ANNUAL REPORT 2006

DAIDO

DAIDO

DAIDO

Stock Code: 544

DAIDO GROUP LIMITED

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Fung Wa Ko *(Chairman)*
Mr. Tang Tsz Man, Philip

Independent Non-Executive Directors

Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

COMMITTEES

Audit Committee

Mr. Leung Chi Hung *(Chairman)*
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

Remuneration Committee

Mr. Leung, Tsz Fung David Ferreira *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

Nomination Committee

Mr. Tse Yuen Ming *(Chairman)*
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira

COMPANY SECRETARY

Mr. Choy Kai Sing

STOCK CODE

0544

WEBSITE

www.irasia.com/listco/hk/daido/
www.daidohk.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit No. 1906, 19th Floor,
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1803, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Chairman's Statement

I am delighted to report that the Company has smoothly sailed through the last year after a major business restructuring – from a predominantly construction material-oriented business to one that is led by cold storage and logistics.

The disposal of the Autoclaved Aerated Lightweight Concrete business (ALC) in early 2006 due to the shrinkage of the local building material market, has helped focus our resources to further develop our cold storage and logistics operation. Not only have we been able to achieve a stable income from this new core business, we have officially entered into this fast growing trade in the Pearl River Delta Region. The significance of this business adjustment reflects the flexibility of the Group to change and adapt to the market development.

Logistics is a hot business to pursue. According to the November 2006 issue of China Economic Review, the mainland's frozen food market is growing at an estimated annual rate of about 10% and the annual output of processed frozen food is growing at 20%. Mainland's mounting demand for refrigerated storage and transport of fresh food is being restricted by a shortfall of facilities. China logistics market report 2006 also shows that China's spending on logistics in the first half of 2006 was RMB932.9 billion, rising 12.9% compared to the first half of 2005.

This is where our strength will come into play. The acquisition of Best Merchant Limited and its subsidiaries Brilliant Cold Storage Management Limited and Brilliant Top In Logistics Limited during 2006 has placed the Group in an advantageous position. Presently, the ISO qualified Brilliant Cold Storage in Kwai Chung is one of the largest cold storage facilities in Hong Kong. It is also a leading ice bars and ice cubes producer. Our comprehensive one-stop service with sophisticated IT backing means we are competitive in offering highly efficient and low cost logistics option for our customers.

We have entered this market with a good start and will strive to work hard to gain more ground. We are revamping our warehouse and planning to introduce an online inventory management service for our customers. It is our aim to become a leader in the cold storage and logistics market, not only locally but stretching across the border to capture the vast market on the mainland. With the upcoming Beijing Olympics and further opening of trade under the mandate of the World Trade Organisation (WTO) and the Closer Economic Partnership Arrangement (CEPA), I am confident that our efficient and specialized logistics operation will thrive to be a continuously profitable business.

2006 also saw our Group's venturing into another new market: Macau. In May, the Group acquired 12% indirect attributable interest in a five star hotel resort, the Grand Waldo Hotel Complex, completed with a large-scale casino, a spa complex and shopping mall. We made the investment because we foresee a continuous growth in tourism in the enclave, which is determined to become the 'Las Vegas of the East'. This is a long-term investment and we shall closely monitor this pilot project to determine our level of presence in this market.

Chairman's Statement

The economy of Hong Kong has been on the rise in the past 3 years. The outlook for our core business is optimistic, as shown by the volume of re-exports, one of the key pillars for the industrial market, which reached 12.5% growth in January 2007. We are confident to expand on the present customer base and exploit the huge potential in China.

As the Chairman of the Group, I extend my deepest gratitude to every member and shareholder of Daido. We shall endeavor our very best to consolidate our foundation and seek new opportunities to reciprocate your continuous support.

Fung Wa Ko
Chairman

Hong Kong, 19th April, 2007

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.

Management Discussion and Analysis

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.

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.

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.

Directors of the Company

MR. FUNG WA KO, aged 45, joined the Group and appointed as the chief executive officer and executive director in October 2003 and appointed as the Deputy Chairman of the Group in April 2004. He has become the Chairman of the Group in August 2006. He is responsible for the overall operations throughout the Group. Mr. Fung has over 18 years of experience in the area of business development, corporate management, and budget control. He received his education in the United Kingdom, and has worked in various management positions in Hong Kong, Mainland China, and other countries in Asia Pacific Regions.

MR. TANG TSZ MAN, PHILIP, aged 41, joined the Group as an executive director in August 2003. He is the managing director of Grandtel Communications Limited. Mr. Tang has over ten years of business management experience.

MR. LEUNG CHI HUNG, aged 51, joined the Group as an independent non-executive director in September 2003. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. Mr. Leung is a certified public accountant (Practising) in Hong Kong and a director of Arthur Mo & Co. Limited. He is also an independent non-executive director of Teem Foundation Group Ltd., a company listed on the Stock Exchange.

MR. LEUNG, TSZ FUNG DAVID FERREIRA, aged 39, joined the Group as an independent non-executive director in July 2005. He has extensive experience in financial services. Mr. Leung also serves as business consultants in various advertising and event marketing companies. He is also a director of GFS Investments (Middle East) Limited, a private company incorporated in Dubai.

MR. TSE YUEN MING, aged 39, joined the Group as an independent non-executive director in August 2003. He is a partner of Messrs. George Tung, Jimmy Ng & Valent Tse. Mr. Tse holds a bachelor of laws degree with honours from the University of Hong Kong and admitted to The Supreme Court of Hong Kong as a solicitor in 1993. He is also a director in various companies engaging in animation, trading, card games and construction business in Hong Kong.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42(i) to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 27.

The directors do not recommend the payment of a dividend for the year.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 30.

Movements in the reserves of the Company during the year are set out in note 42(ii) to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2006, the Company's reserves available for distribution consisted of contributed surplus of HK$84,239,000 (2005: HK$84,239,000) and retained profits of HK$3,162,000 (2005: HK$6,986,000).

Details of the Company's distributable reserves are set out in note 42(ii) to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Fung Wa Ko *(Chairman)*
Mr. Tang Tsz Man, Philip
Mr. To Shu Fai (resigned on 9th August, 2006)

Independent non-executive directors

Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

In accordance with Bye-Law 87 of the Company's Bye-Laws, Messrs. Fung Wa Ko and Tang Tsz Man, Philip retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

All directors are subject to retirement by rotation in accordance with Company's Bye-Laws. The independent non-executive directors are each appointed for a term of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if he is re-elected in the coming annual general meeting but is also subject to retirement by rotation and re-election under the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS

None of the Company's directors, chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st December, 2006 as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or 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 Issuers.

SHARE OPTIONS

Particulars of the share option scheme of the Company are set out in note 27 to the consolidated financial statements.

No share option was outstanding as at 1st January, 2006 and 31st December, 2006 and no share option was granted under the share option scheme during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31st December, 2006, to the best knowledge of the directors or chief executives of the Company, the following parties (other than the directors or chief executives of the Company), had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO are as follows:

Long positions of the substantial shareholder in the shares and underlying shares of the Company:

Name of shareholder	Capacity	No. of shares held	No. of underlying shares held	Percentage of total issued share capital
Ever Achieve Enterprises Limited (Note 1)	Beneficial owner	1,011,615,665	–	29.07%
China Star Entertainment Limited (Note 2)	Interest of controlled corporation	723,140,000	–	20.78%
Ever Apollo Limited (Note 3)	Beneficial owner	–	900,000,000	25.86%
Fung Ho Sum (Note 3)	Interest of controlled corporation	–	900,000,000	25.86%
Wong Ka May (Note 3)	Spouse interest	–	900,000,000	25.86%
Equity Capital Group Limited (Note 4)	Beneficial owner	311,615,664	–	8.95%
So Yiu Ming, Sunny (Note 4)	Interest of controlled corporation	311,615,664	–	8.95%
Lam Fung Yee, Venue (Note 4)	Spouse interest	311,615,664	–	8.95%

Notes:

1. The entire issued share capital of Ever Achieve Enterprises Limited is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares.

2. China Star Entertainment Limited is deemed to be interested in the 723,140,000 shares which are held by its wholly-owned subsidiary, Classical Statue Limited.

3. Ever Apollo Limited is deemed to have interest in the share capital of the Company in respect of the number of shares which may fall to be allotted and issued to it upon exercise of the conversion right attaching to the convertible bond under the SFO. Ms. Wong Ka May is the spouse of Mr. Fung Ho Sum who is the beneficial owner of Ever Apollo Limited.

4. Ms. Lam Fung Yee, Venue is the spouse of Mr. So Yiu Ming, Sunny who is the beneficial owner of Equity Capital Group Limited.

Save as disclosed above, as at 31st December, 2006, the directors or chief executives of the Company are not aware of any other person (other than a director or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No other contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 36% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 17% of the Group's total turnover.

For the year ended 31st December, 2006, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 60% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 27% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

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.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 15 to 24.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

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. The Company considers all of the independent non-executive directors are independent.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Fung Wa Ko
Chairman

Hong Kong, 19th April, 2007

CORPORATE GOVERNANCE PRACTICES

The Group believes that good corporate governance is crucial to safeguard for the interests of the stakeholders and investors of the Company and to enhance the development of the Group. The Board and senior management are committed to maintain a high standard and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The Company has applied and complied the principles of the code provision under the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2006, except for the deviation as stated in paragraph headed "Chairman and Chief Executive Officer". Following sustained development of the Company, the Board and senior management will continue to monitor the corporate governance practices of the Company to ensure that daily business activities and decision making processes are regulated in a proper and prudent manner.

