MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group achieved another year of excellent performance with good results. The Group's turnover for the year ended 31 December 2006 increased by 78.6% over that of the previous financial year to HK$795.0 million (31 December 2005: HK$445.2 million). The newly acquired PRC property development and investment business at the end of last year (only 2 months to December 2006 after acquisition) has contributed a turnover of HK$0.3 million. The turnovers of the packaging business and other businesses are HK$316.3 million and HK$478.4 million respectively.

The Group's profit attributable to shareholders recorded a significant increase of 1,424% to HK$627.9 million (31 December 2005: HK$41.2 million).

The new core business of the Group, the PRC property business, contributed a substantial gain of HK$558.0 million. The management had conducted a review of the cost of acquisition and net assets value on completion of the acquisition. The shares issued as part of the consideration for the acquisition were valued at market price as at the completion date in accordance with the Hong Kong Financial Reporting Standards. This resulted in a decrease in excess over the cost of acquisition of subsidiaries of HK$280 million when compared to the figures disclosed in the circular to shareholders dated 20 October 2006 which is presented on a pro forma basis using the then market price information. There is no change in the Group's net assets value as a result of the acquisitions due to the above.

The sales of packaging products, sales of travel bags, treasury investment also contributed HK$18.7 million (including share of profit from an associate HK$4.3 million), HK$4.2 million and HK$47.0 million (including interest income of HK$9.6 million) respectively to the profits.

Earnings per share was HK$1.124 on a weighted average basis (31 December 2005: HK$0.105 per share) or HK$1.058 per share on a diluted basis (31 December 2005: Nil).

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK$0.05 per share to our shareholders whose names appear on the Register of Members of the Company on 11 May 2007. Subject to approval at the forthcoming Annual General Meeting, dividend warrants will be sent to shareholders on or about 18 May 2007. A final dividend of HK$0.06 per share for the year ended 31 December 2005 was paid during the year (as adjusted to reflect the consolidation of the Company's shares after the balance sheet date).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 8 May 2007 to Friday, 11 May 2007 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the Annual General Meeting of the Company to be held on Friday, 11 May 2007 and to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Secretaries Limited, the branch share registrars of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 7 May 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

PRC PROPERTY DEVELOPMENT AND INVESTMENT BUSINESS

In November 2006, the Group acquired 100% interest in the Chongqing Zhongyu Property Development Co. Ltd. ("Chongqing Zhongyu"), which provided an opportunity for the Group to take advantage of the latter's strategic location and its early entry into the PRC property market to diversify its business into PRC property development and investment, which has since become the major core business of the Group. The Group's strategy is to strengthen its base in Chongqing and Chengdu and expand to the satellite cities and targets to be a leading property developer in Western China.

Overview of the Chongqing Property Market

Chongqing is one of the 4 national municipalities of the PRC. According to the China Statistical Yearbook 2006, as at 31 December 2005, Chongqing had a population of approximately 27.98 million. The city has experienced substantial economic growth in recent years. The real GDP growth rate of Chongqing increased from 9% to 12.2% during the years from 2001 to 2006. The real GDP growth rate of Chongqing exceeded the national growth rate for each of the past six years. The Directors believe that given the strong potential of Chongqing as a growth center in Western China, the city's property market has extremely bright prospects and will be a fast-growing market for years to come.

Following years of relaxed land supply, Chongqing's annually completed gross floor area ("GFA") doubled from 2001 to reach 22 million sq. m. in 2005. Most of the land is now in private hands and government land supply is scarce in the downtown area. Chongqing's housing-market prospects are encouraging as the local economy continues to flourish. The Group believes Chongqing has strong potential as a growth centre in Western China, especially after the President, Mr. Hu Jintao has named Chongqing as the important city for the development of Western China in the National Congress and National Committee of CPPCC annual session in March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Chongqing Zhongyu Property Development Co. Ltd.

Chongqing Zhongyu was incorporated in 1992 and is one of the largest property developers in Chongqing, with a National Class I Certification from the Ministry of Construction, the PRC. It is principally engaged in the development, sale, leasing and management of high quality residential, commercial and retail properties. Chongqing Zhongyu has completed several property development projects totalling over 1 million sq. m. in size. Its signature local residential projects include California Garden, California City Garden and Huijingtai. By acquisition of the Chongqing Zhongyu, the Group can count on its proven track record and strong management team to develop the PRC property business.

