



# DAN FORM HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 271)

## FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2005

The Board of Directors of Dan Form Holdings Company Limited (the “Company”) is pleased to announce that the audited consolidated results of the Company and its subsidiaries (“Group”) for the year ended 31st December 2005 as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2005

	<i>Note</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (Restated)
Turnover	3	<b>32,564</b>	36,990
Cost of sales		<u><b>(9,896)</b></u>	<u>(11,705)</u>
Gross profit		<b>22,668</b>	25,285
Other revenue		<b>7,918</b>	177
Administrative expenses		<b>(17,782)</b>	(20,437)
Other operating income		<b>761</b>	4,772
Change in fair value of investment properties		<b>60,900</b>	—
Write back of provision for properties for sale		<b>14,041</b>	1,974
Write back of provision for properties under development		<b>—</b>	8,269
Provision for litigation		<u><b>—</b></u>	<u>(6,367)</u>
Operating profit	4	<b>88,506</b>	13,673
Finance costs		<b>(6,643)</b>	(20,469)
Share of profits/(losses) of associated companies	5	<u><b>114,578</b></u>	<u>(167,087)</u>
Profit/(loss) before taxation		<b>196,441</b>	(173,883)
Taxation	6	<u><b>(18,568)</b></u>	<u>(282)</u>
Profit/(loss) after taxation		<u><b>177,873</b></u>	<u>(174,165)</u>
Attributable to:			
Equity holders of the Company		<b>177,873</b>	(174,081)
Minority interests		<u><b>—</b></u>	<u>(84)</u>
		<u><b>177,873</b></u>	<u>(174,165)</u>
Earnings/(loss) per share	7	<u><b>HK cents 15.7</b></u>	<u>HK cents (15.3)</u>

**CONSOLIDATED BALANCE SHEET  
AS AT 31ST DECEMBER 2005**

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		256	504
Investment properties		415,270	354,370
Prepayments of lease premiums		328	331
Associated companies		990,861	847,974
Available-for-sale financial assets		37,477	—
Investment securities		—	12,592
		<u>1,444,192</u>	<u>1,215,771</u>
<b>Current assets</b>			
Properties held for sale		213,501	194,904
Investment for sale		128,913	—
Trade and other receivables	8	23,644	15,581
Amounts due from associated companies		357,309	393,215
Tax recoverable		—	2,858
Cash and bank balances		16,727	17,154
		<u>740,094</u>	<u>623,712</u>
<b>Total assets</b>		<u><u>2,184,286</u></u>	<u><u>1,839,483</u></u>
<b>EQUITY</b>			
Share capital		567,803	567,803
Reserves		1,255,634	927,584
<b>Total equity</b>		<u>1,823,437</u>	<u>1,495,387</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred taxation liabilities		48,937	39,208
<b>Current liabilities</b>			
Creditors and accruals	9	203,887	194,339
Amounts due to associated companies		12,417	11,614
Bank loans and overdrafts		89,689	98,935
Tax payable		5,919	—
		<u>311,912</u>	<u>304,888</u>
<b>Total liabilities</b>		<u><u>360,849</u></u>	<u><u>344,096</u></u>
<b>Total equity and liabilities</b>		<u><u>2,184,286</u></u>	<u><u>1,839,483</u></u>
<b>Net current assets</b>		<u><u>428,182</u></u>	<u><u>318,824</u></u>
<b>Total assets less current liabilities</b>		<u><u>1,872,374</u></u>	<u><u>1,534,595</u></u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2005