CORPORATE GOVERNANCE STRUCTURE

The Board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Under the Board, there are currently 3 sub-committees, namely Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

ENHANCEMENT ON CORPORATE GOVERNANCE OF THE COMPANY IN 2006

During the year under review, the Company have taken the following actions to improve the corporate governance practice:–

- appointment for a specific term with all independent non-executive directors;
- amendments of the Bye-Laws of the Company in order to comply with the CG Code; and
- appointment of the independent advisor to conduct a high-level risk assessment.

BOARD OF DIRECTORS

The Board comprises five directors, of whom two are executive directors namely, Mr. Fung Wa Ko *(Chairman and Chief Executive Officer)* and Mr. Tang Tsz Man, Philip, and three are independent non-executive directors namely, Mr. Leung Chi Hung, Mr. Leung, Tsz Fung David Ferreira and Mr. Tse Yuen Ming.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the Directors, especially between the Chairman and the Chief Executive Officer of the Company.

Such balanced Board composition, coupled with the strong independent element, is over and above the recommended practice under the CG Code for the Board to have at least one-third in number of its members comprising independent non-executive directors. The participation of independent non-executive directors in the Board brings independent judgement to ensure that the interests of all shareholders of the Company have been duly considered.

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors, of whom Mr. Leung Chi Hung is certified public accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. The independent non-executive directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also the members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations. Each of Directors' respective biographical details is set out in page 9 of this annual report.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by Rule 3.13 of the Listing Rules.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and overseeing management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at board meetings.

The Board held regular board meetings for four times and other board meeting for thirteen times during the year ended 31st December, 2006. Details of the Directors' attendance are as follows:

Executive Directors

Mr. Fung Wa Ko *(Chairman and Chief Executive Officer)*	17/17
Mr. Tang Tsz Man, Philip	17/17
Mr. To Shu Fai (resigned on 9th August, 2006)	10/10

Independent Non-executive Directors

Mr. Leung Chi Hung	17/17
Mr. Leung, Tsz Fung David Ferreira	16/17
Mr. Tse Yuen Ming	14/17

Apart from the regular board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. Notice of at least 14 days has been given to all Directors for all regular board meeting and all the Directors can include matter for discussion in the agenda whenever they consider appropriate and necessary. The Directors will receive details of agenda items for decision at least 3 days before the meeting and minutes of the meeting will be received by those Directors within reasonable time after the meeting.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that board procedures are being followed. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. The minutes are open for inspection at any reasonable time on reasonable notice by any Director.

According to the CG Code requirement, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. In order to comply with the CG Code, the Company has arranged liabilities insurance for all Directors in 2006.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no service contract entered between each of the executive directors of the Company and the Company except for Mr. Fung Wa Ko. There was a service contract of Mr. Fung being appointed as a chief executive officer of the Company entered with the Company. The service contract of Mr. Fung was commenced from 13th October, 2003 and shall continue until terminated by either party giving the other not less than one month's notice.

According to the CG Code requirement, the non-executive directors should be appointed for specific term, subject to re-election. During the year under review, a service contract has been entered with each independent non-executive director for an initial period of one year and continues thereafter unless and until terminated by either party given the other not less than three months' notice but they are also subject to retirement by rotation and re-election under the Bye-Laws of the Company, so as to comply with code provision A.4.1.

A special resolution has been passed at the 2006 annual general meeting to amend the Bye-Laws of the Company, any director be appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation once every three years, so as to comply with code provision A.4.2.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the CG Code requirement, the Chairman and Chief Executive Officer of the Company should perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Chairman and Chief Executive Officer of the Company are currently performed by Mr. Fung Wa Ko. Taking to account Mr. Fung has strong expertise and excellent insight of the business development, corporate management and budget control, this structure will lead to more effective implementation of the overall strategy and ensure smooth operation of the Company. The Board believed that this structure will not impair the balance of power and authority between the Board and the management of the business of the Company as the structure of the Company has strong and independent non-executive directors element on the Board.

In order to maintain the high quality of the corporate governance and comply with the CG Code requirement, the Board and Nomination Committee will regularly review the need of appointment of different individuals to perform the roles of Chairman and Chief Executive Officer separately.

COMMITTEES OF THE BOARD

Nomination Committee

The Nomination Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. The terms of reference of the Nomination Committee include making recommendations for all appointment and re-appointment of Directors to the Board and is available on the Company's website. The Nomination Committee comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Tse Yuen Ming *(Chairman)*
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira

The Nomination Committee has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. It is also responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's performance, the Nomination Committee considers a number of factors, including those set out in the CG Code.

In accordance with the Company's Bye-Laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Bye-Law 87 of the Company's Bye-Laws, Mr. Fung Wa Ko and Mr. Tang Tsz Man Philip will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the independent non-executive Directors has served as Directors for more than nine years.

The Nomination Committee meets at least once during the year. The Nomination Committee meeting was held on 18th April, 2006.

Remuneration Committee

The Remuneration Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005 and available on the Company's website.

The Remuneration Committee consists of three independent non-executive directors and its members are:

Mr. Leung, Tsz Fung David Ferreira *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

The Remuneration Committee discharged the responsibility of determining the specific remuneration packages of all executive directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the independent non-executive directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account of the performance of the Group as well as those individual Directors and senior management.

Remuneration package for executive directors:

1. The remuneration for the executive directors comprises basic salary, annual bonus, other benefits and retirement benefits scheme.

2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

3. In addition to basic salary, executive directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.

4. In order to attract, retain and motivate executives and key employees of the Group, the Company has adopted a share option scheme on 29th August, 2000 (''2000 Option Scheme''), which was terminated on 9th January, 2006, and a new share option scheme on 9th January, 2006 (''2006 Option Scheme'') in order to comply with the amended Chapter 17 of the Listing Rules. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group.

Details of the amount of Directors' emoluments during the financial year ended 31st December, 2006 are set out in note 11 to the consolidated financial statements and details of the 2006 Option Schemes are set out in the Directors' Report and note 27 to the consolidated financial statements.

The Remuneration Committee meets at least once during the year. The Remuneration Committee meeting was held on 18th April, 2006.

Audit Committee

The Audit Committee was established on 12th January, 2000 with reference to ''A Guide for the Formation of an Audit Committee'' issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 12th July, 2005 in terms substantially the same as the provisions set out in the CG Code and it is available on the Company's website. The Audit Committee comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Leung Chi Hung *(Chairman)*
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

The primary duties of the Audit Committee are to review, supervise and ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

For the year ended 31st December, 2006, the Audit Committee met four times during the year and had performed the following work:

(1) reviewed the audited financial statements for the year ended 31st December, 2006 and the unaudited financial statements for the six months ended 30th June, 2006;

(2) reviewed the accounting principles and practices adopted by the Group;

(3) reviewed the auditing and financial reporting matters;

(4) reviewed the re-appointment of external auditors;

(5) reviewed the services proposals of the external auditors regarding the internal control review;

(6) reviewed the effectiveness of internal control system; and

(7) reviewed the business development of the Company.

Each member of the Audit Committee has unrestricted access to the Auditors and all senior management of the Group. At least once annually, the Audit Committee meets the external auditors without the presence of the management.

The Audit Committee has recommended to the Board of Directors that Deloitte Touche Tohmatsu, Certified Public Accountants, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

At the meeting held on 17th April, 2007, the Audit Committee reviewed this corporate governance report, the Directors' report and financial statements for the year ended 31st December, 2006 together with the annual results announcement, with a recommendation to the Board of Directors for approval.

Attendance Record at Board Committee Meetings

The following table shows the attendance of the Board Committee meetings during the year:

	Number of meetings attended/ Number of meeting held		
	Nomination Committee	**Remuneration Committee**	**Audit Committee**
Mr. Leung Chi Hung	1/1	1/1	4/4
Mr. Leung, Tsz Fung David Ferreira	1/1	1/1	4/4
Mr. Tse Yuen Ming	1/1	1/1	3/4

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants (''Deloitte Touche Tohmatsu''), about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 25.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of code of conduct for regarding directors' securities transactions by directors, the terms of which are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the ''Company's Model Code''). Having made specific enquiry of all directors of the Company, all directors have confirmed that they had complied with the required standard set out in the Company's Model Code during the year under review.

To enhance the corporate governance of the Group as a whole, all relevant employees who likely to be in possession of unpublished price sensitive information in relation to the Group or securities of the Company are subject to full compliance with the Company's Model Code. No incident of non-compliance was noted by the Company during the year under review.

EXTERNAL AUDITORS AND THEIR REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2006 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statement for the year ended 31st December, 2006 has been audited by Deloitte Touche Tohmatsu.

The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor of the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Deloitte Touche Tohmatsu to discuss the scope of their audit.

