POLYTEC ASSET HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 208

Annual Report 2005

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Yeung Kwok Kwong *(Chairman)*
Wong Yuk Ching
Lam Chi Chung, Tommy

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

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23/F, 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 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*	1 December 2000 to 30 November 2001 *HK$'000*
Turnover	**196,827**	152,882	17,672	24,994*	7,108*
Profit/(loss) from operations	**55,302**	25,055	(445)	(12,065)	(21,057)
Change in fair value on properties	**105,047**	–	–	–	–
Share of results of jointly controlled entities	**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	252
Gain on a debt restructuring	**–**	–	–	–	18,114
Finance costs	**(3,437)**	(249)	(2,362)	(2,131)	(12,249)
Profit/(loss) before tax	**508,238**	86,474	15,590	19,462	(14,940)
Tax	**(19,100)**	(4,213)	–	–	–
Profit/(loss) after tax	**489,138**	82,261	15,590	19,462	(14,940)
Minority interests	**(11,724)**	(3,462)	–	163	6,173
Net profit/(loss) attributable to equity holder of the Company	**477,414**	78,799	15,590	19,625	(8,767)

Five-Year Financial Summary

ASSETS AND LIABILITIES

	31 December 2005 *HK$'000*	31 December 2004 *HK$'000* (restated#)	30 November 2003 *HK$'000*	30 November 2002 *HK$'000*	30 November 2001 *HK$'000*
Total assets	**1,358,301**	862,391	52,795	62,918	86,102
Total liabilities	**(210,756)**	(206,642)	(1,612)	(28,333)	(70,979)
Minority interests	**(52,452)**	(40,728)	–	–	(163)
Equity attributable to holders of the Company	**1,095,093**	615,021	51,183	34,585	14,960

FINANCIAL HIGHLIGHTS

	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*	1 December 2000 to 30 November 2001 *HK$'000*
Increase/(decrease) in turnover (%)	**29**	765	(29)	252	(59)
Increase/(decrease) in net profit/(loss) attributable to equity holders of the Company (%)	**506**	405	(21)	N/A	N/A
Net assets value per ordinary share (HK cents)	**89.05**	50.42	17.20**	11.62**	5.03**
Current ratio	**7.13**	4.65	29.97	1.85	1.02
Bank borrowings to equity ratio	**0.08**	0.16	–	0.27	0.73
Total debts to equity ratio	**0.08**	0.16	–	0.32	0.84
Return on equity (%)	**43.60**	12.81	30.50	56.74	(58.60)
Basic earnings/(loss) per share (HK cents)	**38.97**	16.56	4.30##	5.41##	(7.28)##
Dividends per share (HK cents)	**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 amounts of the turnover for the financial years ended 30 November 2001 and 2002 have been restated to conform with the current presentation.

\# In compliance with Hong Kong Financial Reporting Standards, the Group has adopted certain new accounting policies during the year. 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/(liabilities) value per ordinary share in 2001, 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/(loss) per share for the years ended 30 November 2001, 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

RESULTS

For the year ended 31 December 2005, the Group's profit attributable to the shareholders rose to HK$477 million from HK$79 million for the thirteen months ended 31 December 2004. The improvement in net profit was mainly due to a HK$420 million gain from revaluations of the Group's investment properties in Macau as well as a gain from the recovery of the loan advanced to a jointly controlled entity of HK$18.5 million which had been previously written off.

Excluding property revaluations net of deferred tax, underlying net profit and earnings per share for 2005 amounted to HK$57 million and 4.67 cents, representing an increase of 234% and 30% respectively over the previous thirteen months.

It should be noted that a number of new accounting standards which became effective on 1 January 2005 require restatement in the accounts of the Group's previously reported results.

DIVIDENDS

The Board of Directors has recommended the payment of a final dividend of HK$0.02 per share for 2005. The final dividend will be payable on 9 May 2006 to shareholders registered as at 8 May 2006.

PROSPECTS

We changed our Company name to Polytec Assets Holdings Limited following the completion of corporate restructuring in early 2004. Since then, we have abandoned low-margin businesses and have been focusing on our new investment strategy. More importantly, over the past two years, the Group has received some solid support from our ultimate holding company, Polytec Group, and capitalized on its valuable experience in the Macau property market. Indeed, through a series of major asset acquisitions in Macau over the past 18 months, we have substantially strengthened the Group's foundations for future growth. The Group's 2005 earnings results have reflected a good start to the new management's strategic focus.

On 24 November 2005, the Group became a subsidiary company of Kowloon Development Company Limited, a property investment and development company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 34). Following completion of the acquisition, the Group has positioned to become the property development and investment flagship in the Macau

Chairman's Statement

market for both the parent company and the ultimate holding company. The Group will indeed be benefited from this new arrangement as it will enable us to focus on the Macau property market and we will accelerate our property acquisition program amid the booming Macau economy.

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

Yeung Kwok Kwong
Chairman

Hong Kong , 30 March 2006

Management Discussion and Analysis

BUSINESS REVIEW

The Group's profit improved substantially in 2005. Indeed, our core property business continued to benefit from strong economic growth and favourable sentiment in the property market in Macau.

The main source of the Group's 2005 income came from the sale of certain properties at China Plaza in Macau, with a realized profit of HK$40 million and representing 67% of the Group's segment profit in 2005. We intend to dispose of the rest of units at China Plaza gradually.

Property Development

In Macau, the Group's 58% owned residential and commercial project in Taipa, has been under site formation works since the beginning of February this year. This residential and commercial complex, 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. We have received encouraging enquiries from potential buyers regarding the project.

In Hong Kong, the Group has two small-scale joint-venture residential 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 two development projects is progressing smoothly and they are expected to be put on sale after the completion this year.

Property Investment

While the Group's two major investment properties in Macau, The Macau Square and Va Iong, have generated insignificant rental income during 2005 as they have both been under renovations, they are expected to start generating rental income for the Group this year onwards.

The renovation program of the retail portion of The Macau Square, the Group's 50% owned commercial property situated at Av. Do Infante D. Henrique in Macau with total retail spaces covering gross floor area of approximately 8,400 square metres, has just been completed. We have been receiving an increasing number of enquiries regarding the retail space from potential tenants. We will soon start the renovation of the office portion, covering gross floor area of

Management Discussion and Analysis

approximately 28,000 square metres, and the soft marketing has been launched. This commercial property is expected to become one of the main sources of the Group's gross rental income in 2007 and beyond.

The renovation work of Va Iong, a commercial building which is situated at Praca da Amizade with an aggregate gross floor area of 1,900 square metres, will be started soon and is expected to be completed in the second half of this year.

Ice and Cold Storage

For the year ended 31 December 2005, the Group's ice manufacturing and cold storage business recorded an operating profit of HK$13 million. As we completed the acquisition of the Hong Kong Ice & Cold Storage Company Limited in late 2004, the impact of the acquisition was only fully reflected in the Group's 2005 financial statements. We have installed a new high quality edible ice manufacturing system during the year and expect our market share in this sector to increase.

Investment

During 2005, investment activities contributed HK$7 million to the Group's operating profit. We expect the activities in this area will continue to contribute to the Group's profit under our prudent management.

