

CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

Driven by a strong rebound of the Hong Kong economy, the property market entered a healthy growth over the past year. Under such favourable condition, the two cold storage facilities located in Kwai Chung were sold for \$650 million, giving the Group the opportunity to repay all its existing bank loans and thus substantially improve its liquidity. However, the recovery of local economy failed to act as a catalyst for improvement in the public housing construction industry. One of the Group's core business segments, Autoclaved Aerated Lightweight Concrete ("ALC"), continued to downsize in 2005 and the Board finally decided to discontinue this operation at the beginning of 2006. The reasons of downsizing and disposal will be discussed in more detail in the analysis. The business results for 2005 are, then, as follows:

FINANCIAL PERFORMANCE

In 2005, the Group's turnover was approximately HK\$97 million, representing a 11% decrease over the previous year. Net loss attributable to shareholders was approximately HK\$73 million (as compared to HK\$86 million net profit in 2004). This significant decline in profit was due primarily to the creation of rental payment as a result of the sale and lease back arrangement and the disposal of the two cold storage warehouses as disclosed in the circular of the Company dated 20th January, 2005 of approximately HK\$14 million and the impairment loss arising from adjustment to fair value less costs to sell of HK\$75 million.

BUSINESS REVIEW

Property investment

The two cold storage warehouse properties in Kwai Chung (the "Properties") contributed HK\$5 million to turnover and HK\$5 million to profit to the Group from January to mid-February before the completion of disposal of the Properties. As explained in the circular of the Company dated 20th January, 2005, the disposal of the Properties improved the financial position of the Group by reducing the gearing of the Group to a healthy level and at the same time increases the cash and reserve of the Group for future expansion.

Sub-leasing

The sub-leasing arrangement contributed HK\$36 million to turnover and HK\$14 million to the loss for the year.

The sub-leasing of the Properties were an integral part of the disposal of the Properties under which, one of the subsidiaries of the Group leased the Properties from the landlord for fourteen years with rental review in every three-year period and sub-leased the Properties to Best Merchant Group (the "Tenant") also for fourteen years and also with a rental review in every three-year period. Under the sub-leasing arrangement, the Group received HK\$3,350,000 per month from the Tenant from 15th February, 2005 to

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30th November, 2005 and thereafter HK\$4,739,600 per month until 14th February, 2008, nevertheless the Group paid HK\$4,739,600 per month to the landlord from 15th February, 2005 to 14th February, 2008. The difference of the rent received and the rent paid during the period from 15th February, 2005 to 30th November, 2005 of approximately HK\$14 million significantly affected the result of the Group for the year.

The directors, anticipates the sub-leasing arrangement may benefit the Group after 15th February, 2008 when the first rental review takes place.

Autoclaved Aerated Lightweight Concrete ("ALC") Business

The ALC business registered a turnover of HK\$56 million, which represented a 18% decrease compared to the previous year (2004: HK\$68.1 million). It is to be noted that turnover in this business sector has decreased year on year since 2003. It has fallen from HK\$84 million in 2003, to HK\$68.1 million in 2004, and now finally to HK\$56 million in 2005.

The production of ALC blocks and panels is one of the Group's core business, which accounts for the majority of its overall turnover previously. However, with continuous contracting in turnover and profit, the directors decided to cease operating in the building materials sector.

There are many reasons why the ALC business continued to downsize, among others, including firstly the Hong Kong Housing Authority endorsed resale of surplus Home Ownership Scheme flats from 2007 onwards, thus reducing the construction of Home Ownership Scheme flats in future. Secondly, the construction of public rental house flats is actually falling. According to the Hong Kong Housing Authority's website, the number of public rental house flats constructed is expected to fall from 21,000 units in 2005 to 15,600 units per year for the next five years. As ALC product mainly supplied to the construction of Home Ownership Scheme flats and public rental house flats, it was the opinion of the Board that profits and operational turnover were unlikely to improve in 2006. In an ever-competitive market, material prices also drove to the detriment of our profit margins. Furthermore, tapping into the Macau market has not yet been materialised. It became apparent that the ALC business was no longer economically viable. The Board would rather re-direct the resources to other viable business opportunity using the proceeds from the disposal of this business segment.

LIQUIDITY & FINANCIAL RESOURCES

For the year ended 31st December, 2005 the Group recorded net current assets of HK\$226 million, of which approximately HK\$206 million is cash and bank deposits. Current liabilities were HK\$15 million. The gearing ratio was just 3.3%. With regard to foreign currency exposure, the monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider that the Group's exposure to the exchange rate risk is not significant.

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EMPLOYMENT & REMUNERATION POLICY

For the year ended 31st December, 2005, the Group had 44 employees, all of whom were located in Hong Kong. The Group provides a remuneration package to employees including employer voluntary contribution under the Mandatory Provident Fund Scheme and various allowances.

FUTURE PROSPECTS

With Gross Domestic Product on the Mainland China expected to grow by 8–9% in 2006, according to the National Bureau of Statistics, the economic climate should be highly favourable and opportunities continue to develop throughout the Pearl River Delta region. Hong Kong as the southern doorstep of Mainland China is perfectly positioned and equipped to capitalise on the economic expansion. The Closer Economic Partnership Arrangement lays the foundation for business platform that reaffirms the role of Hong Kong in the Mainland China's next phase of economic development. Therefore, the directors believe that the demand for cold storage warehousing facilities and logistics services will offer an optimistic prospect for 2006. In early January 2006, the Group completed an acquisition of Best Merchant Limited and its subsidiaries Brilliant Top In Logistics Limited and Brilliant Cold Storage Management Limited (the "Best Merchant Group") at a consideration of HK\$56 million. The Group will continue to provide one-stop logistics and cold storage services between Hong Kong and Mainland China, as well as expand its logistics arm by increasing the number of trucks used for deployment, by using the collective expertise of Best Merchant Group. The Group will also exploit and capitalise on the good profit margins of cold storage and logistics in order that they make a significant contribution to the Group's overall turnover.

By Order of the Board

Daniel Fung

Chief Executive Officer

Hong Kong 21st April, 2006