California Garden
1993-1997
560,000 sq.m.

California City Garden
1998-2001
510,000 sq.m.

Huijingtai
2002-2005
110,000 sq.m.

• Land bank owned by the Company in Chongqing (as of 31 Dec 2006)

MANAGEMENT DISCUSSION AND ANALYSIS

Property Development and Sales Performance

Most of the property projects developed by the Group are residential properties for sale. These properties aim at satisfying the needs and demands of middle class buyers for their own use.

In February 2007, the Group launched "California One" to the market. California One is a project with a total GFA of about 52,000 sq. m. It comprises of apartments, hotel, and offices. The total GFA for the apartments is about 25,000 sq. m. of which 10,700 sq. m. was launched in the first phase and half of them were sold within a week. This demonstrates the high quality of the Group's property which is well received by the customers.

Immediately upon the acquisition of Chongqing Zhongyu, construction works are under way on 3 adjoining plots of land to build a mega residential complex of 969,020 sq. m.. Presales are expected to start in the third quarter of this year.

● Current land bank in Chongqing
● Completed projects in Chongqing

Details of the projects held under development in Chongqing Zhongyu are as follows:

Land Lot Nos	Expected completion date	GFA (sq. m.)
15, 16, 17-1	end 2008-2009	969,020
9	mid 2010	364,433
10-1	mid 2009	349,962
6-1	end 2008	84,747
19	mid 2010	341,760
4	mid 2010	532,465
35	mid 2010	238,105
3-1	mid 2010	268,999
Others	2008-2009	162,509
	TOTAL	3,312,000

MANAGEMENT DISCUSSION AND ANALYSIS

Land Development

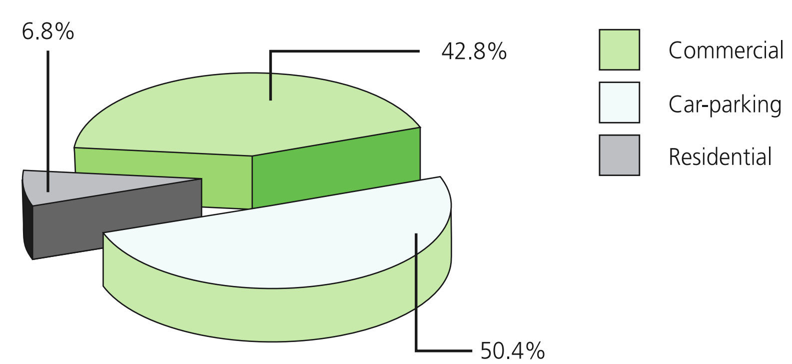
In order to diversify its source of income and to have additional advantages to secure new land banks, the Group also participates in land development. In February 2007, the Group acquired a 60% interest in a project company in Chengdu at a consideration of HK$171.0 million. The project company owns the land development rights for two projects in Dujiangyan, Chengdu, with a total site area of approximately 902,000 sq. m..

Investment Property

The Group not only develops residential properties for sale, but also intends to develop and retain some quality properties which have excellent potential for capital appreciation as long term investments. Total book value of the Group's investment properties amounted to HK$128.3 million at the end of 2006, with a corresponding attributable GFA of 62,420 sq. m. as at 31 December 2006. The portfolio comprises properties of diversified usage: Commercial (42.8%), Residential (6.8%) and Car-parking (50.4%). The overall occupancy rate for the Group's investment properties was 72.0%. Such a high occupancy rate is attributable to the prime locations of the Group's properties. A summary breakdown of the investment properties is shown below:

Property Location	Group Interest	Usage	Attributable GFA (sq. m.)	Occupancy Rate	Year of Lease Expiry
California Garden, Longxi Town, Yubei District, Chongqing, PRC	100%	Commercial Residential Car Park	22,060 4,244 15,646	52.6% 18.5% 100.0%	2062 2062 2062
California City Garden, Longxi Town, Yubei District, Chongqing, PRC	100%	Commercial Car Park	4,685 12,094	28.4% 100.0%	2062 2062
Kechuang Building, Longxi Town, Yubei District, Chongqing, PRC	100%	Car Park	3,691	94.8%	2062
Total GFA			62,420		

Investment property by usage



MANAGEMENT DISCUSSION AND ANALYSIS

Within 2 months of the acquisition of Chongqing Zhongyu in 2006, the total net turnover relating to the disposal of an investment property amounted to HK$0.3 million. The net rental income amounted to HK$2.1 million and the breakdowns are listed below:

Property Location	Usage	(HK$) Net Rent	(HK$/ sq. m.) Average Rental Rate for 2006	(HK$) Rent per Car Park per Month
California Garden,	Commercial	584,008	28.91	
Longxi Town, Yubei District,	Car Park	224,452		294
Chongqing, PRC				
California City Garden,	Commercial	259,352	21.25	
Longxi Town, Yubei District,	Car Park	216,434		265
Chongqing, PRC				
Kechuang Building,	Car Park	45,766		238
Longxi Town, Yubei District,				
Chongqing, PRC				
Temporary leased area,	Commercial	757,054	2.83	
Longxi Town, Yubei District,	Car Park	29,128		144
Chongqing, PRC				
Total		2,116,194		

Chongqing City

Land Bank

Land resource is indispensable for property developers. We have been very successful in maintaining a substantial amount of land reserves for our development plans. Before selecting a site for a project, the Group would make an in-depth assessment of the premium obtainable on sale, and the potential demand. The Group's management takes a proactive approach in supervising the various stages of all projects including site identification and acquisition, feasibility studies and implementation.

During the year, through the acquisition of Chongqing Zhongyu, the Group owns a land bank with a total site area of approximately 877,500 sq. m. and a corresponding total GFA of approximately 3,312,000 sq. m. in the Yubei District of Chongqing.

In January 2007, the Group acquired a 50% interest in a property project in Wen Jiang, Chengdu, at a consideration of HK$96 million (HK$346 per sq. m. GFA). The acquisition enables the Group to extend its land bank portfolio into another major city in Western China. The land held under the project company has a total site area of approximately 369,960 sq. m. with plot ratio of 1.5 and is zoned for an upmarket residential project with a total GFA of approximately 555,000 sq. m. (in which the Group's attributable interest is 277,500 sq. m.). Wen Jiang is located in the western side of Chengdu, about 16 km from the city center.

As of 15 March 2007, the Group's total land bank stood at 3,952,998 sq. m. The Group's land bank comprises a well-diversified portfolio of properties. The breakdown by usage is as follows:

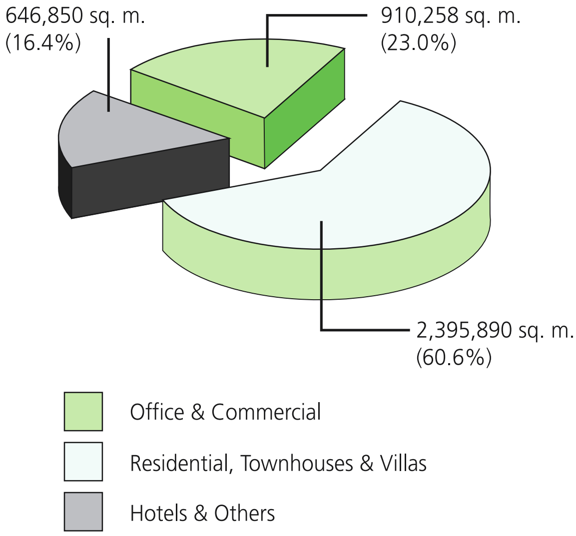
Usage	Completed Properties held for Investment GFA (sq. m.)	Properties held for Own Use GFA (sq. m.)	Completed Properties held for Sales GFA (sq. m.)	Land held for Future Development GFA (sq. m.)	Total GFA (sq. m.)
Commercial	26,745	9,128		543,674	579,547
Residential	4,244		608	2,368,408	2,373,260
Office				330,711	330,711
Hotel & serviced apartment				63,753	63,753
Townhouse & villa				22,630	22,630
Others (Car-parking spaces and other auxiliary facilities)	31,431	13,842		537,824	583,097
Total	62,420	22,970	608	3,867,000	3,952,998

The breakdown of the land bank for development by location is as follows:

Location	Total GFA (sq. m.)	The Group's Interest	Attributable GFA (sq. m.)	Percentage
Chongqing	3,312,000	100%	3,312,000	92.3%
Chengdu	555,000	50%	277,500	7.7%
Total	3,867,000		3,589,500	100.0%