FINANCIAL REVIEW

As at 31 December 2005, the Group had liquid assets of HK$130 million, which comprised cash and bank balances of HK$76 million and other liquid assets of HK$54 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 31 December 2005 reduced to 8.0% from 16.2% at 31 December 2004. The bank borrowings of the Group as at 31 December 2005 were 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. During the year under review, the Group's liquidity and financial resources positions were further improved.

As at 31 December 2005, certain assets of the Group with an aggregate net book value of approximately HK$228 million were pledged to secure credit facilities granted to the Group.

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 (with the exception of Code Provision C.2 on internal controls) 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 three Executive Directors, being Mr. Yeung Kwok Kwong (Chairman of the Board), Ms. Wong Yuk Ching and Mr. Lam Chi Chung, Tommy, 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 18, 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.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

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

Directors	Number of attendance
Mr. Yeung Kwok Kwong *(Chairman of the Board)*	4/4
Ms. Wong Yuk Ching	4/4
Mr. Lam Chi Chung, Tommy *(appointed on 3 October 2005)*	1/1
Mr. Lai Ka Fai	4/4
Mr. Anthony Francis Martin Conway	4/4
Mr. Siu Leung Yau	4/4
Mr. Liu Kwong Sang	4/4

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 is the Chairman of the Board and the Managing Director of the Company during the year. With effect from 1 April 2006, Mr. Or Wai Sheun will replace Mr. Yeung Kwok Kwong to act as the Chairman of the Board and Mr. Yeung Kwok Kwong will remain to act as the Managing Director.

Corporate Governance Report

AUDIT COMMITTEE

The present members of the Audit Committee are two Independent Non-executive Directors of the Company, being Mr. Liu Kwong Sang (Chairman) and Mr. Siu Leung Yau and one Non-executive Director of the Company, 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 *(Chairman of the audit committee)*	3/3
Mr. Siu Leung Yau	3/3
Mr. Lai Ka Fai	3/3

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 its Terms of Reference and, on 30 June 2005, the Board adopted the Terms of Reference which included all the duties referred in Code Provision C.3.3. The Audit Committee also reviewed the second interim financial statements for 2004, the audited financial statements for 2004 and the interim financial statements for 2005 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 has commenced to review the effectiveness of the system of internal control of the Group in 2006.

Corporate Governance Report

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company was established on 21 September 2005. The present members of the Remuneration Committee are three Independent Non-executive Directors of the Company, Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang and one Executive director of the Company, Mr. Yeung Kwok Kwong (Chairman). During the year, the Remuneration Committee has held one committee meeting. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

Directors	Number of attendance
Mr. Yeung Kwok Kwong *(Chairman of the remuneration committee)*	1/1
Mr. Anthony Francis Martin Conway	1/1
Mr. Siu Leung Yau	1/1
Mr. Liu Kwong Sang	1/1

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 and the remuneration package offered to an Executive Director joined the Company during the year.

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 an additional Executive Director.

Corporate Governance Report

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 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. As the Non-Executive Directors are subject to rotation in accordance with the Articles of Association, the Board considers that the Non-Executive Directors to be 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 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.

Corporate Governance Report

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

The last sentence of Code Provision A.4.2 stipulates that 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 compliance with the last sentence of Code Provision A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the annual general meeting to be held in 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 of the Company 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.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Messrs Deloitte Touche Tohmatsu is set out below:

	HK$'000
Services rendered	
— audit services	950
— non-audit services	—
	950

Profile of Directors

EXECUTIVE DIRECTORS

Mr. Yeung Kwok Kwong, aged 47, joined the Company in September 2000 as the Chairman and managing director of the Company. 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, an intermediate holding company of the Company.

Ms. Wong Yuk Ching, aged 49, joined the Company in January 2002 as an 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 51, joined the Company in October 2005 as an 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.

Profile of Directors

NON-EXECUTIVE DIRECTOR

Mr. Lai Ka Fai, aged 41, joined the Company in September 2000 as an executive director, and was re-designated as a 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 over 15 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Anthony Francis Martin Conway, aged 65, joined the Company in September 2000 as an 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 52, joined the Company in September 2000 as an independent non-executive director. Mr. Siu has over 24 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.

Profile of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. Liu Kwong Sang, aged 44, joined the Company in July 2000 as an 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 Company and of the Group for the year ended 31 December 2005.

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' principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 28 to 88.

The directors now recommend the payment of a final dividend of HK$0.02 per share to the shareholders on the register of members on 8 May 2006, estimated to be HK$24,596,000, and the retention of the remaining profit in reserves.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in notes 14 to 16 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.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2005, 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$33,210,642. 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 2005, the Company's share premium account amounted to HK$398,021,407.

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 period.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Yeung Kwok Kwong *(Chairman)*
Ms. Wong Yuk Ching
Mr. Lam Chi Chung, Tommy *(appointed on 3 October 2005)*

Non-executive director

Mr. Lai Ka Fai

Independent non-executive directors

Mr. Anthony Francis Martin Conway
Mr. Siu Leung Yau
Mr. Liu Kwong Sang

DIRECTORS *(continued)*

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Anthony Francis Martin Conway and Mr. Lam Chi Chung Tommy will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive director and independent non-executive directors, but excluding the Chairman, 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.

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 2005, 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, were as follows:

Long positions in ordinary shares of the Company

Name of director	Capacity and nature of interests	Number of shares held	Percentage of the Company's issued share capital
Mr. Yeung Kwok Kwong	Beneficiary owner	1,600,000	0.13%
Ms. Wong Yuk Ching	Beneficiary owner	6,000,000	0.49%
Mr. Lai Ka Fai	Beneficiary owner	300,000	0.02%

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

Long positions in ordinary shares of the associated corporations

— Kowloon Development Company Limited

Name of director	Capacity and nature of interests	Number of shares held	Percentage of the company's issued share capital
Mr. Yeung Kwok Kwong	Beneficiary owner	100,000	0.02%
Ms. Wong Yuk Ching	Beneficiary owner	949,000	0.17%
Mr. Lai Ka Fai	Beneficiary owner	282,000	0.05%

Save as disclosed above, as at 31 December 2005, 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 for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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.

Report of the Directors

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option schemes are set out in note 30 to the financial statements.

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

At 31 December 2005, 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 interest	Number of ordinary shares held	%	Number of underlying shares held	%	Total	%
Long positions							
HSBC International Trustee Limited *(Note)*	Trustee	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%
The Or Family Trustee Limited Inc. *(Note)*	Through controlled corporation	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%
Kowloon Development Company Limited *(Note)*	Through controlled corporation	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Note: Marble King International Limited, a wholly owned subsidiary of Kowloon Development Company Limited, owns 698,975,374 ordinary shares, which represents 56.84% of the issued ordinary shares of the Company as at 31 December 2005 and 3,703,590,076 non-voting redeemable convertible preference shares in the Company which, upon fully paid up, may be converted into 250,734,005 ordinary shares in the Company, representing 20.38% of the issued ordinary shares of the Company as at 31 December 2005. HSBC International Trustee Limited owns 62.25% of the issued ordinary shares of Kowloon Development Company Limited through The Or Family Trustee Limited Inc..

As at 31 December 2005, the entire 3,703,590,076 non-voting redeemable convertible preference shares in the Company is partly paid as to 10% of the subscription price of HK$0.02 per share.

Save as disclosed above, 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.

