

Management Discussion and Analysis

The Group sustains a stable income in 2006. Turnover of the Group for the year ended 31st December, 2006 was HK\$150 million, over 90% of which was attributed to the cold storage and logistics operation. The turnover registered an increase of 54% compared to the same period last year. Net profit attributable to shareholders amounted to HK\$313,000, against a loss of HK\$73 million in 2005. Earning per share was HK0.01 cent.

Presently, the Group runs three business divisions, which are (i) Cold Storage and Logistics Services, (ii) Manufacturing & Trading of Ice and (iii) Property investment.

COLD STORAGE AND LOGISTICS SERVICES

Through a successful business restructuring in the last year, we had injected the cold storage and logistics services to substitute the ALC business as new core businesses for the Group. The turnover of these new core businesses for the year was HK\$142 million and it contributes over 90% of the total turnover of the Group.

The Group first entered into cold storage business in 2003. The two cold storage warehouse properties in Kwai Chung generated good returns for two years. In 2005, we disposed the two properties amidst favorable market atmosphere, the Group then acquired Brilliant Cold Storage and Brilliant Top In Logistics in 2006, becoming one of the 25 licensed cold storage providers in Hong Kong.

Despite the strong competition, we have positioned ourselves in an advantageous position specializing in food. The products we handled include frozen meat, vegetables and dairy products. Our customers are mostly from China and include multinational companies trading chemicals, food and consumer goods; supermarket stores; restaurants, and wine and tobacco traders.

The potential of storage and logistics services in China is magnanimous. According to a report on Shanghai Daily, consumption of ice-cream per capita is still below one litre on the mainland, compared to about 6.5 litres in Europe and 12 litres in the US, which suggests a huge potential for growth. As incomes rise in China, followed by fast expanding foreign and domestic food chains. The WTO-mandated tariff reductions that allow more foreign products to reach China's mainland, and the opening of the distribution sector under China's WTO entry requirements, cold supply chain logistics is the way to go.

Strengths: Our warehouses are strategically located near the Kwai Chung container terminals. The two whole blocks of over 720,000 square feet of warehouses we operate are monitored with accurate electronic temperature and humidity controls. Our HKQAA-ISO 9001 certified operation means we can store and deliver with the highest possible efficiency. Our warehouses are also supported with a high-calibre bilingual computer system. As another initiative to cut costs and time on both our side and the customers' side, we are planning to provide our clients with the option of electronic trading, which means they can check and manage their inventory 24 hours a day on their own computer systems.

From custom's declaration, through warehousing; transportation & delivery; packaging to distribution and inventory control. The Group provides a comprehensive one-stop logistics service, which will continue to be fine tuned for the best and be one of our biggest strengths in this business division.

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MANUFACTURING AND TRADING OF ICE

Under the cold storage arm, the Group produces ice bars and ice cubes. Ice bars are mainly applied in constructions for cement setting while that of ice cubes is for use in food and beverages trades.

During the period under review, ice production, also a new business of the Group through a business restructuring last year, makes up approximately 3% of the total revenue of the Group. The division managed to sustain a stable source of income from the food and beverage industries.

The Group maintains a very high hygiene standard in the production process, applying the 'Guideline for Drinking Water Quality' that is laid down by the World Health Organization. Apart from regular checks prior, during and after the ice making process, ice samples are regularly sent for laboratory testing.

PROPERTY INVESTMENT

The Group has stopped receiving rental income from sub-leasing two cold storages in Kwai Chung since we bought out the tenant, Best Merchant Group, in January 2006. The commercial property in Hunghom Commercial Centre has become the only local asset in the Group's property investment portfolio.

This division of business therefore recorded a loss of HK\$0.5 million compared with a profit of HK\$5 million in the same period last year. The loss was attributable to the stoppage in cold storage rental, and the management and maintenance expenses for the Hung Hom property which was not leased so far.

It will be high on the Group's priority to lease out the vacant property given the positive economic outlook. Major property consultants say average vacancy in the whole Grade A market and sub-markets in Central hit their 15-year low in 2006. With new offices springing up in Kowloon East, they anticipate a migration of office usage to this region, which will play to our benefit.