	Equity holders			Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Sub-total HK\$'000		
At 31st December 2004, as previously reported	567,803	927,584	1,495,387	—	1,495,387
<b>Opening adjustments</b>					
Available-for-sale financial assets (HKASs 32 and 39)	—	21,428	21,428	—	21,428
Investment for sale (HKFRS 5)	—	126,481	126,481	—	126,481
At 1st January 2005, as restated	567,803	1,075,493	1,643,296	—	1,643,296
Exchange differences	—	(1,189)	(1,189)	—	(1,189)
Change in fair value of available-for-sale financial assets	—	3,457	3,457	—	3,457
Profit for the year	—	177,873	177,873	—	177,873
At 31st December 2005	567,803	1,255,634	1,823,437	—	1,823,437
At 31st December 2003	567,803	1,002,850	1,570,653	129	1,570,782
Exchange differences	—	507	507	61	568
Revaluation deficit of investment properties, net of tax	—	(171,248)	(171,248)	—	(171,248)
Revaluation surplus of investment properties of associated companies, net of tax	—	268,385	268,385	—	268,385
Realised on disposal of investment properties	—	2,063	2,063	—	2,063
Realised on disposal of properties of an associated company	—	(695)	(695)	—	(695)
Disposal of a subsidiary	—	(197)	(197)	(106)	(303)
Loss of the year	—	(174,081)	(174,081)	(84)	(174,165)
At 31st December 2004	567,803	927,584	1,495,387	—	1,495,387

NOTES:

## 1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and under the historical cost convention as modified by the revaluation of certain properties, available-for-sale financial assets and investment for sale, which are carried at fair values.

## 2. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group has adopted the new and revised HKFRS, Hong Kong Accounting Standards (“HKASs”) and interpretations (“Int”)(collectively the “new HKFRSs”), which are effective for accounting periods commencing on or after 1st January 2005. The major changes to the accounting policies are summarised as follows:

- (1) The adoption of HKAS 17 has resulted in the reclassification of leasehold land from property, plant and equipment to prepayments of lease premiums. The up-front prepayments made for the leasehold land is expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

In previous years, the leasehold land was classified under property, plant and equipment. For those classified as leasehold land and buildings included in property, plant and equipment, they were depreciated over the period of the lease, whereas those properties under development and

for sale were stated at cost, including land and construction costs, less provisions for foreseeable losses. The resulting impact from this change in accounting policy is not material and therefore a prior period adjustment has not been made.

- (2) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets, which are carried at fair value. Unrealised gains and losses arising from the changes in fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account. HKASs 32 and 39 have also resulted in the change in the recognition and measurement of loans and receivables and borrowings. Loans and receivables are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method.

In previous years, the Group classified its investments, other than subsidiaries and associated companies, as investment securities which were carried at cost less provision. As a result of this change in accounting policy, the reserves of the Group as at 1st January 2005 have been increased by HK\$21,428,000, representing the difference between the fair value and the carrying amount of these financial assets as at that date.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. Accordingly, the comparative amounts as at 31st December 2004 have not been restated.

- (3) The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recognised in the profit and loss account. In previous years, increases in valuations were credited to the investment properties revaluation reserve. Decreases in valuations were first set off against increases on earlier valuations on a portfolio basis and thereafter were charged to the profit and loss account. As permitted under the transitional provision of HKAS 40, the comparative amounts for the previous period have not been restated. The properties revaluation reserve as at 1st January 2005 amounting to HK\$945,730,000 has been reclassified to retained profit as a result of this change in accounting policy.
- (4) The adoption of HKFRS 3 has resulted in a change in accounting policy for goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The excess of the interest of the acquirer in the net fair value of the identifiable assets, liabilities, and contingent liabilities of the acquiree over the cost of business combination is recognised immediately in the consolidated profit and loss account.

In previous year, goodwill was amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill was reviewed annually and provision was only made when, in the opinion of the Directors, there was impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets. This change in accounting policy does not have any financial impact to the Group.

- (5) The adoption of HKFRS 5 has resulted in a change in accounting policy in relation to the classification of non-current asset held for sale and the definition of the timing of the classification of an asset which meets the criteria as “for sale” or has already been disposed of. As a result, the Group’s 61.1% equity interest in Beijing Lucky Building Company Limited (“Beijing Lucky”), formerly a subsidiary of the Group, has been reclassified as investment for

sale. In accordance with the provision of HKFRS 5, this change has been applied prospectively and a prior period adjustment to the previous accounting period is not necessary. Accordingly, retained profit as at 1st January 2005 has been increased by HK\$126,481,000.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, which require retrospective application other than HKASs 32, 39 and 40, and HKFRS 3 and 5. As a result, the 2004 comparative figures have also been restated or amended in accordance with the relevant requirements.

