

REPORT OF THE DIRECTORS

The directors ("Directors") of the company (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 20, 21 and 22 to the financial statements respectively.

There were no significant changes in the nature of the Group's principal activities during the year, other than the deemed disposal of a group of subsidiaries on 6 November 2006 which engaged in the manufacturing and sale of packaging and luggage products.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 95.

The Directors recommend the payment of a final dividend of HK\$0.003 per ordinary share to the shareholders whose name appear on the register of members on 11 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's performance by business and geographical segments for the year ended 31 December 2006 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 96. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the property, plant and equipment and investment properties of the Group are set out in notes 16 and 17 to the financial statements respectively.

CONVERTIBLE NOTE

Particulars of the Company's convertible note during the year are set out in note 32 to the financial statements.

SHARE CAPITAL

Particulars of the Company's share capital during the year are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of Bermuda which oblige the Company to offer new shares to existing shareholders on a pro rata basis.

RESERVES

Particulars of reserves of the Company and the Group during the year are set out in note 35 to the financial statements and the consolidated statement of changes in equity respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$2,183,000.

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DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Cheung Chung Kiu (*Chairman*)
Mr. Yuen Wing Shing (*Managing Director*)
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Non-executive Director:

Mr. Lee Ka Sze, Carmelo

Independent non-executive Directors:

Mr. Wong Wai Kwong, David
Mr. Ng Kwok Fu
Mr. Wong Yat Fai

In accordance with the bye-laws of the Company, Mr. Cheung Chung Kiu, Mr. Zhang Qing Xin and Mr. Lam Hiu Lo will retire by rotation at the conclusion of the annual general meeting to be held on 11 May 2007, and, being eligible, will offer themselves for re-election as executive Directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of the Directors and chief executive's and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as 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 ("Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

(i) Long positions in the Company's ordinary shares:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate (<i>note 1</i>)	3,755,434,684	41.66
	Personal	53,320,000	0.59
Mr. Zhang Qing Xin	Personal	13,600,000	0.15
Mr. Lam Hiu Lo	Personal	41,800,000	0.46
Mr. Liang Kang	Personal	30,000,000	0.33

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(ii) Long position in the Company's convertible note:

Name of Director	Nature of interest	Convertible note held HK\$	Number of underlying shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate (note 2)	<u>25,895,000</u>	<u>290,955,056</u>	3.23

(iii) Long positions in shares and underlying shares of associated corporations:

Name of Director	Name of associated corporation	Relationship with the Company	Shares	Nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
Mr. Cheung Chung Kiu	Y.T. Realty Group Limited	Associate	Ordinary shares	Corporate (note 3)	273,000,000	34.14
Mr. Ng Kwok Fu	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

Notes:

- (1) 3,194,434,684 shares were held by Chongqing Industrial Limited ("Chongqing") and 561,000,000 shares were held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

- (2) The convertible note is held by Timmex. Pursuant to the terms of the convertible note, the remaining number of underlying shares that may be converted under the convertible note was 290,955,056. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 45.48%.
- (3) The 273,000,000 shares were held by Funrise Limited which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

In addition to the above, some Directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, none of the Directors nor chief executive or their associates had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") was adopted on 29 April 2005, the terms of which are in line with and comply with the requirements of Chapter 17 of the Listing Rules.

No option was granted under the Share Option Scheme and no option was outstanding as at 31 December 2006.

The particulars in relation to the Share Option Scheme that are required to be disclosed under Rules 17.07 to 17.09 of the Listing Rules are set out below:

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|---|---|
| (1) Purpose of the Share Option Scheme | To provide incentives and rewards to eligible participants for their contributions to the Group and enable the Group to retain existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. |
| (2) Participants of the Share Option Scheme | It includes the directors, officers and employees of the Eligible Group and any executive, officer or employee of any business consultant, professional and other advisers of any member of the Eligible Group. |

The Eligible Group includes:

- | | |
|---|--|
| (1) Purpose of the Share Option Scheme | To provide incentives and rewards to eligible participants for their contributions to the Group and enable the Group to retain existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. |
| (2) Participants of the Share Option Scheme | It includes the directors, officers and employees of the Eligible Group and any executive, officer or employee of any business consultant, professional and other advisers of any member of the Eligible Group.

