Offeror void, unenforceable or illegal or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Offer or any part of it or the acquisition of any of the Shun Cheong Shares; and
- (iii) valid acceptance of the Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of the Shun Cheong Shares, which together with the Shun Cheong Shares held by the Offeror and persons acting in concert with it constitute more than 50% of the entire issued share capital of Shun Cheong as at the Closing Date, and such Shun Cheong Shares carrying more than 50% of the voting rights normally exercisable at general meetings of Shun Cheong. In accordance with the bye-laws of Shun Cheong, all Shun Cheong Shares carry the same voting rights.

In addition to the above conditions, the Offer shall also be subject to the terms that acceptance of the Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shun Cheong Shares acquired under the Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the date on which the Offer is made, i.e. the date of the Composite Document, or subsequently becoming attached to them, including (as appropriate) the right to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made.

### LAPSE OF THE OFFER

The Offer will lapse if the conditions are not fulfilled (or if applicable, save for condition (iii), waived by the Offeror in its sole discretion) on or before the Closing Date or such later date as the Offeror may agree and, if required by the Takeovers Code, the Executive may approve. Except with the consent of the Executive, all conditions must be fulfilled or the Offer must lapse within 21 days of the Closing Date or of the date on which condition (iii) becomes unconditional, whichever is the later and in any event, except with the consent of the Executive, condition (iii) may not become or be declared unconditional after 7:00 p.m. on the 60th day after the posting of the Composite Document.



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## LETTER FROM QUAM CAPITAL

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As at the Latest Practicable Date, there are no agreements or arrangements to which the Offeror is party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

### **COMPULSORY ACQUISITION**

The Offeror does not intend to apply for any right which may be available to it to acquire compulsorily any Shun Cheong Shares outstanding after the close of the Offer.

### **DEALINGS IN THE SHUN CHEONG SHARES BY THE OFFEROR**

Save for the purchase of the Acquisition Shares on 12 April 2006, there have been no other dealings in the Shun Cheong Shares by the Offeror or parties acting in concert with it in the six-month period prior to the date of the Announcement up to and including the Latest Practicable Date.

### **INFORMATION OF THE OFFEROR**

The Offeror is a company incorporated in the British Virgin Islands on 8 December 2005 and is wholly and beneficially owned by Mr. Mo. As at the Latest Practicable Date, the Offeror and parties acting in concert with it together beneficially own 32,000,000 Shun Cheong Shares, representing about 27.6% of the issued share capital of Shun Cheong.

The directors of the Offeror are Mr. Mo and Ms. Cao, the wife of Mr. Mo. Mr. Mo is a director and chief executive officer of a wholly foreign owned company conducting business in the PRC. He has over ten years of experience in the provision of online information and analysis on the trading, leasing, financing and valuation of real estate properties. Mr. Mo holds a Bachelor's Degree in Mechanical Engineering from South China University of Technology, the PRC, a Master's Degree in Engineering from Tsinghua University, the PRC and a Degree of Master of Arts from Indiana University, the United States of America. Mr. Mo is also an independent non-executive director of Chinney Alliance Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange.

Ms. Cao has ten years of experience in architecting large-scale enterprise software, project management and leading development from various companies in the United States of America. She holds a Bachelor's Degree in Automation Engineering from Tsinghua University, the PRC and a Master's Degree in Engineering from Wright State University, the United States of America.

Both Mr. Mo and Ms. Cao are Shun Cheong Directors.

### **REASONS FOR THE OFFER**

The Shun Cheong Group is principally engaged in the provision of building related maintenance services. The directors of the Offeror consider that as the construction sector gradually picks up the growing trend of the property development sector and the general market sentiments in Hong Kong, they are interested in investing in Hong Kong's construction and building maintenance industry and are optimistic about the prospects of the Shun Cheong Group.

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## LETTER FROM QUAM CAPITAL

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### THE OFFEROR'S INTENTIONS IN RELATION TO SHUN CHEONG

It is the intention of the Offeror that Shun Cheong, if the Offer is completed, will continue to carry on its existing business and that Shun Cheong's listing on the Stock Exchange will be maintained after the closing of the Offer. The Offeror does not intend to introduce any major changes to the business, including any redeployment of the fixed assets of Shun Cheong and has no intention to avail itself to, any powers of compulsory acquisition. The directors of the Offeror will conduct a review of the financial position, operations and management of the Shun Cheong Group with a view to determining the strategy of the Shun Cheong Group's business activities after the closing of the Offer.

The Offeror has undertaken to the Stock Exchange that it will procure that each of the new directors to be nominated to the Shun Cheong Board will undertake to the Stock Exchange that, following their appointments, appropriate steps will be taken to ensure that not less than 25% of the Shun Cheong Shares will be held by the public.

**The Stock Exchange has stated that if, at the closing of the Offer, less than 25% of the Shun Cheong Shares are held by the public or if the Stock Exchange believes that:**

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

**then it will consider exercising its discretion to suspend trading in the Shun Cheong Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float in the Shun Cheong Shares and therefore, trading in the Shun Cheong Shares may be suspended until a sufficient level of public float is attained.**

If Shun Cheong remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of Shun Cheong. The Stock Exchange has indicated that it has the discretion to require Shun Cheong to issue an announcement and a circular to its shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of Shun Cheong. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of Shun Cheong and any such transactions may result in Shun Cheong being treated as if it were a new listing applicant and subject to the requirements for new applicants as set out in the Listing Rules.

### DIRECTORS AND MANAGEMENT

It is the intention of the Offeror to appoint new executive directors to the Shun Cheong Board as soon as practicable after the Unconditional Date to enable it to exercise control of the Shun Cheong Board.

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## LETTER FROM QUAM CAPITAL

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There is no agreement between the Offeror and the other existing Shun Cheong Directors with regard to their directorship in Shun Cheong after completion of the Offer. The Offeror does not intend to make any changes to the continued employment of the employees of the Group. A further announcement will be made to update the public in accordance with the Listing Rules, if required.

### TAXATION

Shun Cheong Shareholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of their accepting the Offer. None of Shun Cheong, the Offeror, Quam Capital, Quam Securities, Altus Capital nor any of their respective directors nor any persons involved in the Offer accepts responsibility for any taxation effects or liabilities of, any person or persons as a result of their acceptance of the Offer.

### ACCEPTANCE AND SETTLEMENT

#### (a) Procedures for acceptance of the Offer

To accept the Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

The completed Form(s) of Acceptance should be forwarded, together with the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shun Cheong Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "**Shun Cheong Offer**" as soon as practicable after receipt of the Form of Acceptance but in any event so as to reach the Registrar by not later than 4:00 p.m. on Monday, 3 July 2006 or such later time and/or date as the Offeror shall determine and announce with the consent of the Executive. No acknowledgement of receipt of any Form of Acceptance, Shun Cheong Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. Your attention is drawn to the further details regarding the procedure for acceptance set out in Appendix I to this Composite Document and the Form of Acceptance.

#### (b) Settlement of the Offer

Provided that the Form(s) of Acceptance and Shun Cheong Share certificate(s) of and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, a cheque for the amount due to each of the Shun Cheong Shareholders less stamp duty in respect of the Shun Cheong Shares tendered by them under the Offer will be despatched to each of them within ten days after the date on which all the relevant documents are received by the Registrar mentioned above to render such acceptance complete and valid or of the Unconditional Date, whichever is the later. The Offeror will then pay the stamp duty to the stamp office.

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## LETTER FROM QUAM CAPITAL

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The settlement of the consideration to which any Shun Cheong Shareholder(s) is/are entitled under the Offer will be satisfied in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shun Cheong Shareholder(s).

### GENERAL

The availability of the Offer to persons who are not Hong Kong residents may be affected by the applicable laws of the relevant jurisdictions. Persons who are not Hong Kong residents should inform themselves about and observe any applicable requirements in their own jurisdictions. Shun Cheong Shareholders who are not resident in Hong Kong should refer to paragraph (j) of the paragraph headed "General" in Appendix I to this Composite Document.

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

All documents and remittances sent to the Shun Cheong Shareholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to the Shun Cheong Shareholders at their respective addresses as they appear in the register of members of Shun Cheong or in the case of joint Shun Cheong Shareholders, to the Shun Cheong Shareholder whose name appears first in the register of members of Shun Cheong, as applicable. None of Shun Cheong, the Offeror, Quam Capital, Quam Securities, Altus Capital nor any of their respective directors or any other persons involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

Associates of the Offeror and Shun Cheong are reminded to disclose their dealings in the Shun Cheong Shares in accordance with the requirements of the Takeovers Code. Stockbrokers, banks and others who deal in the Shun Cheong Shares on behalf of their clients should also note that they have a general duty to ensure, so far as they are able, that their clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that their clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant rules under the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any seven days period is less than HK\$1 million. This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved. Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in the Shun Cheong Shares should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

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## LETTER FROM QUAM CAPITAL

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### ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Shun Cheong Board; (ii) the letter from the Independent Board Committee; (iii) the letter from Altus Capital; and (iv) the additional information set out in the Appendices, which form part of the Composite Document.

Yours faithfully,

For and on behalf of

**Quam Capital Limited**

**Richard D. Winter**

*Managing Director*

**Karen C. Wong**

*Director*



**SHUN CHEONG HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock code: 650)

12 June 2006

*To the Shun Cheong Independent Shareholders*

Dear Sir or Madam,

**Voluntary conditional cash offer by Quam Securities Company Limited  
on behalf of Upsky Enterprises Limited to acquire all the issued shares in the  
capital of Shun Cheong Holdings Limited (other than those already owned by  
Upsky Enterprises Limited and parties acting in concert with it)**

**INTRODUCTION**

We refer to the Composite Document jointly issued by the Offeror and Shun Cheong of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offer and to advise the Shun Cheong Independent Shareholders as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Shun Cheong Independent Shareholders are concerned.

Altus Capital has been appointed to advise us and the Shun Cheong Independent Shareholders in respect of the terms of the Offer. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the letter from Altus Capital on pages 22 to 39 of the Composite Document. Altus Capital considers that the terms of the Offer are fair and reasonable as far as the Shun Cheong Independent Shareholders are concerned, and advise us to recommend the Shun Cheong Independent Shareholders to accept the Offer.

We also wish to draw your attention to: (i) the letter from the Shun Cheong Board; (ii) the letter from Quam Capital; (iii) the letter from Altus Capital; and (iv) the additional information set out in the Appendices to the Composite Document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATIONS

Having taking into account the terms of the Offer and the advice of Altus Capital, we consider that the terms of the Offer are fair and reasonable so far as the Shun Cheong Independent Shareholders are concerned and advise the Shun Cheong Independent Shareholders to accept the Offer. However, Shun Cheong Independent Shareholders who intend to accept the Offer should closely monitor the price and liquidity of the Shun Cheong Shares in the market during the period of the Offer and consider selling their Shun Cheong Shares in the market rather than accepting the Offer, if the net proceeds of such sale would exceed the amount receivable under the Offer.

Furthermore, for those Shun Cheong Independent Shareholders who wish to retain part or all of their investments in the Shun Cheong Shares, they should carefully consider the future intentions of the Offeror regarding the Shun Cheong Group and the implication of possible suspension of dealings in the Shun Cheong Shares, the details of which are set out in “the Letter from Quam Capital” contained in the Composite Document.

Yours faithfully,  
For and on behalf of  
The Independent Board Committee of  
**Shun Cheong Holdings Limited**  
**Ho Hin Kwan, Edmund      Yu Hon To, David**  
*Independent non-executive directors*

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## LETTER FROM ALTUS CAPITAL

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*The following is the text of the letter of advice from Altus Capital to the Independent Board Committee and the Shun Cheong Independent Shareholders in relation to the Offer for the purpose of inclusion in this Composite Document.*

### **ALTUS CAPITAL LIMITED**

8/F Hong Kong Diamond Exchange Building  
8 Duddell Street, Central  
Hong Kong

12 June 2006

*To the Independent Board Committee and  
Shun Cheong Independent Shareholders*

Dear Sir/Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
QUAM SECURITIES COMPANY LIMITED  
ON BEHALF OF  
UPSKY ENTERPRISES LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF  
SHUN CHEONG HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY  
UPSKY ENTERPRISES LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

### **INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and Shun Cheong Independent Shareholders in respect of the Offer. Details of the Offer are set out in the Composite Document to the Shun Cheong Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

The Independent Board Committee has been established to give advice and recommendation to the Shun Cheong Independent Shareholders in relation to the Offer. We have been appointed to advise the Independent Board Committee and the Shun Cheong Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Shun Cheong Independent Shareholders are concerned, and to give our opinion to the Independent Board Committee in relation to the Offer for their consideration in making recommendation to the Shun Cheong Independent Shareholders.

The Independent Board Committee comprising the two independent non-executive Shun Cheong Directors, namely Mr. Ho Hin Kwan, Edmund and Mr. Yu Hon To, David, has been established. Mr. Ho Hin Kwan, Edmund and Mr. Yu Hon To, David have confirmed that they do not have any interest in the Offer.



### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Composite Document and the information, facts and representations provided by, and the opinions expressed by the Company and/or its senior management staff and/or the Shun Cheong Directors. We have assumed that all information, facts, opinions and representations made or referred to in the Composite Document were true, accurate and complete at the time they were made and continued to be true, accurate and complete at the date of the Composite Document. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Company and/or its senior management staff and/or the Shun Cheong Directors. The Company, its senior management staff, and the Shun Cheong Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed; thus we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Composite Document, or the reasonableness of the opinions and representations provided to us by the Group.

The information in the Composite Document relating to the Shun Cheong Group has been supplied by the Shun Cheong Directors who have taken all reasonable care to ensure that the information stated in the Composite Document is accurate. All the Shun Cheong Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document relating to the Shun Cheong Group, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document by the Shun Cheong Group have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement in the Composite Document misleading. The issue of the Composite Document has been approved by the Shun Cheong Board. We have relied on such information and opinions and have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospect of the Group.

The information in the Composite Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intentions regarding the Shun Cheong Group have been supplied by the directors of the Offeror. All the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to Shun Cheong Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by Shun Cheong Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any such statement contained in the Composite Document misleading.

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

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Background information

On 12 April 2006, the Offeror acquired from Chinney Alliance Group Limited (“**CAG**”), a former substantial Shun Cheong Shareholder, 32,000,000 Shun Cheong Shares or approximately 27.6% of the issued share capital of the Company (“**Acquisition**”) at a cash consideration of HK\$9.6 million, or HK\$0.30 per Shun Cheong Share (“**Acquisition Price**”). The Offeror is wholly-owned by Mr. Mo, a Shun Cheong Director and an independent non-executive director of CAG. Prior to the Acquisition, the Offeror, Mr. Mo and parties acting in concert with it/him did not hold any Shun Cheong Share and save for the Acquisition, they had not dealt in the Shun Cheong Shares in the six months period prior to the date of the Announcement up to and including the Latest Practicable Date. Details of the Acquisition are set out in the announcement of the Company dated 13 April 2006 (“**Acquisition Announcement**”).

On 8 May 2006, the Shun Cheong Board received a notification from the Offeror setting out the terms of the Offer to acquire all the Shun Cheong Shares in issue at a price of HK\$0.30 per Shun Cheong Share, which is equivalent to the Acquisition Price. As at the Latest Practicable Date, the Company did not have any options, warrants or other securities that carry a right to subscribe for or which are convertible into Shun Cheong Shares.

**The Offer is subject to and conditional, among other things, upon valid acceptances of the Offer having been received by 4:00 p.m. on the Closing Date (or such other date(s) or time(s) as the Offeror may decide and the Executive may approve) in respect of the Shun Cheong Shares which, together with the Shun Cheong Shares already held by the Offeror and parties acting in concert with it, constitute more than 50% of the entire share capital of Shun Cheong as at the Closing Date, and such Shun Cheong Shares carrying more than 50% of the voting rights normally exercisable at general meetings of the Company. The Offer will lapse if the conditions are not fulfilled or waived on or before the Closing Date. Details of the conditions of the Offer are set out under the section headed “Conditions of the Offer” in the “Letter from Quam Capital” contained in the Composite Document.**

### 2. Information of the Group

#### 2.1 *Principal businesses of the Group*

After the completion of the Disposal (as defined hereinafter) on 31 March 2006, the Group’s remaining business comprises principally the provision of building-related maintenance services, comprising general building maintenance and the maintenance of electrical equipment, water pump and fire services equipment, air conditioning systems and plumbing and drainage systems.

During the first quarter of 2006, the Company and its subsidiaries underwent a corporate restructuring exercise, which included the disposal of Shun Cheong Investments Limited (“**SCI**”) and its certain subsidiaries, together with the investments held by SCI and/or such subsidiaries (“**Contracting Group**”) to Chinney Alliance Trading (BVI) Limited, a wholly-owned subsidiary

## LETTER FROM ALTUS CAPITAL

of CAG, for a consideration of HK\$35.0 million (“**Disposal**”). Prior to the Disposal, the Contracting Group formed the major part of the Group’s businesses. The Contracting Group is principally engaged in the provision of building related contracting services, including mainly the design and installation of electrical and mechanical systems, heating ventilation and air-conditioning systems for both the public and private sectors. Details of the Disposal are set out in the joint announcement of the Company and CAG dated 2 February 2006 and the Shun Cheong Disposal Circular.

### 2.2 Financial performance of the Group

A summary of: (i) the audited consolidated results of the Group for the three years ended 31 March 2005 and the six months ended 30 September 2005; (ii) the unaudited consolidated results of the Group for the six months ended 30 September 2004; and (iii) the pro forma unaudited consolidated results of the Group for the year ended 31 March 2005 as if the Disposal had been completed on 1 April 2004, are set out below:

#### Financial Results:

	Financial year ended 31 March				Six months ended 30 September	
	2003	2004	2005	2005	2004	2005
	(audited)	(audited)	(audited)	(Pro forma unaudited) <i>(Note 1)</i>	(unaudited and restated)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue [A]	644,310	734,189	550,031	123,780	249,407	245,488
Gross profit [B]	90,474	100,598	23,581	7,703	23,319	20,807
Gross profit margin [B/A]	14.0%	13.7%	4.3%	6.2%	9.3%	8.5%
Profit/(loss) attributable to Shun Cheong Shareholders (after minority interests)	(14,685)	1,805	(33,729)	(44,497) <i>(Note 2)</i>	(12,446)	(7,613)

#### Notes:

- The pro forma unaudited consolidated results of the Group for the year ended 31 March 2005 was based on the audited consolidated income statement for the year ended 31 March 2005 and assumed the Disposal had been completed on 1 April 2004.
- The pro forma unaudited consolidated loss attributable to Shun Cheong Shareholders (after minority interests) for the year ended 31 March 2005 included a pro forma loss on disposal of equity interests in the Contracting Group of approximately HK\$31.2 million.

