



POLYTEC ASSET HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 208



2006
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Or Wai Sheun (*Chairman*)

Yeung Kwok Kwong

Wong Yuk Ching

Lam Chi Chung, Tommy

Chio Koc Ieng

Non-Executive Directors

Lai Ka Fai

Anthony Francis Martin Conway[#]

Siu Leung Yau[#]

Liu Kwong Sang[#]

[#] *Independent Non-Executive Directors*

COMPANY SECRETARY

Lau Sui Cheung

AUTHORISED REPRESENTATIVES

Yeung Kwok Kwong

Lai Ka Fai

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23rd Floor, Pioneer Centre

750 Nathan Road

Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Harbour Trust Co., Ltd.

P.O. Box 1787

Grand Cayman

Cayman Islands

British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

STOCK CODE

Hong Kong Stock Exchange: 208

Five-Year Financial Summary

The following is a summary of the published results, and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated or reclassified as appropriate.

RESULTS

	1 January 2006 to 31 December 2006 HK\$'000	1 January 2005 to 31 December 2005 HK\$'000	1 December 2003 to 31 December 2004 HK\$'000 (restated#)	1 December 2002 to 30 November 2003 HK\$'000	1 December 2001 to 30 November 2002 HK\$'000
Turnover	560,831	196,827	152,882	17,672	24,994*
Profit/(loss) from operations	141,827	55,302	25,055	(445)	(12,065)
Change in fair value of investment properties	—	105,047	—	—	—
Share of results of jointly controlled entities	4,433	332,826	61,668	—	—
Provision for loan advanced to a jointly controlled entity written back	—	18,500	—	—	—
Gain on disposal of subsidiaries	—	—	—	18,397	33,658
Finance costs	(81,188)	(3,437)	(249)	(2,362)	(2,131)
Profit before tax	65,072	508,238	86,474	15,590	19,462
Income tax expenses	(16,914)	(19,100)	(4,213)	—	—
Profit after tax	48,158	489,138	82,261	15,590	19,462
Minority interests	(18,366)	(11,724)	(3,462)	—	163
Net profit attributable to equity holders of the Company	29,792	477,414	78,799	15,590	19,625

Five-Year Financial Summary

ASSETS AND LIABILITIES

	31 December 2006 HK\$'000	31 December 2005 HK\$'000	31 December 2004 HK\$'000 (restated#)	30 November 2003 HK\$'000	30 November 2002 HK\$'000
Total assets	11,297,351	1,358,301	862,391	52,795	62,918
Total liabilities	(3,529,786)	(210,756)	(206,642)	(1,612)	(28,333)
Minority interests	(57,602)	(52,452)	(40,728)	—	—
Equity attributable to equity holders of the Company	7,709,963	1,095,093	615,021	51,183	34,585

FINANCIAL HIGHLIGHTS

	1 January 2006 to 31 December 2006	1 January 2005 to 31 December 2005	1 December 2003 to 31 December 2004 (restated#)	1 December 2002 to 30 November 2003	1 December 2001 to 30 November 2002
Increase/(decrease) in turnover (%)	185	29	765	(29)	252
Increase/(decrease) in net profit attributable to equity holders of the Company (%)	(94)	506	405	(21)	N/A
Net assets value per ordinary share (HK cents)	178.62	89.05	50.42	17.20**	11.62**
Current ratio	2.79	7.13	4.65	29.97	1.85
Bank borrowings to equity ratio	0.01	0.08	0.16	—	0.27
Total debts to equity ratio	0.40	0.08	0.16	—	0.32
Return on equity (%)	0.39	43.60	12.81	30.50	56.74
Basic earnings per share (HK cents)	1.04	38.97	16.56	4.30##	5.41##
Dividends per share (HK cents)	1.00	2.00	—	—	—

Five-Year Financial Summary

- * As proceeds from sale of trading securities have been included as part of the Group's turnover since the financial year ended 30 November 2003, the comparative amount of the turnover for the financial year ended 30 November 2002 has been restated to conform with the current presentation.
- # In compliance with Hong Kong Financial Reporting Standards, the Group has adopted certain new accounting policies since the financial year ended 31 December 2005. To conform with current presentation, certain comparative amounts in the financial period from 1 December 2003 to 31 December 2004 have been restated.
- ** The amounts of net assets value per ordinary share in 2002 and 2003 have been restated, as the Company has consolidated every 20 ordinary shares in issue into 1 ordinary share during the period ended 31 December 2004.
- ## The basic earnings per share for the years ended 30 November 2002 and 2003 have been restated, as the Company has consolidated every 20 ordinary shares in issue into 1 ordinary share and effected two rights issue during the period ended 31 December 2004.

Chairman's Statement

INTRODUCTION

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Polytec Asset Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006.

Since the implementation of CEPA in 2004 and the liberalization of the gaming industry, the whole Macau economy has flourished. Economic sentiment is positive with GDP growth being sustained by a rapidly expanding tourist industry leading to an active job market, low unemployment and rising household incomes. This in turn has produced a demand for better living conditions. To capitalize on this demand the Group has made a major property acquisition which is more fully described below. Our Board believes that, with its now strong land bank in Macau, the Group should achieve first class results over the next few years.

BUSINESS REVIEW

For the year ended 31 December 2006, the turnover and profit from operations of the Group respectively were HK\$560.8 million and HK\$141.8 million, representing significant increases of 185% and 156% compared with the previous year. The profit attributable to shareholders was HK\$29.8 million as against HK\$477.4 million for 2005. The 2005 figure of HK\$477.4 million includes a net property revaluation gain of HK\$420.2 million and an amount of HK\$18.5 million in respect of the recovery of a previously written off loan. The 2006 figure of HK\$29.8 million is struck after providing for a net property revaluation loss of HK\$4.6 million. On a like for like basis, excluding net property revaluations and the loan recovery, the Group's profit attributable to shareholders decreased by HK\$4.3 million.

Shareholders will note that a revaluation of the Group's interest in the Macau Projects (see below) has resulted in a surplus over cost of more than HK\$1 billion. This surplus, which accounting convention requires remains in the Group's consolidated balance sheet until the Projects are realised, can be expected to be released to profit over the next few years. Clearly if the profitability of the Projects improves the benefit to the Group's profit will be accordingly greater.

The Group net asset value per share attributable to the equity holders of the Company at 31 December 2005 was HK\$0.89 per share. At 31 December 2006, taking account of the fund raising referred to in the "Financial Review" below, the net asset value per share has increased to HK\$1.79 per share of which HK\$0.24 was attributable to the above revaluation surplus of the Macau Projects.

Chairman's Statement

DIVIDENDS

In appreciation of shareholders' support for the Group, and taking account of the Group's financial position and inherent profitability indicated by the revaluation surplus of the Macau Projects, the Board has resolved to recommend a final dividend for the year ended 31 December 2006 of HK\$0.005 per share to be appropriated out of retained earnings as at 31 December 2006 to the shareholders. The final dividend will be payable on 27 April 2007 to the shareholders registered at the register of members of the Company on 26 April 2007 following approval at the Annual General Meeting.

Major Acquisition

In April 2006, the Group entered into a sale and purchase agreement to acquire from the ultimate holding company the entire interest in New Bedford Properties Limited which owns an 80% interest in the properties of Lote P, Lote V, Lotes T and T1, all situated at Novos Aterros da Areia Preta, Macau (the "Macau Projects"). The acquired properties have total gross floor area for residential and commercial development of approximately 978,000 square metres and the purchase consideration was HK\$8,448 million. The Projects involve the development of various multi storey high-end residential blocks with retail, recreational and car parking spaces. The whole development will be carried out in phases. In relation to this acquisition, the Company raised funds by issuing a total of 2,811,411,970 new ordinary shares at HK\$1.98 per share to the parent company as well as reputable international institutional investors. At the same time the Company proposed a bonus warrant issue with an exercise price of HK\$1.98 per share to the existing shareholders. The fund raising and the warrant issue were approved by the independent shareholders at an extraordinary general meeting on 12 June 2006 and duly completed by 30 June 2006.

Property Investment

The renovation of the retail portion of The Macau Square, the Group's 50% owned commercial property situated at Av. Do Infante D. Henrique, Macau, with a gross floor area of approximately 8,400 square metres, was completed. The renovation of the office portion, with a gross floor area of approximately 28,200 square metres, is progressing smoothly. We have received encouraging enquiries from potential tenants. The property is now 60% let and is contributing to the Group's profit.

The renovation work of Va long, a commercial building situated at Praca da Amizade, Macau, with an aggregate gross floor area of 1,900 square metres is being carried out according to schedule. Negotiation is in progress with potential tenants.

Chairman's Statement

The Group's 70.5% owned office and retail units at China Plaza situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau will continuously be sold at good prices. We have received encouraging enquiries from potential buyers.

In January 2006, the Group acquired from a major financial institution in Hong Kong a 100% beneficial interest in a distressed property asset situated in Guangdong Province in PRC. The Group was able to obtain a satisfactory return from disposal of the asset in June this year. We continue to receive these opportunities from time to time and will consider each and every opportunity carefully in due course.

Property Development

The Lote V development, first phase of the Macau Projects, now named Villa de Mer, having an attributable gross floor area of approximately 126,394 square metres and comprising 5 buildings with a total of approximately 1,300 residential units and a number of retail shops on the ground floor, which foundation work is scheduled to commence not later than April 2007, is expected to be completed in 2009/2010. The property is being sold by stages. The initial marketing of the property has received a favorable response with more than 50% of the residential units having been sold.

The Group's 58% owned residential and commercial project in Taipa, Macau is now under construction. The development, with an attributable gross floor area of approximately 35,900 square metres, comprises two buildings with a total of 295 residential units and a number of retail shops on the ground floor. The marketing of the property has been successful and the residential portion has been basically all sold out.

Ice and Cold Storage

Our ice manufacturing and cold storage business recorded an operating profit of HK\$13.6 million during the year, a 7% increase from last year. The increase is mainly due to the expansion of cold storage capacity and the adoption of new marketing strategies.

Finance and Investment

We consistently adopt a prudent approach in conducting our finance and investment activities. Reflecting the booming stock market, we increased our commitment to this sector producing an increased operating profit for the year of HK\$84 million.

