

# Chairman's Statement

## INTRODUCTION

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Polytec Asset Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006.

Since the implementation of CEPA in 2004 and the liberalization of the gaming industry, the whole Macau economy has flourished. Economic sentiment is positive with GDP growth being sustained by a rapidly expanding tourist industry leading to an active job market, low unemployment and rising household incomes. This in turn has produced a demand for better living conditions. To capitalize on this demand the Group has made a major property acquisition which is more fully described below. Our Board believes that, with its now strong land bank in Macau, the Group should achieve first class results over the next few years.

## BUSINESS REVIEW

For the year ended 31 December 2006, the turnover and profit from operations of the Group respectively were HK\$560.8 million and HK\$141.8 million, representing significant increases of 185% and 156% compared with the previous year. The profit attributable to shareholders was HK\$29.8 million as against HK\$477.4 million for 2005. The 2005 figure of HK\$477.4 million includes a net property revaluation gain of HK\$420.2 million and an amount of HK\$18.5 million in respect of the recovery of a previously written off loan. The 2006 figure of HK\$29.8 million is struck after providing for a net property revaluation loss of HK\$4.6 million. On a like for like basis, excluding net property revaluations and the loan recovery, the Group's profit attributable to shareholders decreased by HK\$4.3 million.

Shareholders will note that a revaluation of the Group's interest in the Macau Projects (see below) has resulted in a surplus over cost of more than HK\$1 billion. This surplus, which accounting convention requires remains in the Group's consolidated balance sheet until the Projects are realised, can be expected to be released to profit over the next few years. Clearly if the profitability of the Projects improves the benefit to the Group's profit will be accordingly greater.

The Group net asset value per share attributable to the equity holders of the Company at 31 December 2005 was HK\$0.89 per share. At 31 December 2006, taking account of the fund raising referred to in the "Financial Review" below, the net asset value per share has increased to HK\$1.79 per share of which HK\$0.24 was attributable to the above revaluation surplus of the Macau Projects.

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## **DIVIDENDS**

In appreciation of shareholders' support for the Group, and taking account of the Group's financial position and inherent profitability indicated by the revaluation surplus of the Macau Projects, the Board has resolved to recommend a final dividend for the year ended 31 December 2006 of HK\$0.005 per share to be appropriated out of retained earnings as at 31 December 2006 to the shareholders. The final dividend will be payable on 27 April 2007 to the shareholders registered at the register of members of the Company on 26 April 2007 following approval at the Annual General Meeting.

## **Major Acquisition**

In April 2006, the Group entered into a sale and purchase agreement to acquire from the ultimate holding company the entire interest in New Bedford Properties Limited which owns an 80% interest in the properties of Lote P, Lote V, Lotes T and T1, all situated at Novos Aterros da Areia Preta, Macau (the "Macau Projects"). The acquired properties have total gross floor area for residential and commercial development of approximately 978,000 square metres and the purchase consideration was HK\$8,448 million. The Projects involve the development of various multi storey high-end residential blocks with retail, recreational and car parking spaces. The whole development will be carried out in phases. In relation to this acquisition, the Company raised funds by issuing a total of 2,811,411,970 new ordinary shares at HK\$1.98 per share to the parent company as well as reputable international institutional investors. At the same time the Company proposed a bonus warrant issue with an exercise price of HK\$1.98 per share to the existing shareholders. The fund raising and the warrant issue were approved by the independent shareholders at an extraordinary general meeting on 12 June 2006 and duly completed by 30 June 2006.

## **Property Investment**

The renovation of the retail portion of The Macau Square, the Group's 50% owned commercial property situated at Av. Do Infante D. Henrique, Macau, with a gross floor area of approximately 8,400 square metres, was completed. The renovation of the office portion, with a gross floor area of approximately 28,200 square metres, is progressing smoothly. We have received encouraging enquiries from potential tenants. The property is now 60% let and is contributing to the Group's profit.

The renovation work of Va long, a commercial building situated at Praca da Amizade, Macau, with an aggregate gross floor area of 1,900 square metres is being carried out according to schedule. Negotiation is in progress with potential tenants.

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The Group's 70.5% owned office and retail units at China Plaza situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau will continuously be sold at good prices. We have received encouraging enquiries from potential buyers.

In January 2006, the Group acquired from a major financial institution in Hong Kong a 100% beneficial interest in a distressed property asset situated in Guangdong Province in PRC. The Group was able to obtain a satisfactory return from disposal of the asset in June this year. We continue to receive these opportunities from time to time and will consider each and every opportunity carefully in due course.

## **Property Development**

The Lote V development, first phase of the Macau Projects, now named Villa de Mer, having an attributable gross floor area of approximately 126,394 square metres and comprising 5 buildings with a total of approximately 1,300 residential units and a number of retail shops on the ground floor, which foundation work is scheduled to commence not later than April 2007, is expected to be completed in 2009/2010. The property is being sold by stages. The initial marketing of the property has received a favorable response with more than 50% of the residential units having been sold.