### 3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in property development, property investment, estate management and investment holding. The Group reports its primary segment information based on these principal activities:

#### Business segments

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Estate management <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31st December 2005</b>						
Turnover	<u>—</u>	<u>26,929</u>	<u>4,808</u>	<u>827</u>		<u>32,564</u>
Segment results	<u>12,637</u>	<u>77,494</u>	<u>4,163</u>	<u>10,428</u>		<u>104,722</u>
Unallocated corporate expenses					(16,216)	<u>(16,216)</u>
Operating profit						<u>88,506</u>
Finance costs						<u>(6,643)</u>
Share of profit/(losses) of associated companies	(39,166)	153,744	—	—		<u>114,578</u>
Profit before taxation						<u>196,441</u>
Taxation						<u>(18,568)</u>
Profit for the year						<u>177,873</u>
	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Estate management <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31st December 2004</b>						
Turnover	<u>—</u>	<u>31,398</u>	<u>4,469</u>	<u>1,123</u>		<u>36,990</u>
Segment results	<u>(2,075)</u>	<u>25,746</u>	<u>3,490</u>	<u>3,627</u>		<u>30,788</u>
Unallocated corporate expenses					(17,115)	<u>(17,115)</u>
Operating profit						<u>13,673</u>
Finance costs						<u>(20,469)</u>
Share of loss of associated companies	(162,631)	(4,456)	—	—		<u>(167,087)</u>
Loss before taxation						<u>(173,883)</u>
Taxation						<u>(282)</u>
Loss for the year						<u>(174,165)</u>

## Geographical segments

	2005		2004	
	Turnover	Segment results	Turnover	Segment results
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	28,734	67,244	28,969	4,206
Mainland China	<u>3,830</u>	<u>21,262</u>	<u>8,021</u>	<u>9,467</u>
	<u><b>32,564</b></u>	<u><b>88,506</b></u>	<u><b>36,990</b></u>	<u><b>13,673</b></u>

## 4. OPERATING PROFIT

Operating profit is stated after charging the following:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation	362	661
Loss on disposal of investment properties	—	2,250
Staff costs, including Directors' remuneration	<u>10,752</u>	<u>12,090</u>

## 5. SHARE OF PROFITS/(LOSSES) OF ASSOCIATED COMPANIES

Share of profits less losses of associated companies include the share of gain in fair value of investment properties amounting to HK\$176,933,000 and taxation charge amounting to HK\$30,205,000 (2004: HK\$9,103,000). In 2004, the share of gain on revaluation of investment properties were taken directly to reserves.

## 6. TAXATION

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	352	134
Mainland China	8,487	—
Deferred tax	<u>9,729</u>	<u>148</u>
	<u><b>18,568</b></u>	<u><b>282</b></u>

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on profits generated in Mainland China has been provided at the prevailing rates applicable to those subsidiaries which operate in Mainland China.

## 7. EARNINGS/(LOSS) PER SHARE

The calculation of earnings per share is based on the profit attributable to equity holders of HK\$177,873,000 (2004: loss of HK\$174,081,000) and 1,135,606,132 (2004: 1,135,606,132) shares in issue during the year. There is no diluted earnings or loss per share since there are no dilutive potential shares in issue during the year.

## 8. TRADE AND OTHER RECEIVABLES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade receivables	4,733	3,808
Other receivables	12,382	5,531
Prepayments and deposits	<u>6,529</u>	<u>6,242</u>
	<u><b>23,644</b></u>	<u><b>15,581</b></u>

Trade receivables represent rental charges and estate management fees due from tenants which are payable on presentation of invoices. The ageing analysis of the trade receivables of the Group is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 30 days	1,434	1,245
31–60 days	354	749
61–90 days	194	212
Over 90 days	<u>2,751</u>	<u>1,602</u>
	<u><b>4,733</b></u>	<u><b>3,808</b></u>

## 9. CREDITORS AND ACCRUALS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade payables	48,010	47,473
Other payables	146,809	141,164
Accrued operating expenses	<u>9,068</u>	<u>5,702</u>
	<u><b>203,887</b></u>	<u><b>194,339</b></u>

The ageing analysis of the trade payables of the Group is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 30 days	448	368
31–60 days	247	540
61–90 days	326	290
Over 90 days	<u>46,989</u>	<u>46,275</u>
	<u><b>48,010</b></u>	<u><b>47,473</b></u>

## **DIVIDEND**

The Directors do not recommend the payment of a dividend for the year ended 31st December 2005 (2004: Nil).

