

# CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of the company (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

## RESULT

The Group's operating result demonstrated satisfactory growth during the year under review. Profit attributable to equity shareholders of the Company for the year amounted to HK\$780.9 million, representing a robust increase from net loss of HK\$26.6 million last year. It was mainly attributable to a gain of HK\$508.9 million arising from a deemed disposal of subsidiaries, details of which are set out in the Business Review section below. The basic earnings per share for the year was HK8.83 cents (2005: basic loss per share of HK0.31 cent).

## BUSINESS REVIEW

### Packaging and Luggage Business

The Group carried out the packaging and luggage business through C C Land Holdings Limited ("C C Land", previously known as Qualipak International Holdings Limited), a company listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). On 6 November 2006, C C Land passed a resolution in a special general meeting to approve the purchase of the sale share of Starhigh International Ltd ("Sale Share") for a consideration of HK\$3,317,553,298 satisfied by (i) HK\$448,000,000 settled by the issue of 1,600,000,000 shares of C C Land; (ii) HK\$2,552,000,000 settled by the issue of convertible note ("Convertible Note"); (iii) a sum representing such amount of the receivables up to the equivalent of HK\$250,000,000 as may be recovered by C C Land group; (iv) HK\$67,553,298 settled by the assumption of the obligations by C C Land group. The Sale Share represents the entire issued share capital of Starhigh International Ltd, which owns 11 parcels of land in Chongqing, the PRC, with total site area of 865,668.57 sq.m. Upon completion of the acquisition, the Group's interest in C C Land was diluted from 64.54% to 45.9%.

After the completion, the Group's interest in C C Land was further diluted to subsequently below 20% upon placing of 3,400,000,000 new shares in C C Land and full conversion of the Convertible Note, which were disclosed in the announcements made by C C Land during the period from 16 November 2006 to 30 November 2006. The transaction constituted a further deemed disposal of C C Land by the Group and resulted in substantial reduction on the deemed disposal gain to HK\$508.9 million from that of the acquisition date. After that, C C Land is no longer a subsidiary or associate of the Group. The Group ceased to consolidate its operating result and discontinued the operation of packaging and luggage business.

During the year, the discontinued packaging business recorded a turnover of HK\$265.2 million as compared to approximately HK\$231.2 million in the corresponding period of last year, representing an increase of 14.7%. The operating result of discontinued packaging business for the year was HK\$31.1 million. The sale of luggage products and the operating result of discontinued luggage business for the year were HK\$383.7 million and HK\$7.0 million respectively.

### Property Investment Business

Y.T. Realty Group Limited ("Y.T. Realty"), whose shares are traded on the main board of the Stock Exchange, is a flagship of the Group's property investment business in Hong Kong. Investment properties currently held by Y.T. Realty include the whole block of Century Square and Prestige Tower situate in the core of Central District and Tsimshatsui respectively. During the year under review, the gross rental income of Y.T. Realty recorded an increase of HK\$7.0 million or 8.4% to approximately HK\$89.9 million when compared with last corresponding year. The increase in rental income was mainly due to the continuing upward adjustment in rental rates of the investment properties and successful application of business strategy by transforming the properties from office buildings to commercial, retail and lifestyle hub. During the year, all the tenancy renewal and fresh letting cases recorded much favorable rise in rent.

Y.T. Realty recorded a net profit after tax of HK\$288.1 million for the year, representing an increase of HK\$37.4 million or 14.9% from the last corresponding year.

# CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

## Infrastructure Business

The Group invested in infrastructure business through 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\$172.8 million, representing an increase of 6.7% from the last corresponding year. Cross Harbour recorded a moderate growth in toll revenue as the traffic throughput continued to increase during the year.

## Treasury Investment

Local economy continued to grow satisfactorily given appreciation of Renminbi, influx of hot money, liquidity flooding and optimistic economic outlook of China. The local stock market surged to a six-year high as the Hang Seng Index hiked through the 20,000 points barrier during the year. Capturing the bullish of stock market, the treasury investment of the Group recorded a net profit of HK\$170.3 million for the year, representing a significant increase of HK\$239.6 million from the last corresponding year.

## PRC Trading Business

During the year, the Group has expanded its trading business in the PRC to metal commodities. As China has an increasing demand for metal commodities during the year, the sale orders for trading of metal commodities recorded a gradual increase over the year. The turnover of PRC trading was HK\$52.4 million for the year under review.