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## LETTER FROM ALTUS CAPITAL

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### *For the financial year ended 31 March 2003*

The outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 and the more stringent control over public spending by the Hong Kong Government in the past few years had led to an overall slowdown in the building industry and the property market in Hong Kong, being the Group's principal market. This in turn has triggered a significant increase in competition within the market where building services companies have had to engage in intense competition for fewer sizable projects in the public and private sectors.

For the year ended 31 March 2003, the Group recorded turnover of approximately HK\$644.3 million and loss attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$14.7 million or approximately HK\$0.032 per Shun Cheong Share based on 463,721,600 Shun Cheong Shares in issue as at 31 March 2003.

### *For the financial year ended 31 March 2004*

Notwithstanding that the local Hong Kong economy started to revive with an annual growth rate of over 6% in each of the financial year ended 31 March 2004 and 31 March 2005, it was mainly attributable to the wholesale, retail, import and export of goods and services. According to the publication by the Census and Statistics Department in February 2006, public expenditure on housing has decreased from approximately HK\$45.4 billion for the year ended 31 March 2000 to approximately HK\$24.9 billion and HK\$18.0 billion respectively for each of the two years ended 31 March 2005. In addition, the actual construction of private residential units dropped drastically since 1997. There remained chronic shortage of new building services projects and construction works in the public and private sectors for the workforce in the Hong Kong building industry.

For the year ended 31 March 2004, the Group recorded turnover of approximately HK\$734.2 million (2003: \$644.3 million), representing an increase of approximately 14% from the same period in 2003, and net profit attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$1.8 million or approximately HK\$0.004 per Shun Cheong Share based on 463,721,600 Shun Cheong Shares in issue as at 31 March 2004 (2003: net loss of HK\$14.7 million). Such net profit however included a gain on dissolution of discontinued operations of approximately HK\$4.1 million. Profit margin of the Group during that period remained at similar level of about 13.7% compared with the same period in 2003.

### *For the financial year ended 31 March 2005*

With the significant slowdown in housing development in Hong Kong during the financial period of 2005, the Group continued to face intense competition among eligible contractors in tenders of projects, which led to further decrease in both turnover and net profit. Gross profit margin of the Group decreased to approximately 4.3% during the period (2004: 13.7%). For the year ended 31 March 2005, the Group recorded turnover of approximately HK\$550.0 million (2004: HK\$734.2 million), representing a decrease of approximately 25.1% from the same period in 2004, and net loss attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$33.7 million or approximately HK\$0.291 per Shun Cheong Share based on 115,930,400 Shun Cheong Shares in issue as at 31 March 2005 (2004: net profit of HK\$1.8 million).

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## LETTER FROM ALTUS CAPITAL

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*For the six months ended 30 September 2005*

For the six months ended 30 September 2005, the Group continued to record loss where loss attributable to Shun Cheong Shareholders (after minority interests) was approximately HK\$7.6 million or approximately HK\$0.066 per Shun Cheong Share based on 115,930,400 Shun Cheong Shares in issue as at 30 September 2005 (2004: HK\$12.4 million) on turnover of approximately HK\$245.5 million (2004: HK\$249.4 million).

In summary, the Group has been loss making over the past few years save for in 2004 where the Group recorded net profit of approximately HK\$1.8 million. However, such net profit included a gain on dissolution of discontinued operations of approximately HK\$4.1 million. The remaining businesses of maintenance services are also loss making in financial year ended 31 March 2005; details of which are set out under the paragraph headed "Effects of the Disposal" below. No dividend has been declared or paid to Shun Cheong Shareholders for the three years ended 31 March 2005 and the six months ended 30 September 2005. Based on the above, the Group is operating in a difficult market condition and environment where public as well as private sector spending has been on a downward trend. The Group also faces intense competition in the market.

### *Effects of the Disposal*

As described in the Shun Cheong Disposal Circular, for the year ended 31 March 2005, the Group recorded loss attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$33.7 million, of which approximately HK\$20.5 million was attributable to the Contracting Group, representing approximately 60.8% of the total loss attributable to Shun Cheong Shareholders for that year. During the six months ended 30 September 2005, the Group recorded audited loss attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$7.6 million, of which approximately HK\$5.4 million was attributable to the Contracting Group, representing approximately 71.1% of the total loss attributable to Shun Cheong Shareholders for the period.

The continued losses of the Contracting Group, difficulty in securing further banking support to finance its development and the high working capital requirement as a result, prompted the Company to dispose of the Contracting Group in February 2006, which completion took place on 31 March 2006.

Based on the Shun Cheong Disposal Circular and the 115,930,400 Shun Cheong Shares in issue as at 31 March 2005, the pro forma unaudited consolidated results of the Group for the year ended 31 March 2005 assuming the Disposal was completed on 1 April 2004, the Group would record a pro forma unaudited consolidated loss attributable to Shun Cheong Shareholders (after minority interests) of approximately HK\$44.5 million or approximately HK\$0.384 per Shun Cheong Share. If losses incurred as a result of the Disposal of approximately HK\$31.2 million were excluded, the loss would then be reduced to approximately HK\$13.3 million or approximately HK\$0.115 per Shun Cheong Share. In summary, it is noted that the remaining business of the Group was also loss making, albeit at a smaller extent. Please refer to note 4 of the unaudited pro forma consolidated income statement of the Group for the year ended 31 March 2005 in the Shun Cheong Disposal Circular for further details.

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## LETTER FROM ALTUS CAPITAL

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In terms of net assets, according to the pro forma unaudited balance sheet of the Group assuming that the Disposal was completed on 30 September 2005, the pro forma unaudited consolidated net assets of the Group as at 30 September 2005 would be approximately HK\$53.4 million (or about HK\$0.461 per Shun Cheong Share based on 115,930,400 Shun Cheong Shares in issue), compared to the Group's audited net assets of approximately HK\$58.8 million as at 30 September 2005 (or about HK\$0.507 per Shun Cheong Share based on 115,930,400 Shun Cheong Shares in issue) before the Disposal.

Assuming the Disposal was completed on 30 September 2005, the cash and cash equivalents of the Group would increase to approximately HK\$35.1 million as at 30 September 2005 upon receipt of the net proceeds from the Disposal of approximately HK\$33.0 million as compared to approximately HK\$9.0 million prior to the Disposal. The Disposal would therefore improve the working capital condition of the Group. As at 31 May 2006, the Group's cash and cash equivalents amounted to approximately HK\$34.0 million.

### 2.3 *Prospect of the Group*

After the Disposal, the Group will focus on its remaining business, being the provision of building-related maintenance services in the private and public sectors. The Shun Cheong Directors are of the view that the building-related maintenance services business is by nature less susceptible to property development cycles as compared to the Contracting Group. As the local economy continues to improve, with GDP in 2005 increased by over 7% in real term over year, the Shun Cheong Directors are hopeful that the difficult operating environment will improve with more private developments and increase in government spending in the public sector. The Shun Cheong Directors however pointed out that currently, majority of the Group's revenue is generated from the public sector and the contract amounts under the contracts granted by the Hong Kong Government in relation to building-related maintenance services are typically non-binding and are subject to various factors over the term of the contracts such as the budget policy and public housing policy of the Hong Kong Government and the overall economic conditions.

It is noted that the improvement of the local Hong Kong economy in the past years was mainly attributable to the wholesale, retail, import and export of goods and services. The overall public spending on housing, where the Group derives a majority of its income, remained low. As a result, the operating environment of the Group remained difficult and profit margins were under pressure due to the intense competition in the building related services industry. Meanwhile, it is noted that the Group's experience in the private sector is relatively less than that in the public sector and the Group's contracts with the Hong Kong Government are susceptible to the overall Hong Kong economic conditions as well as the budget and public housing policies of the Hong Kong Government. Based on the above, we are of the view that the prospect of the Group remains uncertain and its growth is largely dependent on: (i) its competitiveness with other sub-contractors in the private sector and (ii) the public and private spending in the Hong Kong construction and building services sectors.

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## LETTER FROM ALTUS CAPITAL

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### 3. TERMS OF THE OFFER

Quam Securities, on behalf of the Offeror, is making the Offer on the following basis:

For each Shun Cheong Share not already owned by the Offeror and parties acting in concert with it ..... HK\$0.30 in cash  
..... (“Offer Price”)

As at the Latest Practicable Date, the Company had 115,930,400 Shun Cheong Shares in issue and based on the Offer Price, the Company is valued at approximately HK\$34.80 million. The Offer Price is the same as the Acquisition Price.

As at the Latest Practicable Date, (i) the Company did not have any options, warrants or other securities that carry rights to subscribe for or which are convertible into Shun Cheong Shares; and (ii) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror and the Shun Cheong Shares which might be material to the Offer.

As stated in the “Letter from Quam Capital” in the Composite Document, the Offeror has no intention to transfer any Shun Cheong Shares acquired pursuant to the Offer to any other persons save for the possible disposal after the closing of the Offer to ensure that the public float for the Shun Cheong Shares will be no less than 25% in accordance with the Listing Rules.

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

### 4. THE OFFER PRICE

The Offer Price of HK\$0.30 per Shun Cheong Share represents:

- (i) a discount of approximately 18.9% to the closing price of HK\$0.370 per Shun Cheong Share as quoted on the Stock Exchange on 8 May 2006, being the last full trading day prior to the suspension of trading of the Shun Cheong Shares on 9 May 2006 pending the issue of the Announcement (the “**Last Trading Day**”);
- (ii) a discount of approximately 21.7% to the average closing price of approximately HK\$0.383 per Shun Cheong Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 12.3% to the average closing price of HK\$0.342 per Shun Cheong Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 10.4% to the average closing price of HK\$0.335 per Shun Cheong Share as quoted on the Stock Exchange for the three months up to and including the Last Trading Day;

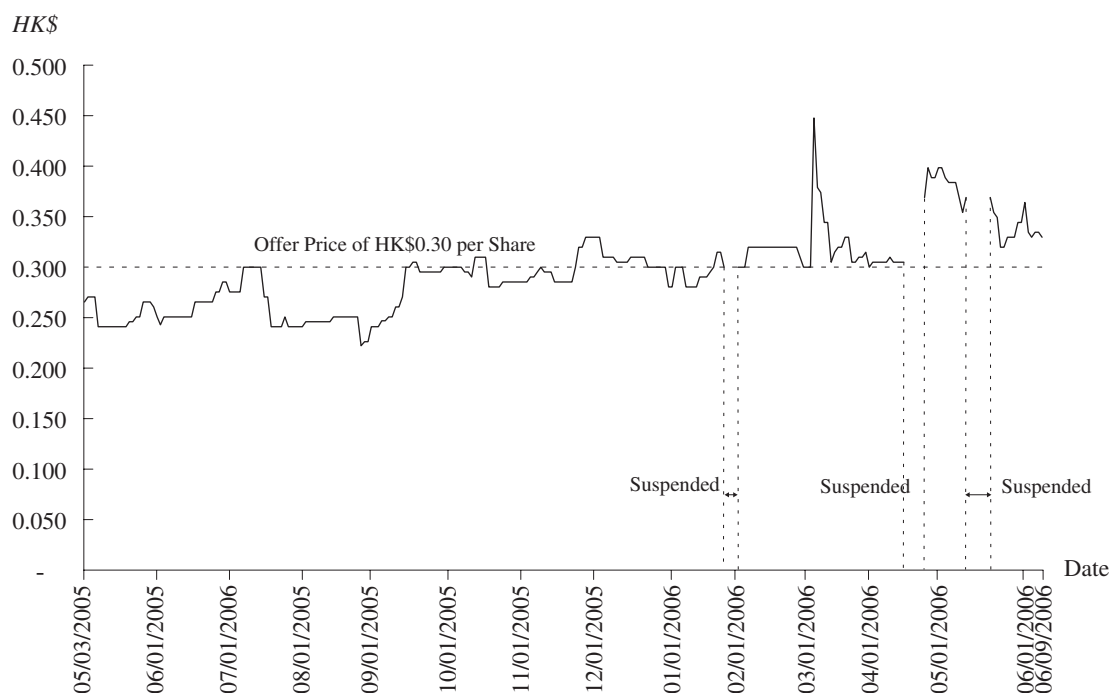


## LETTER FROM ALTUS CAPITAL

- (v) a discount of approximately 5.7% to the average closing price of HK\$0.318 per Shun Cheong Share as quoted on the Stock Exchange for the six months up to and including the Last Trading Day;
- (vi) a discount of approximately 9.1% to the closing price of approximately HK\$0.330 per Shun Cheong Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a discount of approximately 34.9% over the pro forma unaudited net tangible asset value per Shun Cheong Share of approximately HK\$0.461 as at 30 September 2005 (based on the unaudited pro forma net tangible assets attributable to the Shun Cheong Shareholders of about HK\$53.4 million as set out in the Shun Cheong Disposal Circular and 115,930,400 Shun Cheong Shares in issue, assuming the Disposal was completed on 30 September 2005).

### 5. Historical share price performance of the Company

The graph below illustrates the daily historical closing prices of the Shun Cheong Shares traded on the Stock Exchange from 3 May 2005 to the Latest Practicable Date (both dates inclusive) (“**Review Period**”).





## LETTER FROM ALTUS CAPITAL

The highest, lowest, month-end and average daily closing prices of the Shun Cheong Shares for each of the months during the Review Period as summarised as follows:

Month/period	Highest closing price <i>HK\$</i>	Lowest closing price <i>HK\$</i>	Month/ period end closing price <i>HK\$</i>	Average daily closing price <i>HK\$</i>
<b>2005</b>				
May	0.270	0.240	0.265	0.251
June	0.285	0.242	0.285	0.260
July	0.300	0.240	0.240	0.269
August	0.250	0.221	0.240	0.243
September	0.305	0.240	0.300	0.281
October	0.310	0.280	0.285	0.293
November	0.330	0.285	0.330	0.298
December	0.330	0.300	0.300	0.309
<b>2006</b>				
January <i>(Note a)</i>	0.315	0.280	0.300	0.293
February <i>(Note a)</i>	0.320	0.300	0.320	0.317
March	0.450	0.300	0.305	0.325
April <i>(Note b)</i>	0.400	0.305	0.385	0.353
May <i>(Note c)</i>	0.385	0.320	0.345	0.348
1 June to the Latest Practicable Date	0.365	0.330	0.330	0.337

*Notes:*

- (a) Trading of the Shun Cheong Shares was suspended on 27 January 2006 and from 1 February 2006 to 2 February 2006 pending the publication of the announcement on 3 February 2006 in respect of the Disposal. From 28 January 2006 to 31 January 2006 are public holidays in Hong Kong.
- (b) Trading of the Shun Cheong Shares was suspended on 13 April 2006 pending the publication of the Acquisition Announcement.
- (c) Trading of the Shun Cheong Shares was suspended from 9 May 2006 to 16 May 2006 pending the publication of the Announcement.

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## LETTER FROM ALTUS CAPITAL

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Between May 2005 and the Latest Practicable Date, the closing prices of the Shun Cheong Shares had fluctuated between a low of HK\$0.221 per Shun Cheong Share on 25 August 2005 and a high of HK\$0.450 per Shun Cheong Share on 7 March 2006.

It is observed that throughout the Review Period, prices of Shun Cheong Shares have mostly traded at levels below or around the Offer Price. The closing price of the Shun Cheong Shares increased sharply on 7 March 2006 to HK\$0.450 from the previous closing price of HK\$0.300 per Shun Cheong Share on 6 March 2006, representing an increase of 50% on a single trading day. Such price level did not sustain however as the closing price of the Shun Cheong Shares subsequently decreased to HK\$0.305 on 14 March 2006. Trading remained within a range of HK\$0.300 to HK\$0.330 per Shun Cheong Share from 14 March 2006 to 12 April 2006, prior to the publication of the Acquisition Announcement. After the publication of the Acquisition Announcement on 18 April 2006 and before the publication of the Announcement, the closing prices of the Shun Cheong Share increased to a range of between HK\$0.355 and HK\$0.400 per Shun Cheong Share. Nevertheless, following the publication of the Announcement, the closing prices of Shun Cheong Shares have been trading within a range of between HK\$0.320 and HK\$0.370 per Shun Cheong Share. As at the Latest Practicable Date, the closing price per Shun Cheong Share was HK\$0.330.

In summary, during the majority of the Review Period, being from May 2005 to February 2006, the closing prices of the Shun Cheong Shares were at an average of HK\$0.280 per Shun Cheong Share and between a high of HK\$0.330 and a low of HK\$0.221. Prices of the Shun Cheong Shares however became more volatile from March 2006 onwards, during which the prices of the Shun Cheong Shares intermittently increased sharply but declined subsequently to around the Offer Price level. During this period, the liquidity of the Shun Cheong Shares had been very low, which is further discussed below. We are therefore of the view that the Offer Price is fair and reasonable when compared with the trend of prices of Shun Cheong Shares.