EMPLOYEES

As at 31 December 2005, 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.

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 30 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 Laws 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.

FINANCIAL ASSISTANCES TO AFFILIATED COMPANIES

At as 31 December 2005, the Group had the following financial assistances to its affiliated companies:

	HK$'000
South Bay Centre Company Limited	230,936
Eastford Development Limited	15,296
	246,232

The financial assistances to Eastford Development Limited are unsecured and interest-free cash advances with no fixed repayment terms.

The financial assistances to South Bay Centre Company Limited are unsecured and interest-free cash advances with no fixed repayment terms.

Report of the Directors

FINANCIAL ASSISTANCES TO AFFILIATED COMPANIES *(continued)*

The unaudited combined balance sheet of affiliated companies of the Group as at 31 December 2005 is as follows:

	HK$'000
Non-current assets	1,444,855
Current assets	789
Current liabilities	(489,054)
Non-current liabilities	(167,630)
Shareholders' funds	788,960
Interest attributable to the Group	394,481

AUDITORS

For the past three years, Messrs. Ernst & Young acted as auditors of the Company for the two financial years ended 30 November 2002 and 2003 and Messrs. Deloitte Touche Tohmatsu has been appointed as auditors of the Company since the financial period ended 31 December 2004. Messrs. Deloitte Touche Tohmatsu will retire at the forthcoming annual general meeting and a resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Yeung Kwok Kwong
Chairman

Hong Kong
30 March 2006

Report of the Auditors

Deloitte.
德勤

To the members 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) from pages 28 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005 HK$'000	From 1 December 2003 to 31 December 2004 HK$'000
			(restated)
TURNOVER	6	196,827	152,882
Cost of sales		(111,864)	(121,827)
Gross profit		84,963	31,055
Other operating income	6	11,091	11,297
Selling and distribution costs		(6,014)	(3,719)
Administrative expenses		(9,527)	(11,402)
Other operating expenses		(25,211)	(2,176)
PROFIT FROM OPERATIONS	7	55,302	25,055
Gain arising from a change in fair value of investment properties		105,047	—
Share of results of jointly controlled entities		332,826	61,668
Provision for loan advanced to a jointly controlled entity written back		18,500	—
Finance costs	9	(3,437)	(249)
PROFIT BEFORE TAX		508,238	86,474
Income tax expenses	10	(19,100)	(4,213)
PROFIT FOR THE YEAR/PERIOD		489,138	82,261
ATTRIBUTABLE TO:			
Equity holders of the Company		477,414	78,799
Minority interests		11,724	3,462
		489,138	82,261
EARNINGS PER SHARE	12		
— Basic		38.97 cents	16.56 cents
— Diluted		33.84 cents	12.10 cents

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	37,755	34,666
Prepaid lease payments	15	114,217	117,037
Investment properties	16	150,000	—
Interests in jointly controlled entities	17	394,506	297,259
Goodwill	19	16,994	16,994
		713,472	465,956
CURRENT ASSETS			
Amounts due from jointly controlled entities	18	247,192	—
Held for trading investments	20	46,501	75,563
Held-to-maturity debt security	21	7,749	—
Derivative financial instruments	22	1,399	—
Inventories	23	248,268	300,466
Tax recoverable		624	—
Trade and other receivables	24	14,562	8,313
Prepaid lease payments	15	2,820	2,820
Cash and bank balances	25	75,714	9,273
		644,829	396,435
CURRENT LIABILITIES			
Other payables	26	33,667	18,651
Derivative financial instruments	22	742	—
Bank loans — current portion	27	15,050	12,050
Tax payable		9,068	4,465
Amounts due to minority shareholders	33(ii)	31,924	47,241
Amount due to a related company	33(viii)	—	2,878
		90,451	85,285
NET CURRENT ASSETS		554,378	311,150
TOTAL ASSETS LESS CURRENT LIABILITIES		1,267,850	777,106
NON-CURRENT LIABILITIES			
Bank loans — non-current portion	27	72,700	87,750
Deferred taxation	28	47,605	33,607
		120,305	121,357
		1,147,545	655,749

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
CAPITAL AND RESERVES			
Issued capital	29	126,685	125,833
Reserves		968,408	489,188
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		1,095,093	615,021
MINORITY INTERESTS		52,452	40,728
		1,147,545	655,749

The financial statements were approved and authorised for issue by the board of directors on 30 March 2006.

Yeung Kwok Kwong
Director

Wong Yuk Ching
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company					Minority interests	Total equity
	Issued capital	Share premium account	Investment property revaluation reserve	Retained profits/ (accumulated losses)	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(restated)	(restated)			
At 1 December 2003	63,504	122,818	–	(135,139)	51,183	–	51,183
Profit and total recognised income and expense for the period	–	–	–	78,799	78,799	3,462	82,261
Acquisition of non-wholly subsidiaries	–	–	–	–	–	37,266	37,266
Cancellation of share premium	–	(118,818)	–	118,818	–	–	–
Capital reduction	(30,495)	–	–	30,495	–	–	–
Paid up and conversion into ordinary shares of convertible preference shares	1,338	1,338	–	–	2,676	–	2,676
Net proceeds from issue of ordinary shares by way of rights issues	91,486	390,877	–	–	482,363	–	482,363
At 31 December 2004 as restated	125,833	396,215	–	92,973	615,021	40,728	655,749
At 31 December 2004 as originally stated	125,833	396,215	62,488	31,293	615,829	40,728	656,557
Effects of changes in accounting policies *(note 3)*	–	–	(62,488)	61,680	(808)	–	(808)
At 31 December 2004 and 1 January 2005 as restated	125,833	396,215	–	92,973	615,021	40,728	655,749
Profit and total recognised income and expense 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	**126,685**	**398,021**	**–**	**570,387**	**1,095,093**	**52,452**	**1,147,545**

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 HK$'000	From 1 December 2003 to 31 December 2004 HK$'000
			(restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		508,238	86,474
Adjustments for:			
Gain arising from a change in fair value of investment properties		(105,047)	—
Share of results of jointly controlled entities		(332,826)	(61,668)
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		(1,538)	(1,498)
Interest income		(520)	—
Loss arising from a change in fair value of held for trading investments/unrealised gain on investments		2,445	(7,622)
Gain arising from a change in fair value of derivative financial instruments		(1,203)	—
Depreciation		1,588	163
Amortisation of prepaid lease payments		2,820	353
Amortisation of goodwill		—	107
Finance costs		3,437	249
Operating cash flow before working capital changes		58,895	16,558
Increase in amount due from a jointly controlled entity		(240)	(260)
Decrease (increase) in held for trading investments		26,617	(43,076)
Increase in held-to-maturity debt security		(7,749)	—
Decrease (increase) in inventories		7,245	(148,883)
(Increase) decrease in trade and other receivables		(6,249)	17,649
Increase in other payables		15,016	9,409
Decrease in amount due to a related company		(2,878)	—
Cash generated from (used in) operations		90,657	(148,603)
Interest received		1,066	—
Interest paid		(2,803)	(82)
Dividends received from listed securities		1,538	1,323
Tax paid		(1,123)	(106)
Net cash inflow (outflow) from operating activities		89,335	(147,468)

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 HK$'000	From 1 December 2003 to 31 December 2004 HK$'000
			(restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(4,678)	(38)
Acquisition of subsidiaries	31(a)	–	(308,148)
Advances to jointly controlled entities		(11,373)	(167,131)
Repayment of advances from jointly controlled entities		18,500	–
Net cash generated from (used in) investing activities		2,449	(475,317)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of capital for cash, net of related expenses		2,658	295,038
Loans advanced from immediate holding company		–	329,320
Repayments of loans to immediate holding company		–	(136,441)
Proceeds from bank loans		–	100,000
Repayments of bank loans		(12,050)	(200)
Loans advanced from minority shareholders		–	32,029
Repayments of loans to minority shareholders		(15,951)	(10,290)
Net cash (used in) generated from financing activities		(25,343)	609,456
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		66,441	(13,329)
Cash and cash equivalents at beginning of the year/period		9,273	22,602
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		75,714	9,273
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		75,714	9,273

Notes to Financial Statements

31 December 2005

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 measure at fair values, as explained in the accounting policies set out in note 4.