The Group's 58% owned residential and commercial project in Taipa, Macau is now under construction. The development, with an attributable gross floor area of approximately 35,900 square metres, comprises two buildings with a total of 295 residential units and a number of retail shops on the ground floor. The marketing of the property has been successful and the residential portion has been basically all sold out.

## **Ice and Cold Storage**

Our ice manufacturing and cold storage business recorded an operating profit of HK\$13.6 million during the year, a 7% increase from last year. The increase is mainly due to the expansion of cold storage capacity and the adoption of new marketing strategies.

## **Finance and Investment**

We consistently adopt a prudent approach in conducting our finance and investment activities. Reflecting the booming stock market, we increased our commitment to this sector producing an increased operating profit for the year of HK\$84 million.

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## FINANCIAL REVIEW

The Group's finances are healthy. As at 31 December 2006, the Group had liquid assets of HK\$453.3 million, which comprised cash and cash equivalents of HK\$213.9 million and other liquid assets of HK\$239.4 million. The Group's gearing ratio, expressed as a percentage of its bank borrowings to shareholders' funds at 31 December 2006 reduced to 1% from 8% at 31 December 2005. The bank borrowings of the Group as at 31 December 2006 are repayable by monthly installments over 5 years from the date of the inception of the loans, are denominated in Hong Kong dollars and bear interest at prevailing market rates.

During the year, the Company issued 2,811,411,970 ordinary shares at a subscription price of HK\$1.98 per share through a share placement and raised net proceeds of HK\$5,522.5 million. This substantially strengthened the Company's capital base. The Company applied HK\$5,289.5 million of the net proceeds in part payment for the acquisition of the Macau Projects, HK\$200.0 million for the settlement of a loan borrowed for the payment of deposit for the acquisition of the Macau Projects and HK\$33.0 million for the settlement of advances from an intermediate holding company.

The remaining balance of the acquisition of the Macau Projects of HK\$2,958.5 million is financed by a deferred settlement arrangement with the ultimate holding company. Pursuant to the sale and purchase agreement, the Group has the right to defer repayment of the remaining balance for an unlimited period until such time as the liquidity position of the Company permits such repayment. The remaining balance is unsecured and interest bearing with reference to bank lending rates. If we take into account this financial support and other financial assistance from the ultimate holding company, the Group's gearing ratio on the same basis as above was 40% as at 31 December 2006.

To further strengthen the capital base of the Company, the Company made a bonus issue of 122,981,448 warrants in the Company to shareholders on the register of members on 12 June 2006 on the basis of one warrant for every ten ordinary shares then held by such shareholders. Each warrant entitles the holder thereof to subscribe in cash for one new ordinary share at HK\$1.98 per share. The warrants are exercisable at any time between 19 June 2006 and 18 June 2007, both days inclusive. The Company will raise HK\$243.5 million upon the full exercise of the subscription rights attached to the warrants. During the year, subscription rights attached to 6,940 warrants were exercised and correspondingly 6,940 ordinary shares were issued.

During the year, the immediate holding company contributed HK\$66,665,000 to the Company to pay up 3,703,590,076 10% partly paid convertible preference shares in full and converted the same into 275,191,901 ordinary shares.

As at 31 December 2006, certain assets of the Group with an aggregate net book value of approximately HK\$611.5 million were pledged to secure credit facilities granted to the Group.

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## PROSPECTS

Looking ahead, we believe the fundamentals of Macau economy will continue to be strong and growing. It is expected that the economic growth rate of Macau in 2007 will be greater than 10%, mainly driven by tourism, in particular, with the opening of several international hotel-casinos later this year. In addition, we are optimistic about the property market in Macau which will benefit further from the imminent decision of the construction of Hong Kong — Zhuhai — Macau Bridge, the influx of foreign laborers, and the continued growth of property investment from both local and foreign investors.

In the face of such exceptional market opportunities, our Macau property acquisition strategy in 2006 is a transformational move for the Group to establish itself as a leading Macau property developer. With the continuous solid support from our ultimate holding company including having the benefit of its well established brand name in Macau, the Group is dedicated to actively exploring and expanding relevant investment and business opportunities by capitalizing on our advantages and the expected positive growth potential of the Macau property market for the coming year, in order to achieve our goal of maximizing profitability and creating excellent shareholder value.

I gratefully acknowledge the valuable advice and guidance received from my fellow directors in the past year. Also, I wish to thank our shareholders for their trust and unwavering support. Last but not least, I must extend my heartfelt appreciation to all our staff for their hard work and dedication.

**Or Wai Sheun**

*Chairman*

Hong Kong, 15 March 2007