The Eligible Group includes:

(i) the Company and each of its substantial shareholders;

(ii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above;

(iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above; and

(iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above. |
| (3) The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued share capital as at the date of the annual report | 872,432,170 ordinary shares and 9.68% of the existing issued share capital. |

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- (4) The maximum entitlement of each participant under the Share Option Scheme
- Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.
- In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.
- (5) The period within which the securities must be taken up under an option
- An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the Share Option Scheme.
- (6) The minimum period for which an option must be held before it can be exercised
- There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
- (7) Amount payable on acceptance of the option and the period within which such payment must be made
- The offer of a grant of share options may be accepted with a consideration of HK\$1 being payable by the grantee.
- (8) The basis of determining the exercise price
- The exercise price is determined by the Directors and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
- (9) The remaining life of the Share Option Scheme
- The Share Option Scheme remains in force until 28 April 2015.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" and "Share option scheme" above, at no time during the year rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors or their respective spouse or minor children, or any such rights were exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 43 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at the balance sheet date, the following persons had an interest of 5% or more of the issued share capital and the underlying shares of the Company which were recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	1	Corporate	851,955,056	9.45
Chongqing Industrial Limited	2	Corporate	3,194,434,684	35.44
Palin Holdings Limited	3	Trustee of a Family Trust	3,194,434,684	35.44
Mr. Cheung Chung Kiu	4	Corporate and personal	4,099,709,740	45.48
PMA Capital Management Limited		Corporate	532,302,000	5.91
Deutsche Bank Aktiengesellschaft		Corporate	<u>518,520,000</u>	5.75

Notes:

- (1) The interests represent the aggregate of 561,000,000 shares held and 290,955,056 shares issuable upon the exercise of the conversion rights attaching to the convertible note of HK\$25,895,000 that was held by Timmex, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing, which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.
- (4) Out of the 4,099,709,740 shares, 3,194,434,684 shares and 561,000,000 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally. The remaining 290,955,056 shares are the underlying shares interested by Timmex.

Save as disclosed above, as at 31 December 2006, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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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.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$870,303,000, of which HK\$27,043,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$881,476,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 54% of the total sales for the year and sales to the largest customer included therein amounted to 32%.

Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15%.

As far as the Directors are aware, neither the Directors and their associates, nor any shareholders who, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers.

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK\$885.9 million with a current ratio of 6.2. The cash and cash equivalents of the Group decreased from approximately HK\$510 million to approximately HK\$130 million during the year.

The Group had short term banking facilities of approximately HK\$263 million as at 31 December 2006. The Group had outstanding bank loans of approximately HK\$95 million as at the balance sheet date. An analysis of the bank borrowings is set out in note 30 to the financial statements.

CONNECTED TRANSACTIONS

The Group entered into a sub-tenancy agreement with Chongqing, a substantial shareholder of the Company in relation to premises situate at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The total rent and other charges amounted to approximately HK\$996,000 for the year.

On 25 May 2004, the Company entered into a conditional subscription agreement with Timmex Investment Ltd pursuant to which the Company agreed to issue and Timmex agreed to subscribe for a convertible note of HK\$70,000,000 in cash, bearing an interest of 3% per annum and payable annually 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 (subject to adjustment). Given that Mr. Cheung Chung Kiu is a Director of the Company and Timmex is wholly owned by him, the entering into the subscription agreement constituted a connected transaction for the Company under the Listing Rules. On 29 July 2005, HK\$20,325,000 of the convertible note was converted into 271,000,000 shares of the Company at the conversion price of HK\$0.075 per share. Further on 31 July 2006, HK\$23,780,000 of the convertible note was converted into 290,000,000 shares of the Company at the conversion price of HK\$0.082 per share. At the balance sheet date, HK\$25,895,000 of the convertible note remained outstanding. During the year, interest expenses on the convertible note paid or payable to Timmex amounted to HK\$1,189,000 (2005: HK\$1,839,000).