## LETTER FROM ALTUS CAPITAL

### 6. Liquidity of the Shun Cheong Shares

The following table sets out the total number and average daily number of Shun Cheong Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital of the Company and the Shun Cheong Shares held by the public during the Review Period:

Month/period	Total trading volume ( <i>Shun Cheong Shares</i> )	Average daily trading volume for the month ( <i>Shun Cheong Shares</i> )	Percentage of average daily trading volume for the month to total number of Shun Cheong Shares in issue as at the Last Trading Day ( <i>Note a</i> ) %	Percentage of average daily trading volume for the month to total number of Shun Cheong Shares held by the public as at the Last Trading Day ( <i>Note b</i> ) %
<b>2005</b>				
May	1,393,500	69,675	0.060	0.093
June	892,500	40,568	0.035	0.054
July	640,000	32,000	0.028	0.043
August	2,021,500	87,891	0.076	0.118
September	1,659,000	79,000	0.068	0.106
October	1,747,500	87,375	0.075	0.117
November	1,294,500	58,841	0.051	0.079
December	486,000	24,300	0.021	0.033
<b>2006</b>				
January ( <i>Note c</i> )	1,439,000	79,944	0.069	0.107
February ( <i>Note c</i> )	240,500	13,361	0.012	0.018
March	3,566,000	155,043	0.134	0.208
April ( <i>Note d</i> )	2,415,114	150,945	0.130	0.203
May ( <i>Note e</i> )	2,040,000	145,714	0.126	0.195
1 June to the Latest Practicable Date	116,000	16,571	0.014	0.022

*Notes:*

- a. Based on 115,930,400 Shun Cheong Shares in issue as at the Last Trading Day.
- b. Based on 74,536,900 Shun Cheong Shares held in public hands as at the Last Trading Day, which excluded the 32,000,000 Shun Cheong Shares held by the Offeror and the 9,393,500 Shun Cheong Shares in aggregate held by the three Shun Cheong Directors namely, Mr. Chan Yuen Keung, Zuric, Mr. Hong Yiu and Mr. Au Yu Fai, Patrick respectively.

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## LETTER FROM ALTUS CAPITAL

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- c. Trading of the Shun Cheong Shares was suspended on 27 January 2006 and from 1 February 2006 to 2 February 2006 pending the publication of the announcement on 3 February 2006 in respect of the Disposal. From 28 January 2006 to 31 January 2006 were public holidays in Hong Kong.
- d. Trading of the Shun Cheong Shares was suspended on 13 April 2006 pending the publication of the Acquisition Announcement.
- e. Trading of the Shun Cheong Shares was suspended from 9 May 2006 to 16 May 2006 pending the publication of the Announcement.

During the Review Period, the trading volume of the Shun Cheong Shares was generally low. The highest average daily trading volume of 155,043 Shun Cheong Shares recorded in March 2006, represents only approximately 0.134% of the total number of Shun Cheong Shares in issue as at the Latest Practicable Date and approximately 0.208% of the Shun Cheong Shares held by the public as at the Latest Practicable Date. During the Review Period, the average daily trading volume of the Shun Cheong Shares was consistently no more than 0.3% of the Shun Cheong Shares held by public and no trading of the Shun Cheong Shares was recorded in 145 days out of a total of 264 trading days.

Given the low trading liquidity of the Shun Cheong Shares, we are of the opinion that Shun Cheong Shareholders may find it difficult to dispose of their Shun Cheong Shares in the open market, and if possible, without exerting downward pressure on the price of the Shun Cheong Shares. The Offer therefore provides an alternative exit opportunity to the Shun Cheong Independent Shareholders to realise their investment in the Company.

### 7. Market comparables

To assess the fairness and reasonableness of the Offer Price, we attempted to review companies listed on the Stock Exchange which are primarily engaged in the provision of building-related maintenance services. However, based on information published on the website of the Stock Exchange, there is no other listed company which is principally engaged in only building related maintenance activities. We have therefore identified, to the best of our knowledge, all companies listed on the Stock Exchange which business activities include the Group's principal activities (the "**Comparables**") and with market capitalisation of below HK\$50 million. This includes CAG, which is formerly a substantial Shun Cheong Shareholder.

Shun Cheong Independent Shareholders should note that the Comparables are not directly comparable to the Company since their business nature only matches some of the Group's activities. The purpose of showing the Comparables is to provide additional information to the Shun Cheong Shareholders on the performance of companies which business activities include building services related business.

We set out below a table comparing the Company with the Comparables: (i) the closing prices of their shares as at the Last Trading Day; (ii) the closing prices of their shares as at the Latest Practicable Date; (iii) profit or loss as reported in the latest published annual report; (iv) price earnings ratio ("**PER**"); (v) net tangible asset value per share; and (vi) the discount of the market price or the Offer Price to the net tangible asset value per share.

# LETTER FROM ALTUS CAPITAL

Company (stock code)	Closing price of shares as at the Last Trading Day (HK\$)	Closing price of shares as at the Latest Practicable Date (HK\$)	Latest audited profit/(loss) (HK\$'000)	PER as at the Last Trading Day (times)	Net tangible asset value per share as at the latest audited financial year end date (HK\$)	Closing price as at the Last Trading Day/Offer Price to net tangible asset value per share (times)	Discount of closing price of shares as at the Last Trading Day/ Offer Price to the net tangible asset value per share (%)
Wing Hong (Holdings) Limited (#745) ("Wing Hong") – Engaged in a broad spectrum of construction works for both public and private sectors in Hong Kong	0.044	0.039	(11,326)	N/A	0.131 <i>Note 1</i>	0.34	66.41
CAG (#385) – Trading and manufacturing of plastic and chemical products, distribution and installation of building supplies, electrical and mechanical products, electrical appliance and air-conditioning business, property and investment holding	0.300	0.250	3,411	13.95	0.993 <i>Note 2</i>	0.30	69.79
Dickson Group Holdings Limited (#313) ("Dickson") – Construction and maintenance works	0.105 <i>Note 3</i>	0.105 <i>Note 3</i>	9,661	3.42	0.500 <i>Note 4</i>	0.21	79.00
<b>The Company</b>	0.370	0.330	(34,567) <i>Note 5</i>	N/A	0.461 <i>Note 6</i>	0.65	34.92

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## LETTER FROM ALTUS CAPITAL

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*Notes:*

1. Based on the net tangible assets of Wing Hong of approximately HK\$139.1 million and 1,064,000,000 shares in issue as at 31 March 2005.
2. Based on the net tangible assets of CAG of approximately HK\$157.5 million and 158,639,799 shares in issue as at 31 December 2005.
3. This is the price quoted on the Stock Exchange website as at 29 December 2005, being the last trading day of Dickson's shares on the Stock Exchange prior to its suspension of trading since 30 December 2005 and remained suspended as at the Latest Practicable Date.
4. Based on the net tangible assets of Dickson of approximately HK\$157.4 million and 314,874,000 shares in issue as at 31 March 2005.
5. The latest audited accounts of the Group are for the six months ended 30 September 2005. However, for comparison purpose, we have used the latest audited annual accounts of the Group for the year ended 31 March 2005.
6. This is based on the pro forma unaudited consolidated net tangible assets of the Group as at 30 September 2005 of approximately HK\$53.4 million and 115,930,400 Shun Cheong Shares in issue, assuming that the Disposal was completed on 30 September 2005.

*PER*

One of the most commonly used reference for valuing a company is the PER based on its historical earnings. However, since the Group incurred losses in the financial year ended 31 March 2005 and the six months ended 30 September 2005, the use of the PER as reference to assess the Offer Price is not feasible.

*Net tangible asset value per Shun Cheong Share*

While all the Comparables, except for Wing Hong, recorded net profit during their latest financial year, the market price of shares of the Comparables are trading at discounts of between approximately 66% and approximately 79% to their net asset value. By comparison, the Offer Price represents a lower level of discount over the net tangible asset value of the Company of about 34.9%. Compared to the current share prices of the Comparables, the Offer Price is therefore fair and reasonable in terms of discount to net asset values.

### **8. Reasons for the Offer and intention of the Offeror**

As stated in the "Letter from Quam Capital" contained in the Composite Document, the directors of the Offeror believe the construction sector in Hong Kong is gradually picking up with a growing trend in the Hong Kong property development sector and the general market sentiments in Hong Kong. They are therefore interested in investing in the construction and building maintenance industry in Hong Kong and are optimistic about the prospects of the Group.

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## LETTER FROM ALTUS CAPITAL

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After the closing of the Offer, the Offeror, inter alia:

- (i) intends to continue with the Company's existing businesses and maintain the listing status of the Company on the main board of the Stock Exchange;
- (ii) has no intention to introduce any major changes to the business, including any redeployment of the fixed assets of Shun Cheong;
- (iii) has no intention to avail itself to any power of compulsory acquisition;
- (iv) will conduct a review on the financial position, operations and management of the Group for the purpose of formulating business strategies for the future business development of the Group;
- (v) intends to appoint new executive directors to the Shun Cheong Board as soon as practicable to enable it to exercise control of the Shun Cheong Board; and
- (vi) has no intention to make any change to the continued employment of the employees of the Group.

It is noted that the Offeror does not have any immediate concrete plans for the Group. The Group's business operations and strategies for future business development are under review by the Offeror and the new executive Shun Cheong Directors to be appointed have yet to be finalized. There is also no clear indication that the Group's financial performance would turn-around if the Offeror gained control of the Company. Based on the description of their background and experience as set out in the "Letter from Quam Capital" contained in the Composite Document, it is not clear that Mr. Mo and Ms. Cao have any direct experience in the principal activities of the Group. Shun Cheong Independent Shareholders should therefore carefully consider the plans and experience of the Offeror and unless they are confident with the business prospects and future management of the Group, Shun Cheong Independent Shareholders should consider this Offer as an opportunity to realise all or part of their investments in the Company.

### RECOMMENDATION

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

1. Save for in 2004, the Company had been making losses for the past few years. The remaining businesses of maintenance services of the Group are also loss making in financial year 2005. No dividend has been declared or paid to Shun Cheong Shareholders for the three years ended 31 March 2005 and the six months ended 30 September 2005;
2. Improvement of the local Hong Kong economy in the past years was mainly attributable to the wholesale, retail, import and export of goods and services and the overall public spending on housing, where the Group derives a majority of its income, remained low. The future business development and prospects of the Group remain uncertain since its growth is largely dependent on the positive economic growth in Hong Kong and the public and private spending in the Hong Kong construction and building services sectors;

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## LETTER FROM ALTUS CAPITAL

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3. During the majority of the Review Period, being from May 2005 to February 2006, the closing prices of the Shun Cheong Shares were at levels around the Offer Price with an average of HK\$0.280 per Shun Cheong Share and between a high of HK\$0.330 and a low of HK\$0.221. Notwithstanding, prices of the Shun Cheong Shares became more volatile from March 2006 onwards, during which the prices of the Shun Cheong Shares intermittently increased sharply but declined subsequently to the Offer Price level as at the Latest Practicable Date;
4. The historical liquidity and trading volume of the Shun Cheong Shares were low. Out of the total number of 264 trading days within the Review Period, 145 days or approximately 55% of which had no trading activities. It may be difficult for the Shun Cheong Independent Shareholders to dispose of their Shun Cheong Shares in the open market, and if possible, without exerting downward pressure on the price of the Shun Cheong Shares. There is no assurance that prices of the Shun Cheong Shares will remain at the current level after the Offer closes; and
5. The Group's future business development strategies will be reviewed by the Offeror and the new executive Shun Cheong Directors to be appointed have yet to be finalized. There is also no clear indication that the Group's financial performance would turn-around if the Offeror gained control of the Company.

When arriving at our recommendation, we have, in particular, considered the fact that the market price of the Shun Cheong Shares as at the Latest Practicable Date was above the Offer Price and that the Offer Price is at a discount to the net asset value of the Group.

There has been significant price volatility in Shun Cheong Shares recently but based on its historical trading trend described above, it is unclear whether the current market price, which is above the Offer Price, is sustainable. Trading liquidity remains very low, which in turn has limited the possibility of divestment of larger quantity of Shun Cheong Shares in the market. While it is noted that the Offer Price is at a discount to the net asset value of the Group, such measure is normally more applicable in the case of liquidation of a company. The Shun Cheong Shares have been trading at such discounts over a long period and we believe the market may have accorded such valuation to the Company in view of the Group's loss making track record and uncertain prospects. Moreover, the Comparables also demonstrated similar features in trading trends.

Having weighed the factors listed 1 to 5 and the above, we are of the view that the Offer Price is fair and reasonable so far as the Shun Cheong Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Shun Cheong Independent Shareholders to accept the Offer.

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



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## LETTER FROM ALTUS CAPITAL

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For those Shun Cheong Independent Shareholders who wish to retain part or all of their investments in the Shun Cheong Shares, they should carefully consider the future intentions of the Offeror regarding the Group and the implication of possible suspension of dealings in Shun Cheong Shares, the details of which are set out in the “Letter from the Shun Cheong Board” and the “Letter from Quam Capital” contained in the Composite Document.

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

Yours faithfully,

For and on behalf of

**Altus Capital Limited**

**Arnold Ip**

*Executive Director*

**Sean Pey, Chang**

*Executive Director*

**FURTHER PROCEDURES FOR ACCEPTANCE**

- (a) If the Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shun Cheong Shares is/are in your name, and you wish to accept the Offer, you must send the completed Form of Acceptance together with the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.
- (b) If the Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shun Cheong Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shun Cheong Shares, you must either:
- (i) lodge your Shun Cheong Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (ii) arrange for the Shun Cheong Shares to be registered in your name by Shun Cheong through the Registrar, and send the Form of Acceptance duly completed together with the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnify or indemnities required in respect thereof) to the Registrar; or
  - (iii) if your Shun Cheong Shares have been lodged with your licensed securities dealer/registered institution in securities broker/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on Friday, 30 June 2006 which is one Business Day before the latest date on which acceptances of the Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/broker/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/broker/custodian bank as required by them; or
  - (iv) if your Shun Cheong Shares have been lodged with your Investor Participant's Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one Business Day before the latest date on which acceptance of the Offer must be received by the Registrar, which is Friday, 30 June 2006 in this case.

- (c) If the Shun Cheong Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shun Cheong Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shun Cheong Shares, the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Shun Cheong Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Shun Cheong Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shun Cheong Shares for registration in your name and have not yet received your Shun Cheong Share certificate(s), and you wish to accept the Offer in respect of your Shun Cheong Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Quam Securities and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant Shun Cheong Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, and is:
- (i) accompanied by the relevant Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those Shun Cheong Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shun Cheong Shares; or
  - (ii) from a registered Shun Cheong Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shun Cheong Shares which are not taken into account under this paragraph (e)); or
  - (iii) certified by the Registrar or the Stock Exchange.
- If the Form of Acceptance is executed by a person other than the registered Shun Cheong Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.
- (f) No acknowledgement of receipt of any Form(s) of Acceptance, Shun Cheong Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (g) The address of the Registrar is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

**ACCEPTANCE PERIOD AND REVISIONS**

Unless the Offer have previously been extended, all Forms of Acceptance must be received by 4:00 p.m. on the Closing Date and the Offer will close at the same time. In accordance with Rule 15.3 of the Takeovers Code, where the Offer becomes or is declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. If the next closing date is not stated in the announcement announcing the unconditionality of the Offer, at least 14 day's notice in writing must be given before the Offer is closed to those Shun Cheong Independent Shareholders who have not accepted the Offer. The Offeror will make an announcement as and when the Offer become or are declared unconditional.

If in the course of the Offer, the Offeror revises its terms, all the Shun Cheong Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date. The benefit of any revision of the Offer will be available to any Shun Cheong Independent Shareholder who have previously accepted the Offer. The execution by or on behalf of any Shun Cheong Shareholder who has previously accepted the Offer of any Form of Acceptance shall be deemed to constitute acceptance of the revised offer unless such holder becomes entitled to withdraw his or her acceptance and duly does so.

In order to be valid, acceptances must be received by the Registrar in accordance with the instructions printed on the Form of Acceptance by 4:00 p.m. on the Closing Date, unless the Offer is extended or revised.

The Offeror may introduce new conditions to be attached to any revision to any of the Offer, or any subsequent revision thereof but only to the extent necessary to implement the revised offer and subject to the consent of the Executive.

If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer as so extended.

**ANNOUNCEMENTS**

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Monday, 3 July 2006, which is the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry or unconditionality of the Offer. The Offeror must publish an announcement through the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer have been revised, extended, has expired or has become or been declared unconditional. Such announcement must be republished in accordance with the requirements set out in item (c) below on the next Business Day.

The announcement must state the following:

- (i) the total number of Shun Cheong Shares and rights over Shun Cheong Shares for which acceptances of the Offer have been received;
- (ii) the total number of Shun Cheong Shares and rights over Shun Cheong Shares held, controlled or directed by the Offeror or parties acting in concert with it before the offer period; and
- (iii) the total number of Shun Cheong Shares and rights over Shun Cheong Shares acquired or agreed to be acquired during the offer period by the Offeror or parties acting in concert with it.

The announcement must also specify the percentages of the issued share capital of Shun Cheong and voting rights of Shun Cheong represented by these numbers of Shun Cheong Shares.

- (b) In computing the number of Shun Cheong Shares represented by acceptances, there may be included or excluded for announcement purposes acceptances which are not in all respects in order in accordance with the requirements of the Takeovers Code.
- (c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

#### **RIGHT OF WITHDRAWAL**

- (a) Acceptance of the Offer tendered by Shun Cheong Shareholders, as the case may be, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his acceptance after 21 days from the Closing Date, if the Offer have not by then become unconditional as to acceptances.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” in this Appendix, the Executive may require that the Shun Cheong Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

**SETTLEMENT OF THE OFFER AND RETURN OF SHUN CHEONG SHARE CERTIFICATES**

Provided that the Form(s) of Acceptance and Shun Cheong Share certificate(s) of and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, a cheque for the amount due to each of the Shun Cheong Shareholders less stamp duty in respect of the Shun Cheong Shares tendered by them under the Offer will be despatched to each of them within ten days after the date on which all the relevant documents are received by the Registrar mentioned above to render such acceptance complete and valid or of the Unconditional Date, whichever is the later. The Offeror will then pay the stamp duty to the stamp office.

The settlement of the consideration to which any Shun Cheong Shareholder(s) is/are entitled under the Offer will be satisfied in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shun Cheong Shareholder(s).

If the Offer is withdrawn or lapses, the Offeror shall, as soon as possible but in any event within ten days thereof, return by ordinary post the Shun Cheong Share certificate(s) lodged with the Form of Acceptance to the relevant Shun Cheong Shareholder(s).

**GENERAL**

- (a) All communications, notices, Forms of Acceptance, certificates of Shun Cheong Shares, transfer receipts, other documents of title or indemnity and remittances to be delivered by or sent to or from the Shun Cheong Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of Shun Cheong, the Offeror, Quam Capital, Quam Securities, Altus Capital, the Registrar nor other parties involved in the Offer or any of this respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the Offer.
- (c) The accidental omission to despatch this Composite Document and/or Form of Acceptance or any of them to any person to whom the Offer are made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance will constitute an authority to any director of the Offeror or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shun Cheong Shares in respect of which such person has accepted the Offer.

- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shun Cheong Shares acquired under the Offer are sold by any such person or persons free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching and accruing thereto including the rights to receive all future dividends or other distributions declared, paid or made on or after the date of this Composite Document.
- (g) Seller's ad valorem stamp duty for Shun Cheong Shares registered on the Registrar register arising in connection with acceptance of the Offer will be payable by each accepting Shun Cheong Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Shun Cheong Shares and will be deducted from the cash amount due to such person under the Offer. The Offeror will then pay the stamp duty to the stamp office.
- (h) The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any Shun Cheong Shares not acquired under the Offer after the Offer has closed.
- (i) References to the Offer in this Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof.
- (j) The making of the Offer to persons with a registered address in jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shun Cheong Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.

## SHARE CAPITAL

The authorised and issued share capital of Shun Cheong as at the Latest Practicable Date are set out as follows:

**Authorised:**

		<i>HK\$</i>
<u>8,000,000,000</u>	Shun Cheong Shares	<u>80,000,000</u>

**Issued and fully paid or to be issued as fully paid or credited to be fully paid:**

		<i>HK\$</i>
<u>115,930,400</u>	Shun Cheong Shares	<u>1,159,304</u>

There has been no alternation in the number of Shun Cheong Shares since 31 March 2005, which is the last financial year end date of Shun Cheong prior to the Latest Practicable Date.

As at the Latest Practicable Date, all of the existing Shun Cheong Shares ranked pari passu in all respects, including in particular, as to dividends, voting rights and return of capital. The Shun Cheong Shares are listed and traded on the main board of the Stock Exchange. The Shun Cheong Shares are not listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Shun Cheong Shares being, or proposed to be sought, on any other stock exchange.

During the six months prior to the date of the Announcement up to and including the Latest Practicable Date, Shun Cheong did not have any outstanding options, warrants or other securities convertible or exchangeable into Shun Cheong Shares, and no other share or loan capital of Shun Cheong had been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shun Cheong Shares or other derivatives in respect of securities which are being offered for or which carry voting rights had been issued or granted or agreed conditionally or unconditionally to be issued or granted.



**SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 MARCH 2005  
AND THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

The following financial information has been extracted from the audited financial statements of Shun Cheong Group for each of the three years ended 31 March 2005 and the six months ended 30 September 2004 and 2005. There were no extraordinary items or exceptional items affecting the consolidated financial statements of Shun Cheong for the three years ended 31 March 2005 and the six months ended 30 September 2004 and 2005.

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
<b>RESULTS</b>					
Turnover	<u>644,310</u>	<u>734,189</u>	<u>550,031</u>	<u>249,407</u>	<u>245,488</u>
<b>PROFIT/(LOSS)</b>					
BEFORE TAX	1,968	15,650	(33,826)	(9,198)	(7,856)
Tax	<u>(4,872)</u>	<u>(4,418)</u>	<u>(741)</u>	<u>(1,231)</u>	<u>(101)</u>
<b>PROFIT/(LOSS) FOR THE YEAR/PERIOD</b>	<u>(2,904)</u>	<u>11,232</u>	<u>(34,567)</u>	<u>(10,429)</u>	<u>(7,957)</u>
<b>Attributable to:</b>					
Equity holders of the parent	(14,685)	1,805	(33,729)	(12,446)	(7,613)
Minority interests	<u>11,781</u>	<u>9,427</u>	<u>(838)</u>	<u>2,017</u>	<u>(344)</u>
	<u>(2,904)</u>	<u>11,232</u>	<u>(34,567)</u>	<u>(10,429)</u>	<u>(7,957)</u>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
- Basic	<u>(12.68 cents)</u>	<u>1.56 cents</u>	<u>(29.09 cents)</u>	<u>(10.73 cents)</u>	<u>(6.57 cents)</u>
- Diluted	<u>(12.68 cents)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>DIVIDEND</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**FINANCIAL INFORMATION****1. BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong (“GAAP”), the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The financial statements have been prepared under the historical cost convention, except for available-for-sale equity investments and equity investments at fair value through profit or loss, which have been measured at fair value as further explained below. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

The HKICPA has issued a number of new and revised HKFRSs which are effective for the accounting periods beginning on or after 1 January 2005. The financial statements have been prepared in accordance with the new HKFRSs. The HKICPA has also issued several standards and interpretations that are not yet effective as at 30 September 2005. The Shun Cheong Directors anticipate that the adoption of these new standards and interpretations will have no material impact to the results of operations and financial position of the Group.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet from the results/equity attributable to equity holders of the parent.

As at 30 September 2005 the Company had direct or indirect interests in the following principal subsidiaries, all of which are private companies, the particulars of which are set out below:

<b>Name</b>	<b>Place of incorporation and operations</b>	<b>Nominal value of issued ordinary share capital</b>	<b>Percentage of equity attributable to the Company*</b>	<b>Principal activities</b>
Shun Cheong Investments Limited	British Virgin Islands	US\$100	100	Investment holding
Shun Cheong Engineering Limited	British Virgin Islands	US\$1	100	Investment holding
Shun Cheong International Limited	British Virgin Islands	US\$1	100	Investment holding
Ecotech Engineering Limited	Hong Kong	HK\$650,001	89.99	Design, installation and maintenance of waste-water treatment systems
Ever Billion Engineering Limited ("Ever Billion")	Hong Kong	HK\$100	100	Provision of building and electrical maintenance services
Shun Cheong Automation Systems Limited	Hong Kong	HK\$2,000,000	85	Design and installation of computer control systems and building automation projects
Shun Cheong Electrical Engineering Company Limited	Hong Kong	HK\$4,100,000	100	Design, installation, repair and maintenance of electrical and mechanical systems
Shun Cheong Electrical Supplies Company Limited	Hong Kong	HK\$100,000	100	General trading of materials and equipment for electrical installation
Shun Cheong Trade and Development Company Limited	Hong Kong	HK\$663,000	100	Trading of electrical generators and µPVC conduits and trunking systems

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company*	Principal activities
Shun Cheong Management Limited	Hong Kong	HK\$2	100	Provision of management services
Shun Cheong Real Estates Limited ("SCRE")	Hong Kong	HK\$10,000	100	Property holding
Shun Wing Construction & Engineering Company Limited ("Shun Wing")	Hong Kong	HK\$1,000	50.10	Provision of building and electrical maintenance services
Tinhawk Company Limited	Hong Kong	HK\$2,000,000	90	Installation and maintenance of water pumps and fire prevention and fighting systems
Westco Airconditioning Limited	Hong Kong	HK\$4,100,000	100	Design, installation and maintenance of heating ventilation and air-conditioning systems

\* *All the above subsidiaries are held indirectly by the Company, except for Shun Cheong Investments Limited which is held directly by the Company.*

The above table lists the subsidiaries of the Company which, in the opinion of the Shun Cheong Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Shun Cheong Directors, result in particulars of excessive length.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

### **Critical accounting estimates and judgements**

The preparation of the Group's financial statements requires the use of estimates and assumptions about future events and conditions. In this connection, the Shun Cheong Directors consider the significant areas where management's judgement is necessary are those in relation to (i) the valuation of the Group's available-for-sale equity investments and equity investments at fair value through profit or loss, (ii) provision for foreseeable losses against gross amount due from contract customers and (iii) recognition of losses against the Group's trade and other receivables and retention money receivables.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. It should be noted that actual results could differ from those estimates.

**Impairment of assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arise.

**Property, plant and equipment and depreciation**

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and properties held under medium term leases	2%
Machinery and equipment	20 – 30%
Furniture and office equipment	20%
Motor vehicles	20%
Leasehold improvements	3 years or over the lease terms, whichever is shorter

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### **Investments**

The Group classifies its investments as financial assets at fair value through profit or loss and available-for-sale financial assets under the scope of HKAS 39. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments after initial recognition and, where allowed and appropriate, re-evaluates this designation at every financial reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gain or losses arising from changes in fair values of the “financial assets at fair value through profit or loss” are recognised in the consolidated income statement in the period in which they arise.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or not classified in any other categories under the scope of HKAS 39. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

The fair values of quoted investments are based on bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis or other valuation models as appropriate.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in consolidated income statement, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

#### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.



**Installation and maintenance contracts and contracts in progress**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed installation and maintenance overheads.

Revenue from fixed price installation and maintenance contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified work performed to date to the estimated total contract sum of the relevant contracts. When the outcome of the contracts cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that is probable to be recoverable.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Related parties**

A party is considered to be related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

**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 and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

**Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

**Employee benefits***Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year/period by the employees and carried forward.

*Retirement benefits schemes*

The Group operates defined contribution retirement benefits schemes, including an Occupational Retirement Schemes Ordinance retirement benefits scheme (the “ORSO Scheme”) and a Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees (including executive directors).

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees’ basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of 30% to 90% after completing three to nine years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

Under 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 Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The assets of both schemes are held separately from those of the Group in independently administered funds.

**Share-based payment transactions**

The Company operated a share option scheme, which expired on 14 September 2002, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group’s operations. Employees (including directors) of the Group received remuneration in the form of share-based payment transactions, whereby employees rendered services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, which is determined by an external valuer using appropriate valuation models. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from installation and maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for “Installation and maintenance contracts and contracts in progress” above;
- (c) project management income, when project management services are rendered; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets.

## 3. CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 March			Six months ended 30 September	
		2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
					(unaudited)	
REVENUE	(a)					
Continuing operations		644,019	734,189	550,031	249,407	245,488
Discontinued operations	(b)	291	–	–	–	–
		644,310	734,189	550,031	249,407	245,488
Cost of installation and cost of sales		(553,836)	(633,591)	(526,450)	(226,088)	(224,681)
Gross profit		90,474	100,598	23,581	23,319	20,807
Other income and gains	(a)	2,718	1,809	2,016	724	1,129
Administrative expenses		(80,814)	(77,943)	(57,245)	(31,427)	(28,874)
Impairment loss of available-for-sale equity investments		(7,130)	(9,108)	(757)	(944)	–
Unrealised holding gain/ (loss) on equity investments at fair value through profit or loss		(1,244)	245	103	(95)	133
Provision for amounts due from former subsidiaries		–	(2,179)	–	–	–
Gain on dissolution of discontinued operations	(b)	–	4,105	–	–	–
Finance costs	(f)	(2,034)	(1,877)	(1,524)	(775)	(1,051)
Share of loss of an associate		(2)	–	–	–	–
PROFIT/(LOSS) BEFORE TAX	(c)	1,968	15,650	(33,826)	(9,198)	(7,856)

	Notes	Year ended 31 March			Six months ended 30 September	
		2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
PROFIT/(LOSS) BEFORE TAX		1,968	15,650	(33,826)	(9,198)	(7,856)
Tax	(g)	(4,872)	(4,418)	(741)	(1,231)	(101)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		<u>(2,904)</u>	<u>11,232</u>	<u>(34,567)</u>	<u>(10,429)</u>	<u>(7,957)</u>
<b>Attributable to:</b>						
Equity holders of the parent		(14,685)	1,805	(33,729)	(12,446)	(7,613)
Minority interests		11,781	9,427	(838)	2,017	(344)
		<u>(2,904)</u>	<u>11,232</u>	<u>(34,567)</u>	<u>(10,429)</u>	<u>(7,957)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	(k)					
– Basic		<u>(12.68 cents)</u>	<u>1.56 cents</u>	<u>(29.09 cents)</u>	<u>(10.73 cents)</u>	<u>(6.57 cents)</u>
– Diluted		<u>(12.68 cents)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



Notes:

(a) **Revenue, other income and gains**

Turnover represented the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and an appropriate proportion of contract revenue from long term installation and maintenance contracts during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
<b>Revenue</b>					
Continuing operations:					
Building services					
contracting business	588,147	704,579	523,628	236,628	224,029
Project management income	4,638	2,240	2,222	1,023	996
Trading and installation of electrical and mechanical engineering materials and equipment	51,234	27,370	24,181	11,756	20,463
	644,019	734,189	550,031	249,407	245,488
Discontinued operations:					
Provision of broadband connectivity services	291	–	–	–	–
	<u>644,310</u>	<u>734,189</u>	<u>550,031</u>	<u>249,407</u>	<u>245,488</u>
<b>Other income and gains</b>					
Interest income	568	1,772	1,317	591	651
Gain/(loss) on dissolution of subsidiaries	–	(33)	313	–	–
Gain on dissolution of an associate	–	–	199	–	–
Others	2,150	70	187	133	478
	<u>2,718</u>	<u>1,809</u>	<u>2,016</u>	<u>724</u>	<u>1,129</u>

(b) **Discontinued operations**

In view of a strategic plan by the Group to concentrate on its core activities, the directors of the Company determined to phase out the Group's broadband connectivity services business and it was substantially abandoned during the year ended 31 March 2002. Accordingly, the directors considered the aforesaid business was discontinued operations during the year ended 31 March 2002.

During the year ended 31 March 2003, there were essentially no business activities of the broadband connectivity services. The subsidiary engaged in the broadband connectivity services business was in liquidation as of 31 March 2003 and was eventually dissolved in August 2003, which resulted in a net gain of approximately HK\$4,105,000 arising on the dissolution of the subsidiary being recorded in the consolidated income statement for the year ended 31 March 2004.

The turnover, other income and gains and net loss for the year/period attributable to the discontinued operations are as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (unaudited)	2005 HK\$'000
Revenue	291	–	–	–	–
Cost of installation	(756)	–	–	–	–
Gross loss	(465)	–	–	–	–
Other income and gains	7	–	–	–	–
Finance costs	(20)	–	–	–	–
Loss before tax	(478)	–	–	–	–
Tax	–	–	–	–	–
Net loss for the year/period	<u>(478)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (unaudited)	2005 HK\$'000
<b>Provision of broadband connectivity services</b>					
Total assets	678	–	–	–	–
Total liabilities	(10,643)	–	–	–	–
Net liabilities	<u>(9,965)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The net cash flows attributable to the discontinued operations are as follow:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (unaudited)	2005 HK\$'000
<b>Provision of broadband connectivity services</b>					
Operating activities and net cash outflow	<u>(950)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## (c) Profit/(loss) before tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (unaudited)	2005 HK\$'000
Cost of inventories sold	43,188	24,583	17,332	7,230	395
Cost of installation	510,648	609,008	509,118	218,858	244,286
	<u>553,836</u>	<u>633,591</u>	<u>526,450</u>	<u>226,088</u>	<u>244,681</u>
Depreciation	3,087	2,539	1,749	972	588
Minimum lease payments under operating leases in respect of land and buildings	1,993	1,425	1,095	703	336
Auditors' remuneration	800	800	800	384	388
Employee benefits expenses (including directors' remuneration (Section 3(d)):					
Wages and salaries	64,217	64,299	50,958	23,686	27,641
Pension scheme contributions	2,982	2,811	3,021	1,392	1,028
Less: Forfeited contributions	(238)	(1,038)	(309)	(233)	(145)
Net pension scheme contributions*	<u>2,744</u>	<u>1,773</u>	<u>2,712</u>	<u>1,159</u>	<u>883</u>
	66,961	66,072	53,670	24,845	28,524
Less: Amount capitalised in contract costs	<u>–</u>	<u>(118)</u>	<u>(10,537)</u>	<u>(190)</u>	<u>(8,418)</u>
Amounts charged to administrative expenses	<u>66,961</u>	<u>65,954</u>	<u>43,133</u>	<u>24,655</u>	<u>20,106</u>
Provision for doubtful debts	–	109	1,531	–	2,386
Recovery of previously provided doubtful debts	(754)	(392)	(134)	–	–
Loss/(gain) on disposal of items of property, plant and equipment	<u>434</u>	<u>7</u>	<u>(29)</u>	<u>19</u>	<u>(9)</u>

\* The Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years as at 31 March 2003, 2004 and 2005 and 30 September 2004 and 2005.

## (d) Directors' and senior executives' remuneration

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
Fees:					
Executive directors	–	–	–	–	–
Non-executive directors	–	–	–	–	–
Independent non-executive directors	240	250	362	182	180
	<u>240</u>	<u>250</u>	<u>362</u>	<u>182</u>	<u>180</u>
Other emoluments to executive directors:					
Salaries, allowances and benefits in kind	3,342	5,397	3,322	1,533	1,533
Performance related payments	538	334	330	–	–
Pension scheme contributions	153	220	175	88	88
	<u>4,033</u>	<u>5,951</u>	<u>3,827</u>	<u>1,621</u>	<u>1,621</u>
	<u><u>4,273</u></u>	<u><u>6,201</u></u>	<u><u>4,189</u></u>	<u><u>1,803</u></u>	<u><u>1,801</u></u>

During the year ended 31 March 2003, no directors were granted share options in respect of their services to the Group, under the share option scheme of the Company which was expired in September 2002.

