



Polytec Asset Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 208)

POLYTEC ASSET

Interim Report

2006

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Chairman's Statement

Business Review

The Group recorded a turnover and profit from operations of HK\$234.0 million and HK\$41.3 million respectively for the interim period ended 30 June 2006. The results reflect a significant increase of 144% and 72% compared with the interim period ended 30 June 2005. Despite these improvements, the profit attributable to equity holders of the Company of HK\$26.7 million for the first half of 2006 has shown a significant decrease from HK\$438.8 million for the first half 2005 mainly due to the absence of net property revaluation gain of HK\$404.0 million and a gain of a recovered loan of HK\$18.5 million recorded in the 2005 interim period. Excluding property revaluation gains and a one-time recovered loan posted in the first half of 2005, underlying profit attributable to equity holders of the Company for 2006 would have risen 60% over the same period last year.

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 situated at Novos Aterros da Areia Preta, Macau. 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 divided into different phases and the first phase is ready to commence work in the last quarter of this year.

In relation to this acquisition, the Company raised funds by issuing a total of 2,811,411,970 new shares at HK\$1.98 per share to the parent company as well as reputable international institutional investors. The Company also proposed a bonus warrant issue to the existing shareholders to increase their shareholding in the Company which would be diluted as a result of the above share placement exercise. All the above was approved by the independent shareholders at an extraordinary general meeting on 12 June 2006 and duly completed by 30 June 2006.

Property Investment

Since the completion of 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 total retail spaces covering gross floor area of approximately 8,400 square metres, the occupancy of the retail spaces has reached satisfactory levels with only limited space available. The renovation of the office portion, covering gross floor area of approximately 28,000 square metres, is progressing smoothly. We have received encouraging enquires from potential tenants. This property is already partly let and is contributing to the Group's profit.

The renovation work of Va long, a commercial building which is situated at Praca da Amizade, Macau with an aggregate gross floor area of 1,900 square metres, has been started and is expected to be completed in the next few months.

The Group is in the process to obtain strata title for its 70.5% owned office units at China Plaza situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau. We consider this strategy will increase the attractiveness of the property to potential buyers.

In January 2006, the Group entered into and concluded a sale and purchase agreement with a major financial institution in Hong Kong to acquire a 100% beneficial interest of a distressed property asset situated in the Guangdong Province in PRC. The Group was able to obtain a satisfactory return from disposal of the assets in June this year.

Property Development

The Group's 58% owned residential and commercial project in Taipa, Macau is now at the foundation work phase. The development, with an attributable gross floor area of approximately 35,900 square metres, comprises two buildings with a total of 294 residential units and a number of retail shops on the ground floor. The initial marketing of the property has been encouraging. Up to now, more than 50% of the residential units have been sold.

In Hong Kong, the Group has two small-scale joint-venture projects under development. The first one is a 60% owned joint-venture project, situated in Shun Fung Wai, Tuen Mun, comprising of 15 low-rise houses with an aggregate gross floor area of approximately 2,900 square metres. The second one is a 48% owned joint-venture project, located in Kau To Shan, Shatin, consisting of 6 low-rise houses with an aggregate gross floor area of approximately 1,200 square metres. The construction work of these projects is in the final stage and they are expected to be put on sale in 2007.

Ice and Cold Storage

Our ice manufacturing and cold storage business recorded an operating profit of HK\$5.0 million in the first six months of the year, an 80% increase from the same period last year. The increase is mainly due to the adoption of new marketing strategies.

Finance and Investment

Our investment activities recorded a small loss of HK\$0.2 million at the end of June 2006, mainly due to the effect of mark-to-market accounting policy.

