The Group will continue to strive to achieve its vision of becoming a cigarette packaging leading specialist.

Management Discussion and Analysis

BUSINESS REVIEW

During the Reporting Period, the Group achieved a turnover of HK$1,122.6 million, representing an increase of HK$739.1 million, as compared to last year. Gross profit increased by 125.3% to HK$364.2 million at a margin of 32.4% which resulted from the change of the Group's product mix in focusing on both high-end products with lower volume together with low end products with mass volume.

Other income mainly comprised interest income and profit from trading of raw material. Selling and distribution costs and administrative expenses increased as a result of the enlarged operation but remained at a relatively stable percentage to turnover. Tax expenses have also increased as a result of the enlarged operation. Share of profits of associates decreased because Kunming plant has become a wholly owned subsidiary of the Company subsequent to our acquisition of its remaining equity interest in May 2006. The Group's profit rose by 44.6% to HK$267.3 million from HK$184.8 million for last year. Profit attributable to shareholders increased by 38.0% to HK$250.3 million as compared to last year. The Group's business recorded a stable growth, mainly attributable to the satisfactory growth of each plant, especially the substantial contribution from the newly acquired Qingdao, Beijing and Kunming Plants.

CIGARETTE PACKAGING PRINTING

During the Reporting Period, turnover from cigarette packaging printing amounted to HK$885.3 million, a year-on-year increase of HK$753.0 million and accounting for 78.9% of the Group's total turnover. As a dominant growth driver of the Group, the high growth recorded in the cigarette packaging printing segment was principally due to the inclusion of the substantial contribution from the acquired Qingdao, Beijing and Kunming Plants. However, since the Qingdao and Beijing Plants were acquired in February 2006 and the Kunming Plant was acquired in May 2006, only part of their respective annual production output was included in the Group's result in the Reporting Period.

LAMINATED PAPER MANUFACTURING

During the Reporting Period, turnover from laminated paper manufacturing amounted to HK$237.2 million, representing a decline of 5.6% as compared to last year and accounting for 21.1% of the Group's total turnover. This was mainly due to the fact that sales to Kunming Plant was eliminated upon consolidation following our acquisition in May 2006. For 2006, nearly 83.1% of the laminated paper was for internal use, especially to support Kunming and Nanjing Plants' productions and only 16.9% was for external sales. Since laminated papers are a significant production cost input, AMVIG generates additional profit margin by being vertically integrated and is also able to guarantee the supply and quality of a key raw material ingredient to its printing operations. This also allows AMVIG to have greater flexibility and efficiency and better meet the needs of its customers.

AMVIG has successfully built a leadership position in most of our key product regions in the PRC. As a market leader, it is important that AMVIG develops and strengthens its geographical presence in different provinces. During the Reporting Period, AMVIG extended its manufacturing footprint in different regions of the PRC, and this now comprises Beijing and Qingdao Plants in northern part, Nanjing Plant in eastern part, Shenzhen Plant and the newly established Dongguan Plant in southern part and Kunming Plant in western part. This extensive manufacturing footprint is a significant competitive advantage for AMVIG and allows it to better implement and coordinate the Group's procurement activities, flexibly allocate production amongst different plants, and improve the overall utilisation of the production capacity, to better meet the needs of its customers.

The Group owns an 83% interest in Beijing Leigh-Mardon Pacific Packaging Co., Ltd. ("Beijing" LMPP") that has a plant based in the Tongzhou District of Beijing. Qingdao Leigh-Mardon Packaging Co., Ltd. ("Qingdao LMPP") is a 60% owned subsidiary of the Company and it has a plant based in Sifang District of Qingdao. The two plants specialise in producing all forms of high quality packaging for China's tobacco industry. They mainly serve the mid-low end but higher volume brands, and the Group is confident this provides a solid foundation for the Group to add further value for its customers in future. The Group has successfully built up a strong relationship with its Chinese partners and the Central Government and looks forward to a long and successful partnership.

During the Reporting Period, the Qingdao and Beijing Plants both attained a sound growth in both turnover and profit. The acquisition of these plants not only enabled the Group to extend its presence to the northern part of China but also diversified the Group's product base to incorporate mass mid-low end brands such as soft pack. With consumer's spending power accelerating in the northern region, the Group believes this will provide further growth potential for the Group in future.