The financial statements for the current period cover the 12 months period from 1 January 2005 to 31 December 2005. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, cash flows and related notes cover a 13 months period from 1 December 2003 to 31 December 2004 and therefore may not be comparable with the amounts shown for the current year. The period covered by the 2004 consolidated financial statements was greater than 12 months because the directors of the Company determined to bring the balance sheet date in line with that adopted by most of the companies in Hong Kong, Macau and the Mainland China.

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

Notes to Financial Statements

31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In current year, the Group has applied, for the first time, a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. The application of the new and revised HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new and revised HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

(a) Goodwill

In prior periods, goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment. Upon the adoption of HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", goodwill is not subject to amortisation but is tested annually for impairment, including in the year of its arisen in a business combination, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The new policy has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the current year. This has increased the Group's profit after tax for the current year by HK$855,000.

(b) Investment properties

In prior periods, the Group's share of changes in the fair value of the jointly controlled entity's investment properties were recognised as a share of investment property revaluation reserve and any related deferred tax was also recognised against the investment property revaluation reserve. The tax rate for determining whether any amounts of deferred tax should be recognised on the revaluation of investment properties would be the tax rate applicable to the sale of such investment properties.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Investment properties *(Continued)*

The Group has adopted HKAS 40 "Investment Property" and HKAS Interpretation 21 "Income Taxes — Recovery of Revalued Non-depreciation Assets" in the current year. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise, while under HKAS Interpretation 21 the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. Upon adoption of HKAS 40 and HKAS Interpretation 21, the Group's share of changes in the fair value of the jointly controlled entity's investment properties and any related deferred tax are recognised directly in the income statement. The tax rate for determining whether any amounts of deferred tax should be recognised on the revaluation of investment properties will be the tax rate applicable to the use of such investment properties, if the jointly controlled entity has no intention to sell such investment properties and such investment properties would have been depreciable had the jointly controlled entity accounted for the properties under HKAS 16 "Property, Plant and Equipment".

These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained profits as of 1 January 2005 by HK$61,680,000 (1 December 2003: nil) to include all of the previous changes, after deducting the related deferred tax, in the fair value of the jointly controlled entity's investment properties shared by the Group, reducing the opening balance of interest in jointly controlled entities as of 1 January 2005 by HK$808,000 (1 December 2003: nil) and reducing the opening balance of investment property revaluation reserve as of 1 January 2005 by HK$62,488,000 (1 December 2003: nil). As a result of this new policy, the Group's profit after tax for the year ended 31 December 2005 has increased by HK$420,225,000 (1 December 2003 — 31 December 2004: HK$61,680,000) of which HK$105,047,000 (1 December 2003 — 31 December 2004: nil) is the increase in the change in fair change of properties and its related deferred tax of HK$17,648,000 (1 December 2003 — 31 December 2004: nil) and HK$332,826,000 is net increase in the share of result of the jointly controlled entities (1 December 2003 — 31 December 2004: HK$61,680,000).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Leasehold land and buildings held for own use

In prior years, the leasehold land and buildings held for own use was accounted for at cost less accumulated depreciation and accumulated impairment, if any, and was included in the property, plant and equipment.

Upon the adoption of HKAS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be split reliably between land and buildings, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between land and buildings elements can be made reliably, the leasehold land are reclassified to prepaid lease payments use under operating lease, which are carried at cost and amortised on a straight-line basis over the lease term and are subject to impairment test, whereas the leasehold buildings are stated at cost less accumulated depreciation and impairment losses.

The new accounting policy has been applied retrospectively with the balances of leasehold land reclassified from property, plant and equipment to prepaid lease payments under operating lease. Apart from certain presentational changes with comparatives restated, this change in accounting policy does not have any material effect on the financial statements.

(d) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

Upon the adoption of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) Minority interests *(Continued)*

The presentation of minority interests in the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity for the comparative period has been restated accordingly.

(e) Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(e) Financial Instruments *(Continued)*

Classification and measurement of financial assets and financial liabilities (Continued)

On 1 January 2005, the Group reclassified its other investments to held for trading investments. The reclassification has had no material impacts to the Group.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified into one of the four categories. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair value would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. There has been no material effect as the Group had no outstanding derivative as at 31 December 2004.

As a result of these new polices, the Group's change in fair value of derivative financial instruments for the year ended 31 December 2005 has increased by HK$657,000 (1 December 2003 — 31 December 2004: nil).

Notes to Financial Statements

31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) The effects of the changes in accounting policies described above on the results of the current year and of the prior period are as follows:

	Year ended 31 December 2005	From 1 December 2003 to 31 December 2004
	HK$'000	*HK$'000*
Decrease in administrative expenses *(note 3(a))*	**855**	—
Increase in share of results of jointly controlled entities *(note 3(b))*	**332,826**	61,680
Gain arising from a change in fair value of investment properties *(note 3(b))*	**105,047**	—
Increase in income tax expenses *(note 3(b))*	**(17,648)**	—
Gain arising from a change in fair value of derivative financial instruments *(note 3(e))*	**657**	—
Increase in profit for the year/period	**421,737**	61,680
Increase in earnings per share		
— Basic	**34.43 cents**	12.96 cents
— Diluted	**29.90 cents**	9.47 cents

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(ii) The cumulative effects of the changes in accounting policies described above on the assets, liabilities, minority interests and equities as at 31 December 2004 are as follows:

	Originally stated *HK$'000*	Adjustments *HK$'000*	Restated *HK$'000*
Interests in jointly controlled entities *(note 3(b))*	298,067	(808)	297,259
Prepaid lease payments — non-current *(note 3(c))*	—	117,037	117,037
Property, plant and equipment *(note 3(c))*	154,523	(119,857)	34,666
Prepaid lease payments — current *(note 3(c))*	—	2,820	2,820
Total effects on assets and liabilities	452,590	(808)	451,782
Retained profits *(note 3(b))*	31,293	61,680	92,973
Investment properties revaluation reserve *(note 3(b))*	62,488	(62,488)	—
Minority interests *(note 3(d))*	—	40,728	40,728
Total effects on equities	93,781	39,920	133,701
Minority interests *(note 3(d))*	40,728	(40,728)	—

No financial effects from the changes in accounting policies to the Group's equity on 1 December 2003 is noted.