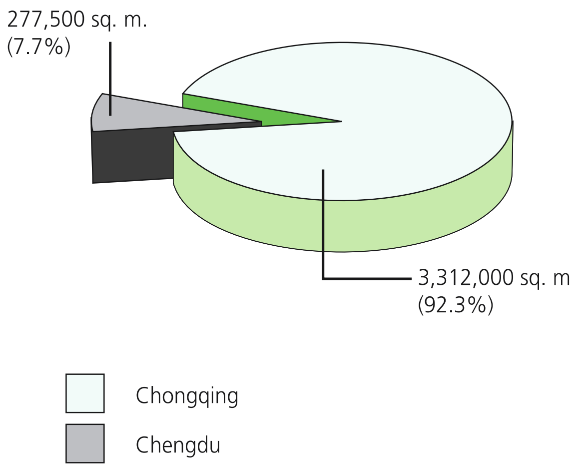
Overall Land Bank

Total GFA: 3,952,998 sq. m.



Land Bank by Location

Attributable GFA: 3,589,500 sq. m.



MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURING BUSINESS

Packaging business

The Group's packaging business continued its strong performance and delivered another year of good results. For the year ended 31 December 2006, the turnover attributable to the packaging business was HK$316.3 million, representing an increase of 14% over that of 2005 (31 December 2005: HK$277.4 million). This accounted for approximately 39.8% of the Group's turnover. This significant growth was mainly attributed to increase orders from existing customers. The Group conducts the packaging business directly with internationally branded corporations and high-end consumer merchandise manufacturers. This enables the Group to keep abreast of the latest product developments, and to maintain a steady flow of orders and a stable profit margin. A profit of about HK$14.4 million (31 December 2005: HK$23.4 million, excluding HK$5.0 million income arising from writing back provision for doubtful debts) was recorded in the fiscal year 2006. The continued fluctuations in raw material prices, increases in labour costs and the appreciation of the RMB, dented the gross margin, which was partially offset by mild increases in the average selling prices. To strengthen competitiveness, the Group has stringent control over material usage, minimized wastage, and put considerable effort into improving production efficiency.

Geographically, 40% of sales were generated from Europe, representing the biggest market; 24% of sales from North/South America; 29% from Hong Kong; and 7% from other parts of the world.

Luggage business

Following the acquisition of a 60% interest in Hoi Tin Universal Limited ("Hoi Tin") in July 2005, our luggage business had to face the challenges of the Renminbi appreciation, cost increases for raw material and labour. However, leveraging on our proactive and positive efforts, the Group was able to keep its gross profit margin at a stable level and continued to achieve growth in turnover while streamlining production workflow and providing value-added services to customers in a timely manner. The first full-year contribution to turnover from this subsidiary amounted to HK$446.5 million (31 December 2005: HK$170 million), representing 56.2% of the Group's turnover and recording a profit of HK$7.0 million for the year. Eliminating profits attributable to minority shareholders, Hoi Tin contributed a profit of HK$4.2 million to the Group (31 December 2005: HK$2.7 million). During the year under review, luggage bags remained the major product of the luggage business, representing 89.5% of sales, followed by soft bags, representing 10.5%.

Geographically, 76.9% of sales were generated from North/South America, representing the biggest market; 16.7% of sales were generated from Europe; 2.6% from China and 3.8% from other parts of the world.

The increase in cost of sales was due to the pressure from the Renminbi appreciation, and increases in material prices and labour costs, causing the gross profit margin to decrease slightly 1% to 8% in 2006 (31 December 2005: 9%).

Finance cost for the year amounted to HK$2.4 million, an increase of HK$2.0 million as compared with last year's (31 December 2005: HK$0.4 million). The increase was caused partly by inclusion of full year cost as opposed to six months in 2005 and partly by an increase in borrowing and rises in interest rates during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other businesses

For securities trading and investment, turnover representing the net proceeds of trading in securities and investment income increased to HK$31.9 million (31 December 2005: loss of HK$2.2 million). Treasury investments recorded a segment profit of HK$47.0 million (31 December 2005: HK$4.9 million). Besides the turnover income mentioned above, other substantial attributed incomes making up the profit included bank interest income of HK$9.6 million (31 December 2005: HK$4.4 million), dividend income of HK$2.3 million (31 December 2005: HK$1.4 million), and unrealized holding gain on investments of HK$10.0 million (31 December 2005: HK$4 million).