## **RESULTS**

The Group recorded a turnover of HK\$32,564,000 for the year ended 31st December 2005, which represented a decrease of approximately HK\$4,426,000 or 12% as compared with last year. The decrease in turnover is mainly due to the decrease in rental income as a result of the exclusion of the results of Beijing Lucky Building Company Limited, which was reclassified as investment for sale in 2005.

The Group's profit attributable to equity holders in this year was HK\$177,873,000, as compared to loss of HK\$174,081,000 in last year. The profit of this year was mainly due to increase in fair value of investment properties and properties held by the associated companies of the Company.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATION**

#### **HONG KONG BUSINESS**

##### **Property**

The Group's residential properties situated at Red Hill Peninsula (33.33% owned) and South Horizons recorded average occupancy levels of approximately 60% and 100% respectively, while the commercial properties situated at Harbour Crystal Centre recorded an average occupancy level of approximately 82%. During the year, the Group's net rental income from property leasing was more or less the same when compared with that in the last year.

#### **BEIJING BUSINESS**

##### **The Wangfujing Project**

*Lot F1 (61.1% owned)*

As requested by the Beijing Municipal Bureau of Commerce on approving the sale and purchase agreement, on 8th February 2006, the Group's wholly-owned subsidiary Turbo Dragon Limited ("Turbo Dragon") entered into a sale and purchase supplemental agreement with China Yintai Investment Company Limited ("China Yintai"), which is supplemental to the sale and purchase agreement entered between Turbo Dragon and China Yintai on 30th July 2003 (collectively called "Sale and Purchase Agreement") and replaced the supplemental agreement entered between Turbo Dragon and China Yintai on 26th April 2004, the supplemental agreement (2) entered on 22nd June 2004, the supplemental agreement (3) entered on 30th April 2005, and the supplemental agreement entered on 21st November 2005. The Sale and Purchase Agreement stipulated that Turbo Dragon will sell its 61.1% interest in Beijing Lucky Building Company Limited ("Beijing Lucky") to China Yintai for a consideration of RMB134,070,000 (approximately HK\$128,913,000).

On 9th May 2004, Turbo Dragon received from China Yintai the deposit of RMB25,000,000 (approximately HK\$24,038,000). On 27th February 2006, China Yintai paid to Turbo Dragon the first instalment of RMB10,000,000 (approximately HK\$9,615,000). The remaining balance of the sale



consideration of RMB99,070,000 (approximately HK\$95,260,000) will be received by the Group in four instalments before 6th February 2007. The Group's interest in Beijing Lucky will be transferred in proportion to the amount actually received from China Yintai.

*Dan Yao Building (85% owned)*

On 10th March 2005, the Second Intermediate People's Court of Beijing Municipality (the "PRC Court") has accepted the applications for the liquidation of Beijing Dan Yao Property Company Limited ("Dan Yao") made by the Company and Dan Yao. An announcement of which was made on 24th March 2005. By the end of September 2005 the PRC Court has completed the audit of the accounts and valuation of the assets of Dan Yao. Currently, the PRC Court is still examining the liquidation matter. The PRC Court has not yet made a decision on whether or not to grant an order for the liquidation of Dan Yao. It is expected that the PRC Court will make a decision on whether or not to grant an order for the liquidation of Dan Yao in the first half of the year 2006.

In 2005, the car park management system of the car park located underground, door facilities and air conditioning of Dan Yao Building were renovated and repaired.

After adjustment, the business operation of the shopping area of Dan Yao Building was steady. For the year ended 31st December 2005, rental income was RMB3,819,000 (approximately HK\$3,603,000), and the rental expenses (which does not include finance expense and irregular expenses) were RMB4,159,000 (approximately HK\$3,924,000).