Chairman's Statement

FINANCIAL REVIEW

The Group's finances are healthy. As at 31 December 2006, the Group had liquid assets of HK\$453.3 million, which comprised cash and cash equivalents of HK\$213.9 million and other liquid assets of HK\$239.4 million. The Group's gearing ratio, expressed as a percentage of its bank borrowings to shareholders' funds at 31 December 2006 reduced to 1% from 8% at 31 December 2005. The bank borrowings of the Group as at 31 December 2006 are repayable by monthly installments over 5 years from the date of the inception of the loans, are denominated in Hong Kong dollars and bear interest at prevailing market rates.

During the year, the Company issued 2,811,411,970 ordinary shares at a subscription price of HK\$1.98 per share through a share placement and raised net proceeds of HK\$5,522.5 million. This substantially strengthened the Company's capital base. The Company applied HK\$5,289.5 million of the net proceeds in part payment for the acquisition of the Macau Projects, HK\$200.0 million for the settlement of a loan borrowed for the payment of deposit for the acquisition of the Macau Projects and HK\$33.0 million for the settlement of advances from an intermediate holding company.

The remaining balance of the acquisition of the Macau Projects of HK\$2,958.5 million is financed by a deferred settlement arrangement with the ultimate holding company. Pursuant to the sale and purchase agreement, the Group has the right to defer repayment of the remaining balance for an unlimited period until such time as the liquidity position of the Company permits such repayment. The remaining balance is unsecured and interest bearing with reference to bank lending rates. If we take into account this financial support and other financial assistance from the ultimate holding company, the Group's gearing ratio on the same basis as above was 40% as at 31 December 2006.

To further strengthen the capital base of the Company, the Company made a bonus issue of 122,981,448 warrants in the Company to shareholders on the register of members on 12 June 2006 on the basis of one warrant for every ten ordinary shares then held by such shareholders. Each warrant entitles the holder thereof to subscribe in cash for one new ordinary share at HK\$1.98 per share. The warrants are exercisable at any time between 19 June 2006 and 18 June 2007, both days inclusive. The Company will raise HK\$243.5 million upon the full exercise of the subscription rights attached to the warrants. During the year, subscription rights attached to 6,940 warrants were exercised and correspondingly 6,940 ordinary shares were issued.

During the year, the immediate holding company contributed HK\$66,665,000 to the Company to pay up 3,703,590,076 10% partly paid convertible preference shares in full and converted the same into 275,191,901 ordinary shares.

As at 31 December 2006, certain assets of the Group with an aggregate net book value of approximately HK\$611.5 million were pledged to secure credit facilities granted to the Group.

Chairman's Statement

PROSPECTS

Looking ahead, we believe the fundamentals of Macau economy will continue to be strong and growing. It is expected that the economic growth rate of Macau in 2007 will be greater than 10%, mainly driven by tourism, in particular, with the opening of several international hotel-casinos later this year. In addition, we are optimistic about the property market in Macau which will benefit further from the imminent decision of the construction of Hong Kong — Zhuhai — Macau Bridge, the influx of foreign laborers, and the continued growth of property investment from both local and foreign investors.

In the face of such exceptional market opportunities, our Macau property acquisition strategy in 2006 is a transformational move for the Group to establish itself as a leading Macau property developer. With the continuous solid support from our ultimate holding company including having the benefit of its well established brand name in Macau, the Group is dedicated to actively exploring and expanding relevant investment and business opportunities by capitalizing on our advantages and the expected positive growth potential of the Macau property market for the coming year, in order to achieve our goal of maximizing profitability and creating excellent shareholder value.

I gratefully acknowledge the valuable advice and guidance received from my fellow directors in the past year. Also, I wish to thank our shareholders for their trust and unwavering support. Last but not least, I must extend my heartfelt appreciation to all our staff for their hard work and dedication.

Or Wai Sheun

Chairman

Hong Kong, 15 March 2007

Corporate Governance Report

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

The Company has complied with all the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the annual report, save for the few exceptions mentioned below.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's affairs. The Board formulates the overall strategic direction and review and approves major transaction of the Group, while the management is delegated with the power to implement policies and strategies as set out by the Board. The Board also acknowledges its responsibilities for preparing the financial statements of the Company.

The Board has a balanced composition of executive and non-executive directors. Currently, the Board comprises five Executive Directors, being Mr. Or Wai Sheun (Chairman of the Board), Mr. Yeung Kwok Kwong (Managing Director), Ms. Wong Yuk Ching, Mr. Lam Chi Chung, Tommy and Ms. Chio Koc Ieng, one Non-executive Director, being Mr. Lai Ka Fai, and three Independent Non-executive Directors, being Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang. The Directors have no financial, business, family or other material/ relevant relationship. The profiles of the Directors, which are set out on pages 16 to 17, demonstrate a balance of skills and experience of the Board.

To ensure the compliance of Code Provisions D.1.1 and D.1.2, an executive committee has been established for the management and administration functions. The Board has also formalised the function reserved by the Board and those delegated to the management and clear direction has been given as to the power of the management.

Code Provision A.1.8 stipulates that, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board, the matter should not be dealt with by way of circulation, but a board meeting should be held. During the year, the Group acquired the entire issued capital of a company from a substantial shareholder of the Company. During the year, the Company also issued 2.8 billion ordinary shares of the Company at HK\$1.98 per share and 123 million units of warrants in the Company totalling HK\$243.5 million, both transactions in which involved issue of securities to another substantial shareholder of the Company as one of the participants of the transactions. These two substantial shareholders are controlled by a Director. The management had fully informed all the Directors and had discussed with each of the Directors the details of these transactions. All the Directors had verbally confirmed their support to the management's decisions on these transactions without any queries. Taking into consideration of such verbal confirmations made by all the Directors, the management considered that these transactions could be approved by the Board by way of resolutions in writing and that no Board meeting was needed.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

During the year, the Board has held seven board meetings. The attendance of the Directors at the board meetings was as follows:

Directors	Number of attendance
Mr. Or Wai Sheun (<i>Chairman of the Board</i>) (appointed on 1 April 2006)	5/5
Mr. Yeung Kwok Kwong	7/7
Ms. Wong Yuk Ching	7/7
Mr. Lam Chi Chung, Tommy	7/7
Ms. Chio Koc Ieng (appointed on 1 April 2006)	4/5
Mr. Lai Ka Fai	7/7
Mr. Anthony Francis Martin Conway	7/7
Mr. Siu Leung Yau	6/7
Mr. Liu Kwong Sang	7/7

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yeung Kwok Kwong was the Chairman of the Board and the Managing Director of the Company during the period from 1 January 2006 to 31 March 2006. With effect from 1 April 2006, Mr. Or Wai Sheun replaced Mr. Yeung Kwok Kwong to act as the Chairman of the Board and Mr. Yeung Kwok Kwong remained to act as the Managing Director. The responsibility of the Chairman of the Board is to lead the Board to provide high-level guidance and oversight to the Group, while the Managing Director is delegated with the power to implement policies and strategies as set out by the Board.

AUDIT COMMITTEE

The present members of the Audit Committee are two Independent Non-executive Directors, being Mr. Liu Kwong Sang (Chairman) and Mr. Siu Leung Yau and one Non-executive Director, being Mr. Lai Ka Fai. During the year, the Audit Committee has held three meetings. The attendance of the Audit Committee members at the audit committee meetings was as follows:

Directors	Number of attendance
Mr. Liu Kwong Sang (<i>Chairman of the Audit Committee</i>)	3/3
Mr. Siu Leung Yau	3/3
Mr. Lai Ka Fai	3/3

Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The roles of the Audit Committee include maintaining a close relationship with the external auditors, reviewing of financial information of the Company and overseeing of the Company's financial reporting system and internal control procedure.

During the year, the Audit Committee reviewed the audited financial statements for 2005 and the interim financial statements for 2006 and met with the external auditors and the management of the Company to discuss issues arising from the audit of the financial statements. The Audit Committee also reviewed the effectiveness of the system of internal control of the Group and the resignation of the external auditors and made recommendation to the Board on the appointment of the external auditors.

REMUNERATION OF DIRECTORS

The present members of the Remuneration Committee are one Executive Director, Mr. Yeung Kwok Kwong (Chairman) and three Independent Non-executive Directors, Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang. During the year, the Remuneration Committee has held three committee meetings. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

Directors	Number of attendance
Mr. Yeung Kwok Kwong (<i>Chairman of the Remuneration Committee</i>)	3/3
Mr. Anthony Francis Martin Conway	2/3
Mr. Siu Leung Yau	3/3
Mr. Liu Kwong Sang	3/3

The roles of the Remuneration Committee include formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, employment conditions, time commitment and responsibilities, desirability of performance based remuneration, and individual performance of the Directors and Senior Management, and implement the remuneration policy laid down by the Board.

During the year, the Remuneration Committee has reviewed the remuneration policy of the Company, the directors' fees to the Non-executive Directors and the remuneration package of the Executive Directors, including two Executive Directors who joined the Company during the year.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Company currently does not have a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become Directors when necessary. The Board will consider the experience, qualification and other relevant factors, including the standards set out in rules 3.08 and 3.09 of the Listing Rules and rule 3.13 of the Listing Rules in case of Independent Non-executive Directors, of the eligible candidates. During the year, the Board considered and approved the appointment of two additional Executive Directors.

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors do not have a specific term of appointment, but subject to rotation in accordance with article 108(A) of the articles of association of the Company. As the Non-executive Directors are subject to rotation in accordance with the articles of association of the Company, the Board considers that the Non-executive Directors so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The first sentence of Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with article 112 of the articles of association of the Company, any Director appointed to fill a casual vacancy shall hold office until the next following annual general meeting of the Company.

As the Director appointed to fill a casual vacancy shall subject to re-election in the next following annual general meeting of the Company in accordance with the articles of association of the Company which complies with paragraph 4(2) of the Appendix 3 of the Listing Rules, the Board considers that the Directors so appointed subject to election by shareholders at the next following annual general meeting of the Company after their appointment will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

The Company did not have any deviation from the first sentence of Code Provision A.4.2 during the year.