## PROSPECT

Driven by growing export performance of Mainland China, it gave rise to more trading opportunities in the PRC. The prospect of trading of metal commodities will be positive provided China continues to have strong demand for metals. It is expected that the Group will be benefited from the emergence of such trading opportunities in the foreseeable future.

Fueled by local lending rate cuts and favorable economic growth, the rental of both retail and commercial properties are expected to continue its upward trend. The present portfolio of tenants, which mainly comprised of retail and commercial sectors, enables Y.T. Realty with more favorable rental income than other similar office buildings of similar grade.

Given a positive outlook of local economy, the Group will adhere to its long-sustained strategies in financial management and focus its investment strategy toward a long-term strategic growth with sound financial and management capabilities.

## FINANCIAL REVIEW

The Group's turnover of the continuing operations for the year was HK\$122.8 million, comprising PRC trading of HK\$52.4 million and treasury investment of HK\$70.4 million, all of which have recorded a satisfactory growth for the year.

As at 31 December 2006, the consolidated net asset value of the Group was HK\$3,217.2 million and the consolidated net asset value per share was HK\$0.36. The Group's total assets and liabilities were HK\$3,387.0 million and HK\$169.8 million respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the cash and cash equivalents of the Group was HK\$130 million, representing a decrease of HK\$380 million from last year. This was mainly due to the deconsolidation of C C Land. The Group had a short-term bank loan of HK\$95 million as at 31 December 2006. The Group did not have any contingent liabilities as at 31 December 2006.

The Group has strong liquidity and financial resources as indicated by high level of net current assets of HK\$885.9 million and adequate working capital ratio of 6.2. The Group has strong financial strength as gearing ratio, defined as long-term liabilities to shareholders' fund, was as low as 0.03%. All of these indicated that the Group has sufficient working capital to support its operation.

# CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

## EXCHANGE RISK

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

## CAPITAL STRUCTURE

On 31 July 2004, the Company issued a convertible note of HK\$70,000,000, bearing 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 of the Company at the conversion price of HK\$0.075 per share for the first year, HK\$0.082 per share for the second year and HK\$0.089 per share for the third year. On 29 July 2005, the noteholder exercised the conversion rights attaching to the convertible note in an aggregate amount of HK\$20,325,000 and a total number of 271,000,000 shares were issued. On 31 July 2006, the noteholder exercised the conversion rights attaching to the convertible note in an aggregate amount of HK\$23,780,000 and a total number of 290,000,000 shares were issued. The outstanding principal amount of convertible note as at 31 December 2006 was HK\$25,895,000.

## PLEDGE OF ASSETS

As at 31 December 2006, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$58.4 million, and the time deposits of approximately HK\$8.8 million to secure the general banking facilities of the Group.

## HUMAN RESOURCES PRACTICES

The total number of employees as at 31 December 2006 was 37.

The human resources practices of the Company are oriented to attract, retain and motivate high caliber employees to perform at the highest level to attain the Company's objective of enhancing and maximizing the interests of shareholders, investors and employees as a whole. The Company aims to provide competitive remuneration package to ensure external competitiveness by reference to prevailing market level and links to individual contributions to the Group.

The Company provides other fringe benefits including MPF, medical insurance and discretionary training subsidies. The Company also operates a discretionary share option scheme to motivate the performance of employees.

## MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group acquired the entire issued share capital of Starthigh International Ltd, which owns 11 parcels of land in Chongqing, the PRC, with total site area of 865,668.57 sq.m. The transaction constituted a very substantial acquisition under the Rules Governing the Listing of Securities on Stock Exchange. After the completion of the acquisition, the Group's interest in C C Land subsequently diluted from 64.54% to below 20%, details of which are set out in the aforesaid business review section.

## SIGNIFICANT INVESTMENTS

The Group's equity investment in C C Land was reclassified as available-for-sale investment at fair value of HK\$1,271.2 million as at 31 December 2006. The Group maintains its strategic investment in equity interest of Y.T. Realty with a carrying value of HK\$899.3 million as at 31 December 2006. The net profit after tax of Y.T. Realty for the year was HK\$288.1 million.

# CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

## FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK\$0.003 per share for the year ended 31 December 2006, subject to the approval of shareholders at the forthcoming annual general meeting to be held on 11 May 2007. The final dividend will be paid on 22 May 2007 to shareholders registered on 11 May 2007. 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, 9 May 2007 to Friday, 11 May 2007, both days inclusive, during such period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer 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, 8 May 2007.

## 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, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication throughout the year.

**Cheung Chung Kiu**

Chairman

Hong Kong, 23 March 2007