

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERALL RESULTS

With the vision to strengthen the portfolio of its existing assets in order to bring the greatest possible returns to shareholders, the Group has implemented business restructuring since last year. The Autoclaved Aerated Lightweight Concrete business ("ALC business") was disposed at the beginning of 2006 due to the shrinkage of local building materials market. In view of the stable income of cold storage and logistics businesses, the Group acquired Best Merchant Limited and its subsidiaries Brilliant Cold Storage Management Limited and Brilliant Top In Logistics Limited. The Best Merchant Group was the former tenant under the Group's sub-lease agreement on the cold storage properties ("the cold storage"). The cold storage was previously owned by the Group and disposed of by the Group in early 2005. Following with the disposal, the Group leased back the cold storage and sub-lease to Best Merchant Group.

At present, following the discontinuance of ALC business and cold storage sub-leasing business, the Group operates three separate business segments, which include: (i) Cold Storage and Logistics Services, (ii) Manufacturing and Trading of Ice and (iii) Property Investment.

Actual Group turnover for the first six months ended 30th June, 2006 was HK\$77 million, an increase of 32% compared to the corresponding period in last financial year. Net profit attributable to shareholders was HK\$0.6 million, representing a 84% decrease on last year's first six month results. The decrease was mainly attributable to the gain on disposal of the cold storage of approximately HK\$5 million in last six months period. Earnings per share also decreased from 0.12 HK cents per share as of 30th June, 2005 to 0.02 HK cents per share for the same period in 2006.

### BUSINESS REVIEW

#### Continuing operations

##### *Cold Storage and Logistics Services*

In January 2006, the Group completed the acquisition of Best Merchant Limited and its subsidiaries Brilliant Cold Storage Management Limited and Brilliant Top In Logistics Limited. During the period under review, this segment registered a turnover of HK\$72 million, accounting for over 90% of total revenue and become the new core business of the Group.

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Through the CEPA agreement, Hong Kong now enjoys a close and harmonious economic relationship with Mainland China. According to the statistics released by Hong Kong Census and Statistics Department, for the first half of 2006, total port cargo throughput rose by 3% to 115.6 million tonnes in Hong Kong. The volume of imported products is clearly rising, which in turn is helping to create favourable market conditions for cold storage and logistics. In addition, according to the statistics released by Hong Kong Trade and Industrial Department, 45% of all Hong Kong's imports come from the Mainland. With the strategy to focus on foods and specialities getting imported from China, the cold storage owns 30% of the local market share in Hong Kong and has successfully differentiated itself from its competitors.

The Group expects that this core business will bring additional revenue and stability by effective cost control, and it is the clear vision of the Group to establish its one-stop cold storage and logistics arm as one of the strongest in the Hong Kong market.

### *Manufacture and Trading of Ice*

The manufacture and trading of ice is conducted at the Brilliant Cold Storage facility in Kwai Chung. At present this segment accounts for approximately 2% of annual turnover from the Cold Storage and Logistics business segment. As one of the leading producers of block and tubular ice in Hong Kong, it operates in two distinct markets: (i) industrial and (ii) food and beverage.

For the first six months of 2006, this segment was recorded a turnover of HK\$1.4 million. The stable demand is still there from the food and beverage industry, however, a drop in the number of live construction projects has impacted on the sales performance of industrial ice.

### *Property Investment*

Due to the acquisition of Best Merchant Group in the beginning of 2006, the Group was no longer to receive the monthly rental income from the cold storage. The commercial properties in Hunghom Commercial Centre became the only asset in the property investment portfolio. During the period under review, this segment recorded a loss of HK\$0.3 million compared to a profit of HK\$3.4 million last year. The loss was attributable to the management and maintenance expenses for the properties which had not been leased as of 30th June, 2006. Currently the Group has strong intention to lease the properties, as the overall rental rate in Hong Kong has been getting higher. According to the report released by Hong Kong Rating and Valuation Department, the rental index of private retail from April to June 2006 rose by 2.8% to 101.8 compared with the same period of last year.

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### Discontinued operations

#### *Sub-leasing*

The Group disposed the cold storage in early 2005. After completion of the disposal of the cold storage, the Group leased back the cold storage with the purchaser and sub-leased the cold storage to Best Merchant Group which operates cold storage and logistics businesses. In January 2006, the Group diversified its business to cold storage and logistics services by acquiring Best Merchant Group, and as a result, it is no longer to receive the monthly rental income generated by the cold storage.