## Year ended 31 March 2003

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related payments HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<i>Executive directors:</i>					
Mr. Au Shiu Wai, Frank	–	1,063	80	72	1,215
Mr. Chan Yuen Keung, Zuric	–	1,223	380	11	1,614
Mr. Ou Ka Chi	–	1,056	78	70	1,204
Dr. Wong Sai Wing, James	–	–	–	–	–
<i>Non-executive directors:</i>					
Mr. Hong Yiu	–	–	–	–	–
Mr. Yu Sek Kee, Stephen	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Dr. Chan Chok Ki	80	–	–	–	80
Mr. Li X Sinclair	120	–	–	–	120
Mr. Yuen Yiu Bun, Kenneth	40	–	–	–	40
	<u>240</u>	<u>3,342</u>	<u>538</u>	<u>153</u>	<u>4,273</u>

## Year ended 31 March 2004

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Performance related payments <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors:</i>					
Mr. Au Shiu Wai, Frank	–	1,040	80	76	1,196
Mr. Au Yu Fai, Patrick	–	975	75	68	1,118
Mr. Chan Yuen Keung, Zuric	–	1,306	101	12	1,419
Mr. Ou Ka Chi	–	2,076	78	64	2,218
Dr. Wong Sai Wing, James	–	–	–	–	–
<i>Non-executive directors:</i>					
Mr. Hong Yiu	–	–	–	–	–
Mr. Yu Sek Kee, Stephen	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Dr. Chan Chok Ki	120	–	–	–	120
Mr. Ho Hin Kwan, Edmund	80	–	–	–	80
Mr. Li X Sinclair	50	–	–	–	50
Mr. Yu Hon To, David	–	–	–	–	–
	<u>250</u>	<u>5,397</u>	<u>334</u>	<u>220</u>	<u>6,201</u>

## Year ended 31 March 2005

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Performance related payments <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors:</i>					
Mr. Au Shiu Wai, Frank	–	1,040	80	96	1,216
Mr. Au Yu Fai, Patrick	–	975	150	67	1,192
Mr. Chan Yuen Keung, Zuric	–	1,307	100	12	1,419
Mr. Hong Yiu	–	–	–	–	–
Dr. Wong Sai Wing, James	–	–	–	–	–
Mr. Yu Sek Kee, Stephen	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Dr. Chan Chok Ki	120	–	–	–	120
Mr. Ho Hin Kwan, Edmund	120	–	–	–	120
Mr. Yu Hon To, David	122	–	–	–	122
	<u>362</u>	<u>3,322</u>	<u>330</u>	<u>175</u>	<u>4,189</u>

## Six months ended 30 September 2004 (unaudited)

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Performance related payments <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors:</i>					
Mr. Au Shiu Wai, Frank	–	480	–	48	528
Mr. Au Yu Fai, Patrick	–	450	–	34	484
Mr. Chan Yuen Keung, Zuric	–	603	–	6	609
Mr. Hong Yiu	–	–	–	–	–
Dr. Wong Sai Wing, James	–	–	–	–	–
Mr. Yu Sek Kee, Stephen	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Dr. Chan Chok Ki	60	–	–	–	60
Mr. Ho Hin Kwan, Edmund	60	–	–	–	60
Mr. Yu Hon To, David	62	–	–	–	62
	<u>182</u>	<u>1,533</u>	<u>–</u>	<u>88</u>	<u>1,803</u>

## Six months ended 30 September 2005

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Performance related payments <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors:</i>					
Mr. Au Shiu Wai, Frank	–	480	–	48	528
Mr. Au Yu Fai, Patrick	–	450	–	34	484
Mr. Chan Yuen Keung, Zuric	–	603	–	6	609
Mr. Hong Yiu	–	–	–	–	–
Mr. Yu Sek Kee, Stephen	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Dr. Chan Chok Ki	60	–	–	–	60
Mr. Ho Hin Kwan, Edmund	60	–	–	–	60
Mr. Yu Hon To, David	60	–	–	–	60
	<u>180</u>	<u>1,533</u>	<u>–</u>	<u>88</u>	<u>1,801</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005.

During the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

**(e) Five highest paid employees**

The five highest paid employees during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 included three, four, three, three and three directors, respectively, details of whose remuneration are set out in Section 3(d) above. Details of the remuneration of the remaining non-director, highest paid employees during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 are set out below.

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	1,860	910	1,557	719	719
Performance related payments	184	70	120	–	–
Pension scheme contribution	129	63	122	61	61
	<u>2,173</u>	<u>1,043</u>	<u>1,799</u>	<u>780</u>	<u>780</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 March			Six months ended 30 September	
	2003	2004	2005	2004	2005
HK\$1 – HK\$1,000,000	–	–	1	2	2
HK\$1,000,001 – HK\$1,500,000	2	1	1	–	–
	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

## (f) Finance costs

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
Interest on bank loans and overdrafts wholly repayable within five years	1,405	1,110	807	391	764
Interest on other loans	–	–	234	–	94
Interest on finance leases	83	51	43	43	–
Bank charges	546	716	440	341	193
	2,034	1,877	1,524	775	1,051
	2,034	1,877	1,524	775	1,051

## (g) Tax

The Company is exempt from tax in Bermuda until 2016.

Hong Kong profits tax has been provided at the statutory tax rate on the estimated assessable profits arising in Hong Kong during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005. The statutory tax rate for Hong Kong profits tax is 16% for the year ended 31 March 2003; and 17.5% for the years ended 31 March 2004 and 2005 and the six months ended 30 September 2004 and 2005.

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
Group:					
Current – Hong Kong					
Charge for the year/period	5,245	4,590	812	1,231	101
Under/(over)provision in prior years	(66)	(66)	50	–	–
Deferred (Section 4(n))	(307)	(106)	(121)	–	–
Total tax charge for the year/period	4,872	4,418	741	1,231	101



A reconciliation of the tax expenses applicable to profit/(loss) before tax using the statutory rates of Hong Kong to the tax expense at the effective tax rates is as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Profit/(loss) before tax	<u>1,968</u>	<u>15,650</u>	<u>(33,826)</u>	<u>(9,198)</u>	<u>(7,856)</u>
Tax at the Hong Kong statutory rate	315	2,739	(5,919)	(1,610)	(1,375)
Effect on opening deferred tax of increase in rates	24	–	–	–	–
Adjustments in respect of current tax of previous years	(66)	(66)	50	–	–
Income not subject to tax	(25)	(728)	(2)	–	(37)
Expenses not deductible for tax	1,669	2,320	448	303	434
Tax losses utilised from previous year/period	(340)	(802)	(226)	(58)	(501)
Tax losses not recognised	3,231	1,002	6,402	2,484	1,525
Others	<u>64</u>	<u>(47)</u>	<u>(12)</u>	<u>112</u>	<u>55</u>
Tax charge at the Group's effective rate	<u>4,872</u>	<u>4,418</u>	<u>741</u>	<u>1,231</u>	<u>101</u>

**(h) Related party transactions**

(1) In addition to the transactions detailed elsewhere in these Summaries, the Group had the following material transactions with related parties during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005:

	Notes	Year ended 31 March			Six months ended 30 September	
		2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Billing of building maintenance works and building services installation works to Chinney Construction Company, Limited ("Chinney Construction")	(i)	274,343	268,515	120,152	60,400	48,376
Payment to Diyixian.com Limited ("Diyixian") of rental for server co-location at Diyixian's data centres and for access to the internet together with related set-up charges	(ii)	192	-	-	-	-
Purchase of merchandise from Chinney Alliance Engineering Limited	(iii)	808	1,155	817	613	491
Sub-contracting charge paid to a 49.90% minority shareholder of Shun Wing for the completion of work orders of a building maintenance contract		81,670	92,310	25,846	11,140	1,617
Management fee paid to a 49.90% minority shareholder of Shun Wing for the provision of management services of a building maintenance contract		5,091	6,510	-	-	-

*Notes:*

- (i) Chinney Construction is a company of which Wong Sai Wing, James (who resigned as chairman and executive director of the Company on 17 September 2004) and Chan Yuen Keung, Zuric, are also directors and have indirect beneficial interests therein.

The amounts due from Chinney Construction are unsecured, interest-free and are repayable within normal credit terms of 60 days. Details of the balances are included in Section 4(h). The maximum amount due from Chinney Construction during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 are HK\$15,420,000, HK\$47,432,000, HK\$47,369,000, HK\$46,729,000 and HK\$41,442,000, respectively.

The Group also had amounts payable to Chinney Construction of HK\$22,930,000 and HK\$15,700,000, which were unsecured, interest-free and had no fixed terms of repayment as at 31 March 2005 and 30 September 2005, respectively. There were no amounts payable to Chinney Construction as at 31 March 2003 and 2004.

- (ii) Diyixian was a minority shareholder of Speedlink Limited, a former subsidiary of the Group which was dissolved in August 2003.
- (iii) Chinney Alliance Engineering Limited is a wholly-owned subsidiary of Chinney Alliance Group Limited, a company listed on the Stock Exchange, which is also a substantial shareholder of the Company. Wong Sai Wing, James and Yu Sek Kee, Stephen, are also directors of Chinney Alliance Group Limited.

In the opinion of the directors, the above transactions were conducted at mutually agreed terms and rates in the normal course of the Group's business.

(2) *Outstanding balances with related parties*

- (i) Details of the Company's amounts due from subsidiaries are included in Section 4(b).
- (ii) Details of the Group's loans from minority shareholders of subsidiaries are included in Section 4(m).

(3) *Compensation of key management personnel of the Group:*

The executive directors are the key management personnel of the Group. Details of their remunerations are disclosed in Section 3(d).

**(i) Connected transactions**

During the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005, the Group had the following connected transactions with Chinney Construction:

On 10 August 2004, Ever Billion, a wholly-owned subsidiary of the Group, entered into an agreement with Chinney Construction (the "Agreement") for the subcontracting of a three-year building and land maintenance contract dated 1 March 2004 awarded by the Architectural Services Department of the Government of the Hong Kong Special Administrative Region to Chinney Construction. Chan Yuen Keung, Zuric, and Wong Sai Wing, James, who is/was the chairman and executive director of the Company, are also a director of and have indirect beneficial interests in Chinney Construction. The Agreement constitutes a continuing connected transaction of the Company under the Listing Rules. Details of the continuing connected transactions were disclosed in a circular dated 24 August 2004 to all shareholders of the Company.

The continuing connected transaction was approved by independent shareholders of the Company on the special general meeting held on 16 September 2004 with an annual cap for the contract amount of the Agreement of HK\$120 million for each of the years ended/ending 31 March 2005, 2006 and 2007, and HK\$78 million for the year ending 31 March 2008. During the year ended 31 March 2005 and the six months ended 30 September 2004 and 2005, the amount for the services provided under the Agreement was approximately HK\$41,643,000, HK\$10,301,000 and HK\$38,764,000, respectively.

**(j) Dividend**

No dividend has been paid or declared by the Company during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005.

**(k) Earnings/loss per share attributable to ordinary equity holders of the parent**

For the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005, the calculations of basic earnings/(loss) per share are based on the profit/(loss) attributable to equity holders of the parent of (HK\$14,685,000), HK\$1,805,000, (HK\$33,729,000), (HK\$12,446,000) and (HK\$7,613,000), respectively, and the weighted number of ordinary shares of 115,930,400 for the respective years/periods, respectively, in issue during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005, after taken into consideration of the Capital Reorganisation on 16 September 2004 (Section 4(o)).

The diluted loss per share for the year ended 31 March 2003 was calculated based on the loss attributable to equity holders of the parent of HK\$14,685,000 and weighted number of shares of 115,930,400. The diluted earnings/loss per share amounts for the years ended 31 March 2004 and 2005 and the six months ended 30 September 2004 and 2005 have not been disclosed because no diluting events existed during the respective years/period.

## 4. BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2003, 2004 and 2005 and 30 September 2005, after making such adjustments as considered appropriate and on the basis as set out in Section 1 above:

**Consolidated balance sheets of the Group**

		<b>31 March</b>		<b>30</b>	
	<i>Notes</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2005</b>
					<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	<i>(a)</i>	23,176	20,735	19,093	18,629
Interest in an associate	<i>(c)</i>	–	–	–	–
Available-for-sale equity investments	<i>(d)</i>	12,365	3,257	2,500	2,500
Equity investments at fair value through profit or loss	<i>(e)</i>	166	411	514	647
Total non-current assets		<u>35,707</u>	<u>24,403</u>	<u>22,107</u>	<u>21,776</u>
<b>CURRENT ASSETS</b>					
Gross amount due from contract customers	<i>(f)</i>	86,453	84,798	90,500	93,438
Inventories	<i>(g)</i>	3,499	3,248	395	–
Trade and other receivables	<i>(h)</i>	160,904	143,919	175,244	152,547
Retention money receivables		25,905	25,344	22,505	21,609
Prepayments, deposits and other assets		752	545	604	474
Prepaid tax		2,249	2,527	4,693	4,367
Pledged time deposits	<i>(i)</i>	27,348	26,800	26,800	26,800
Cash and cash equivalents	<i>(i)</i>	26,825	10,129	8,261	9,024
Total current assets		<u>333,935</u>	<u>297,310</u>	<u>329,002</u>	<u>308,259</u>
<b>CURRENT LIABILITIES</b>					
Gross amount due to contract customers	<i>(f)</i>	83,514	61,827	91,745	56,176
Trade payables	<i>(j)</i>	44,790	30,628	33,576	55,325
Bills payable		23,032	6,443	3,263	6,472
Retention money payables		17,280	20,742	24,623	23,512
Other payables and accruals		40,762	44,874	59,102	59,914
Tax payable		1,807	474	357	377
Interest-bearing bank loans and overdrafts	<i>(k)</i>	33,741	30,274	46,886	44,659
Finance lease payables	<i>(l)</i>	270	180	–	–
Total current liabilities		<u>245,196</u>	<u>195,442</u>	<u>259,552</u>	<u>246,435</u>
NET CURRENT ASSETS		<u>88,739</u>	<u>101,868</u>	<u>69,450</u>	<u>61,824</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>124,446</u>	<u>126,271</u>	<u>91,557</u>	<u>83,600</u>

		<b>31 March</b>		<b>30</b>	
	<i>Notes</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing bank loans, overdrafts and other borrowings	<i>(k)</i>	3,333	–	–	–
Loans from minority shareholders of subsidiaries	<i>(m)</i>	12,500	6,900	6,900	6,900
Finance lease payables	<i>(l)</i>	180	–	–	–
Deferred tax liabilities	<i>(n)</i>	253	147	26	26
		<hr/>	<hr/>	<hr/>	<hr/>
Total non-current liabilities		16,266	7,047	6,926	6,926
		<hr/>	<hr/>	<hr/>	<hr/>
Net assets		<u>108,180</u>	<u>119,224</u>	<u>84,631</u>	<u>76,674</u>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the parent:</b>					
Issued capital	<i>(o)</i>	46,372	46,372	1,159	1,159
Reserves		51,966	53,771	65,255	57,642
		<hr/>	<hr/>	<hr/>	<hr/>
		98,338	100,143	66,414	58,801
<b>Minority interests</b>		9,842	19,081	18,217	17,873
		<hr/>	<hr/>	<hr/>	<hr/>
Total equity		<u>108,180</u>	<u>119,224</u>	<u>84,631</u>	<u>76,674</u>

## Balance sheets of the Company

		<b>31 March</b>			<b>30</b>
	<i>Notes</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2005</b>
					<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>					
Interests in subsidiaries	<i>(b)</i>	64,536	62,000	59,878	58,756
<b>CURRENT ASSETS</b>					
Prepayment, deposits and other assets		321	341	209	136
Cash and cash equivalents	<i>(i)</i>	76	75	74	73
Total current assets		397	416	283	209
<b>CURRENT LIABILITIES</b>					
Other payables and accruals		195	207	219	315
Total current liabilities		195	207	219	315
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>					
		202	209	64	(106)
Net assets		<u>64,738</u>	<u>62,209</u>	<u>59,942</u>	<u>58,650</u>
<b>EQUITY</b>					
Issued capital		46,372	46,372	1,159	1,159
Reserves		18,366	15,837	58,783	57,491
Total equity		<u>64,738</u>	<u>62,209</u>	<u>59,942</u>	<u>58,650</u>

Notes:

## (a) Property, plant and equipment

	Leasehold land and properties <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 March 2003</b>						
At 1 April 2002						
Cost	22,378	6,200	13,859	5,203	2,108	49,748
Accumulated depreciation	(2,871)	(6,195)	(9,713)	(2,938)	(1,346)	(23,063)
Net carrying amount	<u>19,507</u>	<u>5</u>	<u>4,146</u>	<u>2,265</u>	<u>762</u>	<u>26,685</u>
At 1 April 2002, net of accumulated depreciation	19,507	5	4,146	2,265	762	26,685
Additions	-	-	342	-	246	588
Depreciation provided during the year	(447)	(5)	(1,344)	(815)	(476)	(3,087)
Disposals	-	-	(951)	-	(59)	(1,010)
At 31 March 2003, net of accumulated depreciation	<u>19,060</u>	<u>-</u>	<u>2,193</u>	<u>1,450</u>	<u>473</u>	<u>23,176</u>
At 31 March 2003						
Cost	22,378	-	10,249	4,505	2,045	39,177
Accumulated depreciation	(3,318)	-	(8,056)	(3,055)	(1,572)	(16,001)
Net carrying amount	<u>19,060</u>	<u>-</u>	<u>2,193</u>	<u>1,450</u>	<u>473</u>	<u>23,176</u>
<b>31 March 2004</b>						
At 31 March 2003 and at 1 April 2003:						
Cost	22,378	-	10,249	4,505	2,045	39,177
Accumulated depreciation	(3,318)	-	(8,056)	(3,055)	(1,572)	(16,001)
Net carrying amount	<u>19,060</u>	<u>-</u>	<u>2,193</u>	<u>1,450</u>	<u>473</u>	<u>23,176</u>
At 1 April 2003, net of accumulated depreciation	19,060	-	2,193	1,450	473	23,176
Additions	-	-	105	-	-	105
Depreciation provided during the year	(447)	-	(968)	(815)	(309)	(2,539)
Disposals	-	-	(7)	-	-	(7)
At 31 March 2004, net of accumulated depreciation	<u>18,613</u>	<u>-</u>	<u>1,323</u>	<u>635</u>	<u>164</u>	<u>20,735</u>
At 31 March 2004						
Cost	22,378	-	9,802	4,505	1,750	38,435
Accumulated depreciation	(3,765)	-	(8,479)	(3,870)	(1,586)	(17,700)
Net carrying amount	<u>18,613</u>	<u>-</u>	<u>1,323</u>	<u>635</u>	<u>164</u>	<u>20,735</u>



	Leasehold land and properties <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 March 2005</b>						
At 31 March 2004 and at 1 April 2004:						
Cost	22,378	–	9,802	4,505	1,750	38,435
Accumulated depreciation	(3,765)	–	(8,479)	(3,870)	(1,586)	(17,700)
Net carrying amount	<u>18,613</u>	<u>–</u>	<u>1,323</u>	<u>635</u>	<u>164</u>	<u>20,735</u>
At 1 April 2004, net of accumulated depreciation						
	18,613	–	1,323	635	164	20,735
Additions	–	–	352	271	33	656
Depreciation provided during the year	(449)	–	(860)	(275)	(165)	(1,749)
Write-off and disposals	–	–	(30)	(510)	(9)	(549)
At 31 March 2005, net of accumulated depreciation	<u>18,164</u>	<u>–</u>	<u>785</u>	<u>121</u>	<u>23</u>	<u>19,093</u>
At 31 March 2005:						
Cost	22,378	–	4,737	1,462	756	29,333
Accumulated depreciation	(4,214)	–	(3,952)	(1,341)	(733)	(10,240)
Net carrying amount	<u>18,164</u>	<u>–</u>	<u>785</u>	<u>121</u>	<u>23</u>	<u>19,093</u>
<b>30 September 2005</b>						
At 31 March 2005 and at 1 April 2005:						
Cost	22,378	–	4,737	1,462	756	29,333
Accumulated depreciation	(4,214)	–	(3,952)	(1,341)	(733)	(10,240)
Net carrying amount	<u>18,164</u>	<u>–</u>	<u>785</u>	<u>121</u>	<u>23</u>	<u>19,093</u>
At 1 April 2005, net of accumulated depreciation						
	18,164	–	785	121	23	19,093
Additions	–	–	63	–	79	142
Depreciation provided during the period	(224)	–	(321)	(27)	(16)	(588)
Disposals	–	–	(18)	–	–	(18)
At 30 September 2005, net of accumulated depreciation	<u>17,940</u>	<u>–</u>	<u>509</u>	<u>94</u>	<u>86</u>	<u>18,629</u>
At 30 September 2005:						
Cost	22,378	–	3,713	768	835	27,694
Accumulated depreciation	(4,438)	–	(3,204)	(674)	(749)	(9,065)
Net carrying amount	<u>17,940</u>	<u>–</u>	<u>509</u>	<u>94</u>	<u>86</u>	<u>18,629</u>

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles as at 31 March 2003 and 2004 was HK\$648,000 and HK\$468,000, respectively. As at 31 March 2005 and 30 September 2005, no items of property, plant and equipment of the Group was held under finance leases.