For the year ended 31st December, 2006, the external auditors of the Group provided the following services to the Group:

	2006 **HK$'000**	2005 HK$'000
Audit services	**670**	720
Taxation advisory services	**–**	17
Review on interim results	**170**	170
Other advisory services	**594**	1,135
Total:	**1,434**	2,042

The Audit Committee is of the view that the auditor's independence was not affected by the provision of these non-audit related services during the year ended 31st December, 2006.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsible for maintaining sound and effective internal control systems to safeguard the Company's assets and Shareholders' interest, as well as for reviewing its effectiveness of the internal control system through the Audit Committee.

The system of the internal control is designed to ensure that the financial and operational function, compliance control system, material control, asset management and risk management function are in place and functioning effectively to achieve business objective of the Group and prevent damage to the public image.

The Company and its subsidiaries have adopted a set of internal control procedures and policies for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial reporting used for business and publication, and ensuring the compliance with the relevant legislation and regulations.

During the year under review, with the assistance of an external advisor, the Company has conducted a high-level risk assessment and the report was presented to the Board. Their findings and recommendation for control improvement were present to the Board and Audit Committee.

The Board, through the Audit Committee, has conducted annually reviews of the Group's internal control system for the year ended 31st December, 2006, including financial, operational and compliance reviews and risk management function and accessed the effectiveness of internal control.

Based on the evaluations made by the Audit Committee, the Board considered that the internal control systems of the Company and its subsidiaries are effective and the Audit Committee have found no material deficiencies on the internal control system.

As an integral part of good corporate governance, the Board and the senior management will continue to monitor and will pull more effort to strengthen the effectiveness of the internal control system in the forthcoming year.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

(i) By mail to the Company's head office at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168– 200 Connaught Road Central, Hong Kong;

(ii) By telephone at telephone number (852) 3107 8600;

(iii) By fax at fax number (852) 2666 0803; or

(iv) By email at irelations@daidohk.com.

The annual general meeting is the principal forum for formal dialogue with shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the business of the Group. According to the CG Code requirement, the chairman of the board should arrange for the chairmen of the Audit, remuneration and nomination committees to answer the questions at the general meeting. As the chairman of Remuneration Committee was not available to attend at the annual general meeting of the Company held on 25th May, 2006 in person, he had delegated the Chairman of the Board to answer the question at the annual general meeting on his behalf.

Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the Stock Exchange website. In order to provide effective disclosure to the shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

In order to promote effective communication, the Company also maintains a website (www.irasia.com/listco/hk/daido/ & www.daidohk.com) which includes the latest information relating to the Group and its businesses.

Deloitte.
德勤

TO THE SHAREHOLDERS OF DAIDO GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Daido Group Limited and its subsidiaries (collectively referred as the "Group") set out on pages 27 to 83, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 19th April, 2007

Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2006

	NOTES	Continuing operations 2006 HK$'000	Continuing operations 2005 HK$'000	Discontinued operations 2006 HK$'000	Discontinued operations 2005 HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Revenue	4	**145,744**	5,145	**4,022**	92,350	**149,766**	97,495
Direct costs		**(126,225)**	(92)	**(3,488)**	(89,496)	**(129,713)**	(89,588)
Gross profit		**19,519**	5,053	**534**	2,854	**20,053**	7,907
Other income	5	**9,724**	4,810	**15**	2,104	**9,739**	6,914
Selling and distribution costs		**(3,568)**	(7)	**(465)**	(3,105)	**(4,033)**	(3,112)
Administrative expenses		**(21,259)**	(2,961)	**(928)**	(8,623)	**(22,187)**	(11,584)
Impairment loss recognised in respect of trade and other receivables		**-**	–	**-**	(521)	**-**	(521)
Reversal of impairment loss recognised in respect of trade and other receivables		**-**	–	**-**	542	**-**	542
Impairment loss arising from adjustment to fair value less costs to sell	32(a)	**-**	–	**-**	(74,879)	**-**	(74,879)
Finance costs	6	**(4,241)**	(994)	**-**	–	**(4,241)**	(994)
Gain on disposal of interests in subsidiaries	7	**-**	5,289	**879**	–	**879**	5,289
Fair value gain on investment properties		**-**	52	**-**	–	**-**	52
Share of loss of an associate		**-**	(116)	**-**	–	**-**	(116)
Impairment loss in respect of interest in an associate	8	**-**	(1,430)	**-**	–	**-**	(1,430)
Profit (loss) before tax		**175**	9,696	**35**	(81,628)	**210**	(71,932)
Tax credit (charge)	9	**103**	(664)	**-**	(854)	**103**	(1,518)
Profit (loss) for the year	10	**278**	9,032	**35**	(82,482)	**313**	(73,450)
Dividend	12					**-**	–
Earnings (loss) per share – basic	13						
– from continuing and discontinued operations						**HK 0.01 cent**	HK (2.45) cent
– from continuing operations						**HK 0.01 cent**	HK 0.30 cent

Consolidated Balance Sheet

AT 31ST DECEMBER, 2006

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investment properties	14	**17,000**	17,000
Property, plant and equipment	15	**21,862**	776
Goodwill	16	**14,913**	–
Interest in an associate	17	**–**	–
Available-for-sale investments	18	**149,120**	–
Loans to an investee	19	**232,479**	–
Rental deposits paid		**14,415**	71,292
Pledged bank deposits	34	**56,875**	–
Deposit paid for acquisition of subsidiaries		**–**	10,000
		506,664	99,068
CURRENT ASSETS			
Trade and other receivables	21	**31,797**	2,814
Tax recoverable		**1,155**	–
Bank balances and cash		**41,156**	199,936
		74,108	202,750
Assets classified as held for sale	32(a)	**–**	38,466
		74,108	241,216
CURRENT LIABILITIES			
Trade and other payables	23	**11,859**	1,722
Obligations under a finance lease	24	**135**	127
Promissory notes	25	**2,493**	–
Unclaimed dividends		**19**	19
		14,506	1,868
Liabilities associated with assets classified as held for sale	32(a)	**–**	13,294
		14,506	15,162
NET CURRENT ASSETS		**59,602**	226,054
		566,266	325,122

Consolidated Balance Sheet

AT 31ST DECEMBER, 2006

	NOTES	2006 HK$'000	2005 HK$'000
CAPITAL AND RESERVES			
Share capital	26	**34,800**	30,000
Reserves		**369,027**	284,706
Equity attributable to equity holders of the Company		**403,827**	314,706
Minority interest		**2**	–
		403,829	314,706
NON-CURRENT LIABILITIES			
Obligations under a finance lease	24	**231**	366
Rental deposits received		**–**	10,050
Amount due to a minority shareholder of a subsidiary	28	**56,864**	–
Convertible bonds	29	**71,380**	–
Promissory notes	25	**32,689**	–
Deferred tax liabilities	30	**1,273**	–
		162,437	10,416
		566,266	325,122

The consolidated financial statements on pages 27 to 83 were approved and authorised for issue by the Board of Directors on 19th April, 2007 and are signed on its behalf by:

FUNG WA KO
Chairman

TANG TSZ MAN, PHILIP
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Attributable to equity holders of the Company						
	Share capital HK$'000	Share premium HK$'000	Retained profits HK$'000	Convertible bonds equity reserve HK$'000	Total HK$'000	Minority interest HK$'000	Total HK$'000
At 1st January, 2005	30,000	–	358,156	–	388,156	–	388,156
Total recognised expenses for the year – loss for the year	–	–	(73,450)	–	(73,450)	–	(73,450)
At 31st December, 2005	30,000	–	284,706	–	314,706	–	314,706
Total recognised income for the year – profit for the year	–	–	313	–	313	–	313
Placement of new shares	4,800	50,880	–	–	55,680	–	55,680
Expenses incurred in relation to placement of new shares	–	(1,732)	–	–	(1,732)	–	(1,732)
Acquisition of assets through the acquisition of subsidiaries	–	–	–	–	–	2	2
Recognition of equity component of convertible bond	–	–	–	34,860	34,860	–	34,860
At 31st December, 2006	34,800	49,148	285,019	34,860	403,827	2	403,829

	NOTES	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before tax		**210**	(71,932)
Adjustments for:			
Allowance for inventories		**287**	45
Depreciation and amortisation		**5,423**	6,825
Fair value gain on investment properties		**–**	(52)
Finance costs		**4,241**	994
Gain on disposal of interests in subsidiaries		**(879)**	(5,289)
Loss (gain) on disposal of property, plant and equipment		**18**	(21)
Impairment loss in respect of interest in an associate		**–**	1,430
Impairment loss recognised in respect of trade and other receivables		**–**	521
Impairment loss arising from adjustment to fair value less costs to sell		**–**	74,879
Interest income		**(9,261)**	(5,789)
Reversal of impairment loss recognised in respect of trade and other receivables		**–**	(542)
Share of loss of an associate		**–**	116
Operating cash flows before movements in working capital		**39**	1,185
Increase in long-term receivables		**(516)**	–
Decrease in rental deposits paid		**56,991**	–
(Increase) decrease in inventories		**(537)**	161
Decrease in trade and other receivables and deposits		**12,132**	43,403
Increase in amounts due from customers for contract work		**(3)**	–
Increase (decrease) in amounts due to customers for contract work		**55**	(9,528)
Decrease in trade and other payables, rental deposits received and guarantee money received		**(16,618)**	(3,389)
Net cash generated from operations		**51,543**	31,832
Hong Kong Profits Tax paid		**(8,117)**	(365)
NET CASH FROM OPERATING ACTIVITIES		**43,426**	31,467