Nanjing Sanlong Packaging Co., Ltd. is a 48%-owned associate company of AMVIG, established in 1998 as a Sino-foreign joint venture. The other remaining shareholders are owned by the employee associations of the respective cigarette companies which are from Nanjing Cigarette Factory and Huaiyin Cigarette Factory. The main production is mainly high-end lower volume product.

During the Reporting Period, the Nanjing Plant also recorded a solid contribution to the Group. The profit from Nanjing Plant increased due to the growth of sales from its two major customers, Nanjing Cigarette Factory and Huaiyin Cigarette Factory. New orders were secured in the Reporting Period subsequent to the consolidation in the Jiangsu province and therefore, further enhancing our leading position in this province.

Kunming World Grand Colour Printing Co., Ltd. ("Kunming World Grand") is a printer of high quality cigarette packages which is located in Yunnan Province. The acquisition of the remaining equity interest of Kunming World Grand has enabled the Group to expand its market share among top-tier cigarette manufacturers. Kunming World Grand's major customers are among the leading tobacco companies in the PRC, namely Hongyun Group, the second largest tobacco manufacturer in the PRC, and Guangdong Tobacco Group, a top-tier tobacco manufacturer in the PRC.

During the Reporting Period, the Kunming Plant recorded the strongest turnover and profit growth even with only seven months, contribution to the Group's result. In light of the fast growth of the orders from its customers, the Kumming Plant is running at full capacity. As a result, AMVIG is developing a new production plant in Dongguan to support the business growth and some of the production will likely be shifted to the new plant. This will allow the Kunming plant to free up more capacity to focus on the Hongyun Group's orders and the Dongguan plant to focus on the customers in the southern part for future growth.

The Group's wholly owned Shenzhen operation mainly serves mid priced cigarette brands. It specialises in the manufacture of both metallised and laser laminated papers, along with the production of cigarette packages. The laminated paper production is mainly supplied to the Kunming and Nanjing Plants for use, and also supplied internally to the packaging printing sector where the major customer is the Baisha brand.

During the Reporting Period, turnover from the Shenzhen operation declined and did not deliver in accordance with its budget. However, the Group is committed to improving the profitability of Shenzhen Plant and is confident that, after the implementation of improved management control and systems, the Shenzhen Plant is well positioned to continue to deliver further organic growth for the Group in future.

Following a year of consolidation and integration, the Group has a balanced portfolio of high margin product with lower volume and low margin product with higher volume. To expand its market share in the industry, the Board considers that AMVIG should develop both product lines and this allows the Group to maximise returns for its stakeholders. The Directors consider that the current key customers served by the Group, in Shandong province, Yunnan province, Jiangsu province, Hunan province, and Guangdong province will continue to grow and prosper and benefit from the continuing industry consolidation. Therefore the Group will be well placed for future expansion.

PROSPECTS

The Group believes that the combination of Amcor Group and World Grand Holdings Limited in 2006 forms a powerful platform in the tobacco packaging printing industry that will lead the Group to further success in future.

Looking forward, the new Dongguan plant will commence its operation in the second half of 2007 and together with the expansion plans in other Group's operations including Qingdao are expected to bring significant contribution to the Group. The expanded business platform together with the professional expertise of new members of the Board continue to assist the Group to grow profits and enhance shareholder value.

The Group will continue to focus on identifying acquisition targets that are a cultural fit to the Group and the key suppliers of top cigarette group's producing market-winning brands. Management will also focus on generating a strong cash flow necessary to support the Group's future expansion. The Group will also continue to promote good corporate governance practices and strive to achieve the highest standards and transparency.

Leveraging on the strengths of sophisticated technology know-how and capable human and financial resources, the Group intends to further expand its presence in different areas of China and leverage its product mix to generate higher value.

In the future, the Group will continue to strive to achieve its vision of becoming a leading specialist in the tobacco packaging and printing and laminated papers manufacturing sector to deliver a reasonable return to our shareholders.