Notes to Financial Statements

31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

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 2005. 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]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

Notes to Financial Statements

31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 January 2005 to 31 December 2005 in the current year and for the period from 1 December 2003 to 31 December 2004 for the prior period. 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.

Minority interests represent the interests of shareholders other than the Group in the net assets of the Company's subsidiaries.

Goodwill

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Jointly controlled assets

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.

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 the 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.

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. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets other than goodwill

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.

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 and loss are recognised immediately in income statement.

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.

Notes to Financial Statements

31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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 amount due to a related company 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.

Inventories

Properties held for sale and land held for 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 realisable value of land held for future development represents the estimated selling price less costs to be incurred in development and selling of the properties.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred tax

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 with 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 substantially enacted by 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 continuity 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;

— 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.

5. 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 2005			
	Properties *HK$'000*	Ice and Cold Storage *HK$'000*	Investments and Others *HK$'000*	Consolidated *HK$'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
Gain arising from a 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 after tax				489,138
Depreciation and amortisation	2	4,388	–	4,408
Capital expenditure incurred — others	–	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 2005

5. 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 2005

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	From 1 December 2003 to 31 December 2004			
	Properties	Ice and Cold Storage	Investments and Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		(restated)
Turnover	38,270	5,043	109,569	152,882
Segment result	14,072	2,006	16,437	32,515
Unallocated group expenses				(7,460)
Profit from operations				25,055
Share of results of jointly controlled entities	61,668			61,668
Finance costs				(249)
Profit before tax				86,474
Income tax expenses				(4,213)
Profit after tax				82,261
Depreciation and amortisation	—	604	—	623
Capital expenditure incurred				
— through acquisition of subsidiaries	—	51,852	—	51,852
— others	11	—	—	38
Gain arising from a change in fair value of held for trading investments	—	—	7,622	7,622

Notes to Financial Statements

31 December 2005

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	At 31 December 2004			
	Properties	Ice and Cold Storage	Investments and Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)			(restated)
Segment assets	302,437	176,914	76,068	555,419
Interests in jointly controlled entities	297,259			297,259
Unallocated group assets				9,713
				862,391
Segment liabilities	2,805	6,563	605	9,973
Unallocated group liabilities				196,669
				206,642

Notes to Financial Statements

31 December 2005

6. TURNOVER AND OTHER OPERATING INCOME

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

	Year ended 31 December 2005 *HK$'000*	From 1 December 2003 to 31 December 2004 *HK$'000*
Turnover		
Sale of goods	**27,768**	2,458
Sale of properties	**55,127**	38,270
Service income	**17,205**	2,585
Proceeds from sale of trading securities	**96,727**	109,569
	196,827	152,882
Other operating income		
Unrealised gain on investments	**—**	7,622
Rental income	**6,273**	1,514
Dividend income from listed securities	**1,538**	1,498
Consultancy service fee income	**240**	553
Bank interest income	**432**	—
Interest income from held-to-maturity debt security	**88**	—
Gain arising from a change in fair value of derivative financial instruments, net	**1,203**	—
Others	**1,317**	110
	11,091	11,297

7. PROFIT FROM OPERATIONS

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

	Year ended 31 December 2005 ***HK$'000***	From 1 December 2003 to 31 December 2004 *HK$'000*
Staff costs (excluding directors' remuneration):		
Wages and salaries	**11,820**	2,868
Contributions to retirement benefit scheme	**498**	272
	12,318	3,140
Depreciation of property, plant and equipment	**1,588**	163
Amortisation of prepaid lease payments	**2,820**	353
Minimum lease payments under operating leases in respect of land and buildings	**1,017**	706
Auditors' remuneration	**948**	640
Amortisation of goodwill as included in administrative expenses	**—**	107
Cost of inventories recognised as expenses	**15,398**	21,803
Exchange (gain) loss	**(29)**	6
Loss on disposal of property, plant and equipment	**1**	—
Direct operating expenses arising from investment properties that did not generate rental income	**363**	—
Share of tax of a jointly controlled entity (included in share of results of jointly controlled entities)	**67,276**	12,489
Unrealised loss on held for trading investments	**2,445**	—

Notes to Financial Statements

31 December 2005

8. 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 2005

	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yeung Kwok Kwong	—	1,800	150	1,950
Ms. Wong Yuk Ching	60	—	—	60
Mr. Lam Chi Chung, Tommy	—	318	3	321
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

Period from 1 December 2003 to 31 December 2004:

	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yeung Kwok Kwong	—	1,950	161	2,111
Ms. Wong Yuk Ching	40	—	—	40
Mr. Zhou Ge	—	480	4	484
Mr. Lai Ka Fai	40	—	—	40
Mr. Anthony Francis Martin Conway	40	—	—	40
Mr. Siu Leung Yau	40	—	—	40
	160	2,430	165	2,755

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The five highest paid individuals during the year ended 31 December 2005 included one (1 December 2003 — 31 December 2004: two) director, details of whose remuneration are set out above. Details of the remuneration of the remaining four (1 December 2003 — 31 December 2004: three) non-director, highest paid individuals are as follows:

	Year ended 31 December 2005 *HK$'000*	From 1 December 2003 to 31 December 2004 *HK$'000*
Salaries and other benefits	**2,118**	1,173
Performance bonuses	**299**	334
Provident fund contributions	**48**	36
	2,465	1,543

The remuneration of each of the remaining four (1 December 2003 — 31 December 2004: three) non-director, highest paid individuals fell within the nil — HK$1,000,000 band for the current year and the prior period.

9. FINANCE COSTS

	Year ended 31 December 2005 *HK$'000*	From 1 December 2003 to 31 December 2004 *HK$'000*
Interest expense on:		
Bank and other loans wholly repayable within five years	**2,803**	82
Advances from minority shareholders with no fixed repayment terms	**634**	167
	3,437	249

Notes to Financial Statements

31 December 2005

10. INCOME TAX EXPENSES

	Year ended 31 December 2005 *HK$'000*	From 1 December 2003 to 31 December 2004 *HK$'000*
Current tax		
— Hong Kong Profits Tax	611	2,116
— Overseas income tax	4,491	2,194
	5,102	4,310
Deferred tax		
— Current year	17,944	(97)
— Attributable to a change in tax rate	(3,946)	—
	13,998	(97)
	19,100	4,213

Hong Kong Profits Tax has been provided for at the rate of 17.5% (1 December 2003 — 31 December 2004: 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, where tax rate was decreased from 15.75% to 12% in 2005. The effect of this decrease has been reflected in the calculation of deferred tax balances at 31 December 2005.

Notes to Financial Statements

31 December 2005

10. INCOME TAX EXPENSES *(Continued)*

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

	Year ended 31 December 2005 HK$'000	From 1 December 2003 to 31 December 2004 HK$'000
Profit before tax	**508,328**	86,474
Tax charges at the average income tax rate	**91,739**	16,332
Tax effect of share of results of jointly controlled entities	**(67,276)**	(12,489)
Tax effect of expenses not deductible in determining taxable profit	**401**	181
Tax effect of income not taxable in determining taxable profit	**(993)**	(320)
Utilisation of tax losses previously not recognised	**(1,330)**	(509)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate in other jurisdiction	**(3,946)**	—
Others	**505**	1,018
Income tax expense for the year/period	**19,100**	4,213

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.

