

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

During the year, the Group recorded a net loss attributable to shareholders of HK\$26.6 million as compared to a net profit of HK\$224 million as restated for the last corresponding year. The basic loss per share for the year was HK0.31 cents (last year: basic earnings per share of HK2.65 cents).

BUSINESS REVIEW

The economy of Hong Kong recorded a better-than-expected growth in 2005. Real GDP growth for the year attained 7.3%, following an 8.6% growth in 2004, given a rising trend of interest rate and soaring oil prices. With the effect of rising rate of about 250 to 275 basis points for the year, the local property market, which is more sensitive to rate move, has been adjusted downward. The upstream economic activities coupled with improved unemployment rate offset the negative impact of rising interest rate. Private consumption and retail sales remained robust although there was a modest adverse impact of rising interest rates on private consumption.

The uncertainty in interest rates led to turbulence in local stock market. Hence, the treasury investment of the Group turned to a loss in the second half of the year and incurred an aggregate net loss of HK\$69.3 million for the year. The loss was constituted by a fair value loss on securities investment of HK\$27.3 million and a loss on disposal of securities investment of HK\$35.8 million.

The other business segments of the Group, however, achieved a satisfactory result during the year, particularly the property investment business of Y.T. Realty Group Limited ("Y.T. Realty") which generated a net profit after tax of HK\$250.7 million representing 165.6% up from last year.

PERFORMANCE OF THE GROUP'S BUSINESS

Packaging Business

Qualipak International Holdings Ltd ("Qualipak"), a company's subsidiary listed on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange"), carried out the packaging business of the Group. The net profit after tax and minority interests of Qualipak for the year was HK\$41.2 million (last year: HK\$42.1 million).

During the year, the sale of packaging products recorded an increase of HK\$23 million to HK\$277.4 million, 9% up from last year. It was mainly attributable to an encouraging growth of 29.5% for export sales to European market. European market has become a major market segment of Qualipak for the year as the economy of most of the European regions rebounded robustly.

The gross profit margin of packaging products remained the same as last year with a slightly increase of 0.2% despite the rising of raw materials and labor costs during the year. The moderate rise in average selling price partially offset the effect of rising costs. In addition, more new high-end design lines were introduced, product mix was further broadened and the sales mix was shifted toward higher end products for the year.

Upon the acquisition of 60% interest in Hoi Tin Universal Limited ("Hoi Tin") and 30% interest in Technical International Holdings Ltd ("Technical") in July 2005 and June 2005 respectively, Qualipak has boardly diversified its packaging business into a wide range of products. The principal activities of Hoi Tin are OEM of luggage, travel bags, backpacks and brief cases and the principal activities of Technical are trading and marketing of knives, corkscrews and kitchenwares. Further details were set out in the Company's circular dated 30 April 2005 and 27 June 2005 respectively. The profits contributed by Hoi Tin and Technical for the year were HK\$2.7 million and 5.2 million respectively.

Property Investment Business

The Group's property investment is held through a substantial holding of an equity interest in an associate, Y.T. Realty, a company listed on the main board of the Stock Exchange.

The major investment properties held by Y.T. Realty include the whole block of Century Square and Prestige Tower situate at the core of Central District and Tsimshatsui respectively.

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During the year, Y.T. Realty recorded a net profit after tax of HK\$250.7 million, representing an increase of 165.6% from the last corresponding year. The gross rental income from investment properties for the year was HK\$82.9 million, representing an increase of 6.3% over the last corresponding year. The increase in rental income in 2005 was the consequential result of adopting a proactive business strategy by transforming the tenant base of the properties from offices usage to commercial and retail usage. During the year, Y.T. Realty recorded a considerable rise in rent upon the renewal of tenancy and fresh letting cases. The overall occupancy rate of the properties stood at a high level of 97%.

Infrastructure Business

The Group invested in infrastructure business through an indirect holding of equity interest in The Cross-Harbour (Holdings) Ltd ("Cross Harbour"), being a company listed on the main board of Stock Exchange. During the year, Cross Harbour recorded a net profit after tax and minority interests of HK\$162 million, an increase of 20% from the last corresponding year. Attainment of this result was due to increase in toll revenue and traffic throughput.

The infrastructure business has successfully generated a stable stream of income and make profit contribution to the Group indirectly.

Treasury Investment

The Group utilized the available fund for treasury investment during the year. Due to the volatile performance of local stock market when exposing to the effect of uncertainty in interest rate, the business of treasury investment which comprised principally the securities investment incurred a net loss of HK\$69.3 million for the year.

PROSPECT

The economy of USA remains stable and the European market is expected to continue its growth momentum in 2006. Qualipak is expected to have more opportunities for business expansion in these regions. Given favorable market conditions, Qualipak will strive to improve production efficiency, strengthen or enlarge the customer base to capture any market opportunities emerged and minimize the impact of soaring oil prices, rising interest rate and fluctuation on the price of raw materials on the manufacturing costs.

The luggage industry is expected to grow when a bounce of consumer spending or travel related purchases emerging in 2006. Having efficient operations and close relationship with major international brands, Hoi Tin is expected to take advantage of this favorable situations to increase or improve its profitability in the coming years.