The last sentence of Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance with article 108(A) of the articles of association of the Company (before amendments mentioned below) at every annual general meeting, one-third of the Directors for the time being, other than Chairman, Deputy Chairman, Managing Director or Joint Managing Director, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third should retire from office.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS *(Continued)*

In order to ensure compliance with the last sentence of Code Provision A.4.2, the relevant articles of articles of association of the Company were amended at the annual general meeting held on 8 May 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules. On specific enquiries made, all Directors have confirmed that, in relation to the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objectives, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives. The internal control system is subject to the review of the Audit Committee.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors are set out below:

	KPMG <i>HK\$'000</i>	Deloitte Touche Tohmatsu* <i>HK\$'000</i>
Services rendered		
— audit services	790	—
— other non-audit services (preparation of circular in respect of the proposed acquisition of a subsidiary)	—	598
	790	598

* Former auditors of the Company

Profile of Directors

EXECUTIVE DIRECTORS

Mr. Or Wai Sheun, aged 55, joined the Company in April 2006 as the Chairman of the Board of Directors. Mr. Or has over 20 years' experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. Mr. Or is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr. Or is also the chairman of the board of directors of Kowloon Development Company Limited, Intellinsight Holdings Limited, Polytec Holdings International Limited and a director of Or Family Trustee Limited Inc., all four companies being substantial shareholders of the Company.

Mr. Yeung Kwok Kwong, aged 48, joined the Company in September 2000 as the Chairman of the Board of Directors and Managing Director. With effect from 1 April 2006, Mr. Yeung ceased to act as the Chairman of the Board of Directors but remained to act as the Managing Director. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has over 20 years of experience in finance, accounting, financial management and corporate planning. He is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group. Mr. Yeung is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Yeung is also a non-executive director of Kowloon Development Company Limited.

Ms. Wong Yuk Ching, aged 50, joined the Company in January 2002 as Executive Director. Prior to joining the Company, she held managerial and director positions in a number of large garment trading and manufacturing companies. She has over 20 years of experience in the garments industry. She is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group.

Mr. Lam Chi Chung, Tommy, aged 52, joined the Company in October 2005 as Executive Director. Prior to joining the Company, he was an executive director of Century City International Holdings Limited and Regal Hotels International Holdings Limited. He has expertise and extensive experience in the banking, international finance, project advisory and fund management fields. He is currently responsible for the development of corporate strategies, corporate planning and corporate finance of the Group. Mr. Lam graduated from the University of Windsor, Canada with a bachelor degree of science in computer science and mathematics and also attained a master's degree of business administration in accounting and management sciences from Long Island University, U.S.A.

Ms. Chio Koc Ieng, aged 40, joined the Group in December 2004 and was appointed as Executive Director in April 2006. She has attained 20 years working experience in various prominent and well-established property development companies in Macau. She is responsible for development of corporate strategies, corporate planning and general management of the Group.

Profile of Directors

NON-EXECUTIVE DIRECTOR

Mr. Lai Ka Fai, aged 42, joined the Company in September 2000 as Executive Director, and was re-designated as Non-executive Director in January 2002. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has 20 years of experience in finance, accounting, financial and operational management, and corporate planning. Mr. Lai graduated from the University of East Anglia in the United Kingdom with a bachelor's degree in science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Lai is also an executive director of Kowloon Development Company Limited and a director of Intellinsight Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Anthony Francis Martin Conway, aged 66, joined the Company in September 2000 as Independent Non-executive Director. Mr. Conway has over 40 years' experience in information technology and telecommunications, having held director and senior management positions in various renowned telecommunication and information technology companies. He is currently the chairman of both I.Tel Holdings Ltd., an investment holding company for information technology related activities, and the Hong Kong Management Association Information Technology Committee. Mr. Conway is a fellow member of the Hong Kong Institute of Directors, the Hong Kong Management Association, the British Computer Society and the Hong Kong Institution of Engineers.

Mr. Siu Leung Yau, aged 53, joined the Company in September 2000 as Independent Non-executive Director. Mr. Siu has over 25 years' experience in property agency, investment and development. He is currently the managing director of Pan Win Holdings Limited. Mr. Siu is a member of the Hong Kong Association for the Advancement of Real Estate and Construction Technology Limited and a member of the Hong Kong Institute of Real Estate Administration.

Mr. Liu Kwong Sang, aged 45, joined the Company in July 2000 as Independent Non-executive Director. He is a certified public accountant (practising) in Hong Kong with more than 15 years' experience. Mr. Liu graduated with honours from the Hong Kong Polytechnic University with a bachelor degree in accountancy and obtained the Master in Business Administration degree from the University of Lincoln, the United Kingdom. He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Institute of Financial Accountants and a fellow member of the National Institute of Accountants, Australia. Mr. Liu is also a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Society of Registered Financial Planners. Mr. Liu acts as independent non-executive directors of certain listed companies on the main board and GEM board of the Hong Kong Stock Exchange and a company listed on the American Stock Exchange.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the financial statements on pages 31 to 83.

An interim dividend of HK\$0.005 per share was paid on 6 October 2006. The directors now recommend the payment of a final dividend of HK\$0.005 per share to the shareholders on the register of members on 26 April 2007, estimated to be HK\$21,582,000.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in notes 13 to 15 to the financial statements.

SHARE CAPITAL

Details of the movements in issued share capital of the Company during the year are set out in note 29 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the retained profits of the Company available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands amounted to HK\$38,294,000. Further, the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 December 2006, the Company's share premium account amounted to HK\$5,682,256,000.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

Due to the nature of the Group's business, no major suppliers were identified. During the year, less than 30% of the Group's turnover were attributable to the Group's five largest customers.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's customer and supplier during the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Or Wai Sheun (*Chairman*) (*appointed on 1 April 2006*)

Mr. Yeung Kwok Kwong

Ms. Wong Yuk Ching

Mr. Lam Chi Chung, Tommy

Ms. Chio Koc Ieng (*appointed on 1 April 2006*)

Non-executive director

Mr. Lai Ka Fai

Independent non-executive directors

Mr. Anthony Francis Martin Conway

Mr. Siu Leung Yau

Mr. Liu Kwong Sang

The directors of the Company, including the non-executive director and independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Yeung Kwok Kwong, Ms. Wong Yuk Ching, Mr. Lai Ka Fai and Mr. Liu Kwong Sang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Rules Governing the Securities Listing on The Hong Kong Stock Exchange Limited (the "Listing Rules"), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Capacity and nature of interests	Number of shares and underlying shares held			Percentage of the issued ordinary share capital of the Company (Note 1)
		Ordinary shares	Warrants	Total	
Mr. Or Wai Sheun (Note 4)	Founder and beneficiary of a trust	2,572,167,275	69,897,537	2,642,064,812	61.21%
Mr. Yeung Kwok Kwong	Directly beneficially owned	1,700,000	160,000	1,860,000	0.04%
Ms. Wong Yuk Ching	Directly beneficially owned	6,000,000	600,000	6,600,000	0.15%
Mr. Lam Chi Chung, Tommy	Directly beneficially owned	100,000	—	100,000	0.00%
Mr. Lai Ka Fai	Directly beneficially owned	400,000	30,000	430,000	0.01%

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Long positions in shares and underlying shares of associated corporation — Kowloon Development Company Limited ("KDC")

Name of director	Capacity and nature of interests	Number of ordinary shares held	Number of underlying shares held (Note 2)	Total	Percentage of the issued ordinary share capital of KDC (Note 3)
Mr. Or Wai Sheun (Note 4)	Founder and beneficiary of a trust	448,238,083	382,349,425	830,587,508	72.18%
	Through controlled corporation	185,000	92,500	277,500	0.02%
Mr. Yeung Kwok Kwong (Note 5)	Directly beneficially owned	110,000	55,000	165,000	0.01%
Ms. Wong Yuk Ching (Note 6)	Directly beneficially owned	949,000	—	949,000	0.08%
Mr. Lam Chi Chung, Tommy (Note 7)	Directly beneficially owned	10,000	—	10,000	0.00%
Ms. Chio Koc Ieng (Note 8)	Directly beneficially owned	100,000	—	100,000	0.01%
Mr. Lai Ka Fai (Note 9)	Directly beneficially owned	312,000	156,000	468,000	0.04%

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. As at 31 December 2006, the total number of issued shares in the Company was 4,316,425,295 ordinary shares.
2. On 19 December 2006, KDC announced that it proposed a right issue of 383,560,425 rights shares (the "Rights Issue"). Intellinsight Holdings Limited, a company controlled by Mr. Or Wai Sheun, entered into an underwriting agreement with KDC for the rights issue to underwrite 158,230,384 rights shares of KDC. Intellinsight Holdings Limited also undertook to subscribe or procure to subscribe 224,119,041 rights share of KDC. China Dragon Limited, a company controlled by Mr. Or Wai Sheun, undertook to subscribe or procure to subscribe 92,500 rights shares of KDC. The Rights Issue was completed on 12 February 2007.

Pursuant to the Rights Issue, Mr. Yeung Kwok Kwong undertook to subscribe or procure to subscribe 55,000 rights shares of KDC.

Pursuant to the Rights Issue, Mr. Lai Ka Fai undertook to subscribe or procure to subscribe 156,000 rights shares of KDC.

3. The percentage holding in KDC is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 ordinary shares in KDC, being the issued ordinary share capital of KDC as enlarged by the Rights Issue.
4. Mr. Or Wai Sheun was deemed to be interested in 830,587,508 shares and underlying shares in KDC (being 108.27% of the issued ordinary shares capital of KDC of 767,120,850 ordinary shares at 31 December 2006) as the founder and one of the beneficiaries of a discretionary family trust.

Mr. Or Wai Sheun was also deemed to be interested in 277,500 shares and underlying shares in KDC (being 0.04% of the issued ordinary shares capital of KDC of 767,120,850 ordinary shares at 31 December 2006) owned by China Dragon Limited due to his corporate interest therein.

Mr. Or Wai Sheun was also deemed to be interested in 2,642,064,812 shares and underlying shares in the Company through his interest in KDC, which included 448,423,083 ordinary shares (being 58.46% of the issued ordinary share capital of KDC of 767,120,850 ordinary shares at 31 December 2006) and 382,441,925 underlying shares (being 49.85% of the issued ordinary share capital of KDC of 767,120,850 ordinary shares at 31 December 2006) in KDC.