The Group's leasehold land and properties are located in Hong Kong and are held under medium-term leases as at 31 March 2003, 2004 and 2005 and 30 September 2005.

Certain of the Group's leasehold lands and properties with a net book value of approximately HK\$16,500,000, HK\$16,100,000 and HK\$15,716,000 and HK\$15,524,000 were pledged to secure general banking facilities granted to the Group as set out in Section 4(k) at 31 March 2003, 2004 and 2005 and 30 September 2005, respectively. The mortgage on the pledged leasehold land and buildings for the aforesaid banking facilities was subsequently released on 7 October 2005.

**(b) Interests in subsidiaries**

**Company**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<b>2004</b>	<i>HK\$'000</i>	<b>September</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2005</b>
				<i>HK\$'000</i>
Unlisted shares, at cost	33,116	33,116	33,116	33,116
Due from subsidiaries	143,695	148,903	147,434	147,169
	<u>176,811</u>	<u>182,019</u>	<u>180,550</u>	<u>180,285</u>
Impairment	(112,275)	(120,019)	(120,672)	(121,529)
	<u>64,536</u>	<u>62,000</u>	<u>59,878</u>	<u>58,756</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's principal subsidiaries are set out in Section 1.

**(c) Interest in an associate**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<b>2004</b>	<i>HK\$'000</i>	<b>September</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2005</b>
				<i>HK\$'000</i>
Share of net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Particulars of the associate as at 31 March 2003 and 2004 are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation and operations</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activity</b>
MIT Shun Cheong Company Limited	Corporate	Hong Kong	50	Inactive

The associate was deregistered on 18 February 2005.

**(d) Available-for-sale equity investments**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<i>2004</i>	<i>2005</i>	<i>September</i>
		<i>2004</i>	<i>2005</i>	<i>2005</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments, at fair value	<u>12,365</u>	<u>3,257</u>	<u>2,500</u>	<u>2,500</u>

The above investments consist of investments in equity securities which are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The available-for-sale equity investments were stated at their fair values as estimated by the directors based on available audited financial statements or latest available unaudited financial information. The directors believe the estimated fair values resulting from the aforesaid valuation method are reasonable and appropriate at the respective balance sheet dates.

**(e) Equity investments at fair value through profit or loss**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<i>2004</i>	<i>2005</i>	<i>September</i>
		<i>2004</i>	<i>2005</i>	<i>2005</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments in Hong Kong, at market value	<u>166</u>	<u>411</u>	<u>514</u>	<u>647</u>

**(f) Gross amount due from/(to) contract customers**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<i>2004</i>	<i>2005</i>	<i>September</i>
		<i>2004</i>	<i>2005</i>	<i>2005</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	86,453	84,798	90,500	93,438
Gross amount due to contract customers	<u>(83,514)</u>	<u>(61,827)</u>	<u>(91,745)</u>	<u>(56,176)</u>
	<u>2,939</u>	<u>22,971</u>	<u>(1,245)</u>	<u>37,262</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	2,473,677	3,138,146	3,284,629	3,992,548
Less: Progress billings	<u>(2,470,738)</u>	<u>(3,115,175)</u>	<u>(3,285,874)</u>	<u>(3,955,286)</u>
	<u>2,939</u>	<u>22,971</u>	<u>(1,245)</u>	<u>37,262</u>

**(g) Inventories**

	<b>2003</b>	<b>31 March</b>	<b>2005</b>	<b>30</b>
	<i>HK\$'000</i>	<i>2004</i>	<i>2005</i>	<i>September</i>
		<i>2004</i>	<i>2005</i>	<i>2005</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise for sale	<u>3,499</u>	<u>3,248</u>	<u>395</u>	<u>—</u>

**(h) Trade and other receivables**

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

	<b>2003</b>	<b>31 March 2004</b>	<b>2005</b>	<b>30 September 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	133,525	108,948	122,992	93,933
Other receivables	27,379	34,971	52,252	58,614
	<u>160,904</u>	<u>143,919</u>	<u>175,244</u>	<u>152,547</u>

An aged analysis of the Group's trade receivables as at each of the balance sheet date, based on the invoice date and net of provisions for bad and doubtful debts, is as follows:

	<b>2003</b>	<b>31 March 2004</b>	<b>2005</b>	<b>30 September 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	106,582	78,411	60,816	30,025
31 – 60 days	9,329	17,261	11,867	7,993
61 – 90 days	5,160	6,010	6,738	3,943
Over 90 days	12,454	7,266	43,571	51,972
	<u>133,525</u>	<u>108,948</u>	<u>122,992</u>	<u>93,933</u>

Included in the trade receivable balance as at 30 September 2005 as set out above are amounts due from Chinney Construction of approximately HK\$33,215,000 (31 March 2003: HK\$15,420,000; 31 March 2004: HK\$46,729,000 and 31 March 2005: HK\$41,442,000) which arose from the provision of various building and maintenance services. Please refer to Section 3(h) for details of related party transactions with Chinney Construction.

## (i) Cash and bank balances and pledged bank deposits

## Group

	<b>2003</b>	<b>31 March</b>		<b>30</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2005</i>
				<i>HK\$'000</i>
Cash and bank balances	14,238	4,631	2,751	3,458
Time deposits	39,935	32,298	32,310	32,366
	<u>54,173</u>	<u>36,929</u>	<u>35,061</u>	<u>35,824</u>
Less: Time deposit pledged for general banking facilities (Section 4(k))	(27,348)	(26,800)	(26,800)	(26,800)
Cash and cash equivalents	<u>26,825</u>	<u>10,129</u>	<u>8,261</u>	<u>9,024</u>

## Company

	<b>2003</b>	<b>31 March</b>		<b>30</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2005</i>
				<i>HK\$'000</i>
Cash and cash equivalents	<u>76</u>	<u>75</u>	<u>74</u>	<u>73</u>

## (j) Trade payables

An aged analysis of the Group's trade payables as at each of the balance sheet date is as follows:

	<b>2003</b>	<b>31 March</b>		<b>30</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2005</i>
				<i>HK\$'000</i>
0 – 30 days	22,527	13,725	17,321	14,104
31 – 60 days	9,190	8,805	7,414	15,197
Over 60 days	13,073	8,098	8,841	26,024
	<u>44,790</u>	<u>30,628</u>	<u>33,576</u>	<u>55,325</u>

**(k) Interest-bearing bank loans and overdrafts**

	Effective interest rate (%) for the six months ended 30 September 2005	2003 HK\$'000	31 March 2004 HK\$'000	2005 HK\$'000	30 September 2005 HK\$'000
<b>Current</b>					
Bank overdrafts – secured	3.2	16,086	17,143	25,490	21,942
Bank overdrafts – unsecured	7	–	–	5,066	4,361
Bank loans – secured	–	4,000	3,333	–	–
Trust receipt loans – unsecured	6.7	13,655	9,798	16,330	18,356
		<u>33,741</u>	<u>30,274</u>	<u>46,886</u>	<u>44,659</u>
<b>Non-current</b>					
Bank loans – secured		<u>3,333</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>37,074</u>	<u>30,274</u>	<u>46,886</u>	<u>44,659</u>
Analysed into:					
Bank overdrafts repayable within one year or on demand		16,086	17,143	30,556	26,303
Bank loans repayable:					
Within one year or on demand		4,000	3,333	–	–
In the second year		3,333	–	–	–
Trust receipt loans repayable within three months from date of advance		<u>13,655</u>	<u>9,798</u>	<u>16,330</u>	<u>18,356</u>
		<u>37,074</u>	<u>30,274</u>	<u>46,886</u>	<u>44,659</u>

As at 30 September 2005, the Group's banking facilities, including overdrafts, term loans, letters of credit and bank guarantees of approximately HK\$76,500,000 (31 March 2003: HK\$108,500,000; 31 March 2004: HK\$93,500,000 and 31 March 2005: HK\$76,500,000), of which HK\$66,561,000 (31 March 2003: HK\$82,800,000; 31 March 2004: HK\$54,301,000 and 31 March 2005: HK\$67,793,000) has been utilised as at the balance sheet date.

As at 30 September 2005, the aforesaid banking facilities are secured by bank deposits of the Group of approximately HK\$26,800,000 (31 March 2003: HK\$27,348,000 and 31 March 2004 and 2005: HK\$26,800,000) and certain of the Group's leasehold land and properties as set out in Section 4(a).

All other borrowings of the Group bear interest at floating interest rates.

The carrying amounts of the Group's bank and other borrowings approximate their fair values at the respective balance sheet dates.

**(l) Finance lease payables**

During the years ended 31 March 2003, 2004 and 2005, the Group leased motor vehicles for its building services contracting business and classified these leases as finance leases. These leases expired in the year ended 31 March 2005.

As at each of the balance sheet date, the total future minimum lease payments under finance lease and their present values were as follows:

	Minimum lease payments				Present value of minimum lease payments			
	31 March		30 September		31 March		30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2005 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2005 HK\$'000
Amounts payable:								
Within one year	322	214	-	-	270	180	-	-
In the second year	214	-	-	-	180	-	-	-
Total minimum finance lease payments	536	214	-	-	450	180	-	-
Future finance charges	(86)	(34)	-	-				
Total net finance lease payables	450	180	-	-				
Portion classified as current liabilities	(270)	(180)	-	-				
Long term portion	180	-	-	-				

**(m) Loans from minority shareholders of subsidiaries**

The loans from minority shareholders of subsidiaries were unsecured, interest-free and had no fixed terms of repayment as at 31 March 2003, 2004 and 2005 and 30 September 2005.

**(n) Deferred tax liabilities**

The movements in deferred tax liabilities, which comprised the tax effect of the accelerated tax depreciation and the cumulative differences in profit relating to incomplete long term installation and maintenance contracts, during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 are as follows:

	<b>2003</b>	<b>31 March 2004</b>	<b>2005</b>	<b>30 September 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Accelerated tax depreciation:</b>				
At beginning of year/period	–	–	147	26
Deferred tax charged/(credited) to the consolidated income statement during the year/period	–	147	(121)	–
At end of year/period	–	147	26	26
<b>Cumulative differences in profit relating to incomplete long term installation and maintenance contracts:</b>				
At beginning of year/period	560	253	–	–
Deferred tax credited to the consolidated income statement during the year/period	(307)	(253)	–	–
At end of year/period	253	–	–	–
Total deferred tax liabilities	<u>253</u>	<u>147</u>	<u>26</u>	<u>26</u>

As at 30 September 2005, the Group has tax losses arising in Hong Kong of approximately HK\$77,327,000 (31 March 2005: HK\$72,244,000; 31 March 2004: HK\$37,675,000 and 31 March 2003: HK\$37,475,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or the future profit streams are unpredictable.

At 31 March 2003, 2004 and 2005 and 30 September 2005, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.



## (o) Share capital

## Company

	2003	31 March 2004	2005	30 September 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>				
8,000,000,000 ordinary shares of HK\$0.01 each (31 March 2005: 8,000,000,000 ordinary shares of HK\$0.01 each; 31 March 2004 and 31 March 2003: 800,000,000 ordinary shares of HK\$0.10 each)	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
<i>Issued and fully paid:</i>				
115,930,400 ordinary shares of HK\$0.01 each (31 March 2005: 115,930,400 ordinary shares of HK\$0.01 each; 31 March 2004 and 2003: 463,721,600 ordinary shares of HK\$0.10 each)	<u>46,372</u>	<u>46,372</u>	<u>1,159</u>	<u>1,159</u>

During the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005, there was no movements in the share capital of the Company for the years ended 31 March 2003 and 2004 and the period ended 30 September 2005. The movements in the share capital of the Company during the year ended 31 March 2005 were as follows:

Pursuant to a special resolution passed on 16 September 2004, the following share consolidation, capital reduction, share sub-division and cancellation of share premium account (hereinafter known as the "Capital Reorganisation") were effected. The details are set out below:

- (i) the consolidation of every four ordinary shares of HK\$0.10 each (issued and unissued) into one ordinary share of nominal value of HK\$0.40 (the "Consolidated Share");
- (ii) the reduction of the nominal value of each Consolidated Share in issue from HK\$0.40 to HK\$0.01 by the cancellation of HK\$0.39 from the paid-up capital of each Consolidated Share;
- (iii) the sub-division of each authorised but unissued Consolidated Share of HK\$0.40 into 40 ordinary shares of HK\$0.01 each (the "New Shares");
- (iv) the increase of the authorised share capital to HK\$80,000,000 by the creation of 4,521,285,600 New Shares of HK\$0.01 each ranking pari passu in all respects with each other;
- (v) the application of the total credit of HK\$45,212,856 arising from the capital reduction as detailed in (ii) above to set off the accumulated losses of the Company of HK\$108,935,656 as at 31 March 2004, and
- (vi) the cancellation of the share premium account of HK\$110,631,927 and the application of the credit so arising as follows:
  - (a) to eliminate the balance of the accumulated losses of the Company as at 31 March 2004; and
  - (b) to apply the remaining credit of HK\$46,909,127 arising therefrom to the Company's contributed surplus account.

Upon completion of the Capital Reorganisation, the authorised share capital of the Company became HK\$80,000,000 divided into 8,000,000,000 shares of HK\$0.01 each. The issued share capital of the Company was reduced from HK\$46,372,160 dividing into 463,721,600 shares of HK\$0.10 each to HK\$1,159,304 dividing into 115,930,400 shares of HK\$0.01 each.

A summary of the transactions during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2002, 31 March 2003, 31 March 2004 and 1 April 2004	463,721,600	46,372	110,632	157,004
Share consolidation (i)	(347,791,200)	-	-	-
Capital reduction (ii)	-	(45,213)	-	(45,213)
Cancellation of share premium account (vi)	-	-	(110,632)	(110,632)
	<u>115,930,400</u>	<u>1,159</u>	<u>-</u>	<u>1,159</u>
At 31 March 2005 and 30 September 2005	<u>115,930,400</u>	<u>1,159</u>	<u>-</u>	<u>1,159</u>

(p) **Reserves**

(i) *Group*

The amounts of the Group's reserves and the movements therein for the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 are presented in the consolidated statement of changes in equity set out in Section 6.

(ii) *Company*

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002	110,632	14,009	132	(69,404)	55,369
Net loss for the year	-	-	-	(37,003)	(37,003)
At 31 March 2003 and 1 April 2003	110,632	14,009	132	(106,407)	18,366
Net loss for the year	-	-	-	(2,529)	(2,529)
At 31 March 2004 and 1 April 2004	110,632	14,009	132	(108,936)	15,837
Capital Reorganisation (Section 4(o))	(110,632)	46,909	-	108,936	45,213
Net loss for the year	-	-	-	(2,267)	(2,267)
At 31 March 2005 and 1 April 2005	-	60,918	132	(2,267)	58,783
Net loss for the period	-	-	-	(1,292)	(1,292)
At 30 September 2005	<u>-</u>	<u>60,918</u>	<u>132</u>	<u>(3,559)</u>	<u>57,491</u>

The contributed surplus represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries under a Group reorganisation in 1992. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

**(q) Dissolution of subsidiaries, net**

The fair values of the identifiable assets and liabilities of the subsidiaries dissolved during the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 at their dates of dissolution are as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Net assets disposed of:					
Cash and bank balances	-	651	133	-	-
Trade and other receivables	-	442	6	-	-
Prepayments, deposits and other assets	-	150	-	-	-
Trade payables	-	(4,984)	-	-	-
Other payables and accruals	-	(543)	(426)	-	-
Minority shareholders' loan	-	(5,600)	-	-	-
Minority interests	-	5,812	(26)	-	-
	-	(4,072)	(313)	-	-
Gain on dissolution of discontinued operations	-	4,105	-	-	-
Gain/(loss) on dissolution of a subsidiary	-	(33)	313	-	-
	-	-	-	-	-
	-	-	-	-	-

An analysis of the net outflow of cash and cash equivalents in respect of the dissolution of subsidiaries is as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Cash and bank balances disposed of	-	(651)	(133)	-	-

The results of the subsidiaries dissolved during the years ended 31 March 2004 and 2005 had no significant impact on the Group's consolidated turnover or the consolidated profit/loss after tax for those years.

**(r) Contingent liabilities**

In addition to the leasehold land and properties and the bank deposits as detailed in Sections 4(a) and 4(i) to secure the banking facilities granted to the Group as set out in Section 4(k), as at 30 September 2005, the Company provides corporate guarantees to banks of HK\$51,000,000 (31 March 2005: HK\$51,000,000; 31 March 2004: HK\$68,000,000 and 31 March 2003: HK\$83,000,000) in connection with the banking facilities granted to the Group. In addition, certain subsidiaries of the Group provides letters of indemnity to a financial institution for the issue of performance bonds. As at 30 September 2005, the banking facilities utilised by the Group amounted to approximately HK\$66,561,000 (31 March 2005: HK\$67,793,000; 31 March 2004: HK\$54,301,000 and 31 March 2003: HK\$82,800,000). As at 30 September 2005, the Group had contingent liabilities in respect of guarantees and indemnities provided by the Group for the issue of performance bonds by banks and a financial institution amounted to HK\$11,590,000 (31 March 2003: Nil; 31 March 2004: HK\$5,950,000 and 31 March 2005: HK\$13,070,000).