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2006

	NOTES	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Interest received		**5,501**	5,787
Purchase of investment properties		**–**	(16,948)
Purchase of property, plant and equipment		**(2,983)**	(362)
Proceeds from disposal of property, plant and equipment		**60**	21
Acquisition of subsidiaries, net of cash and cash equivalent acquired	31	**(230,213)**	–
Disposal of subsidiaries, net of cash and cash equivalent disposed of	32	**19,664**	525,217
Repayment from other loans receivable		**3,000**	–
Deposit paid for acquisition of subsidiaries		**–**	(10,000)
Increase in pledged deposits		**(56,875)**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(261,846)**	503,715
FINANCING ACTIVITIES			
Proceeds from issue of shares		**55,680**	–
Expenses incurred in relation to placement of new shares		**(1,732)**	–
Dividend paid		**–**	(1)
Interest paid		**(26)**	(4,172)
Repayment of borrowings		**–**	(338,046)
Repayment of obligations under a finance lease		**(127)**	(45)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**53,795**	(342,264)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(164,625)**	192,918
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**205,781**	12,863
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**41,156**	205,781
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**41,156**	199,936
Bank balances and cash attributable to assets classified as held for sale		**–**	5,845
		41,156	205,781

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The principal activities of the Group are provision for cold storage and related logistics services, manufacture and trading of ice, property investment and investment holding.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position from the application of these standards, amendment or interpretations.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[7]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st March, 2006.
[3] Effective for annual periods beginning on or after 1st May, 2006.
[4] Effective for annual periods beginning on or after 1st June, 2006.
[5] Effective for annual periods beginning on or after 1st November, 2006.
[6] Effective for annual periods beginning on or after 1st March, 2007.
[7] Effective for annual periods beginning on or after 1st January, 2009
[8] Effective for annual periods beginning on or after 1st January, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for investment properties which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Impairment of goodwill

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 associate.

Goodwill arising on acquisitions prior to 1st January, 2005

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recoverable principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Others

Storage income is recognised on a time proportion basis over the period in which storage services are provided.

Logistics service income is recognised when services are provided.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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.

Retirement benefit costs

Payments to defined contribution retirement benefit plan/the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on 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 liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or loss are recognised immediately in profit or loss.

Financial assets

Loans and receivable

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 other receivables, loans to an investee, pledged bank deposits and bank balances) 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 asset's 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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 cost.

Convertible bond

Convertible bond issued by the Company that contains both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. Conversion option which will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rates of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the bond into equity, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Other financial liabilities

Other financial liabilities (including trade and other payables, promissory notes, unclaimed dividends and amount due to minority shareholder of a subsidiary) are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

4. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2006 HK$'000	2005 HK$'000
Continuing operations		
Cold storage and logistics services	141,849	–
Manufacturing and trading of ice	3,895	–
Rental income – property investment	–	5,145
	145,744	5,145
Discontinued operations		
Revenue from construction work contracting and sales of concrete products (note 7a)	4,022	55,905
Rental income – sub-leasing	–	36,445
	4,022	92,350
	149,766	97,495

Business segments

For management purposes, the Group is organised into three operating divisions – cold storage and logistics services, manufacturing and trading of ice, and property investment. The provision of cold storage and logistics services, and manufacturing and trading of ice are new segments in the current year.

During the last year, the Group rented two cold storage warehouses in Hong Kong and sub-leased to Brilliant Cold Storage Management Limited ("BCSML"), the wholly-owned subsidiaries of Best Merchant Limited. During the current year, through the acquisition of Best Merchant Limited on 9th January, 2006 as mentioned in note 31, BCSML became the wholly-owned subsidiary of the Company and the sub-leasing business of the Group has been ceased since 9th January, 2006. Accordingly, the sub-leasing business segment no longer exists for the current year, and the comparative figures of sub-leasing business segment was re-classified from continuing operations as discontinued operations.

4. REVENUE AND SEGMENT INFORMATION (continued)

Business segments (continued)

Segment information about these businesses is presented below as primary segment information.

2006

	Continuing operations				Discontinued operations	
	Cold storage and logistics services	Manu-facturing and trading of ice	Property investment	Total	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	141,849	3,895	–	145,744	4,022	149,766
SEGMENT RESULT	7,313	(2,432)	(534)	4,347	(844)	3,503
Unallocated income						9,251
Unallocated expenses						(9,182)
Finance costs						(4,241)
Gain on disposal of interests in subsidiaries	–	–	–	–	879	879
Profit before tax						210
Tax credit						103
Profit for the year						313

4. REVENUE AND SEGMENT INFORMATION (continued)

Business segments (continued)

BALANCE SHEET

	Continuing operations				Discontinued operations	
	Cold storage and logistics services	Manu-facturing and trading of ice	Property investment	Total	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS						
Segment assets	134,084	1,984	17,111	153,179	–	153,179
Unallocated corporate assets						427,593
Consolidated total assets						580,772
LIABILITIES						
Segment liabilities	9,214	105	12	9,331	–	9,331
Unallocated corporate liabilities						167,040
Consolidated total liabilities						176,371

OTHER INFORMATION

	Continuing operations					Discontinued operations	
	Cold storage and logistics services	Manu-facturing and trading of ice	Property investment	Unallocated	Total	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Allowance for inventories	–	–	–	–	–	287	287
Capital expenditure	951	1,886	–	146	2,983	–	2,983
Depreciation and amortisation	4,739	404	–	220	5,363	60	5,423

4. REVENUE AND SEGMENT INFORMATION (continued)

Business segments (continued)

2005

	Continuing operations	Discontinued operations			
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Sub-leasing HK$'000	Total HK$'000	Consolidated HK$'000
REVENUE	5,145	55,905	36,445	92,350	97,495
SEGMENT RESULT	5,067	6,800	(13,778)	(6,978)	(1,911)
Unallocated income					4,429
Unallocated expenses					(2,372)
Impairment loss arising from adjustment to fair value less costs to sell	–	(74,879)	–	(74,879)	(74,879)
Finance costs	(994)	–	–	–	(994)
Gain on disposal of interests in subsidiaries	5,289	–	–	–	5,289
Fair value gain on investment properties	52	–	–	–	52
Share of loss of an associate					(116)
Impairment loss in respect of interest in an associate					(1,430)
Loss before tax					(71,932)
Tax charge					(1,518)
Loss for the year					(73,450)

4. REVENUE AND SEGMENT INFORMATION (continued)

Business segments (continued)

BALANCE SHEET

	Continuing operations	Discontinued operations			
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Sub-leasing HK$'000	Total HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	17,065	38,466	88,636	127,102	144,167
Unallocated corporate assets					196,117
Consolidated total assets					340,284
LIABILITIES					
Segment liabilities	74	13,294	10,632	23,926	24,000
Unallocated corporate liabilities					1,578
Consolidated total liabilities					25,578

4. REVENUE AND SEGMENT INFORMATION (continued)

Business segments (continued)

OTHER INFORMATION

	Continuing operations	Discontinued operations			
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Sub-leasing HK$'000	Total HK$'000	Consolidated HK$'000
Allowance for inventories	–	45	–	45	45
Capital expenditure	16,948	100	800	900	17,848
Depreciation and amortisation	–	6,802	23	6,825	6,825
Gain on disposal of property, plant and equipment	–	(21)	–	(21)	(21)
Guarantee money forfeited	–	(106)	–	(106)	(106)
Impairment loss recognised in respect of trade and other receivables	–	521	–	521	521
Reversal of impairment loss recognised in respect of trade and other receivables	–	(542)	–	(542)	(542)
Write back of provision for staff commission	–	(203)	–	(203)	(203)

Geographical segments

More than 90% of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and profit (loss) during the year are derived from customers located in Hong Kong.

More than 90% of the Group's assets are located in Hong Kong and more than 90% of additions to property, plant and equipment and investment properties during the year are incurred in Hong Kong.

5. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Gain on disposal of property, plant and equipment	**–**	–	**–**	21	**–**	21
Guarantee deposits forfeited	**–**	–	**–**	106	**–**	106
Interest income from						
– bank deposits	**5,406**	4,501	**10**	705	**5,416**	5,206
– loans receivable	**85**	309	**–**	274	**85**	583
Imputed interest income from loans to an investee	**3,760**	–	**–**	–	**3,760**	–
Write back of provision for staff commission	**–**	–	**–**	203	**–**	203
Sundry income	**473**	–	**5**	795	**478**	795
	9,724	4,810	**15**	2,104	**9,739**	6,914

6. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Interest on:						
Bank and other loans wholly repayable within five years	**–**	994	**–**	–	**–**	994
Obligation under finance lease	**26**	–	**–**	–	**26**	–
Imputed interest expense on loan from a minority shareholder of a subsidiary	**1,567**	–	**–**	–	**1,567**	–
Imputed interest expense on convertible bond	**1,840**	–	**–**	–	**1,840**	–
Imputed interest expense on promissory notes	**808**	–	**–**	–	**808**	–
	4,241	994	**–**	–	**4,241**	994

7. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) Discontinued operations

On 17th February, 2006, the Group disposed of its entire equity interest in Daido Building Materials Limited, Daido Home International (B.V.I.) Limited, Daido Home International Limited and Ytong Hong Kong Limited, which was engaged in the business of construction work contracting and sales of concrete products, for a cash consideration of HK$25,000,000. The disposal was completed on 31st March, 2006.