The interest in 2,642,064,812 shares and underlying shares in the Company as disclosed above by Mr. Or Wai Sheun is the same interests in the Company as disclosed by KDC, HSBC International Trustee Limited and The Or Family Trustee Limited Inc under the heading of "Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares" below.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes: (Continued)

5. Percentage holding in KDC of Mr. Yeung Kwok Kwong would be 0.02%, if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
6. Percentage holding in KDC of Ms. Wong Yuk Ching would be 0.12%, if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
7. Percentage holding in KDC of Mr. Lam Chi Chung would remain unchanged, even if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
8. Percentage holding in KDC of Ms. Chio Koc Ieng would remain unchanged, even if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
9. Percentage holding in KDC of Mr. Lai Ka Fai would be 0.06% if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of ordinary shares in KDC at 31 December 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As disclosed in note 30 to the financial statements, the Company made a bonus issue of warrants to its shareholders during the year. The directors' interests in warrants disclosed in the section under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above were warrants granted by the Company to such directors or their controlled corporations in the capacity of shareholders of the Company pursuant to the bonus issue, as such directors or their controlled corporations held certain ordinary shares of the Company on the record date of the bonus issue.

During the year, the immediate holding company of the Company, a company controlled by Mr. Or Wai Sheun, contributed HK\$66,665,000 to the Company to pay up 3,703,590,076 10% partly paid convertible preference shares in the Company in full and converted 3,703,590,076 fully paid convertible preference shares into 275,191,901 fully paid ordinary shares in the Company.

During the year, the Company entered into a subscription agreement with its intermediate holding company, a company controlled by Mr. Or Wai Sheun, for the subscription of 1,598,000,000 ordinary shares in the Company at a subscription price of HK\$1.98 each, totalling HK\$3,164,040,000, by the immediate holding company of the Company.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

During the year, KDC proposed the Rights Issue to its shareholders. The directors' interests in the rights shares of KDC are disclosed in note 2 of the section under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 33(iii), (v), (vi), (vii), (viii), (ix) and (x) to the financial statements, no director had a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year. The transactions disclosed in notes 33(vi), (vii), (ix) and (x) to the financial statements are also connected transactions being disclosed pursuant to rule 14A.45 of the Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option schemes are set out in note 31 to the financial statements.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interests	Number of shares and underlying shares held			Percentage of the issued ordinary share capital (Note 1)
		Ordinary shares	Warrants	Total	
Long positions					
Kowloon Development Company Limited (Notes 2 and 5)	Through controlled corporation	2,572,167,275	69,897,537	2,642,064,812	61.21%
The Or Family Trustee Limited Inc. (Notes 3 and 5)	Through controlled corporation	2,572,167,275	69,897,537	2,642,064,812	61.21%
HSBC International Trustee Limited (Notes 4 and 5)	Trustee	2,572,167,275	69,897,537	2,642,064,812	61.21%
Wachovia Investors, Inc. (Note 6)	Directly beneficially owned	378,825,000	—	378,825,000	8.78%
Wachovia Corporation (Note 6)	Through controlled corporation	378,825,000	—	378,825,000	8.78%
Penta Investment Advisers Limited (Note 7)	Investment manager	222,871,500	—	222,871,500	5.16%
John Zwaanstra (Note 7)	Through controlled corporation	222,871,500	—	222,871,500	5.16%
Janus Capital Management LLC	Investment manager	221,188,133	—	221,188,133	5.12%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

Save as disclosed above, as at 31 December 2006, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Notes:

1. As at 31 December 2006, the total number of issued shares in the Company was 4,316,425,295 ordinary shares.
2. KDC, through its wholly owned subsidiary, Marble King International Limited, owns 2,572,167,275 ordinary shares in the Company (being 59.59% of the issued ordinary share capital of the Company) and warrants of HK\$138,397,123.26 of the Company which have the right to subscribe 69,897,537 ordinary shares in the Company (being 1.62% of the issued ordinary share capital of the Company).
3. The Or Family Trustee Limited Inc holds 448,238,083 ordinary shares in KDC (being 58.43% of the issued ordinary share capital of KDC) and, therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.
4. HSBC International Trustee Limited holds 448,771,083 ordinary shares in KDC (being 58.50% of the issued ordinary share capital of KDC) and therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.
5. The interest in 2,642,064,812 shares and underlying shares in the Company as disclosed above by KDC, HSBC International Trustee Limited and The Or Family Trustee Limited Inc and by Mr. Or Wai Sheun under the heading of "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above are the same interests in the Company.
6. Wachovia Corporation holds 100% interest in Wachovia Investors, Inc and therefore was deemed to be interested in 378,825,000 ordinary shares in the Company owned by Wachovia Investors, Inc.
7. John Zwaanstra is a director of Penta Investment Advisers Limited and therefore was deemed to be interested in 222,871,500 ordinary shares in the Company owned by Penta Investment Advisers Limited.

EMPLOYEES

As at 31 December 2006, the total number of employees of the Group was about 70. The Group remunerates its employees by means of salary and bonus based on their performance, working experience, degree of hardship and prevailing market practice. The emolument policy of the Group is reviewed by the members of the Remuneration Committee and approved by the Board.

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

Report of the Directors

EMPLOYEES *(Continued)*

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in notes 29(a) and 30 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$10,000.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 April 2007 to Thursday, 26 April 2007 (both days inclusive) in order to determine entitlements of shareholders to the final dividend in respect of the year ended 31 December 2006. In order to qualify for the entitlement of the final dividend, the shareholders must ensure that all share transfers accompanied by the relevant share certificates and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription moneys, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 April 2007.

Report of the Directors

AUDITORS

For the past three years, Messrs. Ernst & Young acted as auditors of the Company for the financial year ended 30 November 2003 and Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company for the financial period ended 31 December 2004 and the financial year ended 31 December 2005. Messrs. KPMG has been appointed as auditors of the Company since the financial year ended 31 December 2006.

Messrs. KPMG will retire at the forthcoming annual general meeting and a resolution for the reappointment of Messrs. KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Or Wai Sheun

Chairman

Hong Kong

15 March 2007

Independent Auditor's Report



Independent Auditor's Report to the Shareholders of Polytec Asset Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Polytec Asset Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 31 to 83, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
TURNOVER	5	560,831	196,827
Cost of sales		(434,411)	(111,864)
Gross profit		126,420	84,963
Other operating income	5	61,036	11,091
Selling and distribution costs		(5,402)	(6,014)
Administrative expenses		(15,694)	(9,527)
Other operating expenses		(24,533)	(25,211)
PROFIT FROM OPERATIONS	6	141,827	55,302
Change in fair value of investment properties		—	105,047
Share of results of jointly controlled entities		4,433	332,826
Provision for loan advanced to a jointly controlled entity written back		—	18,500
Finance costs	8	(81,188)	(3,437)
PROFIT BEFORE TAX		65,072	508,238
Income tax expenses	9	(16,914)	(19,100)
PROFIT FOR THE YEAR		48,158	489,138
ATTRIBUTABLE TO:			
Equity holders of the Company		29,792	477,414
Minority interests		18,366	11,724
		48,158	489,138
EARNINGS PER SHARE	11		
— Basic		1.04 cents	38.97 cents
— Diluted		0.99 cent	33.84 cents
DIVIDEND PER SHARE	12(a)	1.00 cent	2.00 cents

The notes on pages 37 to 83 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	38,961	37,755
Prepaid lease payments	14	111,397	114,217
Investment properties	15	150,000	150,000
Interests in jointly controlled entities	16	398,939	394,506
Interests in property development	17	9,490,063	—
Goodwill	18	16,994	16,994
		10,206,354	713,472
CURRENT ASSETS			
Amounts due from jointly controlled entities	19	256,616	247,192
Held for trading investments	20	239,362	46,501
Held-to-maturity debt security	21	—	7,749
Derivative financial instruments	22	4,573	1,399
Inventories	23	282,083	248,268
Tax recoverable		475	624
Trade and other receivables	24	25,119	14,562
Prepaid lease payments	14	2,820	2,820
Margin deposits		65,994	—
Cash and cash equivalents	25	213,955	75,714
		1,090,997	644,829
CURRENT LIABILITIES			
Other payables	26	322,265	33,667
Derivative financial instruments	22	774	742
Bank loans — current portion	27	18,000	15,050
Current taxation		24,765	9,068
Amounts due to minority shareholders	33(ii)	25,082	31,924
		390,886	90,451
NET CURRENT ASSETS		700,111	554,378
TOTAL ASSETS LESS CURRENT LIABILITIES		10,906,465	1,267,850
NON-CURRENT LIABILITIES			
Bank loans — non-current portion	27	54,700	72,700
Loan from ultimate holding company	33(v)	10,477	—
Amount due to ultimate holding company	33(vi)	3,026,231	—
Deferred taxation	28	47,492	47,605
		3,138,900	120,305
NET ASSETS		7,767,565	1,147,545

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
CAPITAL AND RESERVES			
Share capital	29	431,643	126,685
Reserves		7,278,320	968,408
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
		7,709,963	1,095,093
MINORITY INTERESTS			
		57,602	52,452
TOTAL EQUITY			
		7,767,565	1,147,545

The financial statements were approved and authorised for issue by the board of directors on 15 March 2007.

Or Wai Sheun
Director

Yeung Kwok Kwong
Director

The notes on pages 37 to 83 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company					Minority interests	Total equity
	Share capital	Share premium account	Fair value reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	125,833	396,215	—	92,973	615,021	40,728	655,749
Profit and total recognised income for the year	—	—	—	477,414	477,414	11,724	489,138
Paid up and conversion into ordinary shares of convertible preference shares	852	1,806	—	—	2,658	—	2,658
At 31 December 2005 and 1 January 2006	126,685	398,021	—	570,387	1,095,093	52,452	1,147,545
Gain on fair value changes of interests in property development and net income recognised directly in equity	—	—	1,042,063	—	1,042,063	—	1,042,063
Profit for the year	—	—	—	29,792	29,792	18,366	48,158
Total recognised income for the year	—	—	1,042,063	29,792	1,071,855	18,366	1,090,221
Proceeds from issue of ordinary shares under share placement	281,141	5,285,455	—	—	5,566,596	—	5,566,596
Expenses for issue of ordinary shares under share placement	—	(44,044)	—	—	(44,044)	—	(44,044)
Proceeds from issue of ordinary shares under the exercise of subscription rights attached to warrants	1	13	—	—	14	—	14
Expenses for issue of warrants	—	(38)	—	—	(38)	—	(38)
Paid up and conversion into ordinary shares of convertible preference shares	23,816	42,849	—	—	66,665	—	66,665
Payment of dividends	—	—	—	(46,178)	(46,178)	(13,216)	(59,394)
At 31 December 2006	431,643	5,682,256	1,042,063	554,001	7,709,963	57,602	7,767,565