Notes to Financial Statements

31 December 2005

11. PROFIT/LOSS ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$25,603,000 (1 December 2003 — 31 December 2004: loss of HK$5,831,000).

12. 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:

	Year ended 31 December 2005 *HK$'000*	From 1 December 2003 to 31 December 2004 *HK$'000* (restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**477,414**	78,799
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,224,965,169**	475,802,608
Effect of dilutive potential ordinary shares: Convertible preference shares	**185,760,905**	175,365,596
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,410,726,074**	651,168,204

The comparative amount of earnings per share has been restated, as the profit attributable to the equity holders of the Company in prior period has been adjusted to reflect the changes in accounting policies during the year as explained in note 3.

Notes to Financial Statements

31 December 2005

13. DIVIDENDS

The final dividend of HK2 cents (1 December 2003 — 31 December 2004: nil) per share, totalling HK$24,596,000 (1 December 2003 — 31 December 2004: nil), has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 December 2003	—	—	267	—	267
Additions	—	—	38	—	38
Acquisition of subsidiaries	32,790	1,520	277	164	34,751
Written off	—	—	(48)	—	(48)
At 31 December 2004 and 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	32,790	4,853	1,515	504	39,662
Accumulated depreciation:					
At 1 December 2003	—	—	227	—	227
Depreciation provided during the period	96	38	25	4	163
Eliminated on written off	—	—	(48)	—	(48)
At 31 December 2004 and 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	865	578	371	93	1,907
Carrying values:					
At 31 December 2005	31,925	4,275	1,144	411	37,755
At 31 December 2004	32,694	1,482	330	160	34,666

Notes to Financial Statements

31 December 2005

15. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
Prepaid lease payments in medium-term leasehold land in Hong Kong:		
Included in current asset	**2,820**	2,820
Included in non-current asset	**114,217**	117,037
	117,037	119,857

16. INVESTMENT PROPERTIES

	HK$'000
Fair Value	
At 1 December 2003 and 1 January 2005	—
Transfer from properties held for sale	44,953
Increase in fair value recognised in the income statement	105,047
At 31 December 2005	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.

The fair value of the Group's investment properties at 31 December 2005 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 have 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.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 HK$'000	2004 HK$'000 (restated)
Investment cost	12	12
Share of post acquisition profit	394,494	61,668
	394,506	61,680
Loans to jointly controlled entities *(Note i)*	–	27,750
Amount due from jointly controlled entities *(Note ii)*	–	233,579
	394,506	323,009
Provision against a loan to a jointly controlled entity	–	(25,750)
	394,506	297,259

Notes:

(i) As at 31 December 2004, a loan of HK$2,000,000 to a jointly controlled entity was unsecured, interest free and had no fixed repayment terms and the other loan of HK$25,750,000 to a jointly controlled entity would not be repaid until approval from all of the shareholders of the relevant jointly controlled entity was obtained.

(ii) The amounts due from jointly controlled entities were unsecured, interest free and had no fixed repayment terms.

As at 31 December 2004, in the opinion of the directors, repayment will not be required in the next twelve months and, accordingly, the amounts were shown as non-current.

As at 31 December 2005, in the opinion of the directors, the amounts are expected to be repayable within one year and, accordingly, the amounts are re-classified as current as disclosed in Note 18.

The carrying values of these amounts approximate their fair values at 31 December 2004.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of the jointly controlled entities at 31 December 2005 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
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:

	Year ended 31 December 2005 *HK$'000*	Period ended to 31 December 2004 *HK$'000*
Income	**2,897**	718
Expenses	**3,614**	1,098
Profit for the year/period	**665,638**	123,324

Notes to Financial Statements

31 December 2005

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

	At 31 December 2005	At 31 December 2004
Non-current assets	**1,444,855**	618,053
Current assets	**789**	611
Current liabilities	**(489,054)**	(1,559)
Non-current liabilities	**(167,630)**	(493,783)
Net assets	**788,960**	123,322

18. 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 2005.

Notes to Financial Statements

31 December 2005

19. GOODWILL

	The Group *HK$'000*
Cost:	
At 1 December 2003	—
Arising on acquisitions of subsidiaries	17,101
At 31 December 2004 and 1 January 2005	17,101
Elimination of accumulated amortisation upon the application of HKFRS 3	(107)
At 31 December 2005	16,994
Amortisation:	
At 1 December 2003	—
Charge for the period	107
At 31 December 2004 and 1 January 2005	107
Elimination of accumulated amortisation upon the application of HKFRS 3	(107)
At 31 December 2005	—
Carrying value	
At 31 December 2005	16,994
At 31 December 2004	16,994

Until 31 December 2004, goodwill had been amortised over its estimated useful life for 20 years.

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 2005, management of the Group determines that there are no impairments of the CGU containing goodwill.

19. GOODWILL *(Continued)*

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 11.24%. 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.

20. HELD FOR TRADING INVESTMENTS

	2005	2004
	HK$'000	*HK$'000*
Equity securities held for trading		
— listed in Hong Kong	**31,191**	75,563
— listed outside Hong Kong	**15,310**	—
	46,501	75,563

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.

21. HELD-TO-MATURITY DEBT SECURITY

The amount represents quoted treasury bill outside Hong Kong with fixed interest of 3.87% and maturity date on 2 March 2006.

Notes to Financial Statements

31 December 2005

22. DERIVATIVES FINANCIAL INSTRUMENTS

	2005		2004	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Over-the-counter contingent forward transaction	1,399	–	–	–
Interest rate swap	–	742	–	–
	1,399	742	–	–

Over the counter contingent forward transaction

The Group has entered into a forward agreement to purchase certain listed equity securities at a fixed price over a 52-weeks period from the date of the agreement. According to the agreement, the purchase commitment of the Group will be terminated when the market price of the equity securities rises to a pre-determined amount. As at the balance sheet date, the remaining purchase commitment of the Group under the agreement was HK$48,521,000.

Interest rate swap

The Group has entered into a swap agreement which may be callable by the counter party of the swap agreement. According to the swap agreement, the Group will 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 the balance sheet date, the remaining duration of the swap agreement was 9.7 years.

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.

Notes to Financial Statements

31 December 2005

23. INVENTORIES

	2005 HK$'000	2004 HK$'000
Properties held for sale	88,533	148,883
Properties under development for sale *(Note)*	159,735	151,583
	248,268	300,466

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 2005, the aggregate amount of assets recognised in the financial statements in relation to interests in jointly controlled assets is HK$6,202,000 (2004: nil).

The remaining balance of HK$153,533,000 (2004: HK$151,583,000) 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

	2005 HK$'000	2004 HK$'000
Ageing analysis of trade receivables:		
Within 30 days	2,034	1,597
31 days to 60 days	898	918
61 days to 90 days	800	657
Over 90 days	157	1,027
Trade receivables	3,889	4,199
Other receivables	10,673	4,114
	14,562	8,313

Notes to Financial Statements

31 December 2005

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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 2005 was approximate to the corresponding carrying amount.

25. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by the Group and bank deposits carrying at prevailing market interest rate. The carrying amount of these assets approximates their fair value at the balance sheet date.

26. OTHER PAYABLES

The fair value of the Group's other payables at 31 December 2005 was approximate to the corresponding carrying amount.