Financial Review

As at 30 June 2006, the Group had liquid assets of HK\$136.1 million, which comprised cash and bank balances of HK\$120.1 million and other liquid assets of HK\$16.0 million. The Group's gearing ratio, expressed as a percentage of its bank borrowings over the equity attributable to equity holders of the Company at 30 June 2006 reduced to 1% from 8% at 31 December 2005. The bank borrowings of the Group as at 30 June 2006 are repayable over 5 years from the date of the inception of the loans by monthly instalments, denominated in Hong Kong dollars and bearing interest at the prevailing market rates.

To strengthen the capital base and to finance the acquisition of 80% investment interests in the properties of Lote P, Lote V, Lotes T and T1 situated at Novos Aterros da Areia Preta, Macau, and as previously mentioned, the Company issued 2,811,411,970 shares at a subscription price of HK\$1.98 per share through a share placement during the six months ended 30 June 2006. Net proceeds of HK\$5,522.5 million was received by the Company. The Company applied HK\$5,289.5 million of the net proceeds as a partial settlement of the acquisition, HK\$200.0 million for the settlement of a loan borrowed for the payment of deposit of the acquisition and HK\$33.0 million for the settlement of advances from an intermediate holding company.

The remaining balance of the acquisition of HK\$2,958.5 million is financed by a deferred settlement arrangement. Pursuant to the sale and purchase agreement, the Group has the right to extend the settlement of the remaining balance for an unlimited period until such time as the liquidity position of the Company permits the settlement. The remaining balance is unsecured and interest bearing with reference to bank lending rates. If we take into account this financial support from the ultimate holding company, the Group's gearing ratio was 46% as at 30 June 2006.

During the six months ended 30 June 2006, the Company made a bonus issue of 122,981,448 units of warrants in the Company to the shareholders 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. 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 right attached to the warrants.

As at 30 June 2006, certain assets of the Group with an aggregate net book value of approximately HK\$226.1 million were pledged to secure credit facilities granted to the Group.

Prospects

Our Macau property acquisition strategy is a transformational move for the Group to establish itself a major Macau property developer. With the continuous solid support from our ultimate holding company and benefits from its well recognised name and good standing in Macau, the Group is now in an excellent position to further capitalize on the growth potential of the Macau property market. At the same time, we will continue to actively explore other investment and business opportunities for the Group.

Finally, I would like to thank my fellow directors for their advice and support and all our staff for their hard work and dedication.

Or Wai Sheun

Chairman

Hong Kong, 6 September 2006

Unaudited Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
TURNOVER	2	233,996	95,808
Cost of sales		(169,226)	(47,468)
Gross profit		64,770	48,340
Other revenue and gains		7,108	4,347
Selling and distribution costs		(2,353)	(3,405)
Administrative expenses		(7,008)	(4,610)
Other operating expenses		(21,220)	(20,597)
PROFIT FROM OPERATIONS	2	41,297	24,075
Finance costs		(11,195)	(1,256)
Change in fair value on properties		—	105,047
Share of results of jointly controlled entities	3	3,273	316,485
Provision for loan advanced to a jointly controlled entity written back		—	18,500
PROFIT BEFORE TAX	4	33,375	462,851
Tax	5	(1,351)	(16,089)
PROFIT AFTER TAX		32,024	446,762
ATTRIBUTABLE TO:			
Equity holders of the Company		26,749	438,817
Minority interests		5,275	7,945
		32,024	446,762
EARNINGS PER SHARE	6		
— Basic		HK1.83 cents	HK35.97 cents
— Diluted		HK1.57 cents	HK31.24 cents
DIVIDEND PER SHARE	7	HK0.50 cent	Nil