The notes on pages 37 to 83 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		65,072	508,238
Adjustments for:			
Change in fair value of investment properties		—	(105,047)
Share of results of jointly controlled entities		(4,433)	(332,826)
Provision for loan advanced to a jointly controlled entity written back		—	(18,500)
Loss on disposal of property, plant and equipment		—	1
Dividend income from listed securities		(2,897)	(1,538)
Interest income		(5,135)	(520)
(Gain)/loss arising from a change in fair value of held for trading investments		(40,554)	2,445
Gain arising from a change in fair value of derivative financial instruments, net		(3,142)	(1,203)
Depreciation		2,123	1,588
Amortisation of prepaid lease payments		2,820	2,820
Finance costs		81,188	3,437
Operating cash flow before working capital changes		95,042	58,895
Increase in amount due from a jointly controlled entity		(240)	(240)
(Increase)/decrease in held for trading investments		(152,307)	26,617
Decrease/(increase) in held-to-maturity debt security		7,749	(7,749)
(Increase)/decrease in inventories		(33,815)	7,245
Increase in trade and other receivables		(10,557)	(6,249)
Increase in margin deposits		(65,994)	—
Increase in other payables		282,282	15,016
Decrease in amount due to a related company		—	(2,878)
Cash generated from operations		122,160	90,657
Interest received		5,135	1,066
Interest paid		(5,490)	(2,803)
Dividends received from listed securities		2,897	1,538
Tax paid		(1,805)	(1,123)
Tax refunded		624	—
Net cash generated from operating activities		123,521	89,335

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(3,329)	(4,678)
Acquisition of a subsidiary	32(a)	(3,295,510)	—
Advances to jointly controlled entities		(9,184)	(11,373)
Repayment of advances from jointly controlled entities		—	18,500
Net cash (used in)/generated from investing activities		(3,308,023)	2,449
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of capital for cash, net of related expenses	32(b)	3,395,153	2,658
Loans advanced from intermediate holding company		233,000	—
Repayments of loans to intermediate holding company		(233,000)	—
Loans advanced from ultimate holding company		146,000	—
Repayments of loans to ultimate holding company		(136,321)	—
Repayments of bank loans		(15,050)	(12,050)
Loans advanced from minority shareholders		9,125	—
Repayments of loans to minority shareholders		(29,986)	(15,951)
Dividend paid to equity holders of the Company		(46,178)	—
Net cash generated from/(used in) financing activities		3,322,743	(25,343)
NET INCREASE IN CASH AND CASH EQUIVALENTS		138,241	66,441
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		75,714	9,273
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		213,955	75,714

The notes on pages 37 to 83 form part of these financial statements.

Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

The Company is incorporated in the Cayman Islands with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at the balance sheet date, the parent of the Company (the "Immediate Holding Company") is Marble King International Limited, a company incorporated in the British Virgin Islands, and the ultimate holding company of the Company (the "Ultimate Holding Company") is Polytec Holdings International Limited, a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the page 2 of the annual report.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's subsidiaries are investment holding, properties investment, development and trading, securities investment and trading and manufacturing of ice and provision of cold storage service. There were no significant changes in the nature of the Group's principal activities during the year.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out in note 3.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 36.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The adoption of these new and revised HKFRSs has not resulted in any significant impact on the Group's operations results for the year and financial position as at 31 December 2006.

Notes to Financial Statements

31 December 2006

2. BASIS OF PREPARATION (Continued)

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

The Group has not early adopted the following new or revised HKFRSs, which are not yet effective, in the financial statements for the year ended 31 December 2006. The Group anticipates that the application of these HKFRSs will have no material impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions ⁶

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December, together with the Group's share of the results for the year and net assets of its jointly controlled entities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All intercompany transactions and balances within the Group are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Subsidiary are entities controlled by the Group. Control exists when the Group has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Goodwill

Goodwill is stated at cost less accumulated impairment losses.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill was capitalised and amortised on a straight-line basis over its useful economic life at a rate of 5% per annum up to 31 December 2004. The Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Joint ventures

A joint venture is a contractual arrangement, whereby the Group and other parties undertake an economic activity in which the Group and the other parties control, directly or indirectly, the financial and operating policies of such economic activity so as to obtain benefits from its activities.

Jointly controlled assets

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of the jointly controlled assets and share of any liabilities incurred jointly with other venturers are recognised in the consolidated financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities. The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting unless a jointly controlled entity is classified as held for sale. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity. When the Group transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over its estimated useful life.

Buildings situated on leasehold land	over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of acquisition/completion
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4 to 5 years

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of a property, plant and equipment included in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

Leasing

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

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

Impairment of assets other than goodwill and financial instruments

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior periods may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates of the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances, loan to a jointly controlled entity and amounts due from jointly controlled entities) are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Financial assets which do not fall into any of the above categories are classified as available-for-sale financial assets and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

For available-for-sale equity financial assets, an impairment loss is not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

For available-for-sale debt financial assets, reversal of an impairment loss is recognised in the income statement.

Financial liabilities and equity

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

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Equity instruments

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

Other financial liabilities

Financial liabilities other than financial liabilities at fair value through profit or loss including bank loans, amounts due to minority shareholders, other payables and balances with group companies and are subsequently measured at amortised cost, using the effective interest rate method.

Derivatives

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in the income statement.

Interests in property development

Interests in property development are stated at fair value. Changes in fair value are recognised in the fair value reserve, unless there is objective evidence that the interests in property development have been impaired, any amount held in fair value reserve in respect of the interests in property development are transferred to profit or loss for the period in which the impairment is identified. The fair value of interests in property development is determined based on the estimated entitlement on the interests in property development. When the interests in property development are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Inventories

Properties held for sale and under development for sale are stated at the lower of cost and net realisable value. Net realisable value of properties held for sale represents the estimated selling price less costs to be incurred in selling the properties. Net realizable value of properties held under development for sale represents the estimated selling price less costs to be incurred in development and selling of the properties.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liabilities is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised in equity.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions or has joint control over the Group; the Group and the party are subject to common control; the party is an associated company of the Group or a joint venture in which the Group is a venturer. Related parties may be individuals or other entities.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Unallocated items mainly comprise financial and corporate assets, loans, borrowings, corporate and financing expenses.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. Payments to MPF Scheme are charged as an expense as they fall due.

Notes to Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

- 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 continuous managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- from the sale of completed properties, upon the execution of a binding sale agreement;
- from the sale of development properties sold in advance of completion, upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities;
- income from interests in property development, when the distribution in respect of the investment is entitled;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- consultancy service fee income, when the services are rendered and are billable;
- from the sale of investments, on a trade date basis or on the date on which the relevant sales contracts become or are deemed unconditional, where appropriate;
- service income, when service is rendered to the customers;
- dividends, when the shareholders' right to receive payment has been established; and
- rental income, on straight-line basis over the lease term.

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment. The Group had three business segments for the year which included properties investment, trading and development related activities ("Properties"), manufacturing of ice and provision of cold storage and related services ("Ice and Cold Storage") and financial investment and other miscellaneous activities ("Investment and others"). As over 90% of the Group's revenue, results, assets and liabilities were derived from operations in the People's Republic of China, including Hong Kong and Macau, further segment information has not been disclosed in respect of the Group's geographical segments.

Business segments

	For the year ended 31 December 2006			Consolidated HK\$'000
	Properties HK\$'000	Ice and Cold Storage HK\$'000	Investments and Others HK\$'000	
Turnover	158,991	47,578	354,262	560,831
Segment result	52,175	13,621	83,984	149,780
Unallocated group expenses				(7,953)
Profit from operations				141,827
Share of results of jointly controlled entities	4,433			4,433
Finance costs				(81,188)
Profit before tax				65,072
Income tax expenses				(16,914)
Profit for the year				48,158
Depreciation and amortisation	2	4,916	—	4,943
Capital expenditure incurred	—	3,259	—	3,329
Gain arising from a change in fair value of held for trading investments	—	—	40,554	40,554

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	At 31 December 2006			
	Properties	Ice and Cold Storage	Investments and Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	9,936,166	175,291	300,124	10,411,581
Interests in and amounts due from jointly controlled entities	655,555			655,555
Unallocated group assets				230,215
				11,297,351
Segment liabilities	298,078	2,985	20,029	321,092
Unallocated group liabilities				3,208,694
				3,529,786

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	For the year ended 31 December 2005			
	Properties	Ice and Cold Storage	Investments and Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	55,127	44,973	96,727	196,827
Segment result	40,135	12,754	6,904	59,793
Unallocated group expenses				(4,491)
Profit from operations				55,302
Change in fair value of investment properties	105,047			105,047
Share of results of jointly controlled entities	332,826			332,826
Provision for loan advanced to a jointly controlled entity written back				18,500
Finance costs				(3,437)
Profit before tax				508,238
Income tax expenses				(19,100)
Profit for the year				489,138
Depreciation and amortisation	2	4,388	—	4,408
Capital expenditure incurred	—	4,678	—	4,678
Loss arising from a change in fair value of held for trading investments	—	—	2,445	2,445

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	At 31 December 2005			
	Properties	Ice and Cold Storage	Investments and Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	401,424	176,641	61,723	639,788
Interests in and amounts due from jointly controlled entities	641,698			641,698
Unallocated group assets				76,815
				1,358,301
Segment liabilities	28,089	3,821	1,109	33,019
Unallocated group liabilities				177,737
				210,756

Notes to Financial Statements

31 December 2006

5. TURNOVER AND OTHER OPERATING INCOME

An analysis of the Group's turnover, and other operating income is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Sale of goods	28,862	27,768
Sale of properties	158,991	55,127
Service income	18,716	17,205
Proceeds from sale of trading securities	354,262	96,727
	560,831	196,827
Other operating income		
Rental income	8,108	6,273
Dividend income from listed securities	2,897	1,538
Consultancy service fee income	240	240
Interest income from held-to-maturity debt security	51	88
Bank and other interest income	5,084	432
Gain arising from a change in fair value of held for trading investments	40,554	—
Gain arising from a change in fair value of derivative financial instruments, net	3,142	1,203
Others	960	1,317
	61,036	11,091