PROPERTY INVESTMENT OUTSIDE HONG KONG

In September 2006, the Group acquired 12% indirect attributable interest of the Grand Waldo Hotel Complex in Macau. The newly opened five-star hotel resort, which includes a large-scale casino, 342-room hotel and an entertainment complex with a nightclub and a six-story spa, is the first of its kind in the area of Cotai.

Macau is expecting 24-25 million of visitors in 2007 and in the first two months alone in 2007, the number of visitors went up over 20% compared with that of last year. The territory's casinos took a US\$5.7 billion in gaming revenue in 2005 and was 'enough to catapult Macau past Atlantic City to become the world's second-largest casino market', according to Macau's International Gaming & Entertainment Expo website. There are some 30 casinos operating in the territory already. There will be 12 more by 2009 and more still are tendering proposals. This luxurious hotel and entertainment business will be a lucrative market and another area that can support the expansion of our cold storage and ice business.

We shall closely monitor the development of this investment and may look for more investments in the territory when opportunities arise.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, the Group had cash and bank balances of HK\$41 million (31st December, 2005: HK\$206 million). The gearing ratio, measured as non-current borrowings over shareholder's equity was increased to 40% as at 31st December, 2006, a significant increase from that of 3% as at 31st December, 2005. The increases were mainly due to the issue of convertible bond and promissory notes for the acquisition of interest in Grand Waldo hotel project. 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.

The Group's capital expenditure and investments were financed by internal cash generation, share placement and issue of debt instrument.

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2006, the total number of employees of the Group in Hong Kong was approximately 280 (2005: 44 employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund and professional tuition/training subsidies in order to retain and refine competent employees.

PROSPECT

2006 marked a new page for the Group. The unfavorable development in the construction market has helped turn our attention to a more promising and hopefully more profitable business: cold storage and logistics.

The Group entered this business with a couple of years of experience. The acquisition of Best Merchant Group has given us the necessary expertise and software to be a competitive player in the trade both locally and in the Pearl River Delta Region ("PRDR").

In the short term, we shall consolidate our present client base, whilst looking for expansion opportunities in the PRDR including the nearby town of Macau. The Group will actively seek investment opportunities locally for more cold storage space, and partnership possibilities to extend our operation on the Mainland China.

It has been reported that (according to the August 2006 China Logistics News) fruits and vegetables suffers from a high decay rate of up to 15% to 30% during transportation and storage damage. Much of China's cold-chain infrastructure is still fragmented, under-funded, and scrambling to keep up with soaring demand. Optimizing the cold supply chain is crucial to cold storage and distribution suppliers. With several upcoming events, including the 2008 Beijing Olympics and the 2010 Shanghai World Expo, the need to move quickly is growing. It is therefore the Group's top priority in the short and medium term to invest into our cold chain logistics, and be a leading 3PL (third party logistics), that offers a one-stop help for various businesses to outsource their supply chain management.

As to the manufacture and trading of ice division, it now forms only a small fraction of our business. We believe, however, as we expand our cold storage business, we can identify more clients and take a bigger slice of the market with the help of our large and efficient fleet of freeze truck.

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HOTEL INVESTMENT

So far, our investment in the Grand Waldo Hotel project that consists of Grand Waldo Hotel Complex ("the Hotel Complex") and hotel and spa management business at a consideration of HK\$336 million has provided a gateway into the luxurious hotel and entertainment market in the fast growing tourism market in Macau.

The acquisition represents an exciting and high potential long-term investment that is expected to make a significant contribution to the Group.

In January 2007, Great China Company Limited disposed 50% interest of the Hotel Complex. As such our effective interest in the Hotel Complex has been reduced to 6% whilst our effective interest in the hotel and spa business remains as 12%.

Nevertheless, with reasons we cited before, we still believe this is going to be an investment of high return. The fact that we have not only invested into a single business, but into a diversity of trades including hospitality, casino, and leisure, helps maximize high-end visitors' spending in their stay in the hotel. If this proof successful, we shall consider more investment into the enclave's fast developing luxurious hotels/casinos/shopping business.

The past year has seen the Group facing a host of tough decisions. Some of them are not easy to make, especially the need to change our core business. But we have done it and did it well. In future, we have to continue to be adaptive and creative in developing our new core business. The Group has a sound financial status and has a very healthy reserve to support us for expansion plans. It is our top priority to make the Group a forerunner in the cold storage and logistics industry, and we are more dedicated than ever in working to make this happen.