Unaudited Consolidated Balance Sheet

		30 June 2006 HK\$'000	31 December 2005 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		36,840	37,755
Prepaid lease payments		112,807	114,217
Investment properties		150,000	150,000
Interests in jointly controlled entities		397,780	394,506
Interest in property development	8	8,448,000	—
Goodwill		16,994	16,994
		9,162,421	713,472
CURRENT ASSETS			
Amounts due from jointly controlled entities		252,864	247,192
Held for trading investments		16,011	46,501
Held-to-maturity debt security		—	7,749
Derivative financial instruments		—	1,399
Inventories		261,470	248,268
Tax recoverable		624	624
Trade and other receivables	9	212,117	14,562
Prepaid lease payments		2,820	2,820
Cash and bank balances		120,111	75,714
		866,017	644,829
CURRENT LIABILITIES			
Other payables	10	195,458	33,667
Derivative financial instruments		4,301	742
Bank loans — current portion		16,550	15,050
Tax payable		10,640	9,068
Amount due to an intermediate holding company	11(b)	27,000	—
Amounts due to minority shareholders	11(c)	33,484	31,924
		287,433	90,451
NET CURRENT ASSETS		578,584	554,378
TOTAL ASSETS LESS CURRENT LIABILITIES		9,741,005	1,267,850
NON-CURRENT LIABILITIES			
Amount due to the ultimate holding company	11(d)	2,965,677	—
Bank loans — non-current portion		63,700	72,700
Deferred taxation		47,319	47,605
		3,076,696	120,305
		6,664,309	1,147,545

	<i>Notes</i>	30 June 2006 HK\$'000	31 December 2005 HK\$'000
EQUITY			
Issued capital	12	407,826	126,685
Reserves		6,211,972	968,408
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		6,619,798	1,095,093
MINORITY INTERESTS		44,511	52,452
TOTAL EQUITY		6,664,309	1,147,545

Unaudited Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM		
— OPERATING ACTIVITIES	34,049	47,869
— INVESTING ACTIVITIES	(3,301,151)	13,411
— FINANCING ACTIVITIES	3,311,499	(16,319)
INCREASE IN CASH AND CASH EQUIVALENTS	44,397	44,961
Cash and cash equivalents at beginning of period	75,714	9,273
CASH AND CASH EQUIVALENTS AT END OF PERIOD	120,111	54,234
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
— Cash and bank balances	120,111	54,234

Unaudited Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company			Total	Minority interests	Total equity
	Share Issued capital	Share premium account	Retained profits			
	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
Net profit for the period	—	—	438,817	438,817	7,945	446,762
Paid up of and conversion into ordinary shares of convertible preference shares	852	1,806	—	2,658	—	2,658
At 30 June 2005	126,685	398,021	531,790	1,056,496	48,673	1,105,169
At 1 January 2006	126,685	398,021	570,387	1,095,093	52,452	1,147,545
Net profit for the period	—	—	26,749	26,749	5,275	32,024
Payment of dividends	—	—	(24,596)	(24,596)	(13,216)	(37,812)
Issue of ordinary shares	281,141	5,241,411	—	5,522,552	—	5,522,552
At 30 June 2006	407,826	5,639,432	572,540	6,619,798	44,511	6,664,309

Notes to the Unaudited Interim Financial Statements

1. Accounting policies

These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants as applicable to condensed interim financial statements and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies used in these unaudited interim financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31 December 2005.

2. 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 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

	Turnover		Profit/(loss)	
	For the six months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties	144,085	35,401	40,743	24,609
Ice and Cold Storage	20,641	16,878	4,978	2,765
Investments and Others	69,270	43,529	(162)	(1,081)
Consolidated	233,996	95,808	45,559	26,293
Unallocated			(4,262)	(2,218)
Profit from operations			41,297	24,075

3. Share of results of jointly controlled entities

Included in the share of results of jointly controlled entities for the six months ended 30 June 2006, there is a net of tax revaluation gain on investment properties of a jointly controlled entity of HK\$622,000 (2005: HK\$316,576,000).

4. Profit before tax

Profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Depreciation and amortisation	2,413	2,057
Interest on borrowings	11,195	1,256

5. Tax

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Current tax		
— Hong Kong Profits Tax	132	—
— Overseas income tax	1,506	2,508
Deferred tax	(287)	13,581
	1,351	16,089

Hong Kong Profits Tax has been provided for at the rate of 17.5% on the estimated assessable profits for the six months ended 30 June 2006 after offsetting the tax losses brought forward from previous years. Overseas taxation has been provided for at the applicable rates ruling in the respective jurisdictions.

6. 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 information:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share	26,749	438,817
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,462,549,573	1,220,035,478
Effect of dilutive potential ordinary shares:		
— Convertible preference shares	239,214,271	184,639,433
— Warrants	115,695	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,701,879,539	1,404,674,911

7. Dividends

Subsequent to the balance sheet date, the Board has declared an interim dividend of HK0.5 cent per ordinary share, totalling HK\$21,582,000, in respect of the six months ended 30 June 2006 (2005: Nil) payable to the shareholders registered at the register of members of the Company on 27 September 2006. The interim dividends will be paid on 6 October 2006.

During the six months ended 30 June 2006, a final dividend of HK2 cents per ordinary share, totalling HK\$24,596,000, attributable to the previous financial year was approved and paid (2005: Nil).

8. Interest in property development

Interest in property development is stated at fair value. Changes in fair value are recognised directly in equity, until the interest in property development is derecognised, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

9. Trade and other receivables

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Ageing analysis of trade receivables:		
Within 30 days	134,507	2,034
31 days to 60 days	1,543	898
61 days to 180 days	823	800
Over 180 days	—	157
Trade receivables	136,873	3,889
Other receivables	75,244	10,673
	212,117	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 6 months to its trade customers.

10. Other payables

As at 30 June 2006, deposits received on sale of properties amounted to HK\$156,496,000 (31 December 2005: HK\$22,716,000) were included in other payables.

11. Related party transactions

During the six months ended 30 June 2005 and 2006, the Group had the following transactions with related parties:

- (a) During the six months ended 30 June 2005, the immediate holding company of the Company, which is also the holder of all convertible redeemable non-voting preference shares ("CPS") of HK\$0.01 each 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 and 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 in the Company.
- (b) As at 30 June 2006, the amount due to an intermediate holding company was unsecured, interest free and with no fixed repayment terms (31 December 2005: Nil).

11. Related party transactions *(Continued)*

- (c) As at 30 June 2006, the amounts due to minority shareholders of subsidiaries were unsecured and with no fixed repayment terms of which HK\$24,359,000 (31 December 2005: HK\$12,489,000) was bearing interest at prevailing market rate and HK\$9,125,000 (31 December 2005: HK\$19,435,000) was interest free. During the six months ended 30 June 2006, interest of HK\$261,000 (2005: HK\$333,000) was payable to the minority shareholders.
- (d) On 8 April 2006, the Group entered into a sale and purchase agreement (the "Agreement") with its ultimate holding company for the acquisition of the entire interests in New Bedford Properties Limited so as 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 consideration (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 amount due to the ultimate holding company was unsecured and bearing interest at the Hong Kong Interbank Offering Rate plus 0.5%. During the six months ended 30 June 2006, interest of HK\$7,227,000 (2005: Nil) was payable to the ultimate holding company.
- (e) On 5 May 2006, the Company entered into a subscription agreement with an intermediate holding company of the Company for the subscription by the immediate holding company of the Company of 1,598,000,000 Shares at a subscription price of HK\$1.98 each, totalling HK\$3,164,040,000.
- (f) During the six months ended 30 June 2006, interest of HK\$1,747,000 (2005: Nil) was paid to an intermediate holding company.
- (g) During the six months ended 30 June 2006, an arrangement fee of HK\$20,212,000 (2005: Nil) for the subscription of Shares would be payable to a company controlled by a director of the Company.
- (h) As at 30 June 2006, a director of the Company granted a guarantee to a bank to secure the liabilities of the Group to the extent of HK\$22,000,000 (31 December 2005: HK\$22,000,000).