Save as disclosed above, the Group had no significant contingent liabilities as at 31 March 2003, 2004, 2005 and 30 September 2005.

**(s) Operating lease arrangements**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2003, 2004 and 2005 and 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2003</b>	<b>31 March 2004</b>	<b>2005</b>	<b>30 September 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,641	734	828	695
In the second to fifth years, inclusive	577	64	983	660
	<u>2,218</u>	<u>798</u>	<u>1,811</u>	<u>1,355</u>

**(t) Commitments**

Apart from the operating lease commitments detailed in Section 4(s) above, the Group did not have any significant commitments as at 31 March 2003, 2004, 2005 and 30 September 2005.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, overdrafts and other borrowings, cash and bank balances, pledged time deposits and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as gross amounts due from and to contract customers, trade and other receivables, retention money receivables and payables, trade and bills payables which arise directly from the Group's operations.

The main risk arising from the Group's financial instruments are cash flow interest rate risk, credit risk, and liquidity risk. The directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

### (i) Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rates and terms of repayment of interest-bearing bank loans and other borrowings are disclosed in Section 4(k). Other financial assets and liabilities do not have material interest rate risk.

Interest-bearing bank loans and other borrowings, cash and bank balances, and short term time deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are charged to the consolidated income statement as incurred.

The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

### (ii) Credit risk

The Group maintains various credit policies for business operations as detailed in Section 4(h) above. In addition, all receivable balances are closely monitored on an ongoing basis to minimise the Group's exposure to bad debts.

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments.

### (iii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, trust receipt loans and finance leases. The Group's policy is to maintain the Group at net current asset position.

The Group's overall risk management policy focuses on monitoring all potential financial risks to the Group. Whenever necessary, the Group will reduce the risk exposure.

## 6. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Movements in the shareholders' equity of the Group for the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 on the basis as set out in Section 1 above are as follows:

	Attributable to equity holders of the parent					Total	Minority interests	Total equity
	Issued share capital	Share premium account*	Contributed surplus*	Capital redemption reserve*	Retained profits/ losses*			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	46,372	110,632	-	132	(44,113)	113,023	4,061	117,084
Loss for the year	-	-	-	-	(14,685)	(14,685)	11,781	(2,904)
Dividend	-	-	-	-	-	-	(6,000)	(6,000)
At 31 March 2003 and 1 April 2003	46,372	110,632	-	132	(58,798)	98,338	9,842	108,180
Profit for the year	-	-	-	-	1,805	1,805	9,427	11,232
Dividend paid	-	-	-	-	-	-	(6,000)	(6,000)
Dissolution of subsidiaries (Section 4(q))	-	-	-	-	-	-	5,812	5,812
At 31 March 2004 and 1 April 2004	46,372	110,632	-	132	(56,993)	100,143	19,081	119,224
Capital reorganisation (Section 4(o))	(45,213)	(110,632)	46,909	-	108,936	-	-	-
Loss for the year	-	-	-	-	(33,729)	(33,729)	(838)	(34,567)
Dissolution of subsidiaries (Section 4(q))	-	-	-	-	-	-	(26)	(26)
At 31 March 2005 and 1 April 2005	1,159	-	46,909	132	18,214	66,414	18,217	84,631
Loss for the period	-	-	-	-	(7,613)	(7,613)	(344)	(7,957)
At 30 September 2005	<u>1,159</u>	<u>-</u>	<u>46,909</u>	<u>132</u>	<u>10,601</u>	<u>58,801</u>	<u>17,873</u>	<u>76,674</u>
At 31 March 2004 and 1 April 2004	46,372	110,632	-	132	(56,993)	100,143	19,081	119,224
Capital reorganisation (Section 4(o))	(45,213)	(110,632)	46,909	-	108,936	-	-	-
Loss for the period	-	-	-	-	(12,446)	(12,446)	2,017	(10,429)
At 30 September 2004	<u>1,159</u>	<u>-</u>	<u>46,909</u>	<u>132</u>	<u>39,497</u>	<u>87,697</u>	<u>21,098</u>	<u>108,795</u>

\* These reserves accounts comprise the consolidated reserves of HK\$51,966,000, HK\$53,771,000, HK\$65,255,000 and HK\$57,642,000 as at 31 March 2003, 2004 and 2005 and 30 September 2005 respectively.

## 7. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2004 and 2005 after making such adjustments as considered appropriate and on the basis set out in Section 1 above are as follows:

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	1,968	15,650	(33,826)	(9,198)	(7,856)
Adjustments for:					
Share of losses of an associate	2	–	–	–	–
Interest paid	1,488	1,161	1,084	434	858
Interest income	(568)	(1,772)	(1,317)	(591)	(651)
Depreciation	3,087	2,539	1,749	972	588
Loss/(gain) on disposal of items of property, plant and equipment	434	7	(29)	19	(9)
Gain on dissolution of discontinued operations (Section 4(q))	–	(4,105)	–	–	–
Loss/(gain) on dissolution of subsidiaries (Section 4(q))	–	33	(313)	–	–
Gain on dissolution of an associate	–	–	(199)	–	–
Provision for amounts due from former subsidiaries	–	2,179	–	–	–
Provision for doubtful debts	–	109	1,531	–	2,386
Impairment loss of available-for-sale equity investments	7,130	9,108	757	944	–
Unrealised holding (gains)/losses on equity investments at fair value through profit or loss	1,244	(245)	(103)	95	(133)
Operating profit/(loss) before working capital changes	14,785	24,664	(30,666)	(7,325)	(4,817)
Decrease/(increase) in gross amount due from contract customers	(25,097)	1,655	(5,702)	(9,983)	(2,938)
Decrease/(increase) in inventories	1,028	251	2,853	(55)	395
Decrease/(increase) in trade and other receivables	(28,641)	14,255	(32,864)	(6,694)	20,311
Decrease in retention money receivables	5,716	561	2,839	2,943	896
Decrease/(increase) in prepayments, deposits and other assets	1,130	57	(59)	4	130
Increase/(decrease) in gross amount due to contract customers	37,689	(21,687)	29,918	40,249	(35,569)
Increase/(decrease) in trade payables	5,146	(9,178)	2,948	3,337	21,749
Increase/(decrease) in bills payable	(9,962)	(16,589)	(3,180)	(3,238)	3,209
Increase/(decrease) in retention money payable	(3,543)	3,462	3,881	1,834	(1,111)
Increase/(decrease) in other payables and accruals	5,874	4,655	14,855	(30,444)	812
Cash generated from/(used in) operations – page 94	4,125	2,106	(15,177)	(9,372)	3,067

	Year ended 31 March			Six months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Cash generated from/(used in) operations – page 93	4,125	2,106	(15,177)	(9,372)	3,067
Interest paid	(1,405)	(1,110)	(1,041)	(391)	(858)
Interest element on finance lease rental payments	(83)	(51)	(43)	(43)	–
Hong Kong profits tax paid	(10,434)	(6,226)	(3,145)	(32)	(77)
Hong Kong profits tax refunded	812	91	–	–	322
Net cash inflow/(outflow) from operating activities	<u>(6,985)</u>	<u>(5,190)</u>	<u>(19,406)</u>	<u>(9,838)</u>	<u>2,454</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	568	1,772	1,317	591	651
Purchases of items of property, plant and equipment	(588)	(105)	(656)	(365)	(142)
Proceeds from disposal of items of property, plant and equipment	576	–	578	473	27
Dissolution of subsidiaries (Section 4(q))	–	(651)	(133)	–	–
Advances to an associate	(2)	–	–	–	–
Additional investment in an available-for-sale investment	(990)	–	–	–	–
Net cash inflow/(outflow) from investing activities	<u>(436)</u>	<u>1,016</u>	<u>1,106</u>	<u>699</u>	<u>536</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid to a minority shareholder	(6,000)	(6,000)	–	–	–
Capital element on finance lease rental payments	(337)	(270)	(180)	(180)	–
Increase/(decrease) in trust receipt loans	12,734	(3,857)	6,532	(5,116)	2,026
New bank loans raised	8,000	–	–	–	–
Repayment of bank loans	(667)	(4,000)	(3,333)	(2,000)	–
Net cash inflow/(outflow) from financing activities	<u>13,730</u>	<u>(14,127)</u>	<u>3,019</u>	<u>(7,296)</u>	<u>2,026</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,309</b>	<b>(18,301)</b>	<b>(15,281)</b>	<b>(16,435)</b>	<b>5,016</b>
Cash and cash equivalents at beginning of year/period	<u>31,778</u>	<u>38,087</u>	<u>19,786</u>	<u>19,786</u>	<u>4,505</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	<b><u>38,087</u></b>	<b><u>19,786</u></b>	<b><u>4,505</u></b>	<b><u>3,351</u></b>	<b><u>9,521</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>					
Cash and bank balances	14,238	4,631	2,751	7,694	3,458
Non-pledged time deposits with original maturity of less than three months when acquired	12,587	5,498	5,510	5,500	5,566
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	27,348	26,800	26,800	26,800	26,800
Bank overdrafts	(16,086)	(17,143)	(30,556)	(36,643)	(26,303)
	<b><u>38,087</u></b>	<b><u>19,786</u></b>	<b><u>4,505</u></b>	<b><u>3,351</u></b>	<b><u>9,521</u></b>



## 8. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong and over 90% of the Group's assets are located in Hong Kong.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The summarised details of the business segments are as follows:

- (a) the building services contracting and project management business segment, which includes the provision of multi-disciplinary building services, comprising electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering, extra low voltage systems engineering and project management; and
- (b) the trading of electrical and mechanical engineering materials and equipment segment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**(a) Business segments**

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

**Year ended 31 March 2003**

	(Continuing) Building services contracting business and project management HK\$'000	(Continuing) Trading of electrical and mechanical engineering materials and equipment HK\$'000	(Discontinued) Provision of broadband connectivity services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>					
Sale to external customers	592,785	51,234	291	-	644,310
Intersegment sales	-	8,342	-	(8,342)	-
Total	<u>592,785</u>	<u>59,576</u>	<u>291</u>	<u>(8,342)</u>	<u>644,310</u>
<b>Segment results</b>	<u>9,512</u>	<u>606</u>	<u>(458)</u>	<u>-</u>	9,660
Interest income and unallocated gains					2,718
Impairment loss of available-for-sale equity investments					(7,130)
Unrealised holding loss on equity investments at fair value through profit or loss					(1,244)
Finance costs					(2,034)
Share of loss of an associate					(2)
Profit before tax					1,968
Tax					(4,872)
Loss for the year					<u>(2,904)</u>
<b>Assets and liabilities</b>					
Segment assets	278,251	21,847	591	-	300,689
Unallocated assets					68,953
Total assets					<u>369,642</u>
Segment liabilities	199,411	11,824	10,643		221,878
Unallocated liabilities					39,584
Total liabilities					<u>261,462</u>
<b>Other segment information:</b>					
Depreciation	3,018	69	-	-	3,087
Capital expenditure	<u>577</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>588</u>

## Year ended 31 March 2004

	<b>Building services contracting business and project management</b> <i>HK\$'000</i>	<b>Trading of electrical and mechanical engineering materials and equipment</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Segment revenue:</b>				
Sales to external customers	706,819	27,370	–	734,189
Intersegment sales	–	9,951	(9,951)	–
Total	<u>706,819</u>	<u>37,321</u>	<u>(9,951)</u>	<u>734,189</u>
<b>Segment results</b>	<u>25,362</u>	<u>(2,707)</u>	<u>–</u>	22,655
Interest income and unallocated gains				1,809
Impairment loss of available-for-sale equity investments				(9,108)
Unrealised holding gain on equity investments at fair value through profit or loss				245
Provision for amounts due from former subsidiaries				(2,179)
Gain on dissolution of discontinued operations				4,105
Finance costs				(1,877)
Profits before tax				15,650
Tax				(4,418)
Profit for the year				<u>11,232</u>
<b>Assets and liabilities</b>				
Segment assets	259,504	19,085	–	278,589
Unallocated assets				43,124
Total assets				<u>321,713</u>
Segment liabilities	161,552	9,862	–	171,414
Unallocated liabilities				31,075
Total liabilities				<u>202,489</u>
<b>Other segment information:</b>				
Depreciation	2,485	54	–	2,539
Capital expenditure	92	13	–	105
Provision for doubtful debts	<u>109</u>	<u>–</u>	<u>–</u>	<u>109</u>

## Year ended 31 March 2005

	Building services contracting business and project management <i>HK\$'000</i>	Trading of electrical and mechanical engineering materials and equipment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Segment revenue:</b>				
Sales to external customers	525,850	24,181	–	550,031
Intersegment sales	–	1,963	(1,963)	–
	<u>525,850</u>	<u>26,144</u>	<u>(1,963)</u>	<u>550,031</u>
<b>Segment results</b>	<u>(28,658)</u>	<u>(5,035)</u>	<u>–</u>	<u>(33,693)</u>
Interest income and unallocated gains				2,045
Impairment loss of available-for-sale equity investments				(757)
Unrealised holding gain on equity investments at fair value through profit or loss				103
Finance costs				(1,524)
Loss before tax				(33,826)
Tax				(741)
Loss for the year				<u>(34,567)</u>
<b>Assets and liabilities</b>				
Segment assets	296,535	11,805	–	308,340
Unallocated assets				42,769
Total assets				<u>351,109</u>
Segment liabilities	204,273	8,036	–	212,309
Unallocated liabilities				54,169
Total liabilities				<u>266,478</u>
<b>Other segment information:</b>				
Depreciation	1,708	41	–	1,749
Capital expenditure	656	–	–	656
Provision for doubtful debts	77	1,454	–	1,531
	<u>77</u>	<u>1,454</u>	<u>–</u>	<u>1,531</u>

## Six months ended 30 September 2004 (unaudited)

	<b>Building services contracting business and project management</b>	<b>Trading of electrical and mechanical engineering materials and equipment</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Segment revenue:</b>				
Sales to external customers	237,651	11,756	–	249,407
Intersegment sales	–	1,152	(1,152)	–
	<u>237,651</u>	<u>12,908</u>	<u>(1,152)</u>	<u>249,407</u>
<b>Total</b>	<b><u>237,651</u></b>	<b><u>12,908</u></b>	<b><u>(1,152)</u></b>	<b><u>249,407</u></b>
<b>Segment results</b>	<b><u>(7,027)</u></b>	<b><u>(1,081)</u></b>	<b><u>–</u></b>	<b><u>(8,108)</u></b>
Interest income and unallocated gains				724
Impairment loss of available-for-sale equity investments				(944)
Unrealised holding loss on equity investments at fair value through profit or loss				(95)
Finance costs				<u>(775)</u>
Loss before tax				(9,198)
Tax				<u>(1,231)</u>
Loss for the period				<b><u>(10,429)</u></b>
<b>Other segment information:</b>				
Depreciation	952	20	–	972
Capital expenditure	365	–	–	<u>365</u>

## Six months ended 30 September 2005

	<b>Building services contracting business and project management</b> <i>HK\$'000</i>	<b>Trading of electrical and mechanical engineering materials and equipment</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Segment revenue:</b>				
Sales to external customers	225,025	20,463	–	245,488
Intersegment sales	4	3,350	(3,354)	–
<b>Total</b>	<u>225,029</u>	<u>23,813</u>	<u>(3,354)</u>	<u>245,488</u>
<b>Segment results</b>	<u>(8,151)</u>	<u>75</u>	<u>–</u>	<u>(8,076)</u>
Interest income and unallocated gains				1,138
Unrealised holding gain on equity investments at fair value through profit or loss				133
Finance costs				<u>(1,051)</u>
Loss before tax				(7,856)
Tax				<u>(101)</u>
Loss for the period				<u>(7,957)</u>
<b>Assets and liabilities</b>				
Segment assets	271,620	15,078	–	286,698
Unallocated assets				<u>43,337</u>
<b>Total assets</b>				<u>330,035</u>
Segment liabilities	192,961	8,439	–	201,400
Unallocated liabilities				<u>51,961</u>
<b>Total liabilities</b>				<u>253,361</u>
<b>Other segment information:</b>				
Depreciation	580	8	–	588
Capital expenditure	128	14	–	142
Provision for doubtful debts	<u>1,974</u>	<u>412</u>	<u>–</u>	<u>2,386</u>

**(b) Geographical segments**

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong and over 90% of the Group's assets are located in Hong Kong.

**9. EVENTS AFTER THE BALANCE SHEET DATE**

- (a) Subsequent to 30 September 2005, on 10 October 2005, SCRE entered into a conditional sale and purchase agreement to dispose of certain leasehold land and properties to an unrelated third party for a cash consideration of HK\$16.5 million (the "Property Disposal"), which resulted in a gain of approximately HK\$600,000. The Property Disposal constituted a major transaction of the Company under the Listing Rules and the details of the transaction were disclosed in a circular to all shareholders of the Company dated 24 October 2005. The Property Disposal was approved by the shareholders of the Company on 9 November 2005 and was completed on 14 December 2005.
- (b) On 26 January 2006, the Company, as vendor, entered into a conditional sale and purchase agreement with Chinney Alliance Trading (BVI) Limited as purchaser, and Chinney Alliance Group Limited as purchaser's guarantor for the proposed disposal of the Contracting Group (the "Disposal"). The Contracting Group to be disposed of is mainly engaged in the design and installation of building, electrical and mechanical systems, heating ventilation and air-conditioning systems for both public and private sectors. The completion of the Disposal is pending for the approval by the shareholders of the Company and is expected to be completed by March 2006.