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On 22 February 2006, Hoi Tin Universal Limited (“Hoi Tin”) and Thomas Wagner GmbH (“Thomas Wagner”) entered into an agreement pursuant to which the parties agreed to enter into transactions relating to the sale of products manufactured by Hoi Tin and its subsidiaries, including soft luggage, travel bags, backpacks and brief cases (the “Sales Transactions”) to Thomas Wagner and its subsidiaries for the period up to 31 December 2008. Hoi Tin is a subsidiary of C C Land Holdings Limited (“C C Land”, previously known as “Qualipak International Holdings Limited”) and Thomas Wagner is a 25% shareholder of a subsidiary of Hoi Tin. The Sales Transactions constituted continuing connected transaction of the Company under Listing Rules. The Sales Transactions were approved by the shareholders of the Company on 3 April 2006 with proposed annual cap of HK\$55 million, HK\$60.5 million and HK\$66.55 million for the three financial years ending 31 December 2006, 2007 and 2008 respectively. On 27 September 2006, Hoi Tin and Thomas Wagner entered into an agreement pursuant to which Hoi Tin agreed to purchase and Thomas Wagner agreed to sell an interest of 25% in Young Comfort Development Limited (“Young Comfort”) for the consideration of HK\$990,120. The transaction was completed on 29 September 2006 and Young Comfort has become a wholly-owned subsidiary of Hoi Tin whereby Thomas Wagner ceased to be a connected person of the Group and hence the Sales Transactions will no longer constitute a connected transaction to the Group. The aggregate amount of the Sales Transactions during the period was HK\$13,431,000. The Sales Transactions during the period have been reviewed by the independent non-executive Directors and they confirmed that the Sales Transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and (iii) in accordance with the terms of the agreement governing the Sales Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors of the Company also confirmed that the Sales Transactions (i) were approved by the Board; (ii) were entered into in accordance with the pricing policies of the Group; (iii) were conducted in accordance with the terms of the agreement governing the Sales Transactions; and (iv) were within the cap limit as disclosed in the announcement dated 23 February 2006.

On 22 September 2006, Marvel Leader Investments Limited (“Marvel”) and Thrivetrade Limited (“Thrivetrade”) entered into an agreement pursuant to which Marvel agreed to purchase and Thrivetrade agreed to sell the entire issued share capital of Starthigh International Limited (“Starthigh”). Marvel is a wholly-owned subsidiary of C C Land and Starthigh was a wholly-owned subsidiary of Thrivetrade, which was 100% interested by Mr. Cheung Chung Kiu, a Director of the Company. The aggregate value of consideration for the transaction was HK\$3,317,553,298 being as to: (i) HK\$448,000,000 was satisfied by the issue of 1,600,000,000 ordinary shares in C C Land; (ii) HK\$2,552,000,000 was satisfied by the issue of convertible note by C C Land; (iii) an aggregate amount of up to the equivalent of HK\$250,000,000, as may be recovered by C C Land group; (iv) HK\$67,553,298 was satisfied by the assumption of the obligations by C C Land group. The transaction constituted a connected transaction of the Company under Listing Rules and was duly approved by the independent shareholders of the Company at a special general meeting held on 6 November 2006. Immediately upon the completion, the Company’s interest in C C Land was diluted from 64.54% to approximately 45.9%. Accordingly, the transaction constituted a deemed disposal by the Company of its interest in C C Land which in turn constituted a very substantial disposal under the Listing Rules. C C Land was no longer a subsidiary of the Company as at 31 December 2006. Further details of the transaction had been set out in the Company’s circular dated 20 October 2006.

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SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and to the best knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young will retire at the conclusion of the annual general meeting to be held on 11 May 2007. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yuen Wing Shing

Managing Director

Hong Kong, 23 March 2007