The gain on disposal of interests in subsidiaries was HK$879,000. No tax charge or credit arose on the disposal.

The carrying amounts of the assets and liabilities of the disposed companies at date of disposal are disclosed in note 32(a).

(b) Continuing operations

On 30th December, 2004, the Company announced that a conditional sale and purchase agreement was entered into among one of its indirectly wholly-owned subsidiary, the purchaser and the Company on 13th December, 2004 in respect of the disposal of entire issued capital in Best Goal International Limited and Double Worth Profits Limited, both are indirectly wholly-owned subsidiaries of the Company, which carried on property investment businesses, for a cash consideration of HK$650,000,000. At the special general meeting held on 7th February, 2005, an ordinary resolution proposed to approve the disposal and the new lease arrangement was duly passed by the shareholders. On 15th February, 2005, the board of directors announced that all conditions under the sale and purchase agreement were satisfied and the completion of the disposal took place, and the new lease arrangement executed on the same date.

The gain on disposal of interests in subsidiaries was HK$5,289,000. No tax charge or credit arose on the disposal.

The carrying amounts of the assets and liabilities of the disposed companies at date of disposal are disclosed in note 32(b).

8. IMPAIRMENT LOSS IN RESPECT OF INTEREST IN AN ASSOCIATE

Continuing operations

During the year ended 31st December, 2005, based on the Group's assessment of the carrying amount of the interest in the associate by considering the continuous operating loss since recent years, the directors considered that an impairment loss of HK$1,430,000 in respect of the goodwill to be recognised.

9. TAX (CREDIT) CHARGE

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
The (credit) charge comprises:						
Hong Kong Profits Tax						
Current year	**(304)**	342	**–**	–	**(304)**	342
Underprovision in respect of prior years	**38**	–	**–**	–	**38**	–
	(266)	342	**–**	–	**(266)**	342
Deferred tax (note 30)						
Current year	**163**	322	**–**	854	**163**	1,176
Tax (credit) charge	**(103)**	664	**–**	854	**(103)**	1,518

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

The tax (credit) charge for the year can be reconciled to the profit (loss) before tax per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit (loss) before tax	**210**	(71,932)
Tax at the Hong Kong Profits Tax rate of 17.5%	**37**	(12,588)
Tax effect of expenses not deductible for tax purpose	**866**	13,269
Tax effect of income not taxable for tax purpose	**(1,821)**	(3,596)
Utilisation of tax losses previously not recognised	**–**	(835)
Tax effect of deductible temporary differences not recognised	**–**	260
Tax effect of tax losses not recognised	**739**	5,124
Underprovision in respect of prior years	**38**	–
Others	**38**	(116)
Tax (credit) charge for the year	**(103)**	1,518

10. PROFIT (LOSS) FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):						
Allowance for inventories	**–**	–	**287**	45	**287**	45
Amortisation of prepaid lease payments	**–**	–	**60**	605	**60**	605
Auditors' remuneration	**768**	415	**76**	305	**844**	720
Cost of inventories sold	**–**	–	**3,488**	39,501	**3,488**	39,501
Depreciation for property, plant and equipment						
Owned assets	**5,255**	5	**–**	6,197	**5,255**	6,202
Assets held under finance leases	**108**	18	**–**	–	**108**	18
Exchange loss, net	**–**	–	**12**	10	**12**	10
Loss on disposal of property, plant and equipment	**18**	–	**–**	–	**18**	–
Minimum lease payments for operating leases in respect of rented premises	**57,514**	50,051	**–**	685	**57,514**	50,736
Direct expenses from investment properties not generating rental income	**514**	–	**–**	–	**514**	–
Direct expense from investment properties that generated rental income	**–**	136	**–**	–	**–**	136
Staff costs	**36,960**	565	**667**	15,858	**37,627**	16,423
Amount capitalised in contract work	**–**	–	**–**	(4,979)	**–**	(4,979)
	36,960	565	**667**	10,879	**37,627**	11,444

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	Fung Wa Ko HK$'000	Tang Tsz Man, Philip HK$'000	To Shu Fai HK$'000	Leung Chi Hung HK$'000	Tse Yuen Ming, Valent HK$'000	Leung Tsz Fung David Ferreira HK$'000	2006 HK$'000
Fees	–	–	–	80	80	80	240
Other emoluments							
Salaries and other benefits	1,120	120	–	–	–	–	1,240
Contributions to retirement benefits scheme	34	2	–	–	–	–	36
Total emoluments	1,154	122	–	80	80	80	1,516

	Fung Wa Ko HK$'000	Tang Tsz Man, Philip HK$'000	To Shu Fai HK$'000	Leung Chi Hung HK$'000	Tse Yuen Ming, Valent HK$'000	Leung Tsz Fung David Ferreira HK$'000	Kwok Shun On HK$'000	2005 HK$'000
Fees	–	–	–	80	80	40	40	240
Other emoluments								
Salaries and other benefits	920	120	200	–	–	–	–	1,240
Contributions to retirement benefits scheme	35	2	–	–	–	–	–	37
Total emoluments	955	122	200	80	80	40	40	1,517

No directors waived any emoluments in the year ended 31st December, 2006 and 2005.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals included one (2005: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2005: four) individuals, are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**2,457**	2,389
Contribution to retirement benefits scheme	**74**	126
	2,531	2,515

Their emoluments were within the following band:

	2006 **Number of employees**	2005 Number of employees
Nil to HK$1,000,000	**4**	4

12. DIVIDEND

No interim dividend is paid during the year (2005: nil).

The directors do not recommend the payment of a dividend for the year.

13. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings (loss) per share based on the following data:

	2006 HK$'000	2005 HK$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share	**313**	(73,450)
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	**3,289,315**	3,000,000

From continuing operations

The calculation of the basic earnings per share from continuing operations is based on the following data:

	2006 HK$'000	2005 HK$'000
Earnings (loss)		
Earnings (loss) for the year	**313**	(73,450)
Less: profit (loss) for the year from discontinued operations	**35**	(82,482)
Earnings for the purposes of basic earnings per share from continuing operations	**278**	9,032

The denominators used are the same as those detailed above for basic earnings (loss) per share.

13. EARNINGS (LOSS) PER SHARE (continued)

From discontinued operations

Basic earning per share for discontinued operations is insignificant (2005: basic loss per share of HK 2.75 cents) per share, based on the earning for the year from discontinued operations of HK$35,000 (2005: loss of HK$82,482,000). The denominators used are the same as those detailed above for basic earnings (loss) per share.

The effect of convertible bonds is excluded from the calculation of diluted earnings per share for the year since the effect will be anti-dilutive.

14. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2005	609,000
Disposal upon disposal of subsidiaries	(609,000)
Addition	16,948
Gain on change in fair value	52
At 31st December, 2005 and 31st December, 2006	17,000

The fair value of the Group's investment properties at 31st December, 2006 and 31st December, 2005 have been arrived at on the basis of valuations carried out on the respective dates by Greater China Appraisal Limited and RHL Appraisal Ltd. respectively, both are independent firm of professional property valuers not connected with the Group. Both Greater China Appraisal Limited and RHL Appraisal Ltd. are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties of the Group are situated in Hong Kong and held under medium-term leases. The investment property as at 31st December, 2006 are vacant.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Industrial buildings HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery and equipment HK$'000	Total HK$'000
COST						
At 1st January, 2005	–	71,111	1,117	452	132,591	205,271
Additions	–	–	180	574	146	900
Transferred to assets classified as held for sale	–	(71,111)	(956)	(365)	(132,504)	(204,936)
Disposals	–	–	(162)	(123)	(148)	(433)
At 31st December, 2005	–	–	179	538	85	802
Additions	109	–	472	415	1,987	2,983
Acquisition of subsidiaries	11,672	–	645	3,356	7,871	23,544
Disposals	–	–	–	(119)	(38)	(157)
At 31st December, 2006	11,781	–	1,296	4,190	9,905	27,172
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2005	–	31,124	1,091	434	106,824	139,473
Provided for the year	–	3,018	8	30	3,164	6,220
Transferred to assets classified as held for sale	–	(34,142)	(933)	(322)	(109,837)	(145,234)
Eliminated on disposals	–	–	(162)	(123)	(148)	(433)
At 31st December, 2005	–	–	4	19	3	26
Provided for the year	1,550	–	276	1,046	2,491	5,363
Eliminated on disposals	–	–	–	(52)	(27)	(79)
At 31st December, 2006	1,550	–	280	1,013	2,467	5,310
CARRYING VALUES						
At 31st December, 2006	10,231	–	1,016	3,177	7,438	21,862
At 31st December, 2005	–	–	175	519	82	776

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line method at the following rates per annum:

Leasehold improvements	Over the shorter of terms of the leases and 25%
Industrial buildings	Over the shorter of the terms of the leases and 20 to 25 years
Furniture and fixtures	10% – $33^1/_3$%
Motor vehicles	20% – $33^1/_3$%
Plant and machinery and equipment	5% – 50%

The industrial buildings of the Group were situated in Hong Kong and were held under medium-term leases.

The carrying value of motor vehicles includes an amount of HK$418,000 (2005: HK$520,000) in respect of asset held under a finance lease.