Notes to Financial Statements

31 December 2006

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	2006	2005
	HK\$'000	HK\$'000
Staff costs (excluding directors' remuneration):		
Wages and salaries	12,404	11,820
Contributions to retirement benefit scheme	521	498
	12,925	12,318
Depreciation of property, plant and equipment	2,123	1,588
Amortisation of prepaid lease payments	2,820	2,820
Minimum lease payments under operating leases in respect of land and buildings	1,302	1,017
Auditors' remuneration	790	948
Cost of inventories recognised as expenses	108,890	15,398
Exchange loss/(gain)	85	(29)
Loss on disposal of property, plant and equipment	—	1
Direct operating expenses arising from investment properties that did not generate rental income	338	363
Share of tax of a jointly controlled entity (included in share of results of jointly controlled entities)	1,886	67,276
Loss arising from a change in fair value of held for trading investments	—	2,445

Notes to Financial Statements

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7. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2006

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance bonuses HK\$'000	Contributions to retirement benefit scheme HK\$'000	Total HK\$'000
Mr. Or Wai Sheun	—	—	—	—	—
Mr. Yeung Kwok Kwong	—	1,800	336	153	2,289
Mr. Lam Chi Chung, Tommy	—	1,335	420	12	1,767
Ms. Chio Koc leng	—	670	400	—	1,070
Ms. Wong Yuk Ching	120	—	—	—	120
Mr. Lai Ka Fai	120	—	—	—	120
Mr. Anthony Francis Martin Conway	120	—	—	—	120
Mr. Siu Leung Yau	120	—	—	—	120
Mr. Liu Kwong Sang	120	—	—	—	120
	600	3,805	1,156	165	5,726

Year ended 31 December 2005

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance bonuses HK\$'000	Contributions to retirement benefit scheme HK\$'000	Total HK\$'000
Mr. Yeung Kwok Kwong	—	1,800	—	150	1,950
Mr. Lam Chi Chung, Tommy	—	318	—	3	321
Ms. Wong Yuk Ching	60	—	—	—	60
Mr. Lai Ka Fai	60	—	—	—	60
Mr. Anthony Francis Martin Conway	60	—	—	—	60
Mr. Siu Leung Yau	60	—	—	—	60
Mr. Liu Kwong Sang	60	—	—	—	60
	300	2,118	—	153	2,571

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7. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

(Continued)

The five highest paid individuals during the year ended 31 December 2006 included three (2005: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2005: four) non-director highest paid individuals are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	1,339	2,118
Performance bonuses	320	299
Provident fund contributions	24	48
	1,683	2,465

The remuneration of each of the remaining two (2005: four) non-director highest paid individuals fell within the nil — HK\$1,000,000 band for the current and the prior year.

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest expense on:		
Bank and other borrowings wholly repayable within five years	3,743	2,803
Advance from a minority shareholder with no fixed repayment terms	803	634
Loan from ultimate holding company with no fixed repayment terms	798	—
Amount due to an intermediate holding company with no fixed repayment terms	1,747	—
Amount due to ultimate holding company with no fixed repayment terms	74,097	—
	81,188	3,437

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9. INCOME TAX EXPENSES

	2006 HK\$'000	2005 HK\$'000
Current tax		
— Hong Kong Profits Tax	13,808	611
— Overseas income tax	3,219	4,491
	17,027	5,102
Deferred tax		
— Current year	(113)	17,944
— Attributable to a change in tax rate	—	(3,946)
	(113)	13,998
	16,914	19,100

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Overseas taxation has been provided for at the applicable rates ruling in the respective jurisdiction.

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31 December 2006

9. INCOME TAX EXPENSES (Continued)

The charge for the year can be reconciled to the profit before tax per the income statement as follows:

	2006	2005
	HK\$'000	HK\$'000
Profit before tax	65,072	508,328
Tax charges at the average income tax rate	19,241	91,739
Tax effect of share of results of jointly controlled entities	(1,886)	(67,276)
Tax effect of expenses not deductible in determining taxable profit	466	401
Tax effect of income not taxable in determining taxable profit	(1,029)	(993)
Utilisation of tax losses previously not recognised	(163)	(1,330)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate in other jurisdiction	—	(3,946)
Others	285	505
Income tax expense for the year	16,914	19,100

The average income tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit before tax and the relevant statutory rates.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2006 dealt with in the financial statements of the Company was HK\$112,000 (2005: HK\$25,603,000).

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31 December 2006

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK\$'000	2005 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	29,792	477,414
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,867,286,349	1,224,965,169
Effect of dilutive potential ordinary shares:		
Convertible preference shares	148,532,342	185,760,905
Warrants	7,439,922	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,023,258,613	1,410,726,074

Notes to Financial Statements

31 December 2006

12. DIVIDENDS

- (a) Dividends payable to equity holders of the Company attributable to the year:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.005 per ordinary share (2005: Nil)	21,582	—
Final dividend proposed after the balance sheet date of HK\$0.005 per ordinary share (2005: HK\$0.02)	21,582	24,596
	43,164	24,596

The final dividend declared after the year end has not been recognised as a liability at 31 December.

- (b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.02 per ordinary share (2005: Nil)	24,596	—

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:					
At 1 January 2005	32,790	1,520	534	164	35,008
Additions	—	3,333	1,005	340	4,678
Written off	—	—	(24)	—	(24)
At 31 December 2005 and 1 January 2006	32,790	4,853	1,515	504	39,662
Additions	—	3,166	88	75	3,329
At 31 December 2006	32,790	8,019	1,603	579	42,991
Accumulated depreciation:					
At 1 January 2005	96	38	204	4	342
Depreciation provided during the year	769	540	190	89	1,588
Eliminated on written off	—	—	(23)	—	(23)
At 31 December 2005 and 1 January 2006	865	578	371	93	1,907
Depreciation provided during the year	769	964	287	103	2,123
At 31 December 2006	1,634	1,542	658	196	4,030
Carrying values:					
At 31 December 2006	31,156	6,477	945	383	38,961
At 31 December 2005	31,925	4,275	1,144	411	37,755

Notes to Financial Statements

31 December 2006

14. PREPAID LEASE PAYMENTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Prepaid lease payments in medium-term leasehold land in Hong Kong:		
Included in current asset	2,820	2,820
Included in non-current asset	111,397	114,217
	114,217	117,037

15. INVESTMENT PROPERTIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Fair value		
At beginning of the year	150,000	—
Transfer from properties held for sale	—	44,953
Increase in fair value recognised in the income statement	—	105,047
At end of the year	150,000	150,000

All investment properties of the Group are property interests including leasehold interest in land, held under medium-term operating leases outside Hong Kong for the purposes of earning rentals or capital appreciation and are measured using the fair value model.

All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its staff members of the Hong Kong Institute of Surveyors and has appropriate qualifications and experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties of Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

Notes to Financial Statements

31 December 2006

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Investment cost	12	12
Share of post acquisition profit	398,927	394,494
	398,939	394,506

Particulars of the jointly controlled entities at 31 December 2006 are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity interest attributable to the Group	Principal activities
Eastford Development Limited	Corporate	Hong Kong	48%	Property development and investment
South Bay Centre Company Limited	Corporate	Macau	50%	Property investment and trading

All of the above investments in jointly controlled entities are indirectly held by the Company.

The followings are the financial information for all of the Group's jointly controlled entities:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Income	41,519	2,897
Expenses	23,397	3,614
Profit for the year	8,854	665,638
Non-current assets	1,432,646	1,444,855
Current assets	44,462	789
Current liabilities	(513,534)	(489,054)
Non-current liabilities	(165,760)	(167,630)
Net assets	797,814	788,960

Notes to Financial Statements

31 December 2006

17. INTERESTS IN PROPERTY DEVELOPMENT

Interests in property development represent the Group's interests in the development of various properties in Macau under two co-investment agreements with two wholly owned subsidiaries of the Ultimate Holding Company respectively. The basis and estimations for arriving at the fair value of the interests in property development is further described in note 36.

18. GOODWILL

For the purposes of impairment testing, the goodwill has been allocated to an individual cash-generating unit (the "CGU") in the ice and cold storage segment. During the year ended 31 December 2006, management of the Group determines that there are no impairments of the CGU containing goodwill.

The recoverable amount of the CGU have been determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

19. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and repayable within one year. The carrying values approximate their fair values at 31 December 2006.

20. HELD FOR TRADING INVESTMENTS

	2006 HK\$'000	2005 HK\$'000
Equity securities held for trading		
— listed in Hong Kong	239,362	31,191
— listed outside Hong Kong	—	15,310
	239,362	46,501

The fair values of the above equity securities held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

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21. HELD-TO-MATURITY DEBT SECURITY

As at 31 December 2005, the amount of held-to-maturity debt security represents quoted treasury bill outside Hong Kong with fixed interest of 3.87% per annum and maturity date on 2 March 2006.

22. DERIVATIVES FINANCIAL INSTRUMENTS

	2006		2005	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Over-the-counter contingent forward transaction	4,573	774	1,399	—
Interest rate swap	—	—	—	742
	4,573	774	1,399	742

Over the counter contingent forward transaction

As at the balance sheet date, the Group has certain forward agreements to purchase certain listed equity securities at a fixed price over a 52-weeks period from the date of the agreements remaining outstanding. According to the agreements, the purchase commitments of the Group will be terminated when the market prices of the equity securities rises to pre-determined price level. As at the balance sheet date, the aggregated maximum purchase commitment of the Group under the agreements were HK\$783,250,000 (2005: HK\$48,521,000) of which HK\$598,874,000 (2005: HK\$45,666,000) will not be crystallised. For the commitments that will not be crystallised, the market price of the underlying equity securities has reached the pre-determined price level and the agreements were terminated subsequently after the balance sheet date.

Interest rate swap

As at 31 December 2005, the Group had a swap agreement which might be callable by the counter party of the swap agreement remaining outstanding. According to the swap agreement, the Group would pay an amount determined by the notional amount of US\$5,000,000 at an inter bank interest rate and receive an amount determined by the notional amount of US\$5,000,000 at a fixed interest rate. As at 31 December 2005, the remaining duration of the swap agreement was 9.7 years and the swap agreement was called by the counter party during the year ended 31 December 2006.

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

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23. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Properties held for sale	82,824	88,533
Properties under development for sale (Note)	199,259	159,735
	282,083	248,268

Note:

During the year ended 31 December 2005, the Group has entered into a joint venture agreement in the form of a jointly controlled asset to construct certain low-rise houses in Hong Kong. At 31 December 2006, the aggregate amount of assets recognised in the financial statements in relation to interests in jointly controlled assets is HK\$14,841,000 (2005: HK\$6,202,000).