27. BANK LOANS

The secured bank loans were repayable over 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:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**15,050**	12,050
In the second year	**18,000**	15,050
In the third to fifth years inclusive	**54,700**	72,700
	87,750	99,800
Less: Amounts repayable within one year shown under current liabilities	**(15,050)**	(12,050)
Amount due after one year	**72,700**	87,750

The fair value of the Group's bank loans as at 31 December 2005 was approximate to the corresponding carrying amount.

28. DEFERRED TAXATION

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

	Accelerated depreciation allowances HK$'000	Revaluation of assets HK$'000	Total HK$'000
At 1 December 2003	—	—	—
Acquisition of subsidiaries	2,994	30,710	33,704
Credit to income statement	(97)	—	(97)
At 31 December 2004 and 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	3,460	44,145	47,605

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$10,262,000 (2004: HK$15,561,000) available for offset against future profits of which HK$45,000 (2004: HK$39,000) will be expired in 2008 and HK$379,000 (2004: Nil) will be expired in 2009 and the remaining losses may be carried forward indefinitely.

29. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'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:		
1,229,814,484 (2004: 1,219,814,484) fully paid ordinary shares of HK$0.1 each	**122,982**	121,982
3,703,590,076 (2004: 3,851,300,000) partly paid convertible preference shares of HK$0.01 each	**3,703**	3,851
	126,685	125,833

(a) Capital reorganisation

During the period from 1 December 2003 to 31 December 2004, the Company implemented a capital reorganisation scheme, which involves:

— a reduction (the "Capital Reduction") in the par value of each existing ordinary share of HK$0.01 in issue to HK$0.005 each (the "Reduced Share") and the application of HK$30,495,000 of the credit arising to eliminate the accumulated losses of the Company;

— a consolidation of (i) every 20 Reduced Shares into one consolidated share of which par value is HK$0.1 each ("Consolidated Share") and (ii) every 10 unissued ordinary shares of HK$0.01 each into one unissued consolidated ordinary share of which par value is HK$0.1 each;

29. SHARE CAPITAL *(Continued)*

(a) Capital reorganisation *(Continued)*

— the cancellation of the share premium of HK$118,818,000 and the application of the same amount of the credit arising to eliminate the accumulated losses of the Company; and

— the cancellation of the capital reserve amounting to HK$59,789,000 and the application of the same amount of the credit arising to eliminate the accumulated losses of the Company.

(b) Issue of capital

On 24 March 2004, 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$2,676,000 to the Company to pay up 148,700,000 10% partly paid CPS in full. On the same day, the Immediate Holding Company exercised the conversion right of CPS to convert 148,700,000 fully paid CPS into 148,700,000 fully paid ordinary shares of HK$0.01 each.

On 18 June 2004, the Company issued 304,953,621 Consolidated Shares by way of a rights issue at a subscription price of HK$0.5 each on the basis of one rights share for every one Consolidated Share held by the shareholders on 28 May 2004 (the "First Rights Issue"). The proceeds from the First Rights Issue of HK$152,477,000, before related expenses were received by the Company.

On 29 November 2004, the Company issued 609,907,242 Consolidated Shares by way of a rights issue at a subscription price of HK$0.55 each on the basis of one rights share for every one Consolidated Share held by the shareholders on 9 November 2004 (the "Second Rights Issue"). The proceeds from the Second Rights Issue of HK$335,449,000, before related expenses were received by the Company.

On 27 June 2005, the Immediate Holding Company contributed HK$2,658,779 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 Consolidated Shares.

29. SHARE CAPITAL *(Continued)*

(c) CPS

In previous year, 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 convertible preference shares.

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 shares 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 the First 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 has been adjusted to 14.771 fully paid CPS for one Consolidated 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 convertible preference shares 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 convertible preference shares 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.

29. SHARE CAPITAL *(Continued)*

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

(i) Ordinary shares

	Number of ordinary shares of HK$0.01 each	Number of ordinary shares of HK$0.10 each	Amount *HK$'000*
Authorised ordinary shares:			
At 1 December 2003	100,000,000,000	–	1,000,000
Consolidation of 10 existing ordinary shares of HK$0.01 each into 1 ordinary share of HK$0.10 each	(100,000,000,000)	10,000,000,000	–
At 31 December 2004 and 31 December 2005	–	10,000,000,000	1,000,000
Issued and fully paid ordinary shares:			
At 1 December 2003	5,950,372,434	–	59,504
Conversion of CPS	148,700,000	–	1,487
The Capital Reduction and consolidation of 20 existing ordinary shares of HK$0.005 each into 1 ordinary share of HK$0.10 each	(6,099,072,434)	304,953,621	(30,495)
The First Rights Issue	–	304,953,621	30,495
The Second Rights Issue	–	609,907,242	60,991
At 31 December 2004 and 1 January 2005	–	1,219,814,484	121,982
Conversion of CPS	–	10,000,000	1,000
At 31 December 2005	–	1,229,814,484	122,982

Notes to Financial Statements

31 December 2005

29. SHARE CAPITAL *(Continued)*

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

(ii) CPS

	Number of CPS	Amount *HK$'000*
Authorised CPS:		
At 31 December 2004,		
and 31 December 2005	5,000,000,000	50,000

	Number of CPS partly paid	Number of CPS fully paid	Amount *HK$'000*
Issued CPS:			
At 1 December 2003	4,000,000,000	–	4,000
Fully paid up of the CPS	(148,700,000)	148,700,000	1,338
Conversion into ordinary shares	–	(148,700,000)	(1,487)
At 31 December 2004			
and 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 ordinary shares	–	(147,709,924)	(1,477)
At 31 December 2005	3,703,590,076	–	3,703

30. 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.

30. SHARE OPTIONS *(Continued)*

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.

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.

30. SHARE OPTIONS *(Continued)*

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 2005.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	From 1 December 2003 to 31 December 2004 *HK$'000*
Net assets acquired:	
Property, plant and equipment	34,751
Prepaid lease payments	120,210
Amount due from a jointly controlled entity	63,750
Inventories	151,583
Trade and other receivables	24,949
Cash and bank balances	6,003
Other payables	(7,630)
Loans advanced	(288,024)
Tax payable	(261)
Deferred taxation	(33,704)
	71,627
Goodwill	17,101
Minority interests	(37,266)
	51,462
Satisfied by cash:	
For the acquisition of net assets	51,462
For the acquisition of loans advanced	262,689
	314,151

Notes to Financial Statements

31 December 2005

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

(a) Acquisition of subsidiaries *(Continued)*

An analysis of the net outflow of cash and bank balances in respect of the acquisition of subsidiaries is as follows:

	From 1 December 2003 to 31 December 2004 *HK$'000*
Cash consideration	(314,151)
Cash and bank balances acquired	6,003
Net outflow of cash and bank balances in respect of the acquisition of subsidiaries	(308,148)

The subsidiaries acquired during the period from 1 December 2003 to 31 December 2004 contributed HK$43,313,000 to the Group's turnover and a profit of HK$8,660,000 to the profit attributable to shareholders for the period.