The current year's share of profit from a 30% interest in Technical International Holdings Limited amounted to HK$4.3 million (31 December 2005: HK$5.2 million). Dividend income of HK$4.8 million was received from this associate company during the year under review.

On 5 June 2006, the disposal of an investment property in Hong Kong for HK$49.0 million to an independent third party contributed a profit of HK$3.0 million to the Group. Details of the disposal were disclosed in the Company's circular dated 19 April 2006.

PROSPECTS

1. PRC Property Development and Investment Business

In the coming year, economic growth and urbanization are expected to remain active and strong in mainland China. Occupancy rates and rentals are expected to further improve in the PRC property markets. Moving into fiscal year 2007, given the current market prices, the Renminbi appreciation and the trend of supply of and demand for real estates in Chongqing and Chengdu, the Directors expect the PRC property development business to have great prospects and will grow rapidly. Property development in Western China is now the main core business of the Group. The Group targets to develop the existing Chongqing land bank over the next five years and will focus on the major western cities, which include Chengdu, to actively look for opportunities to acquire premier land banks at good prices.

2. Manufacturing Business

The Group will put the utmost effort into maintaining the profit margin of its packaging business even though, in the long term, the surging raw materials prices and the appreciation of the RMB will continue to be critical factors affecting the performance of this business. The Group's key strategies for 2007 are to increase productivity and exercise effective cost control. We will not only enhance the value-added service to existing customers by assisting them in the development of new designs, but also expand the customer base through more active participation in trade fairs. The management is confident that the packaging business will have another successful fiscal year 2007.

Regarding the luggage business, the sale of these products is affected by the worldwide travel business. Supported by the rebound of economies throughout the world in 2006 in tandem with an expansion in consumer spending, the Group believes that the luggage business will have further growth in the year 2007. Over the past two years, the Group has streamlined manufacturing activities and implemented an effective cost control mechanism to enhance efficiency. Hoi Tin will maintain this favorable position and its existing relationships with major international brands. We expect the luggage business to be a key profit driver for the Group's manufacturing businesses in the coming years.

EMPLOYEES

At 31 December 2006, the Group had approximately 5,686 employees. The Group remunerates its staff based on their merit, qualification and competence. The Group has also established an incentive bonus scheme, in which the benefits are determined based on the performance of the individual employees. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of Directors. Other benefits include contribution to a provident fund scheme or mandatory provident fund, and medical insurance.

CHANGE OF AUDITORS

On 27 December 2006, the Company appointed Ernst & Young as auditors to fill the casual vacancy arising from the resignation of Messrs. Deloitte Touche Tohmatsu, effective 27 December 2006. The reason for the change was that, following completion of the acquisition of the Chongqing Zhongyu Property Development Co. Ltd., property development and investments has become the major core business of the Group. Since Ernst & Young have been the reporting accountants of all the component entities in the PRC property business acquired, and taking into consideration the normal corporate governance practice as adopted by the Group for the same accounting firm to audit the Company and its major subsidiaries, the Board considered it appropriate that the Company should change its auditors.

FINANCIAL ANALYSIS

Liquidity and Financial Resources

At 31 December 2006, the Group has a large equity base, with shareholders' equity increasing to HK$5,427 million (31 December 2005: HK$580 million). The significant increase was primarily due to the increase in shareholder's equity and the excess of fair value of net assets over cost on acquisition of the PRC subsidiary in November 2006. Cash on hand amounted to HK$1,312.8 million (31 December 2005: HK$195.7 million). The substantial increase was mainly due to the share placing net proceeds which amounted to HK$932.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2006, bank borrowings related to the manufacturing arm and property arm amounted to HK$34.5 million and HK$683.5 million respectively. The Group's total borrowings stood at HK$718.0 million (31 December 2005: HK$15.4 million) of these HK$591.7 million are due within one year. The gearing ratio (total borrowings to shareholders' fund) was 13.2% (2005: 2.6%). The increase of this ratio was mainly attributable to increase in total borrowings to finance the PRC subsidiary's property development projects.

The Group has a working capital ratio of approximately 1.5. Taking into account the financial resources available to the Group including internally generated funds and available facilities, the Group has sufficient working capital to finance its operation. With the borrowing by the PRC subsidiary and the rise in interest rates during the year, finance cost for the year amounted to HK$13.6 million. This amount has included HK$5.7 million imputed interest expenses on the convertible note issued as part of the consideration for the acquisition of the PRC subsidiary, and the retention money payable on the acquisition of a subsidiary and an associate. The increase in finance cost amounted to HK$12.9 million as compared with that of previous year. (31 December 2005: HK$0.7 million).