Y.T. Realty has gradually shifted its tenant portfolio into retail and commercial as the tenant base of these sectors are more favorable than other similar office buildings of similar grade.

Notwithstanding the outlook of local economy is quite positive, the Group will preserve and adopt a prudent strategy to explore other business opportunities. The Group will focus its investment strategy toward a long-term steady growth with sound financial and management competency.

FINANCIAL REVIEW

The Group's turnover for the year was HK\$436.3 million, representing an increase of 11% from the last corresponding year. During the year, the turnover of packaging products increased by HK\$23 million or 9% and the turnover of luggage products was HK\$170 million. The performance of trading automobile parts and other materials remained inactive and its turnover was HK\$0.59 million.

The operating expenses (including selling and administrative expenses) of the Group for the year increased by 5.5% after the consolidation of Hoi Tin into the Group's account upon the completion of acquisition in July 2005. Selling expenses and administrative expenses for the year increased by HK\$2.3 million and HK\$3.3 million, representing an increase of 26.2% and 3.6% respectively.

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The other expenses of the Group for the year was HK\$86.6 million including an impairment loss of available-for-sale financial assets of HK\$50 million made in accordance with the new HKAS 39.

The adoption of a number of new or revised Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) ("HKFRSs") issued by Hong Kong Institute of certified Public Accountants with effect from 1 January 2005 had increased the Group's net profit for the year by an aggregate amount of HK\$70.3 million. Details of the effect have been summarized in note 2.4 to the financial statements.

As at 31 December 2005, the consolidated net asset value of the Group (excluding minority interests of HK\$209.3 million) was HK\$2,084 million. The consolidated net asset value per share was HK\$0.24. The Group's total asset and liabilities were HK\$2,597.5 million and HK\$304.2 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the cash and cash equivalent of the Group was HK\$509.9 million, representing 24.5% of the consolidated net asset value (excluding minority interests) of the Group.

The Group had bank loans of HK\$15.4 million as at 31 December 2005.

As at 31 December 2005, the Group had a working capital ratio of approximately 5.3 and gearing ratio which was defined as long-term liabilities to shareholders' fund was approximately 2.8%. All of these suggested that the Group has sufficient working capital to support its operation.

The contingent liabilities of the Group were HK\$6 million with respect to the guarantee granted to an associated company.

EXCHANGE RISK

Most bank deposits of the Group are maintained in Hong Kong dollars and US dollars as most of the sales and purchases of raw materials are denominated in these currencies. Hence, the Group's exposure to foreign exchange risk is minimal.

CAPITAL STRUCTURE

The Company issued a convertible note of HK\$70,000,000 ("Convertible Note") on 31 July 2004 with an interest rate of 3% per annum payable in arrears. The Convertible Note has a maturity date on 31 July 2007 and can be converted into ordinary shares at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year. On 29 July 2005, the conversion rights attaching to the Convertible Note in respect of an amount of HK\$20,325,000 was exercised and a total number of 271,000,000 shares were issued. The outstanding principal amount of the Convertible Note as at 31 December 2005 was HK\$49,675,000.

PLEDGE OF ASSETS

As at 31 December 2005, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$67 million and its time deposits of approximately HK\$10.3 million as securities for general banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2005, the Group had approximately 5,800 employees.

The remuneration policy of the Company is to ensure external competitiveness through reference to market survey and data, provide remuneration packages to its employees closely linked to their performance and contributions to the Company. In order to give incentives to employees to perform at the highest level, the Company provides other benefits including MPF, share option scheme, medical insurance and discretionary training subsidies.

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SHARE OPTION SCHEME

The Company adopted a new share option scheme on 29 April 2005 in order to motivate the performance of employees with the ultimate goal of enhancing the interests of the Company and shareholders as a whole. No options were granted under the new share option scheme during the year and there was no option outstanding at the beginning or the end of the year.

MATERIAL ACQUISITIONS

During the year, the Group increased its equity interest in Qualipak from 59.71% to 64.54% by purchasing an aggregate of 190,000,000 shares in Qualipak at the price of HK\$0.088 per share.

The Group purchased two office premises at a total consideration of approximately HK\$81 million during the year. The Group has occupied one of the office premises for its own use. The other has been leased out for additional rental income. Further details were contained in the Company's circular dated 2 June 2005.

SIGNIFICANT INVESTMENTS

The Group continued to maintain its investment in equity interest of Y.T. Realty with a carrying value of HK\$797.6 million as at 31 December 2005. The net profit after tax of Y.T. Realty for the year was HK\$250.7 million.

FINAL DIVIDEND

The board of directors of the Company has resolved to recommend the payment of a final dividend of HK\$0.003 per share for the year ended 31 December 2005, subject to the approval of shareholders at the forthcoming annual general meeting to be held on 29 May 2006. It is expected that the final dividend will be paid on 13 June 2006 to shareholders whose name appear on the register of members on 8 June 2006. No interim dividend was paid during the year. In respect of the preceding year, a final dividend of HK\$0.003 per share was paid and no interim dividend was declared.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 June 2006 to Thursday, 8 June 2006, both days inclusive. No transfer of shares will be registered during the period. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 6 June 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

APPRECIATION

On behalf of the Board of Directors, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication throughout the year.

By order of the Board

Cheung Chung Kiu

Chairman

Hong Kong, 7 April 2006