**10. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 September 2005.

**QUALIFIED AUDIT OPINION**

The auditors' report of the Shun Cheong Group's and Shun Cheong's financial statements for the year ended 31 March 2004 was qualified as the evidence available to the auditors of Shun Cheong was limited in respect of the Shun Cheong Group's three equity long term investments in unlisted companies in the consolidated balance sheet as at 31 March 2004. Such investments have nil carrying values in the consolidated balance sheet as at 31 March 2004 after fair value provisions of approximately HK\$8,036,000 were made by the Shun Cheong Directors in the year. The auditors were unable to satisfy themselves as to the reliability of the financial information on which these provisions were based and there were no practical alternative audit procedures that the auditors could perform to satisfy themselves that these investments have been fairly stated at 31 March 2004, or as to the appropriateness of the unrealized holding losses on these three investments of approximately HK\$8,036,000 included in the profit and loss account for the year ended 31 March 2004.

The auditors' report of the Shun Cheong Group's and Shun Cheong's financial statements for the year ended 31 March 2003 was also qualified on account of a similar scope limitation in respect of the fair value of these three equity investments aggregating HK\$8,036,000 as at 31 March 2003 and the unrealised holding loss on these investments of approximately HK\$5,435,000 recognised in the profit and loss account for the year ended 31 March 2003.

Except for any adjustments that might have been found to be necessary had the auditors been able to obtain sufficient evidence relating to the Shun Cheong Group's three long term investments referred to above, in the opinion of the auditors the financial statements give a true and fair view of the state of affairs of Shun Cheong and of the Shun Cheong Group as at 31 March 2004 and 2003 and of the profit and cash flows of the Group for the two years then ended and have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

No qualified opinion were being given in the auditors' report of the Shun Cheong Group's and Shun Cheong's financial statements for the year ended 31 March 2005 and the six months ended 30 September 2005.

**MATERIAL CHANGE**

On 10 October 2005, Shun Cheong Real Estates Limited, a wholly-owned subsidiary of Shun Cheong, entered into a conditional sale and purchase agreement with a third party to dispose certain leasehold land and properties for a cash consideration of HK\$16.5 million (the "Property Disposal"), which resulted in an unaudited gain of approximately HK\$600,000. The Property Disposal constituted a major transaction of Shun Cheong under the Listing Rules. Details of the transaction were disclosed in a circular dated 24 October 2005. The Property Disposal was approved by the Shun Cheong Shareholders at a special general meeting held on 9 November 2005 and was completed on 14 December 2005.



Save for the Property Disposal and the disposal of Shun Cheong Investments Limited as detailed under the paragraph headed “Information of the Shun Cheong Group” in the letter from the Shun Cheong Board, there have not been any material change in the financial or trading position or outlook of the Shun Cheong Group since 30 September 2005, the date of which the latest audited financial statements of the Shun Cheong Group were made up.

## INDEBTEDNESS

As at 31 March 2006, being the latest practicable date for the purpose of this statement of indebtedness, the Shun Cheong Group had no outstanding secured and unsecured bank and other borrowings. As at 31 March 2006, the Shun Cheong Group had contingent liabilities of approximately HK\$39,442,000 in respect of corporate guarantees provided by the Company to banks for general banking facilities granted to certain former subsidiaries of the Company to the extent utilised. Pursuant to a deed of indemnity executed by Chinney Alliance Group Limited (“CAG”) in favour of the Company on 31 March 2006, CAG guarantees and indemnifies unconditionally and irrevocably all liabilities and obligations of the Company under such corporate guarantees.

On 10 April 2006, a corporate guarantee of HK\$21 million was executed by CAG in favour of a bank, which granted certain general banking facilities to a former subsidiary of the Company, to replace the corporate guarantee of HK\$21 million provided by the Company in favour of the bank.

Save as aforesaid and apart from intra-group liabilities, normal trade payables and bills payable, the Shun Cheong Group did not have any outstanding debentures, mortgage, charges, loan capital, debt securities, loans, bank overdraft or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities as at the close of business on 31 March 2006.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximately exchange rates prevailing at the close of business on 31 March 2006.

Save as disclosed above, the Shun Cheong Directors have confirmed that there have been no material changes in the indebtedness and contingent liability position of the Shun Cheong Group since 31 March 2006.

**RESPONSIBILITY STATEMENTS**

The information contained in this Composite Document relating to the Shun Cheong Group has been supplied by the Shun Cheong Directors who have taken all reasonable care to ensure that the information stated herein is accurate. The Shun Cheong Directors jointly and severally accept full responsibility for the accuracy of the information stated in this Composite Document relating to the Shun Cheong Group, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document by the Shun Cheong Group have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any such statement contained in this Composite Document misleading. The issue of this Composite Document has been approved by the Shun Cheong Board.

The information contained in this Composite Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intentions regarding the Shun Cheong Group have been supplied by the directors of the Offeror. All the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Shun Cheong Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Shun Cheong Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any such statement contained in this Composite Document misleading.

**CORPORATE INFORMATION OF SHUN CHEONG**

Shun Cheong was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 20 August 1992. Its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and its head office and principal place of business in Hong Kong is at Block C, 9/F, Hong Kong Spinners Industrial Building, Phase VI, 481-483 Castle Peak Road, Kowloon, Hong Kong.

**DISCLOSURE OF INTERESTS****(a) Interests and short positions of the Shun Cheong Directors in the shares, underlying shares or debenture of Shun Cheong and its associated corporations**

As at the Latest Practicable Date, the Shun Cheong Directors had the following interests and short positions in the equity and debt securities of Shun Cheong and its associated corporations (within the meaning of Part XV of the SFO) which require notification to Shun Cheong and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Shun Cheong Directors was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to Shun Cheong and the Stock Exchange or which were required to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code:

Long positions in the shares of the Company:

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of issued share capital</b>
Mr. Chan Yuen Keung, Zuric	Personal	2,500,000	2.16
Mr. Mo Tian Quan	Corporate	32,000,000 <i>(Note)</i>	27.60
Mr. Hong Yiu	Personal	6,805,000	5.87
Mr. Au Yu Fai, Patrick	Personal	88,500	0.08

*Note:* These shares are held by Upsky Enterprises Limited, in which Mr. Mo is a director and has a beneficial interest.

Save as disclosed above, as at the Latest Practicable Date, none of the Shun Cheong Directors had any interests or short positions in the shares, underlying shares or debentures of Shun Cheong or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to notify to Shun Cheong and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Shun Cheong Directors was taken or deemed to have under such provisions of the SFO) or which was required to be recorded pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to Shun Cheong and the Stock Exchange; or which was required to be disclosed in the Composite Document pursuant to the requirements of the Takeovers Code.

**(b) Persons who have an Interest or short position in the shares, underlying shares or debenture of Shun Cheong which is discloseable under Division 2 and 3 of the SFO**

As at the Latest Practicable Date, according to the register of interests in long positions and short positions kept by Shun Cheong pursuant to Divisions 2 and 3 of Part XV and section 336 of the SFO and so far as the Shun Cheong Directors were aware, the following persons had a long position or short position in the shares, underlying shares or debentures of Shun Cheong which would fall to be disclosed to Shun Cheong under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name of Shareholder</b>	<b>Capacity and Nature of Interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of issued share capital</b>
Mr. Mo Tian Quan ( <i>Note</i> )	Interest through a controlled corporation	32,000,000	27.60
Upsky Enterprises Limited ( <i>Note</i> )	Directly beneficially owned	32,000,000	27.60
Mr. Hong Yiu	Directly beneficially owned	6,805,000	5.87

*Note:* Mr. Mo and Upsky Enterprises Limited are deemed to be interested in the same parcel of 32,000,000 Shun Cheong Shares by virtue of Section 316 of the SFO.

Save as disclosed above, the Shun Cheong Directors were not aware of any persons or entities who had an interest or short position in the shares, underlying shares or debenture of Shun Cheong which would fall to be disclosed to Shun Cheong and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

**(c) Other interests in Shun Cheong**

- (i) The Offeror was the beneficial owner of 32,000,000 Shun Cheong Shares as at the Latest Practicable Date. Save as disclosed, the Offeror and parties acting in concert with it, including the directors of the Offeror, do not own or control any other Shun Cheong Shares.
- (ii) There was no agreement or arrangement between any Shun Cheong Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer as at the Latest Practicable Date.
- (iii) There was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any director, recent directors, shareholders or recent shareholders of Shun Cheong having any connection with or dependence upon the Offer as at the Latest Practicable Date.

- (iv) There was no material contract entered into by the Offeror in which any Shun Cheong Director has a material personal interest as at the Latest Practicable Date.
- (v) No benefit (other than statutory compensation) would be given to any Shun Cheong Director as compensation for loss of office or otherwise in connection with the Offer.
- (vi) As detailed in a circular of Shun Cheong dated 24 August 2004, Ever Billion Engineering Limited, a wholly-owned subsidiary of Shun Cheong, entered into an agreement with Chinney Construction Company, Limited on 10 August 2004 for the sub-contracting of a 3-year buildings and land maintenance contract dated 31 March 2004 awarded from the Architectural Services Department of the Government of Hong Kong to Chinney Construction Company, Limited. Mr. Chan Yuen Keung, a Shun Cheong Director, is a director of and has beneficial interests in 13.95% of the issued share capital of Chinney Construction Company, Limited. This agreement constituted a continuing connected transaction of Shun Cheong and was approved by independent shareholders of Shun Cheong on a special general meeting held on 16 September 2004.

Save as disclosed above, none of the Shun Cheong Directors was materially interested in any contract or arrangement subsisting at the date of this Composite Document and which was significant in relation to the business of the Shun Cheong Group.

- (vii) No pension fund of Shun Cheong, any subsidiaries of Shun Cheong, or any advisers to Shun Cheong as specified in class (2) of the definition of associate but excluding exempt principal traders had any interests in the Shun Cheong Shares as at the Latest Practicable Date.
- (viii) No person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Shun Cheong or with any person who is an associate of Shun Cheong by virtue of classes (1), (2), (3) and (4) of the definition of associate during the six months prior to the date of the Announcement up to and including the Latest Practicable Date.
- (ix) No person had an arrangement of kind referred in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any person acting in concert with it during the six months prior to the date of the Announcement up to and including the Latest Practicable Date.
- (x) No fund manager connected with Shun Cheong had managed any Shun Cheong Shares on a discretionary basis during the six months prior to the date of the Announcement up to and including the Latest Practicable Date.
- (xi) No person had irrevocably committed himself to accept or reject the Offer as at the Latest Practicable Date.
- (xii) None of the Shun Cheong Directors (other than Mr. Mo, who is the beneficial owner of the entire issued share capital of the Offeror) had decided in respect of their own beneficial shareholdings in Shun Cheong, if any, to accept or reject the Offer.
- (xiii) Neither Quam Securities, Quam Capital and Altus Capital has any interests in the Shun Cheong Shares.

**(d) Interests in the Offeror**

As at the Latest Practicable Date,

- (i) Save for Mr. Mo, who is the beneficial owner of the entire issued share capital of the Offeror, neither Shun Cheong nor any Shun Cheong Directors owned or controlled any shares in the Offeror;
- (ii) no subsidiary or associate of Shun Cheong, or any pension fund of the Shun Cheong Group owned or controlled any shares of the Offeror; and
- (iii) neither Quam Securities, Quam Capital and Altus Capital had any interests in the shares of the Offeror.

**DEALING IN SECURITIES**

The following table sets out the dealing in Shun Cheong Shares by the Offeror during the six months period prior to the date of the Announcement and up to and including the Latest Practicable Date.

Date	Number of Shun Cheong Shares transacted	Type of transaction	Price per Shun Cheong Share (HK\$)
12 April 2006	32,000,000	Buy	0.30

Save as disclosed above, during the six months prior to the date of the Announcement and up to and including the Latest Practicable Date,

- (i) none of the Offeror and parties acting in concert with it, including directors of the Offeror, had dealt in any Shun Cheong Shares;
- (ii) save for Mr. Mo, who is the beneficial owner of the entire issued share capital of the Offeror, none of the Shun Cheong Directors had dealt in any Shun Cheong Shares; and
- (iii) no pension fund of Shun Cheong or of any of its subsidiaries, any subsidiaries of Shun Cheong, or any advisers to Shun Cheong as specified in class (2) of the definition of associate but excluding exempt principal traders had dealt in any Shun Cheong Shares.

Mr. Mo has been the beneficial owner of the entire issued share capital of the Offeror since 10 April 2006 and he is the holder of the only one share certificate issued by the Offeror since its incorporation in December 2005. Mr. Mo has not dealt in any securities of the Offeror since he subscribed this one share certificate from the Offeror on 10 April 2006.

Quam Securities, Quam Capital and Altus Capital had not dealt for value in the Shun Cheong Shares in the six-month period prior to the date of the Announcement and up to and including the Latest Practicable Date.

**MARKET PRICES**

- (a) The highest and lowest closing price per Shun Cheong Share as quoted on the Stock Exchange in the six months period prior to the date of the Announcement up to and including the Latest Practicable Date, was HK\$0.450 on 7 March 2006 and HK\$0.280 on 4 January and 5 January 2006 and from 11 January to 16 January 2006, respectively.

- (b) The table below sets out the closing price per Shun Cheong Share as quoted on the Main Board of the Stock Exchange on (i) the last business day of each of the six calendar months immediately preceding the date of the Announcement on which trading of the Shun Cheong Shares took place; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing Price (HK\$)</b>
30 November 2005	0.330
30 December 2005	0.300
26 January 2006	0.300
28 February 2006	0.320
31 March 2006	0.305
28 April 2006	0.385
8 May 2006 (being the Last Trading Day)	0.370
9 June 2006 (being the Latest Practicable Date)	0.330

## LITIGATION

As at the Latest Practicable Date, neither Shun Cheong nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Shun Cheong Directors to be pending or threatened against Shun Cheong or any of its subsidiaries.

## MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Shun Cheong Group within two years immediately preceding the date of the Announcement up to and including the Latest Practicable Date which are or may be material:

- (a) an agreement dated 10 August 2004 entered into between Ever Billion Engineering Limited and Chinney Construction Company, Limited for the subcontracting of a 3-year buildings and land maintenance contract dated 31 March 2004 awarded from the Architectural Services Department of the Government of Hong Kong Special Administrative Region to Chinney Construction Company, Limited;
- (b) an agreement dated 10 October 2005 entered into between Shun Cheong Real Estates Limited and Honey Lady International Limited for the sale and purchase of the Workshop Nos. 1, 3, 5, 7 and 9, 2nd Floor, Premier Centre, 20 Cheung Shun Street, Lai Chi Kok, Kowloon, Hong Kong at a consideration of HK\$16.5 million;
- (c) the sub-contracting agreements entered into between each of Shun Cheong Electrical Engineering Company Limited and Westco Airconditioning Limited (as main contractors) and Tinhawk Company Limited (as sub-contractor) on 31 December 2005 for certain maintenance work contracts;

- (d) a sale and purchase agreement dated 26 January 2006 (the “S&P Agreement”) entered into between Shun Cheong, Chinney Alliance Trading (BVI) Limited and Chinney Alliance Group Limited (“CAG”) for the sale and purchase of the entire issued share capital in Shun Cheong Investments Limited, a then wholly-owned subsidiary of Shun Cheong at a consideration of HK\$35,000,000; and
- (e) the deed of indemnity executed by CAG on 31 March 2006 in favour of Shun Cheong under which CAG will indemnify Shun Cheong (as the vendor under the S&P Agreement) against certain liabilities of Shun Cheong as well as Chinney Alliance Trading (BVI) Limited (as the purchaser under the S&P Agreement).

### CONSENTS

Each of Quam Securities, Quam Capital and Altus Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of the report or letter (as the case may be) and references to its names, in the form and context in which it appears.

### SERVICE CONTRACTS

None of the Shun Cheong Directors has any existing or proposed service contracts with any member of the Shun Cheong Group or any associated company of Shun Cheong which has more than 12 months to run nor any Shun Cheong Director entered into or amended any service contract with any member of the Shun Cheong Group or any associated company of Shun Cheong within six months before 16 May 2006, being the date of the Announcement.

### QUALIFICATIONS

The following are the qualifications of the experts who have given opinions or advice which are contained in this Composite Document:

Name	Qualification
Quam Securities	Licensed corporation authorised to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) of the regulated activities under the SFO
Quam Capital	Licensed corporation authorised to conduct Type 6 (advising on corporate finance) of the regulated activities under the SFO
Altus Capital	Licensed corporation authorised to conduct Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO



**GENERAL**

- (a) The registered office of Shun Cheong is Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda.
- (b) The head office and principal place of business of Shun Cheong is situated at Block C, 9th Floor, Hong Kong Spinners Industrial Building, Phase VI, 481-483 Castle Peak Road, Kowloon, Hong Kong.
- (c) The registered office of the Offeror is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its correspondence address in Hong Kong is Room 1401-2, Causeway Bay Plaza 2, 463-483 Lockhart Road, Causeway Bay, Hong Kong.
- (d) The registered office of both Quam Securities and Quam Capital is Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.
- (e) The registered office of Altus Capital is 8th Floor, Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong.
- (f) The directors of the Offeror are Mr. Mo and Ms. Cao.
- (g) The secretary and qualified accountant of Shun Cheong is Mr. Lo Yun Sang, BBA, CPA, FCCA.
- (h) Shun Cheong's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (i) All time references contained in this Composite Document refer to Hong Kong time.
- (j) The English language text of this circular shall prevail over the Chinese language text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection on the website of Shun Cheong ([www.irasia.com/listco/hk/shuncheong](http://www.irasia.com/listco/hk/shuncheong)) and the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this Composite Document until the end of the Offer period:

- (a) the memorandum of association and bye-laws of Shun Cheong;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of Shun Cheong for each of the two financial years ended 31 March 2005;
- (d) the interim report of Shun Cheong for the six months ended 30 September 2005;

- (e) the accountants' report of the Shun Cheong Group for the three years ended 31 March 2005 and the six months ended 30 September 2005;
- (f) the letter from the Shun Cheong Board, the text of which is set out on pages 5 to 10 of this Composite Document;
- (g) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this Composite Document;
- (h) the letter from Quam Capital, the text of which is set out on pages 11 to 19 of this Composite Document;
- (i) the letter from Altus Capital, the text of which is set out on pages 22 to 39 of this Composite Document;
- (j) the letters of consent from each of Quam Securities, Quam Capital and Altus Capital referred to in the section headed "Consents" in this Appendix;
- (k) the material contracts referred to in paragraph headed "Material contracts" to this Appendix;
- (l) the circular of Shun Cheong dated 24 October 2005 in relation to the disposal of certain properties; and
- (m) the Shun Cheong Disposal Circular.