#### *ALC business*

The ALC business had been continuing to downsize since 2004 and was disposed of by the Group at the beginning of 2006.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2006, the Group had cash and bank balances of HK\$122 million (31st December, 2005: HK\$200 million). Except for obligation under a finance lease of HK\$0.4 million, the Group did not have any outstanding bank borrowings and third party loans as at 30th June, 2006 (31st December, 2005: HK\$0.5 million).

The Group's capital expenditure and investments were financed by internal cash generation and share placement.

### CAPITAL STRUCTURE

During the period, the Company placed out 480,000,000 ordinary shares at HK\$0.116 per share for the purpose of financing the acquisition of an 12% indirect attributable interest in Grand Waldo Hotel Complex.

### EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2006, the total number of staff of the Group in Hong Kong was approximately 297. Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonus, contributory provident fund and professional tuition/training subsidies in order to retain competent employees.

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### PROSPECTS

#### Cold Storage and Logistics Business

The Group will continue to engage in the provision of cold storage and logistics services both in Hong Kong and on the Mainland as well as using the collective expertise of Best Merchant Group. As opportunities continue to develop throughout the Pearl River Delta region, and closer economic ties are made, the Directors believe that demand for cold storage warehousing facilities and logistics services will continue to increase and offer growth prospects. In view of these favourable conditions, it is expected that an incremental increase in rent will be made at some future stage.

With GDP on the Mainland grew by 10.9% in the second quarter of 2006, according to the National Bureau of Statistics, the economic climate should be highly favourable. The Group will continue to pave the way for top-line growth and bottom line improvement by controlling operation cost and searching for joint venture opportunity in the Mainland. The key strategy will be to provide a one-stop logistics service between HK and the PRC, as well as expanding the Group's logistics arm by increasing the number of trucks used for deployment. Better co-ordination and improved communication between Hong Kong and the Mainland will be rigorously pursued to guarantee a better quality of service to customers.

It is the clear intention of the Group to become one of Hong Kong's leading logistics service providers. The development of its cold storage services will also be an important area of business growth. It is for these reasons that the Directors feel confident that a positive set of results will be delivered in the second half of 2006.

#### Hotel Investment

On 29th May, 2006, the Group entered into an agreement for the acquisition of 12% indirect attributable interest in the Grand Waldo Hotel Complex at a consideration of HK\$336 million. The luxurious 5-star resort hotel complex located in Macau comprises shopping mall, casino and spa facilities. The acquisition represents an exciting, high-potential long-term investment which is expected to make a significant contribution to the Group. There are several factors that can account for such an optimistic outlook.

Firstly, and most importantly, the Mainland authorities have updated the travel regulations in order to bring it more in line with the 21st century. As the restrictions on the number of Mainland tourists have been lifted by initiating the Individual Visit Scheme, the tourist industry in Macau shows very strong signs of growth. According to the statistics released by Macau

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Statistic and Census Department, for the six months of 2006, a total of 10.4 million tourists visited, up 16.8% on the previous period. Of these 10.4 million, approximately 5.8 million were from the Mainland, accounting for 55.9% of the total number of tourists. It is therefore the opinion of the Directors that more and more Mainland tourists will visit Macau in the future, given such favourable socio-political conditions.

Secondly, Macau has strong ambition to turn the region into the Las Vegas of the East. The statistics issued by Macau Statistic and Census Department indicated that gaming tax revenue accounted for 85.7% of the total tax revenue in June 2006. It rose 14.8% to MOP 9.78 billion in the first half of 2006. With more and more people visiting, the gaming industry is likely to expand significantly over the coming years. The Grand Waldo Hotel Complex has its gambling facility "Galaxy Casino", as one of the large-scale casinos in Macau. It is believed that the prosperity of gaming industry will trigger the demand of hotel rooms and services.

With Macau developing at such a fast rate, and with many more Mainland tourists expected to visit, the opportunities for this investment to make a sizeable and significant contribution to the long-term performance of the Group are well pronounced.

By Order of the Board  
**Fung Wa Ko**  
*Chairman*

Hong Kong, 20th September, 2006