(b) Major non-cash transactions

During the period from 1 December 2003 to 31 December 2004, 350,689,349 Consolidated Shares were issued and allotted to the Immediate Holding Company under the Second Rights Issue through a setting-off arrangement pursuant to the underwriting agreement for the Second Rights Issue. Under the setting-off arrangement, the subscription monies for the 350,689,349 Consolidated Shares of HK$192,879,000 were set off against the loans due to the Immediate Holding Company.

Notes to Financial Statements

31 December 2005

32. CAPITAL COMMITMENTS

As at 31 December 2005, the Group's capital commitments in respect of acquisition of property, plant and equipment not provided for in the accounts were as follows:

	2005	2004
	HK$'000	*HK$'000*
Contracted for	–	951
Authorised but not contracted for	–	2,631
	–	3,582

33. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005 and the period from 1 December 2003 to 31 December 2004, the Group had the following transactions with related parties:

(i) During the year ended 31 December 2005, the Group received consultancy service fee income of HK$240,000 (1 December 2003 — 31 December 2004: HK$260,000) 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 repayable on demand, of which HK$12,489,000 (2004: HK$27,639,000) was bearing interest at prevailing market rates and HK$19,435,000 (2004: HK$19,435,000) was interest free. During the year ended 31 December 2005, interest of HK$634,000 (1 December 2003 — 31 December 2004: HK$167,000) was payable to such minority shareholders.

(iii) During the year ended 31 December 2005, the Group paid rental expenses and building management fees amounting to HK$669,000 (1 December 2003 — 31 December 2004: HK$761,000) in aggregate to an intermediate holding company for the leasing of an administrative office in Hong Kong.

(iv) During the year ended 31 December 2005, the remuneration of key management being directors' short term benefits amount to HK$2,571,000 (1 December 2003 — 31 December 2004: HK$2,755,000). The remuneration of directors is determined by having regard to the performance of individuals and market trends.

33. RELATED PARTY TRANSACTIONS *(Continued)*

(v) As at 31 December 2005, a director of the Ultimate Holding Company granted a guarantee to a bank to secure the liabilities of the Group to the extent of HK$22,000,000 (2004: Nil).

(vi) During the period from 1 December 2003 to 31 December 2004, the Ultimate Holding Company entered into a sale and purchase agreement with the Group to transfer of the entire interest in Success Ever Limited for the consideration of HK$63,750,000 which represents the par value of the acquired share capital plus the face value of outstanding loans due from Success Ever Limited to the Ultimate Holding Company. The arrangement was to enable the Group to acquire a 50% interest in a substantial part of a commercial building at Rua do Dr. Pedro Jose Lobo, Av. Do Infante D. Henrique, and Av. Doutor Mario Soares in Macau together with an independent third party for a consideration of HK$212,500,000.

(vii) During the period from 1 December 2003 to 31 December 2004, the Group entered into a sale and purchase agreement with the Ultimate Holding Company for the acquisition of the entire interests in Sinocharm Trading Limited in turn to acquire the entire interests in The Hong Kong Ice & Cold Storage Company Limited, a leading crushed tube ice manufacturer in Hong Kong, for the consideration of HK$158,000,000 which represents the par value of the acquired share capital plus the face value of outstanding loans due from Sinocharm Trading Limited to the Ultimate Holding Company.

(viii) During the period from 1 December 2003 to 31 December 2004, the Company, the Immediate Holding Company and a company (the "Underwriter") beneficially owned by a director of the Ultimate Holding Company, entered into underwriting agreements relating to the First Rights Issue and the Second Rights Issue. Pursuant to the underwriting agreements, an underwriting commission of HK$1,380,000 for the First Rights Issue and HK$2,878,000 for the Second Rights Issue, being 2% of the total subscription price of the rights shares underwritten by the Underwriter, were paid to the Underwriter. Pursuant to the underwriting agreements, the Immediate Holding Company also undertook to subscribe 166,923,012 Consolidated Shares for the First Rights Issue and 348,286,025 Consolidated Shares for the Second Rights Issue. As the Immediate Holding Company also applied for excess rights shares, on completion of the rights issues, 181,363,013 Consolidated Shares for the First Rights Issue and 350,689,349 Consolidated Shares for the Second Rights Issue were issued and allotted to the Immediate Holding Company.

Notes to Financial Statements

31 December 2005

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 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**209**	662
In the second to fifth years inclusive	**–**	91
	209	753

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 2005, total future minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**4,038**	–
In the second to fifth years inclusive	**3,330**	–
	7,368	–

Notes to Financial Statements

31 December 2005

35. PLEDGE OF ASSETS

As at 31 December 2005, 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$117,037,000 (2004: HK$119,857,000);

(b) legal charge over all of the Group's buildings with an aggregate net book value of HK$31,925,000 (2004: HK$32,694,000);

(c) the pledge of certain short term investments of the Group of HK$54,184,000 (2004: HK$75,563,000);

(d) the pledge of all interest in derivative financial instruments of the Group of HK$1,399,000 (2004: Nil);

(e) floating charge over certain receivables of the Group of HK$10,770,000 (2004: HK$5,457,000); and

(f) floating charge over certain cash in bank of the Group of HK$12,406,000 (2004: HK$4,032,000).

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 amortization

The Group's carrying value of plant and equipment as at 31 December 2005 was HK$5,830,000. 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 equipment is placed into intended use. The estimated useful life and dates that the Group places the 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, equipment.

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 2005, the carrying amount of goodwill is HK$16,994,000. Details of the recoverable amount calculation are disclosed in note 18.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank loans, trade receivables, amounts due from jointly controlled entities, cash and bank balances, investments, other receivables, amount due to minority interest and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Cash flow interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 27. 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 arised.

(ii) 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.

Notes to Financial Statements

31 December 2005

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

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 2005 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.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2005 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

Notes to Financial Statements

31 December 2005

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:				
Acestart Investments Limited	British Virgin Islands/ Macau	US$1	70.5%	Property trading and investment
Century Leader Profits Limited	British Virgin Islands	US$1	100%	Inactive
Genius Star Investments Limited	British Virgin Islands/Macau	US$1	100%	Financial investment
Glentech International Company Limited	Hong Kong	HK$2	100%	Provision of consultancy services
Hin Rich International Limited	British Virgin Islands/ Macau	US$1	58%	Property trading and 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

Notes to Financial Statements

31 December 2005

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)*				
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
Profit Sphere International Limited	British Virgin Islands	US$1	100%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	HK$2	100%	Property 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.

Particulars of Properties

31 December 2005

Property	Purpose	Gross floor area	Group interest (%)	Stage of completion	Expected completion date
Properties held for sale of the Group:					
37 shop units, 38 office units and 177 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	12,830.27 square metres and 177 carparking spaces	70.5	Completed	N/A
Land 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 square metres	58	Not yet started construction	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 in progress	2006
Land held for development for sale of the jointly controlled entities:					
Lots no. 722, 725 and 726 in Demarcation District No. 171 and Lot No. 67 and half share of Lots no. 12 and 16 in Demarcation District No. 175, Kau To Shan, Shatin, New Territories, Hong Kong	Residential	1,204.46 square metres	48	Superstructure in progress	2006

Particulars of Properties

31 December 2005

Property	Purpose	Gross floor area	Group interest (%)	Category of lease
Investment properties of the Group:				
38 shop units and 14 carparking spaces of Va Iong at Praca da Amizade Nos. 6-52, Avendia 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 a commercial building at 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