

Directors' Report

Principal Activities

The Company is primarily an investment holding company and its investment portfolio includes (i) hotel and real estate investments; (ii) property development; and (iii) trading of leather products.

Major Customers and Suppliers

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year under review is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	7%	
Five largest customers in aggregate	25%	
The largest supplier		13%
Five largest suppliers in aggregate		46%

At no time during the year under review have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 109 of the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32 of this annual report.

The state of the Company's and the Group's affairs as at 31 December 2006 are set out in the balance sheet on pages 33 to 34 of this annual report.

The Board of Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

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Property, Plant and Equipment

Details of significant changes in the property, plant and equipment of the Group during the review period are set out in Note 17 to the financial statements.

Share Capital

Movements in share capital of the Group and the Company during the under review are set out in Note 32 to the financial statements.

Reserves

Movements in reserves of the Group and the Company during the review period are set out in Note 33 to the accompanying financial statements.

Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2006.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rate basis to existing shareholders.

Subsidiaries and Associates

Particulars of the Company's subsidiaries and associates are set out in Notes 19 and 20 to the financial statements.

Bank Loans and other Borrowings

Particulars of bank borrowings as at 31 December 2006 are set out in Note 28 to the financial statements.

Retirement Schemes

Details of the retirement benefits scheme of the Group are set out in Note 13 to the financial statements.

Directors' Report

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied throughout the review period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information on the Company's corporate governance practices is set out on pages 10 to 16 of this annual report.

Directors and Directors' Service Contracts

The directors who held office during the review period and at the date of this report are:

Executive Directors:

Mr. Law Kar Po, Vice Chairman

Mr. Hoi Man Pak

Mr. Choy Wang Kong (appointed on 20 April 2007)

Mr. Yong Wing Tai, William (appointed on 20 April 2007)

Mr. Chiang Kin Tong (appointed on 20 April 2007)

Ms. Law Wing Yee, Wendy

Ms. Lee Siu Yuk, Eliza

Mr. Chiang Pedro, Chairman (resigned on 20 April 2007)

Mr. Wu Ka I, Miguel, Chief Executive Officer (resigned on 20 April 2007)

Mr. Ung Choi Kun (resigned on 20 April 2007)

Mr. Lee Sam Yuen, John (resigned on 1 May 2006)

Non-executive Director:

Mr. Leonel Alberto Alves

Mr. Chui Sai Cheong (resigned on 25 August 2006))

Independent non-executive Directors

Mr. Lau Wai Ming

Mr. Kwok Hong Yee, Jesse

Mr. Wong King Lam, Joseph

In accordance with the provisions of the Company's Articles of Association, Mr. Hoi Man Pak, Ms. Law Wing Yee Wendy, and Mr. Leonel Alberto Alves shall retire from the Board at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

Directors' Report

Mr. Choy Wang Kong, Mr. Yong Wing Tai, William and Mr. Chiang Kin Tong were appointed as Executive Directors of the Company on 20 April 2007, they will hold office until the forthcoming Annual General Meeting of the Company and will be eligible for re-election in accordance with the articles of association of the Company.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Directors' Service Contracts

None of the Directors had any existing or propose service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Securities

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, Underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(a) Long position in the ordinary shares of HK\$0.05 each ("shares") of the Company

Name of Director	Capacity	Number of Shares	% to the Issued Share Capital of the Company
Mr. Law Kar Po	Beneficial owner	361,286,000	12.76
Mr. Hoi Man Pak	Beneficial owner	84,976,600	3.00
	Interest of spouse (<i>Note</i>)	136,000	0.01
Mr. Chiang Pedro	Beneficial owner	153,640,520	5.43
Mr. Wu Ka I, Miguel	Beneficial owner	35,067,140	1.24
Mr. Ung Choi Kun	Beneficial owner	2,200,000	0.08

Note: These Shares are held by Ms. Wong Sao Lai, spouse of Mr. Hoi Man Pak.