12. Issuance of securities

- (a) During the six months ended 30 June 2006, the Company issued 2,811,411,970 Shares at a subscription price of HK\$1.98 per Share. The proceeds from the subscription of HK\$5,566,596,000, before related expenses, was received by the Company (2005: Nil).
- (b) During the six months ended 30 June 2006, the Company made a bonus issue of 122,981,448 units of warrants ("Warrant(s)") in the Company to the shareholders 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 (2005: Nil).

Other Information

Interests and Short Positions in Shares, Underlying Shares and Debentures

Directors and chief executives

As at 30 June 2006, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in shares of the Company

Name	Capacity and nature of interests	Number of shares and underlying shares held				Percentage of the issued ordinary share capital (Note 1)
		Shares	Warrants	CPS	Total	
Or Wai Sheun (Notes 2 and 6)	Founder and beneficiary of a trust	2,296,975,374	69,897,537	275,191,901	2,642,064,812	65.38%
Yeung Kwok Kwong	Directly beneficially owned	1,600,000	160,000	—	1,760,000	0.04%
Wong Yuk Ching	Directly beneficially owned	6,000,000	600,000	—	6,600,000	0.16%
Lai Ka Fai	Directly beneficially owned	300,000	30,000	—	330,000	0.01%

Long positions in shares of associated corporation

— Kowloon Development Company Limited ("KDC")

Name	Capacity and nature of interests	Number of ordinary shares held	Percentage of the issued ordinary share capital (Note 7)
Yeung Kwok Kwong	Directly beneficially owned	100,000	0.01%
Wong Yuk Ching	Directly beneficially owned	949,000	0.14%
Lai Ka Fai	Directly beneficially owned	282,000	0.04%

Interests and Short Positions in Shares, Underlying Shares and Debentures

(Continued)

Directors and chief executives (Continued)

As disclosed in note 12(b) to the unaudited interim financial statements, the Company made a bonus issue of Warrants to its shareholders during the period. The directors' interests in Warrants disclosed 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 Shares on the record date of the bonus issue.

Other than the interests in Warrants disclosed above, at no time during the six months ended 30 June 2006 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in or any other body corporate.

Save as disclosed above, as at 30 June 2006, none of the directors and chief executives had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

Other persons

As at 30 June 2006, the interests and short positions of the persons, other than the directors and chief executives, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity and nature of interests	Number of shares and underlying shares held				Percentage of the issued ordinary share capital (Note 1)
		Shares	Warrants	CPS	Total	
<i>Long positions</i>						
Kowloon Development Company Limited (Notes 3 and 6)	Through controlled corporation	2,296,975,374	69,897,537	275,191,901	2,642,064,812	65.38%
HSBC International Trustee Limited (Notes 4 and 6)	Trustee	2,296,975,374	69,897,537	275,191,901	2,642,064,812	65.38%
The Or Family Trustee Limited Inc. (Notes 5 and 6)	Through controlled corporation	2,296,975,374	69,897,537	275,191,901	2,642,064,812	65.38%

Interests and Short Positions in Shares, Underlying Shares and Debentures

(Continued)

Other persons (Continued)

Name	Capacity and nature of interests	Number of shares and underlying shares held				Percentage of the issued ordinary share capital (Note 1)
		Shares	Warrants	CPS	Total	
<i>Long positions (Continued)</i>						
Wachovia Investors, Inc. (Note 8)	Directly beneficially owned	394,000,000	—	—	394,000,000	9.75%
Wachovia Corporation (Note 8)	Through controlled corporation	394,000,000	—	—	394,000,000	9.75%
Penta Investment Advisers Limited (Note 9)	Investment manager	222,871,500	—	—	222,871,500	5.51%
John Zwaanstra (Note 9)	Through controlled corporation	222,871,500	—	—	222,871,500	5.51%
Janus Capital Management LLC	Investment manager	221,188,133	—	—	221,188,133	5.47%
State Street Corporation	Through controlled corporation	134,342,434	—	—	134,342,434	3.32%

Save as disclosed above, as at 30 June 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.