16. GOODWILL

	HK$'000
COST	
At 1st January, 2005	4,534
Eliminated on disposal of subsidiaries	(4,534)
At 31st December, 2005	–
Arising from acquisition of subsidiaries	14,913
At 31st December, 2006	14,913
CARRYING VALUES	
At 31st December, 2006	14,913
At 31st December, 2005	–

16. GOODWILL (continued)

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill arising in 2006 has been allocated to one cash generating unit (CGU), representing the cold storage and logistics services.

During the year ended 31st December, 2006, management of the Group determines that there is no impairment of the CGU containing goodwill.

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 13-year period, and discount rate of 10%. The cash flows beyond the 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit CGU's 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.

17. INTEREST IN AN ASSOCIATE

	2006 **HK$'000**	2005 HK$'000
Cost of investment in an associate	**2,000**	2,000
Share of post-acquisition losses, net of dividends received	**(1,827)**	(1,827)
Less: Impairment	**(173)**	(173)
	–	–

The movement of goodwill which was included in the cost of investment in an associate is set out below:

	2006 **HK$'000**	2005 HK$'000
Goodwill on acquisition of an associate	**1,257**	1,257
Less: Impairment	**(1,257)**	(1,257)
	–	–

17. INTEREST IN AN ASSOCIATE (continued)

As at 31st December, 2006, the Group has interest in the following associate:

Name	Form of business structure	Place of incorporation and operation	Class of shares held	Proportion of nominal value of issue capital held indirectly by the Company	Principal activities
iNeTalk.com Limited	Incorporated	Hong Kong	Ordinary	16% (note)	Development and deployment of high quality internet-based communication services

Note: This company has been accounted for as an associate as, in the opinion of the directors, the Group is in a position to exercise significant influence over the management of this company as one third of the board of directors of this company is the representative of the Company.

Summarised unaudited financial information in respect of the Group's associate is set out below:

	2006 HK$'000	2005 HK$'000
Total assets	**2,539**	3,478
Total liabilities	**(2,501)**	(2,483)
Net assets	**38**	995
Group's share of associate's net assets	**–**	–
Revenue	**16**	7,230
Loss for the year	**(393)**	(725)
Group's share of associate's net loss	**–**	(116)

17. INTEREST IN AN ASSOCIATE (continued)

The Group has discontinued recognition of its share of loss of its associate. The amount of unrecognised share of loss, extracted from the management accounts of the associate, both for the year and cumulatively, are as follows:

	2006 HK$'000	2005 HK$'000
Unrecognised share of loss of associate for the year	**(63)**	–
Accumulated unrecognised share of loss of associate	**(63)**	–

18. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**149,120**	–

As discussed in note 31, the Group has, through an acquisition of subsidiaries, acquired certain assets including the above available-for-sale investments. The above unlisted shares represent the Group's effective interest of 30% of the issued ordinary shares of a private entity incorporated in the British Virgin Islands. The private entity is Richbo Enterprises Limited, a company principally engages in investment holding. Richbo Enterprises Limited holds 50% interest in Hoover International Limited, which in turn holds 80% interest in a group that operates a hotel resort complex in Macau, the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

In the opinion of the directors of the Company, the Group does not have any significant influence nor any power to exercise significant influence over the management of the investee and accordingly, the investments are not classified as associate.

19. LOANS TO AN INVESTEE

The loans are unsecured, interest-free and will not be demanded for repayment within twelve months from the balance sheet date, and accordingly, the amounts are shown as non-current.

The interest-free loans are initially measured at fair value and subsequently measured at amortised cost determined using the effective interest method. The effective interest rate of the loans is 8.5% per annum.

20. INTERESTS IN JOINTLY CONTROLLED OPERATION

During the year, the Group has entered into a joint venture agreement in the form of a jointly controlled operation to jointly provide logistics services. The Group has a 50% interest in the joint venture.

At 31 December 2006, the aggregate amount of assets, liabilities, income and profits recognised in the financial statements in relation to interests in jointly controlled operation are as follows:

	2006 **HK$'000**	2005 HK$'000
Assets	**256**	–
Liabilities	**(115)**	–
Income	**727**	–
Expenses	**(556)**	–

21. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 30 to 60 days to its customers in respect of provision of cold storage and logistics services, and manufacturing and trading of ice.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**11,851**	–
31 – 60 days	**8,915**	–
61 – 90 days	**3,544**	–
91 – 120 days	**25**	–
More than 120 days	**466**	–
	24,801	–

22. OTHER FINANCIAL ASSETS

Other financial assets include pledged deposits and bank balances and cash. Bank balances and cash comprise short term bank deposits at average prevailing market interest rates of 3.86% (2005: 2.89%) per annum. The pledged deposits bears interest at average prevailing market interest rate of 4.05% per annum.

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**2,400**	–
31 – 60 days	**744**	–
61 – 90 days	**218**	–
91 – 120 days	**36**	–
	3,398	–

24. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payment		Present value of minimum lease payment	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Within one year	**153**	153	**135**	127
In the second to fifth year inclusive	**242**	395	**231**	366
	395	548	**366**	493
Less: future finance charges	**(29)**	(55)		
Present value of lease obligations	**366**	493		
Less: Amount due for settlement within one year shown under current liabilities			**(135)**	(127)
Amount due for settlement after one year			**231**	366

The obligations under a finance lease represents the finance lease for a motor vehicle. The term of the lease is for four years at a fixed rate of 2.5% per annum and is secured by the lessor's charge over the leased asset.

25. PROMISSORY NOTES

	2006 HK$'000	2005 HK$'000
The promissory notes are repayable as follows:		
On demand or within one year	**2,493**	–
In the second year	**2,675**	–
In the third to fifth year inclusive	**9,292**	–
Over five years	**20,722**	–
	35,182	–
Less: Amounts due for settlement within one year shown under current liabilities	**(2,493)**	–
Amounts due for settlement after one year	**32,689**	–

The fair value of promissory notes at 31st December, 2006 approximates to its carrying amount.

The terms of the promissory notes are summarised below:

Principal amount:	Ten promissory notes with a principal amount of HK$5 million each.
Interest:	Zero-coupon
Effective interest rate:	7.5% per annum
Maturity:	Repayable by ten equal installments of HK$5 million each on the consecutive anniversary of the date of issue of the promissory notes.
Early repayment:	The Company could, at its option, repay the promissory notes in whole or in part in multiples of HK$1 million by giving a prior ten business days' written notice to the vendor, commencing on the date three months after the completion date of acquisition (as discussed in note 31) and up to the date immediately prior to the maturity date. There will not be any premium or discount to the payment obligations under the promissory notes for any early repayment.
Assignment:	With the prior notification to the Company, the promissory notes may be transferred or assigned by the holder(s) of the promissory notes. The promissory notes are not transferable to any connected persons of the Company.

26. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
At 1st January, 2005 and 31st December, 2005	5,000,000	50,000	3,000,000	30,000
Placement of new shares	–	–	480,000	4,800
At 31st December, 2006	5,000,000	50,000	3,480,000	34,800

The placement of shares was completed on 26th May, 2006 and 480,000,000 ordinary shares of HK$0.01 each in the Company were issued at a price of HK$0.116 per share. All the new shares issued rank pari passu in all respects with the then existing shares.

27. SHARE OPTION SCHEMES

Pursuant to the Share Option Scheme (the "Old Scheme") of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000 for the primary purpose of providing incentive to directors and eligible employees, and which will expire ten years after the date of adoption, the directors of the Company may grant options to executive directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the greater. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the Old Scheme. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25% of the aggregate number of shares under the Old Scheme. Upon acceptance of option, the grantee shall pay HK$1 to the Company as consideration.

The directors noted that an announcement was issued by the Stock Exchange on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities – Share Option Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1st September, 2001.

27. SHARE OPTION SCHEMES (continued)

Prior to 1st September, 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the Old Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Old Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the Old Scheme.

During the year, the Company has terminated the Old Scheme and adopted a new share option scheme ("New Scheme") for eligible employees and non-executive directors of the Group. Details of the New Scheme were set out in the circular of the Company dated 23rd December, 2005. The resolutions of terminating the Old Scheme and the adoption of New Scheme were approved by the shareholders in the special general meeting of the Company on 9th January, 2006.

No share options have been granted since the adoption of the New Scheme.

28. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and will not be demanded for repayment within twelve months from the balance sheet date, and accordingly, the amount is shown as non-current.

The interest-free balance is initially measured at fair value and subsequently measured at amortised cost determined using the effective interest method. The effective interest rate of the amount is 8.5% per annum.

29. CONVERTIBLE BONDS

The Company issued ten zero-rate convertible bonds at the aggregate principal of HK$104.4 million during the year. The convertible bonds are denominated in Hong Kong dollars.

The convertible bonds contain a fixed term of five years from the date of issue. Unless previously redeemed, converted or cancelled as provided in the agreement pursuant to which the convertible bonds was issued, the Company shall redeem, subject to the prior full repayment of the sum due from the promissory notes as mentioned in note 25, the outstanding principal amount of the convertible bonds in whole or in part at redemption premium of 5% of the amount to be redeemed by giving a prior ten business days' written notice to the convertible bondholder(s), at any time commencing from the issue date of the bonds and prior to the maturity date. The conversion price is HK$0.116 per share and subject to anti-dilutive adjustments, and the convertible bonds do not confer any voting rights at any meetings of the Company. Provided that the conversion does not trigger off a mandatory offer under rule 26 of The Codes on Takeovers and Mergers in Hong Kong on the part of the bondholder(s), the bondholder(s) may convert the whole or part (in multiples of HK$1 million) of the principal amount of the convertible bonds into shares at the conversion price from the issue date up to the maturity date.