The remaining balance of HK\$184,418,000 (2005: HK\$153,533,000) represented freehold land in overseas held for future development. The construction is expected to complete 12 months after the balance sheet date.

24. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Ageing analysis of trade receivables:		
Within 30 days	1,977	2,034
31 days to 60 days	1,675	898
61 days to 90 days	60	800
Over 90 days	—	157
Trade receivables	3,712	3,889
Other receivables	21,407	10,673
	25,119	14,562

The Group has established different credit policies for each of the Group's businesses and allows a credit period of not more than 90 days to its trade customers. The fair value of the Group's trade and other receivables at 31 December 2006 was approximate to the corresponding carrying amount.

Notes to Financial Statements

31 December 2006

25. CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents approximates their fair value at the balance sheet date.

26. OTHER PAYABLES

The Group's other payable of HK\$276,346,000 (2005: Nil) is expected to be settled after more than one year. The fair value of the Group's other payables at 31 December 2006 was approximate to the corresponding carrying amount.

27. BANK LOANS

The secured bank loans were repayable within 5 years from the date of the inception of the loans by monthly instalments and bearing interest as determined by a premium over the Hong Kong Interbank Offering Rates, which is equal to the effective interest rate, as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	18,000	15,050
In the second year	18,000	18,000
In the third to fifth years inclusive	36,700	54,700
	72,700	87,750
Less: Amounts repayable within one year shown under current liabilities	(18,000)	(15,050)
Amount due after one year	54,700	72,700

The fair value of the Group's bank loans as at 31 December 2006 was approximate to the corresponding carrying amount.

Notes to Financial Statements

31 December 2006

28. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current year and the prior year:

	Accelerated depreciation allowances <i>HK\$'000</i>	Revaluation of assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	2,897	30,710	33,607
Change in tax rate	—	(3,946)	(3,946)
Charge to income statement	563	17,381	17,944
At 31 December 2005 and 1 January 2006	3,460	44,145	47,605
Charge/(credit) to income statement	162	(275)	(113)
At 31 December 2006	3,622	43,870	47,492

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. At the balance sheet date, the Group has unrecognised tax losses of HK\$10,275,000 (2005: HK\$10,262,000) available for offset against future profits of which HK\$39,000 (2005: HK\$45,000) will be expired in 2008, HK\$363,000 (2005: HK\$379,000) will be expired in 2009 and HK\$338,000 (2005: Nil) will be expired in 2010 and the remaining losses may be carried forward indefinitely.

Notes to Financial Statements

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29. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.1 each	1,000,000	1,000,000
5,000,000,000 convertible preference shares of HK\$0.01 each	50,000	50,000
	1,050,000	1,050,000
Issued:		
4,316,425,295 (2005: 1,229,814,484) fully paid ordinary shares of HK\$0.1 each	431,643	122,982
At 31 December 2005: 3,703,590,076 partly paid convertible preference shares of HK\$0.01 each	—	3,703
	431,643	126,685

(a) Issue of capital

On 27 June 2005, the Immediate Holding Company, which is also the holder of all convertible preference shares of HK\$0.01 each ("CPS") of the Company in issue, contributed HK\$2,658,000 to the Company to pay up 147,709,924 10% partly paid CPS in full. On the same day, the Immediate Holding Company exercised the conversion right of CPS to convert 147,709,924 fully paid CPS into 10,000,000 fully paid ordinary shares ("Share(s)") of HK\$0.1 each of the Company.

In June 2006, the Company has issued 2,811,411,970 Shares at a subscription price of HK\$1.98 per Share ("PAH Subscription") by private arrangement. The proceeds from the subscription of HK\$5,566,596,000, before related expenses, was received by the Company.

On 15 August 2006, the Immediate Holding Company contributed HK\$66,665,000 to the Company to pay up 3,703,590,076 10% partly paid CPS in full. On the same day, the Immediate Holding Company exercised the conversion right of CPS to convert 3,703,590,076 fully paid CPS into 275,191,901 fully paid Shares.

During the period from 19 June 2006 to 31 December 2006, the Company has issued 6,940 Shares pursuant to the exercise of subscription rights attached to the warrants issued by the Company as mentioned in note 30.

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31 December 2006

29. SHARE CAPITAL (Continued)

(b) CPS

In 2001, 4,000,000,000 CPS were issued partly paid as to 10% of the subscription price of HK\$0.02 per share pursuant to the subscription agreement entered into with the Immediate Holding Company and were subscribed by the Immediate Holding Company. There is no time restriction for the unpaid amount of HK\$72,000,000 of the CPS to be fully paid up. The Company has no right to make calls with respect to amounts unpaid on any partly paid CPS.

The holder may convert fully paid CPS into new ordinary shares of the Company during the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time at the rate of one ordinary share of HK\$0.01 each for every one fully paid convertible preference share (subject to adjustment).

During the period from 1 December 2003 to 31 December 2004, the Company consolidated every 20 ordinary shares in issue into one ordinary share in issue and effected a rights issue which constituted events giving rise to adjustments to the conversion rate of the outstanding CPS. Accordingly, the conversion rate of the outstanding CPS was adjusted to 14.771 fully paid CPS for one Share.

During the year, the PAH Subscription constituted events giving rise to adjustments to the conversion rate of the outstanding CPS. Accordingly, the conversion rate of the outstanding CPS was further adjusted to 13.4582 fully paid CPS for one Share.

During the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time, the holder of the CPS, whether partly paid or fully paid, may require the Company to redeem, to the extent that conversion has not been elected by the holder of the CPS, the outstanding CPS for the amount paid up. The holder of the CPS has waived its redemption right attached to the CPS. The Company does not have the right to redeem the CPS.

If the CPS are still in issue after five years commencing on 14 September 2001, the holders of the CPS will automatically forfeit all of their redemption/conversion rights under the CPS and the CPS will become preference shares without carrying any conversion or redemption features thereafter. Any paid-up capital of the CPS will continue to be retained in the accounts of the Company.

Any CPS which have been fully paid up will rank *pari passu* for dividends with the ordinary shares from time to time in issue. Partly paid CPS are not entitled to any dividends.

The holders of the CPS are entitled to receive notices of general meetings, but not to attend or vote.

Notes to Financial Statements

31 December 2006

29. SHARE CAPITAL (Continued)

(c) Share premium

The application of the share premium account is governed by Section 34 of the Cayman Islands Companies Law.

A summary of the movements in issued capital of the Company is as follows:

(i) Shares

	Number of Shares	Amount HK\$'000
At 1 January 2005	1,219,814,484	121,982
Conversion of CPS	10,000,000	1,000
At 31 December 2005 and 1 January 2006	1,229,814,484	122,982
Conversion of CPS	275,191,901	27,519
Exercise of subscription rights attached to warrants	6,940	1
PAH Subscription	2,811,411,970	281,141
At 31 December 2006	4,316,425,295	431,643

(ii) CPS

	Number of CPS partly paid	Number of CPS fully paid	Amount HK\$'000
At 1 January 2005	3,851,300,000	—	3,851
Fully paid up of the CPS	(147,709,924)	147,709,924	1,329
Conversion into Shares	—	(147,709,924)	(1,477)
At 31 December 2005 and 1 January 2006	3,703,590,076	—	3,703
Fully paid up of the CPS	(3,703,590,076)	3,703,590,076	33,332
Conversion into Shares	—	(3,703,590,076)	(37,035)
At 31 December 2006	—	—	—

Notes to Financial Statements

31 December 2006

30. WARRANTS

During the year ended 31 December 2006, the Company had a bonus issue of 122,981,448 units of warrants in the Company to the holders of Shares of the Company whose names appeared on the register of members of the Company on 12 June 2006 on the basis of one unit of warrants for every ten Shares then held by such shareholders. Each unit of warrants entitles the holders thereof to subscribe in cash for one new Share at HK\$1.98 per Share (subject to adjustment). The warrants are exercisable at any time between 19 June 2006 and 18 June 2007, both days inclusive.

A summary of the movements in warrants issued by the Company is as follows:

	Number of warrants
Issued during the year	122,981,448
Exercised during the year	(6,940)
Outstanding at the end of the year	122,974,508

31. SHARE OPTIONS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the share option scheme adopted by the Company on 9 January 2004, eligible participants include any employees (including full-time and part-time employee), directors (including executive, non-executive and independent non-executive director), suppliers of goods and services, customers, business partners or business associates of the Group, consultant or adviser providing consultancy or advisory services in relation to the businesses, trading agents or holders of any securities issued by any member of the Group or any entity in which the Group holds an equity interest. The share option scheme became effective on 9 January 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the share option scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the share option scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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31. SHARE OPTIONS (Continued)

Under the share option scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the share option scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences from the date the grantee accepts the share options and ends on the expiry date of the share option scheme.

The exercise price of the share options granted under the share option scheme is determinable by the directors, but may not be less than the highest of (i) closing price of the Company's shares on the Stock Exchange on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There was no share option granted under the share option scheme during the current and prior periods or remain outstanding as at 31 December 2006.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2006 HK\$'000	2005 HK\$'000
Net assets acquired:		
Interests in property development	8,448,000	—
Satisfied by:		
Cash	3,295,510	—
Amount due to ultimate holding company	5,152,490	—
	8,448,000	—

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of a subsidiary *(Continued)*

The subsidiary acquired during the year did not have any significant turnover and profit for the year. If the acquisition had occurred on 1 January 2006, the subsidiary's turnover and profit contributed to the Group would not be significantly different to that reported above.

(b) Major non-cash transactions

During the year, 1,108,101,010 Shares were issued and allotted to the Immediate Holding Company to set-off against the amount due to ultimate holding company of HK\$2,194,040,000.

33. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2005 and 2006, the Group had the following transactions with related parties:

- (i) During the year, the Group received consultancy service fee income of HK\$240,000 (2005: HK\$240,000) from a jointly controlled entity. The consultancy service fee income was charged on a monthly basis of HK\$20,000 as agreed by both parties.
- (ii) The amounts due to minority shareholders of subsidiaries were unsecured and with no fixed repayment terms, of which HK\$18,700,000 (2005: HK\$12,489,000) was bearing interest at prevailing market rate and HK\$6,382,000 (2005: HK\$19,435,000) was interest free. During the year, interest of HK\$803,000 (2005: HK\$634,000) was payable to such minority shareholders.
- (iii) During the year, the Group paid rental expenses and building management fees amounting to HK\$924,000 (2005: HK\$669,000) in aggregate to an intermediate holding company for the leasing of an administrative office in Hong Kong.
- (iv) As at 31 December 2006, a director of the Company granted a guarantee to a bank to secure the liabilities of the Group to the extent of HK\$42,718,000 (2005: HK\$22,000,000).
- (v) The loan from ultimate holding company was unsecured, interest bearing at prevailing market rate and with no fixed repayment terms. During the year, interest of HK\$798,000 (2005: Nil) was payable to the Ultimate Holding Company.

Notes to Financial Statements

31 December 2006

33. RELATED PARTY TRANSACTIONS (Continued)

- (vi) On 8 April 2006, a wholly owned subsidiary of the Company, Profit Sphere International Limited entered into a sale and purchase agreement (the "Agreement") with the Ultimate Holding Company for the acquisition of the entire interests in New Bedford Properties Limited in turn to acquire 80% interest in three property projects located at Lotes P, V, T and T1, Novos Aterros da Areia Preta, Macau for the consideration of HK\$8,448,000,000. Pursuant to the Agreement, a deposit of HK\$200 million was paid by the Group upon the signing of the Agreement and the Group may, at the Group's discretion, settle the outstanding balance (i) at completion of the Agreement (the "Completion") or (ii) within one year from the Completion. The Group has the right to extend the time for the settlement of the outstanding balance to within three years from the Completion. In case where the Company is unable to raise sufficient funds to finance the acquisition within three years from the Completion, the Group has the right to further extend the settlement of the outstanding balance for an unlimited period until such time the liquidity position of the Company permits the settlement. The completion took place on 15 June 2006. The amount due to the Ultimate Holding Company was unsecured and bearing interest at the Hong Kong Interbank Offering Rate plus 0.5% per annum. During the year, interest of HK\$74,097,000 (2005: Nil) was payable to the Ultimate Holding Company. Outstanding balance due to the Ultimate Holding Company for the acquisition together with accrued interest was \$3,026,231,000 as at 31 December 2006 (2005: Nil).
- (vii) On 5 May 2006, the Company entered into a subscription agreement with Kowloon Development Company Limited, an intermediate holding company of the Company, for the subscription of 1,598,000,000 Shares at a subscription price of HK\$1.98 each, totalling HK\$3,164,040,000, by the Immediate Holding Company. The subscription was completed in June 2006. Details of the subscription was set out in the circular of the Company date 23 May 2006.
- (viii) During the year, interest of HK\$1,747,000 (2005: Nil) was paid to an intermediate holding company.
- (ix) During April and May 2006, Hantec Securities Company Limited, a company controlled by Mr. Or Wai Sheun, a director of the Company, acted as an arranger for the subscription of 583,311,867 Shares under the PAH Subscription and received an arranger's fee of HK\$20,212,000, being 1.75% of the gross proceeds received from the issue of 583,311,867 Shares.
- (x) On 19 June 2006, the Company had a bonus issue of 122,981,448 units of warrants of which 69,897,537 units of warrants were issued to the Immediate Holding Company. Details of the bonus issue is set out in note 30.

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34. OPERATING LEASE ARRANGEMENTS

As Lessee

The Group leases certain of its office properties, vehicle parking spaces and factory premises under operating lease arrangements. Leases for properties are negotiated for terms from three months to two years.

As at 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	735	209
In the second to fifth years inclusive	122	—
	857	209

As Lessor

The Group leases certain of its inventories under operating lease arrangements with lease terms for less than three years. As at 31 December 2006, total future minimum lease receivables under non-cancellable operating leases are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	4,299	4,038
In the second to fifth years inclusive	583	3,330
	4,882	7,368

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31 December 2006

35. PLEDGE OF ASSETS

As at 31 December 2006, certain assets of the Group were pledged to secure credit facilities granted to the Group, as follows:

- (a) legal charge over all of the Group's medium term leasehold land with an aggregate net book value of HK\$114,217,000 (2005: HK\$117,037,000);
- (b) legal charge over all of the Group's buildings with an aggregate net book value of HK\$31,156,000 (2005: HK\$31,925,000);
- (c) floating charge over all short term investments of the Group of HK\$239,362,000 (2005: HK\$54,184,000);
- (d) floating charge over all interest in derivative financial instruments of the Group of HK\$4,573,000 (2005: HK\$1,399,000);
- (e) floating charge over certain receivables of the Group of HK\$10,324,000 (2005: HK\$10,770,000);
- (f) floating charge over all of the Group's margin deposits of HK\$65,994,000 (2005: Nil); and
- (g) floating charge over certain cash and cash equivalents of the Group of HK\$145,870,000 (2005: HK\$12,406,000).

36. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's carrying value of plant and equipment as at 31 December 2006 was HK\$7,805,000. The Group depreciates the plant and equipment on a straight line basis over the estimated useful life of 4 to 10 years, and after taking into account of their estimated residual value, using the straight-line method commencing from the date the plant and equipment is placed into intended use. The estimated useful life and dates that the Group places the plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

Notes to Financial Statements

31 December 2006

36. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2006, the carrying amount of goodwill was HK\$16,994,000. Details of the recoverable amount calculation are disclosed in note 18.

Interests in property development

Interests in property development are stated at their fair value at the balance sheet date. As at 31 December 2006, the carrying amount of interests in property development was HK\$9,490,063,000. In determining the fair value of interests in property development, the Group estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate in order to calculate the present value. Cash flow projections for the interests in property development are based on the past performance, current market conditions and management's expectations for the market development and terms provided under the co-investment agreements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to interest rate, price and credit risks arisen in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by financial policies and practices undertaken by the Group.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and intercompany borrowings. The interest rate and terms of repayment of borrowings of the Group are disclosed in notes 27, 33(ii), 33(v) and 33(vi) respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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31 December 2006

38. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2006 are as follow:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
City Power Services Limited	British Virgin Islands	US\$1	100%	Inactive
Newcott Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	100%	Investment holding
Power Charm International Limited	British Virgin Islands	US\$1	100%	Investment holding
Sinocharm Trading Limited	British Virgin Islands	US\$1	100%	Investment holding
Indirectly held:				
Acestart Investments Limited	British Virgin Islands/Macau	US\$1	70.5%	Property trading and investment
Century Leader Profits Limited	British Virgin Islands/the PRC	US\$100	91%	Property trading and investment
Genius Star Investments Limited	British Virgin Islands/Macau	US\$1	100%	Financial investment

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31 December 2006

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: (Continued)				
Glentech International Company Limited	Hong Kong	HK\$2	100%	Provision of consultancy services
Hin Rich International Limited	British Virgin Islands/Macau	US\$1	58%	Financial investment
Imperial Profit Investment Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	58%	Property investment and development
Marvel Talent Corporation	British Virgin Islands	US\$200	100%	Inactive
New Bedford Properties Limited *	British Virgin Islands	US\$1	100%	Investment holding
New Cosmos Holdings Limited	British Virgin Islands	US\$100	58%	Investment holding
Noble Gainer Limited	Hong Kong	HK\$2	100%	Inactive
Power Giant Limited	British Virgin Islands/Macau	US\$1	100%	Property trading and investment

Notes to Financial Statements

31 December 2006

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: (Continued)				
Profit Sphere International Limited	British Virgin Islands	US\$1	100%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	HK\$2	100%	Property investment and development
Success Ever Limited	British Virgin Islands	US\$1	100%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	HK\$500,000	100%	Ice manufacturing and provision of cold storage
Think Bright Limited	British Virgin Islands/Macau	US\$200	70.5%	Property trading and investment
Top Vision Assets Limited	British Virgin Islands	US\$1	100%	Investment holding

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

* The equity interests in the subsidiary was acquired on 15 June 2006.

Particulars of Properties

31 December 2006

Property	Purpose	Gross floor area	Group interest (%)	Stage of completion	Expected completion date
Properties held for development for sale of the Group:					
Pacifica Garden, Lots TN25b and TN26d near Estrada Coronel Nicolau de Mesquita, Taipa, Macau	Residential/ Commercial	35,900.00 square metres	58	Foundation completed	2008
Lots nos. 3753G, 3753H, 3753J, 3753K, 3753L, 3753M, 3753N, 3779C, 3779D, 3780B, 3781A, 3781B, 3781C, 3782A, and 3782RP in Demarcation District No. 124, Tuen Mun, New Territories Hong Kong	Residential	2,870.70 square metres	60	Superstructure completed	2007
Villa de Mer Lote V at Novos Aterros da Areia Preta, Macau*	Residential/ Commercial	126,394.00 square metres	80	Foundation to be commenced not later than April 2007	2009/ 2010
Lotes P and T & T1 at Novos Aterros da Areia Preta, Macau*	Residential/ Commercial	851,957.00 square metres	80	Construction not yet commenced	From 2010 to 2013

* The development of these properties is under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company of the Company.

Particulars of Properties

31 December 2006

Property	Purpose	Gross floor area	Group interest (%)	Stage of completion	Expected completion date
Major properties held for development for sale of the jointly controlled entities:					
Lots no. 725 in Demarcation District no. 171 and Lot No. 67 in Demarcation District no. 175, Kau To Shan, Shatin, New Territories, Hong Kong	Residential	1,122.26 square metres	48	Superstructure completed	2007
Properties held for sale of the Group:					
96 shop units, 29 office units and 176 carparking spaces in China Plaza at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau	Commercial	11,273.04 square metres and 176 carparking spaces	70.5	Completed	N/A

Particulars of Properties

31 December 2006

Property	Purpose	Gross floor area	Group interest (%)	Category of lease
Investment properties of the Group:				
38 shop units and 14 carparking spaces of Va long at Praca da Amizade Nos. 6-52, Avenida do Infante D. Henrique Nos. 25-31 and Avenida Doutor Mario Soares Nos. 227-259, Macau	Commercial	1,887.31 square metres and 14 carparking spaces	100	Medium term lease
Investment properties of the jointly controlled entities:				
208 shop units, 208 office units and 265 carparking spaces of The Macau Square, Rua do Dr. Pedro Jose Lobo No.2-16A, Avenida do Infante D. Henrique No. 43-53A and Avenida Doutor Mario Soares No. 81-113, Macau	Commercial	36,553.05 square metres and 265 carparking spaces	50	Medium term lease