Note 1: As at 30 June 2006, the total number of issued shares in the Company was 4,041,226,454 Shares and 3,073,590,076 CPS which, upon fully paid up, may be converted into 275,191,901 Shares and the total unit of Warrants in issue was 1,229,814,484 units.

Note 2: Mr. Or Wai Sheun was deemed to be interested in 369,838,083 shares in KDC as the founder and one of the beneficiaries of a discretionary family trust.

Mr. Or Wai Sheun was also deemed to be interested in 185,000 shares in KDC 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.

Interests and Short Positions in Shares, Underlying Shares and Debentures

(Continued)

Note 3: KDC, through its wholly owned subsidiary, Marble King International Limited, owns 2,296,975,374 Shares (being 56.84% of the issued Shares), warrants of HK\$138,397,123.26 of the Company which have the right to subscribe 69,897,537 Shares (being 1.73% of the issued Shares) and 3,703,590,076 CPS which, upon fully paid up, may be converted into 275,191,901 Shares (being 6.81% of the issued Shares).

The entire 3,703,590,076 CPS is partly paid as to 10% of the subscription price of HK\$0.02 per share.

Note 4: HSBC International Trustee Limited holds 368,816,083 shares in KDC (being 54.23% of the issued ordinary shares capital of KDC) and therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.

Note 5: The Or Family Trustee Limited Inc holds 369,838,083 shares in KDC (being 54.38% of the issued ordinary shares capital of KDC) and, therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.

Note 6: The interest in 2,642,064,812 shares and underlying shares in the Company as disclosed above by Mr. Or Wai Sheun, KDC, HSBC International Trustee Limited and The Or Family Trustee Limited Inc are the same interests in the Company.

Note 7: As at 30 June 2006, the total number of issued ordinary shares in KDC was 680,120,850 ordinary shares.

Note 8: Wachovia Corporation holds 100% interest in Wachovia Investors, Inc and therefore was deemed to be interested in 394,000,000 shares in the Company owned by Wachovia Investors, Inc.

Note 9: John Zwaanstra is a director of Penta Investment Advisers Limited and therefore was deemed to be interested in 222,871,500 shares in the Company owned by Penta Investment Advisers Limited.

Compliance with the Model Code

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. On specific enquiries made, all Directors have confirmed that, in relation to the accounting period covered by the interim 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.

Purchase, Redemption or Sale of Listed Securities

Save as disclosed in note 12 to the unaudited interim financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2006.

Closure of Register of Members

The register of members of the Company will be closed from 25 September 2006 to 27 September 2006 (both days inclusive) in order to determine entitlements of shareholders to the interim dividend in respect of the six months ended 30 June 2006. In order to qualify for the entitlement of the interim dividend, the shareholders must ensure that all share transfers, accompanied by the relevant share certificates, 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 4:00 p.m. on 22 September 2006.

Audit Committee

The audit committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2006.

Employees

As at 30 June 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.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except for the following deviations.

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 period, the Group acquired the entire issued capital of a company from a substantial shareholder of the Company. During the period, the Company also issued 2.8 billion Shares 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.

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 and the Managing Director during the period from 1 January 2006 to 31 March 2006. With effect from 1 April 2006, Mr. Or Wai Sheun has replaced Mr. Yeung Kwok Kwong to act as the Chairman and Mr. Yeung Kwok Kwong has remained to act as the Managing Director.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. 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.

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, 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 shall retire from office. In order to ensure full compliance with Code A.4.2, the relevant articles of the Articles of Association of the Company was amended at the annual general meeting held on 8 May 2006.

Directors

As at the date of this report, Mr. Or Wai Sheun, Mr. Yeung Kwok Kwong, Mr. Lam Chi Chung, Tommy, Ms. Chio Koc Ieng and Ms. Wong Yuk Ching are Executive Directors, Mr. Lai Ka Fai is a Non-executive Director and Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang are Independent Non-executive Directors.