The convertible bonds contain three components, liability, equity element and redemption option. The equity element is presented in equity heading "convertible bonds – equity reserve". The effective interest rate of the liability component is 8.5% per annum.

The fair value of the redemption option of the convertible bonds was considered as insignificant at the date of issue and at the balance sheet date.

The movement of the liability component of the convertible bonds for the year is set out below:

	2006 **HK$'000**	2005 HK$'000
Carrying amount at the date of issue	**69,540**	–
Interest charge	**1,840**	–
Carrying amount at the end of the year	**71,380**	–

The fair value of the liability component of the convertible bonds at 31st December, 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible bond at the balance sheet date, was HK$71,930,000.

30. DEFERRED TAX

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years.

	Tax losses	Accelerated tax depreciation	Total
	HK$'000	HK$'000	HK$'000
At 1st January, 2005	3,890	(6,448)	(2,558)
Credit for the year	(1,386)	210	(1,176)
Eliminated on disposal of subsidiaries	(2,346)	6,168	3,822
Amount transferred to liabilities associated with assets classified as held for sale	(88)	–	(88)
At 31st December, 2005	70	(70)	–
Acquisition of subsidiaries	27	(1,137)	(1,110)
Credit (charge) for the year	6	(169)	(163)
At 31st December, 2006	103	(1,376)	(1,273)

At the balance sheet date, the Group has unused tax losses of HK$26,825,000 (2005: HK$154,002,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$589,000 (2005: HK$905,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$26,236,000 (2005: HK$153,097,000) due to the unpredictability of future profit streams.

31. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of business

On 17th October, 2005, Newton Luck Limited ("Newton"), a wholly-owned subsidiary of the Company, entered into an agreement with Choice Master Investments Limited ("Choice Master"), an independent third party, and Mr. Yeung Ming Kwong, Tony, the sole and beneficial shareholder and director of Choice Master pursuant to which Newton conditionally agreed to acquire and Choice Master conditionally agreed to sell to Newton the entire issued share capital of Best Merchant Limited at a cash consideration of HK$56 million. The acquisition was completed on 9th January, 2006.

The group headed by Best Merchant Limited carries out the businesses of provision of cold storage and logistics services, and manufacturing and trading of ice.

31. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of business (continued)

The carrying amounts of the net assets, which approximate to their fair values, acquired in the transaction, and the goodwill arising are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	23,544
Trade and other receivables	39,267
Bank balances and cash	1,637
Trade and other payables	(12,939)
Tax payable	(7,228)
Deferred tax liabilities	(1,110)
	43,171
Goodwill	14,913
Total consideration	58,084
Satisfied by:	
Cash	56,000
Cash paid for expenses related to acquisition	2,084
	58,084
Net cash outflow arising on acquisition:	
Cash consideration paid	(56,000)
Cash paid for expenses related to acquisition	(2,084)
Bank balances and cash acquired	1,637
	(56,447)
Deposit paid for acquisition of subsidiaries in last year	10,000
	(46,447)

The goodwill arising on the acquisition of Best Merchant Limited is attributable to the anticipated profitability of the businesses of provision of cold storage and logistics services.

31. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of business (continued)

Best Merchant Limited contributed approximately of HK$145.7 million and HK$5.1 million to the Group's revenue and profit after tax, respectively, for the period between the date of acquisition and 31st December, 2006.

(b) Acquisition of assets through acquisition of subsidiaries

On 29th May, 2006, the Group entered into agreement to acquire from an independent third party ("Vendor") the entire equity interest in Jumbonet International Profits Limited ("Jumbonet").

Jumbonet, through Brilliant Gold International Limited ("Brilliant Gold", 75% owned as to Jumbonet and 25% owned as to the Vendor) and Brilliant Gold's 40% owned investee, Richbo Enterprises Limited (the "Investee" or "Available-For-Sale Investments"), holds 50% interest in Hoover International Limited, which in turn holds 80% interest in a group that operates a hotel resort complex in Macau, the PRC.

The total consideration for the acquisition is HK$336 million, which is the aggregate consideration for (i) equity interest in Jumbonet; and (ii) a shareholder loan owed by Jumbonet to the Vendor.

The acquisition has been accounted for as purchase of assets as the Group acquired the Available-For-Sales Investments at a cost of HK$149,120,000 (see note 18) and a shareholder's loan extended to Richbo Enterprises Limited at HK$228,719,000 (the "Loans to an Investee", see note 19). Upon the completion of the acquisition, the Group also assumed the obligation to repay to the Vendor its portion of shareholder's loan to Brilliant Gold amounting to HK$55,297,000 (shown as "amount due to a minority shareholder of a subsidiary", see note 28). Details of the acquisition were set out in the circular of the Company dated 21st August, 2006. The acquisition was approved by the shareholders during the special general meeting of the Company being convened on 4th September, 2006.

The consideration for the above acquisition was satisfied by cash of HK$183,766,000 (including cash consideration of HK$181,600,000 and expenses related to the acquisition of HK$2,166,000), promissory notes with principal amount of HK$50,000,000 (fair value at the date of acquisition is HK$34,374,000) and convertible bonds with principal amount of HK$104,400,000.

32. DISPOSAL OF SUBSIDIARIES

(a) Discontinued operations

Details of the disposal are set out in note 7(a).

The major classes of assets and liabilities of construction work contracting and sales of concrete products at the date of disposal and 31st December, 2005, which were classsified as held for sale and disposed in March 2006, were as follows:

	2006	2005
	HK$000	HK$'000
Property, plant and equipment	**6,919**	6,919
Long-term receivables	**6,152**	5,636
Prepaid lease payments	**2,836**	2,896
Inventories	**5,973**	5,723
Trade and other receivables	**6,397**	8,245
Rental deposits paid	**–**	114
Loans receivable	**–**	3,000
Amounts due from customers for contract work	**3**	–
Deferred tax assets	**88**	88
Bank balances and cash	**4,868**	5,845
Assets classified as held for sale	**33,236**	38,466
Amounts due to customers for contract work	**(4,072)**	(4,017)
Trade and other payables	**(5,424)**	(9,190)
Guarantee money received	**(87)**	(87)
Liabilities associated with assets classified as held for sale	**(9,583)**	(13,294)
Net assets disposed of	**23,653**	
Cost incurred in relation to the disposal	**468**	
Gain on disposal of interests in subsidiaries	**879**	
Total consideration	**25,000**	
Net cash inflow arising on disposal:		
Cash consideration received	**25,000**	
Cost incurred in relation to the disposal	**(468)**	
Bank balances and cash disposed of	**(4,868)**	
	19,664	

32. DISPOSAL OF SUBSIDIARIES (continued)

(a) Discontinued operations (continued)

The subsidiaries disposed of during the year has constituted a cash outflow of HK$3,307,000 in the Group's operating activities, cash inflow of HK$3,005,000 in the investing activities and did not have cash flow in respect of financing activities.

The disposed subsidiaries had contributed HK$4,022,000 to the Group's revenue and no significant contributions to the Group's profit for the year.

(b) Continuing operations

Details of the disposal are set out in note 7(b).

The net assets of the subsidiaries at the time of disposal were as follows:

	2005 HK$'000
Net assets disposed of:	
Investment properties	609,000
Goodwill	4,534
Long-term receivables	13,406
Trade and other receivables	105
Tax recoverable	145
Bank balances and cash	3,215
Trade and other payables	(48)
Amounts due to the disposed subsidiaries	(103,392)
Deferred tax liabilities	(3,822)
Net assets disposed of	523,143
Gain on disposal of interests in subsidiaries	5,289
Net consideration	528,432

32. DISPOSAL OF SUBSIDIARIES (continued)

(b) Continuing operations (continued)

	2005 HK$'000
Satisfied by:	
Net cash consideration	528,432
Net cash inflow arising on disposal:	
Net cash consideration	528,432
Bank balances and cash disposed of	(3,215)
	525,217

The subsidiaries disposed of during the year used HK$191,000 in the Group's operating activities, generated HK$156,000 from the investing activities and used HK$740,000 in the financing activities.

The subsidiaries disposed of during 2005 contributed HK$5,145,000 to the Group's turnover and a net profit of HK$3,131,000 to the Group for that year.

33. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of 12% indirect interest in Grand Waldo complex through the issue of convertible bonds and promissory notes was disclosed in note 31.

In prior year, the Group entered into a finance lease in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the lease of HK$538,000.

34. PLEDGE OF ASSETS

As at 31st December, 2006, banking facilities of approximately HK$3,300,000 (2005: nil) of the Group were secured by fixed and floating charges on the assets of the Group.