Dan Yao Building will continue to adjust its operation strategy, including to improve the operation structure of the shopping center, to strengthen its management, to ensure the operations of the building are stable and to ensure the income and expenses are in balance.

*The Xidan Project (29.4% owned)*

During the year of 2005, the sales receivable of RMB50,000,000 (approximately HK\$48,077,000) from the sale of the building located at Lot No. 1 has been received whereas the remaining sales receivable of RMB37,504,000 (approximately HK\$36,062,000) has been applied to the court by the buyer for its decision because of the disputes over the sale areas; all the works for the building located at Lot No. 2 have been completed and the building ownership certificate is being arranged; regarding the sale of land located at Lot No. 4, the sales receivable of RMB955,000,000 (approximately HK\$918,269,000) has been received, but the sum of RMB125,000,000 (approximately HK\$120,192,000), which is entitled to receive in 2005 as specified in the sale and purchase agreement, has not yet been received; concerning the building located at Lot No. 5, the dispute between Beijing Jing Yuan Property Development Co., Ltd ("Jing Yuan") and Beijing Tai Yun Plaza Co., Ltd was resolved where the court ruled in favour of Jing Yuan, and that Jing Yuan's application for the building ownership certificate to be transferred to China United Telecommunication Corporation has been completed, and that the land certificate is still being arranged; regarding the building located at Lot No. 9, all construction works have been completed, but the checking and the adjustment of the supply of electricity by the electricity facilities has not yet been completed.

In the year 2006, it is expected that the remaining balance of sales receivable from Lot No. 1 will be resolved according to the court decision; the building ownership certificate for Lot No. 2 will be arranged and that the transfer will be completed; the remaining sales receivable in sum of RMB215,000,000 (approximately HK\$206,731,000) from Lot No. 4 will be received in accordance with the sale and purchase agreement; the land certificate and the transfer to China United Telecommunication Corporation in respect of Lot No. 5 will also be completed, and that we will try to collect all the remaining sales receivable of RMB69,244,000 (approximately HK\$66,581,000); for Lot No. 9, all the remaining work will be completed and start to arrange for sale; for Lot No. 10, we will seek for a new business partner to start the project.

## **GROUP ASSETS POSITION AND CHARGE ON GROUP ASSETS**

The total assets of the Group, as a result of the restatement of investment for sale of 61.1% equity interest in Beijing Lucky upon adoption of HKFRS 5 and a upward revaluation of investment properties, have increased from HK\$1,839,483,000 in last year to HK\$2,184,286,000 in this year. The net assets of the Group have also increased from HK\$1,495,387,000 to HK\$1,823,437,000. The amount of the Group's bank borrowings, on which the property assets are pledged, has decreased from HK\$98,935,000 in last year to HK\$89,689,000 in the current year.

## **GROUP FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES**

The total liabilities (including minority interests) of the Group have increased from HK\$344,096,000 as at 31st December 2004 to HK\$360,849,000 as at 31st December 2005. The Group had cash at banks and in hand of HK\$16,727,000 as at 31st December 2005 (2004: HK\$17,154,000). The ratio of total liabilities to total assets was approximately 16% (2004: 19%). As at 31st December 2005, Dan Yao due to the banks the sum of HK\$50,866,000 and the Group due to bank in Hong Kong an overdraft of HK\$38,823,000, making an aggregate amount of HK\$89,689,000 (2004: HK\$98,935,000) and the amount of total equity was HK\$1,823,437,000 (2004: HK\$1,495,387,000), and therefore the capital gearing ratio was 5% (2004: 7%). As from 1st September 2005, the Group's bank overdraft facilities in Hong Kong have been reduced from HK\$75,000,000 to HK\$45,000,000, of which HK\$38,823,000 has been utilised as at 31st December, 2005. Of the total borrowings of HK\$89,689,000 all are repayable on demand. As from 28th February 2006, the Group's bank overdraft facilities in Hong Kong have been further reduced to HK\$36,000,000. Due to the facts that the Group will receive the sale proceeds of Lucky Building of RMB99,070,000 (approximately HK\$95,260,000) and Dan Yao is in the process of the application of liquidation, the Group will have sufficient funds to repay the bank overdraft in Hong Kong.