CAPITAL STRUCTURE, FINANCIAL RESOURCES AND LIQUIDITY

Borrowing and banking facilities

As at 31 December 2006, the short term interest-bearing borrowings of the Group of approximately HK$74.4 million were repayable within one year.

As at 31 December 2006, the obligations under finance leases of the Group amounted to approximately HK$28.8 million, of which approximately HK$15.5 million was repayable within one year, approximately HK$7.6 million was repayable after one year but within two years, and approximately HK$5.7 million was repayable after two years but within five years.

The short term interest-bearing borrowings and obligations under finance leases of the Group are either denominated in Hong Kong dollars or Renminbi.

As at 31 December 2006, 24% of the total borrowings of the Group bore interest at fixed rates.

Net current assets

As at 31 December 2006, the Group had net current assets of approximately HK$554.8 million. The current assets comprised inventories of approximately HK$211.4 million, trade and other receivables of approximately HK$402.0 million, current portion of leasehold land payments of approximately HK$0.4 million, prepayments and deposits of approximately HK$34.8 million, pledged bank deposits of approximately HK$12.8 million, bank and cash balances of approximately HK$337.0 million. The current liabilities comprised trade and other payables of approximately HK$259.6 million, bills payables of approximately HK$84.4 million, provision for taxation of approximately HK$9.7 million, short term interest-bearing borrowings of approximately HK$74.4 million and current portion of obligations under finance leases of approximately HK$15.5 million.

Capital structure

As at 31 December 2006, the Group had net tangible assets of approximately HK$1,072.5 million comprising non-current assets of approximately HK$548.8 million (comprising property, plant and equipment of approximately HK$475.7 million, non-current portion of leasehold land payments of approximately HK$12.7 million and interest in associates of approximately HK$60.4 million), net current assets of approximately HK$554.8 million, non-current liabilities of approximately HK$31.1 million (comprising obligations under finance leases of approximately HK$13.4 million and deferred tax liabilities of approximately HK$17.7 million).

Charges on the Group's assets

As at 31 December 2006, the Group's bank deposits of approximately HK$12.8 million were pledged to banks in respect of banking facilities granted to the Group.

Capital commitments

As at 31 December 2006, the Group had capital commitments contracted but not provided for in respect of acquisition of plant and machinery of approximately HK$55.6 million.

Working capital

The Directors are of the opinion that the Group is in a strong financial position to support its working capital requirements.

REMUNERATION POLICIES AND EMPLOYEE INFORMATION

As at 31 December 2006, the Group had over 2,200 full employees in Hong Kong and the PRC. Total staff costs (including directors' emoluments) amounted to approximately HK$95.5 million (2005: HK$24.4 million) for the year. All full time salaried employees, except for factory workers and contract employees, are being paid on a monthly basis, plus a discretionary performance bonus. Factory workers are being remunerated based on a basic wage plus production incentive. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION

In February 2006, the Group completed the acquisition of the entire issued share capital of Bellgate International Limited, which owns 83% of the registered capital of Beijing LMPP and 60% of the registered capital of Qingdao LMPP. The consideration for the acquisition of HK$509 million was satisfied by the Company allotting and issuing 121,200,000 new shares to the Amcor Group. As a result of the acquisition, Amcor Group has become the single largest shareholder of the Company. In March 2006, the Group announced the acquisition of the remaining equity interests in World Grand Holdings Limited at a total consideration of HK$928.1 million. Such consideration was satisfied as to HK$439.5 million in cash and as to HK$488.6 million by the Company allotting and issuing 69,800,000 new shares to the vendors. The acquisition was completed in May 2006.

GEARING RATIO

As at 31 December 2006, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 3.7% (2005: 16.5%). The Board believes that the gearing ratio demonstrates a strong cash flow from the operations of the Group and therefore the Group is in a strong financial position.

FOREIGN EXCHANGE EXPOSURE

The Group does not currently have any hedging activities against its foreign exchange exposure nor does it adopt any formal hedging policies. During the Reporting Period, all of the Group's sales and purchases were settled in United States of America dollars, Hong Kong dollars and Renminbi. The Directors consider the Group's risk exposure on foreign exchange as minimal.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities.