



POLYTEC ASSET HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 208)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of directors (“Board”) of Polytec Asset Holdings Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2006.

UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Notes	2006 HK\$'000	2005 HK\$'000
TURNOVER	1	233,996	95,808
Cost of sales		<u>(169,226)</u>	<u>(47,468)</u>
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		<u>(21,220)</u>	<u>(20,597)</u>
PROFIT FROM OPERATIONS	1	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	2	3,273	316,485
Provision for loan advanced to a jointly controlled entity written back		—	18,500
PROFIT BEFORE TAX		33,375	462,851
Tax	3	<u>(1,351)</u>	<u>(16,089)</u>
PROFIT AFTER TAX		<u>32,024</u>	<u>446,762</u>
ATTRIBUTABLE TO:			
Equity holders of the Company		26,749	438,817
Minority interests		5,275	7,945
		<u>32,024</u>	<u>446,762</u>
EARNINGS PER SHARE	4		
— Basic		<u>HK1.83 cents</u>	<u>HK35.97 cents</u>
— Diluted		<u>HK1.57 cents</u>	<u>HK31.24 cents</u>
DIVIDEND PER SHARE	5	<u>HK0.50 cent</u>	<u>Nil</u>

UNAUDITED CONSOLIDATED BALANCE SHEET

	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	8,448,000	—
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	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	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	27,000	—
Amounts due to minority shareholders	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	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
EQUITY		
Issued capital	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

Notes:

1. 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	<u>233,996</u>	<u>95,808</u>	45,559	26,293
Unallocated			(4,262)	(2,218)
Profit from operations			<u>41,297</u>	<u>24,075</u>

2. 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).

3. Tax

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

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.

4. 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	2005
	HK\$'000	HK\$'000
<i>Earnings</i>		
Earnings for the purposes of calculating basic and diluted earnings per share	<u>26,749</u>	<u>438,817</u>
<i>Number of shares</i>		
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	<u>115,695</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,701,879,539</u>	<u>1,404,674,911</u>

5. Dividends

The Board has declared that 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) will be payable 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).

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 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.

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 Iong, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Save as the subscription of shares and the bonus issue of warrants in the Company disclosed in the section under the heading of “Financial Review” above, 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 of the Company (“Director”). The management of the Company 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 of the Company 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 of the Company and Mr. Yeung Kwok Kwong has remained to act as the managing director of the Company.

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

AUDIT COMMITTEE

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

By the Order of the Board
Polytec Asset Holdings Limited
Or Wai Sheun
Chairman

Hong Kong, 6 September 2006

As at the date of this announcement, 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 of the Company, Mr. Lai Ka Fai is a non-executive director of the Company and Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang are independent non-executive directors of the Company.

Please also refer to the published version of this announcement in the South China Morning Post.