As at 31st December 2005, the Group's current assets, amounting to HK\$740,094,000, exceeded its current liabilities by HK\$428,182,000. Given that Dan Yao has been in the application for liquidation as explained above and no further payments except for a small amount of liquidation expenses are required for Dan Yao, the other operations of the Group can generate sufficient cash flows to meet its requirements.

For the year ended 31st December 2005, the Group has no exposure to fluctuation in exchange rates and related hedges and there were no contingent liabilities.

## **EMPLOYEES**

As at 31st December 2005, the Group, excluding associated companies, employed 52 people of which 40 were employed in Hong Kong.

In addition to basic salaries and the provision of mandatory provident fund scheme, employees are provided with medical insurance and some of them are included under a defined contribution provident fund scheme.

## **PROSPECTS**

The Group will continue to adjust its business strategy in order to ascertain a stable transitional period. The Group will also build up the safety and liquidity of the funds. Meanwhile, the Group will follow the risk management procedures in finding investment opportunities. The Group will also upgrade and speed up the management capability, and at the same time to learn and to try to make use of how to use the small one to control the big one. In addition, the Group is trying to bring the Group's business into a communicable, global and highly technological structure for future business development.

The Group will continue to improve its cash flow position and will focus on a flexible business expansion when opportunities arise.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Group's and Company's shares during the year.

## **AUDIT COMMITTEE**

The Company established an Audit Committee on 15th September 1998. The terms of reference of the Audit Committee have been established with reference to "A Guide for the Effective Audit Committees" issued by Hong Kong Institute of Certified Public Accountants in February 2002. The Audit Committee comprises of three independent non-executive Directors, Mr. Jesse Nai Chau Leung, Mr. Xiang Bing and Mr. Edward Shen. During the year, the Audit Committee held two meetings on 11th April 2005 and 12th September 2005 and have discussed the financial reporting matters with management, including the review of the Group's financial reporting process, the adequacy and effectiveness of the Group's systems of internal control, and the interim and annual financial statements of the Group.

The Group's annual results for the year ended 31st December 2005 have been reviewed by the Audit Committee.

## **CORPORATE GOVERNANCE**

The Company applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices, contained in Appendix 14 of the Main Board Listing Rules, except with a deviation from code provision A2.1 due to the fact that, currently the Group is adjusting its business structure and therefore, at present the Group has no separation of the role of the chairman and chief executive, and also with a deviation from code provision A4.2 in respect of the rotation of Directors. In order to ensure all compliance with code provision A4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company, the details of which are disclosed under the following head of "Proposed Amendments To The Articles of Association".

## **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

According to the Company's Articles of Association, at each annual general meeting one-third of the Directors shall retire from office, and the retiring Directors shall be eligible for re-election, and that the new directors to fill a casual vacancy shall hold office until the next following annual general meeting of the Company. It is proposed that certain amendments be made to the Company's Articles of Association. A special resolution for approving the amendments will be proposed to the shareholders of the Company at the Annual General Meeting to be held on Thursday, 25th May 2006. Particulars of the proposed amendments are set out in the circular which will be despatched to shareholders on 27th April 2006.

## **ANNUAL GENERAL MEETING**

The 2006 Annual General Meeting of the shareholders of the Company will be held at Meeting Room 608, Level 6, Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai, Hong Kong on Thursday 25th May 2006 at 9:30 a.m. and the Notice of Annual General Meeting will be published and despatched to the shareholders in the manner as required by the Listing Rules of the Stock Exchange in due course.

By Order of the Board  
**Dai Xiaoming** *Chairman*

Hong Kong, 18th April 2006

*As at the date hereof, the Board of Directors of the Company comprises of five Directors, of which two are Executive Directors, namely Mr. Dai Xiaoming and Mr. Kenneth Hiu King Kon; and three are independent Non-Executive Directors, namely Mr. Jesse Nai Chau Leung, Mr. Xiang Bing and Mr. Edward Shen.*

Website: <http://www.danform.com.hk>

*Please also refer to the published version of this announcement in **The Standard**.*