Working Capital

The stock balance as at 31 December 2006 held for the manufacturing business increased by 5.1% to HK$90.4 million (31 December 2005: HK$86.0 million) . The turnover days decreased from 70 days to 41 days. The increase in stock level is primarily to cater for the increase in demand. The trade debtors balance as at 31 December 2006 was HK$117.5 million (31 December 2005: HK$94.5 million). The turnover days decreased from 77 days to 54 days as a result of strong debt collection efforts.

Capital Structure and Use of Proceeds

During the year, the Company issued 10,714,285,710 shares (including 9,114,285,710 conversion shares issued following the exercise of the conversion rights attached to the convertible note) as consideration for the acquisition of the PRC property business. In addition, a total of 3,400,000,000 new shares were placed to raise net proceeds of approximately HK$932.8 million. It is intended that the net proceeds from the Placing will be used to finance the property development of the PRC property business and for its general working capital. As a result, the total number of issued share capital stood at 18,053,822,580 shares at 31 December 2006. On 11 January 2007, the Company consolidated its issued shares on the basis of 10 then resulting ordinary shares into 1 new ordinary share. Thereafter, the total number of issued shares is 1,805,382,258.

Investments

At 31 December 2006, the Group held a portfolio of listed securities HK$73.3 million. The dividend and interest income from these investments for the year was HK$2.8 million (31 December 2005: HK$1.9 million). The unrealized holding gain on listed securities as at 31 December 2006 amounted to HK$10.0 million (31 December 2005: HK$4.0 million). Additionally, the Group's PRC subsidiary has investments in equity securities held for long term purpose amounting to HK$46.6 million.

Capital Expenditure

For the year ended 31 December 2006, the Group invested HK$5.4 million in plant, machinery, equipment and other tangible assets, and HK$37 million in an office premise. The office premise is intended for the Group's own use. All of these expenditures were financed from internal resources. Depreciation and amortization amounted to HK$11.3 million.

Pledge of Assets

At 31 December 2006 the Group has pledged the followings:

a.	Leasehold properties as security for general banking facilities granted to the Group	HK$6.2 million
b.	Fixed deposits as security for general banking facilities granted to a subsidiary	HK$3.0 million
c.	A piece of land and the building erected thereon where a subsidiary's production facility is located as security for a revolving credit bank facilities granted to the subsidiary	HK$25.2 million
d.	Property for own use, properties under development and investment properties pledged to secure banking facilities granted to a PRC subsidiary	RMB4,267 million
e.	Time deposits as security for short term bank borrowings granted to a PRC subsidiary (for its property business)	USD20.1 million

Connected Transaction

On 22 September 2006, Marvel Leader Investments Limited, a wholly-owned subsidiary of the Company, entered into an agreement to acquire from Thrivetrade Limited, a company wholly-owned by Mr. Cheung Chung Kiu, the entire issued share capital of Starthigh International Limited for a consideration of HK$3,317,553,000.

Exchange Risks

Sales and purchase transactions of the Group's manufacturing business are primarily denominated in United States dollars and/or Hong Kong dollars while for property business, they are denominated in Renminbi. Bank deposits are maintained in Hong Kong dollars, Renminbi and US dollars. The exposure to foreign exchange risk is thus minimal.

Post Balance Sheet Event

The following significant events took place subsequent to 31 December 2006:

a. The Group entered into an agreement dated 18 January 2007 to acquire a 100% equity interest and take assignment of the shareholder's loan in a company, Square Ball Ltd., for an aggregate consideration of HK$96.0 million. Square Ball Ltd. owns, through a 50% interest in the registered equity capital of a PRC company, the land use right over 369,960 sq. m. of land located in Wen Jiang District, Chengdu. The acquisition enables the Group to diversify into the property market in another major city in Western China.

b. The Group entered into an agreement dated 15 February 2007 to acquire a 100% equity interest and take assignment of the shareholder's loan in a company, Dominio Mark International Limited, for an aggregate consideration of HK$171 million. Dominio Mark International Limited owns through a 60% interest in the registered equity capital of a PRC company the Land Development Rights for redevelopment of approximately 902,000 sq. m. of land located in Xujiazhen, Dujiangyan, Chengdu.