As at 31st December, 2006, bank deposits of HK$56,875,000 (2005: nil) are pledged to a bank which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

35. CONTINGENT LIABILITIES

As at 15th February, 2005, the Group had disposed certain subsidiaries, namely Best Goal International Limited, Double Worth Profits Limited, Brilliant Gain Investments Limited and Ultimate Profits Limited, and provided a deed of indemnity to the purchaser in the amount of approximately HK$5 million in respect of potential tax claimed by tax authority of these subsidiaries. The directors are of the opinion that the potential tax claims was remote and hence, will not give rise to any material adverse impact on the financial position of the Group. No provision has been made in the consolidated financial statements of the Group.

36. CAPITAL COMMITMENTS

At 31st December, 2005, the Group entered into an agreement to acquire Best Merchant Limited for a total consideration of HK$56 million and a deposit of HK$10 million had been paid during 2005. The said acquisition was completed during the year (See note 31).

37. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of cold storage warehouses and office premises which fall due as follows:

	2006 **HK$'000**	2005 HK$'000
Within one year	**57,408**	57,514
In the second to fifth year inclusive	**227,501**	228,033
Over five years	**234,610**	291,486
	519,519	577,033

At 31st December, 2006, leases are negotiated for terms of fourteen years and can be terminated by providing one year notice after the first ten years of tenancy. Monthly rentals are fixed up to February 2008 and rentals for the remaining lease terms will be determined in every three-year period based on market conditions.

37. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

At the balance sheet date, the Group had contracted with tenants in respect of sub-leasing of cold storage warehouses for the following future minimum lease payments:

	2006 **HK$'000**	2005 HK$'000
Within one year	–	56,875
In the second to fifth year inclusive	–	227,501
After five years	–	291,486
	–	575,862

At 31st December, 2005, rental income was received from BCSML, the Group's then customer which operated cold storage warehouses. Leases were negotiated for terms of fourteen years and could be terminated by providing one year notice after the first ten years of tenancy. Monthly rental were fixed and recognised over the terms of the leases. During the current year, through the acquisition of Best Merchant Limited on 9th January, 2006, BCSML became the wholly-owned subsidiary of the Company and the sub-leasing business of the Group has been ceased.

38. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The original ORSO Scheme operated by the Group were cancelled accordingly. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were switched to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntary contributes 1% to 5%, depends on the year of service of the employee, to the MPF Scheme.

Where there are employees who leave the ORSO Scheme or MPF Scheme prior to vesting fully in the contributions, the market value of the unvested portion will be refunded to the Group.

The total cost charged to the consolidated income statement of HK$2,175,000 (2005: HK$791,000) represents contributions payable to the MPF Scheme, after forfeited contributions utilised in the ORSO Scheme and MPF Scheme of nil (2005: HK$25,000), by the Group during the year.

39. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2006	2005
	HK$'000	HK$'000
Office rent paid to a related company (note)	**–**	627

Note: The related company is beneficially held by Mr. To Shu Fai with significant interest, a former director of the Company.

Compensation of key management

The key management of the Group comprises all directors and the four highest paid employees, details of their remuneration are disclosed in note 11. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. KEY SOURCE OF ESTIMATION UNCERTAINTY

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

41. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loans to an investee, pledged bank deposits, trade and other receivables, bank balances, trade and other payables, promissory notes and convertible bonds. 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.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Company has no significant concentration of credit risk as the Company has number of trade customers. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In view of the significant amount of loan to investee, the Group reviews the recoverable amount of the loans to an investee at each balance sheet date by obtaining the financial information of the investee to ensure that adequate allowances are made for irrecoverable amounts.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

Market risk

Currency risk

The Group's functional and presentation currency has been in Hong Kong dollars since the operations are mainly in Hong Kong dollars and the operating expenses incurred are denominated in Hong Kong dollars. Accordingly, the directors consider the foreign exchange risk is not significant.

41. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management objectives and policies (continued)

Cash flow interest rate risk

The Group's cash flow interest rate risk which relates primarily to the bank deposits with floating interest rate.

Management closely monitors cash flow interest rate risk and will consider hedging significant cash flow interest rate exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to zero coupon rate promissory notes and convertible bonds and fixed rate obligations under a finance lease. The management will consider hedging significant fair value interest rate explosure should the need arise.

(b) Fair value

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Except as indicated in the relevant notes in the financial statements, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

42. COMPANY'S BALANCE SHEET

	2006 HK$'000	2005 HK$'000
Non-current asset	**123,239**	123,239
Current assets	**191,151**	141
Current liabilities	**(4,112)**	(2,156)
Net current assets (liabilities)	**187,039**	(2,015)
	310,278	121,224
Capital and reserves	**206,209**	121,244
Non-current liabilities	**104,069**	–
	310,278	121,244

42. COMPANY'S BALANCE SHEET (continued)

(i) Particulars of the principal subsidiaries at 31st December, 2006 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Best Shining Limited	Hong Kong	HK$1 Ordinary share	–	100%	Property investment
Brilliant Cold Storage Management Limited	Hong Kong	HK$2 Ordinary shares	–	100%	Provision of cold storage services and manufacturing and trading of ice
Brilliant Gold International Limited	British Virgin Islands	US$1,000 Ordinary share	–	75%	Investment holding
Brilliant Top In Logistics Limited	Hong Kong	HK$2 Ordinary shares	–	100%	Provision of logistics services
Daido (BVI) Limited	British Virgin Islands	US$2 Ordinary shares	100%	–	Investment holding
Diamond Sparkling Limited	Hong Kong	HK$10 Ordinary shares	–	100%	Sub-leasing of investment properties
Grand Decade Enterprises Limited	British Virgin Islands	US$1 Ordinary share	–	100%	Investment holding
Jumbonet International Profits Limited	British Virgin Islands	US$100 Ordinary share	–	100%	Investment holding
Newton Luck Limited	British Virgin Islands	US$1 Ordinary share	–	100%	Investment holding

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

42. COMPANY'S BALANCE SHEET (continued)

(ii) Reserves

	Contributed surplus HK$'000	Share premium HK$'000	Retained profits HK$'000	Convertible bond equity reserve HK$'000	Total HK$'000
At 31st December, 2006	84,239	49,148	3,162	34,860	171,409

Notes:

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2006 HK$'000	2005 HK$'000
Contributed surplus	**84,239**	84,239
Retained profits	**3,162**	6,986
	87,401	91,225

Financial Summary

	Year ended 31st December,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
Turnover	**149,766**	97,495	109,247	152,112	158,634
Profit (loss) for the year	**313**	(73,450)	86,419	20,831	16,283

	As at 31st December,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
Total assets	**580,772**	340,284	770,931	629,294	234,167
Total liabilities	**(176,943)**	(25,578)	(382,775)	(427,557)	(58,315)
	403,829	314,706	388,156	201,737	175,852
Attributable to:					
Equity holders of the Company	**403,827**	314,706	388,156	201,737	175,852
Minority interests	**2**	–	–	–	–
	403,829	314,706	388,156	201,737	175,852

2002 figures have been adjusted to reflect the change in accounting policy for the adoption of Statement of Standard Accounting Practice ("SSAP") 12 (Revised) issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In addition, no restatement of consolidated financial statements for 2002 and 2003 was made for the adoption of new Hong Kong Financial Reporting Standards issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 as the directors of the Company considered it is not practical to do so.

Particulars of Investment Properties

Name/location	Lease expiry	Use	Approximate gross floor area sq. ft.	Group's attributable interest %	Lease term
Units 80, 81, 93, Coffee Shop and Unit 80A on the Basement Floor, Hunghom Commercial Centre, 37 – 39 Ma Tau Wai Road, Kowloon	2047	Vacant	9,056	100	Medium-term leases

Notice of 2007 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2007 Annual General Meeting of Daido Group Limited (the "Company") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 23rd May, 2007 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the directors' report and the independent auditor's report for the year ended 31st December, 2006.

2. To re-elect directors and to authorize the board of directors to fix their remuneration.

3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

   As special business, to consider, and if thought fit, pass with or without modification, the following resolutions as Ordinary Resolutions:

4. "**THAT**:

   (a) subject to paragraph 4(b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph 4(a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

      (i) the conclusion of the next annual general meeting of the Company; or

      (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable law to be held; or

      (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

5. "**THAT**:

(a) subject to paragraph 5(c) below, a general mandate be and is hereby unconditionally given to the directors of the Company to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company (including making and granting offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter);

(b) the approval in paragraph 5(a) above shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the approval in paragraph 5(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly:

(i) a rights issue where shares are offered for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, any territory applicable to the Company);

(ii) the exercise of subscription rights or conversion rights attaching to any warrants issued by the Company or any securities which are convertible into shares of the Company;

(iii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company and approved by The Stock Exchange of Hong Kong Limited;

(iv) any scrip dividend or any similar arrangement implemented in accordance with the Bye-Laws of the Company; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. "**THAT** conditionally upon Resolutions Numbers 4 and 5 being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares in the capital of the Company pursuant to Resolution Number 5 be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution Number 4, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of Resolution Number 4."

By Order of the Board
Choy Kai Sing
Company Secretary

Hong Kong, 30th April, 2007

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Bye-Laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above Meeting or any adjournment thereof, should he/she so wishes.

3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. As at the date hereof, the board of directors of the Company comprises executive directors, namely, Mr. Fung Wa Ko and Mr. Tang Tsz Man, Philip and independent non-executive directors, namely, Mr. Leung Chi Hung, Mr. Leung, Tsz Fung David Ferreira and Mr. Tse Yuen Ming.