Directors' Report

(b) Long position in the underlying shares

(i) Long position in the listed warrants ("HONESTY W0906") of the Company

Name of Director	Capacity	Number of Underlying Shares (in respect of "HONESTY W0906" held (Note 1)	% to the Issued Share Capital of the Company
Mr. Law Kar Po	Beneficial owner	26,502,200	0.94
Mr. Hoi Man Pak	Beneficial owner	8,497,600	0.30
	Interest of spouse (Note 2)	13,600	0.01
Mr. Chiang Pedro	Beneficial owner	15,364,052	0.54
Mr. Wu Ka I, Miguel	Beneficial owner	3,506,714	0.12
Mr. Ung Choi Kun	Beneficial owner	220,000	0.01

Notes:

- HONESTY W0906 entitle the holders to subscribe for new Shares at a price of HK\$0.26 per Share (subject to adjustment) until 6 June 2009.
- HONESTY W0906 are held by Ms. Wong Sao Lai, spouse of Mr. Hoi Man Pak.

(ii) Long position in the unlisted 2.5% fixed interest convertible redeemable notes ("CNs") of the Company

Name of Director	Capacity	Amount of CNs HK\$ (Note 1)	Number of Underlying Shares and % to the Issued Share Capital of The Company
Mr. Law Kar Po	Beneficial owner	22,773,565	153,875,439 (5.44)
Mr. Hoi Man Pak	Beneficial owner	13,664,137	92,325,250 (3.26)
Mr. Chiang Pedro	Beneficial owner	36,437,703	246,200,696 (8.70)
	Interest of spouse (Note 2)	4,554,713	30,775,088 (1.08)
Mr. Wu Ka I, Miguel	Beneficial owner	4,554,713	30,775,087 (1.09)

Notes:

- Holders of the CNs are entitled to elect to convert the CNs into Shares at the conversion price of HK\$0.148 per Share (subject to adjustment) until 27 April 2011.
- These underlying Shares are held by Ms. Leong Lai Heng, spouse of Mr. Chiang Pedro.

(iii) Long position in the unlisted warrants of the Company ("Warrants")

Mr. Ung Choi Kun, as beneficial owner, directly held 5,000,000 Warrants carrying the rights to subscribe for 5,000,000 new Shares (representing approximately 0.18% of the issued share capital of the Company) of the Company) at a subscription price of HK\$0.35 per share (subject to adjustment) until 20 July 2007.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

As at 31 December 2006, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, the following persons had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Number of issued shares	Percentage holding
Mr. Law Kar Po	361,286,000	12.76%
Mr. Chiang Pedro	153,640,520	5.43%

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As at 31 December 2006, so far as is known to the Directors or the chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of SFO:

(a) Long position in the Shares

Name of shareholder	Capacity	Number of Shares	% to the Issued Share Capital of the Company
Ms. Leong Lai Heng	Interest of spouse (<i>Note 1</i>)	153,640,520	5.43%
Ms. Wong Sao Lai	Beneficial owner	136,000	0.01%
	Interest of spouse (<i>Note 2</i>)	84,976,600	3.00%

Notes:

- (1) These Shares are held by Mr. Chiang Pedro, the spouse of Ms. Leong Lai Heng.
- (2) These Shares are held by Mr. Hoi Man Pak, the spouse of Ms. Wong Sao Lai.

(b) Long position in the underlying Shares

Name of shareholder	Capacity	Number of underlying Shares	% to the Issued Share Capital of the Company
Ms. Leong Lai Heng	Beneficial owner (<i>Note 1</i>)	30,775,088	1.08
	Interest of spouse (<i>Note 2</i>)	261,564,748	9.24
Ms. Wong Sao Lai	Beneficial owner (<i>Note 3</i>)	13,600	0.01
	Interest of spouse (<i>Note 4</i>)	100,822,910	3.56

Notes:

- (1) These underlying Shares are CNs.
- (2) These underlying Shares (HONESTY WO906 and CNs) are held by Mr. Chiang Pedro, the spouse of Ms. Leong Lai Heng.
- (3) These underlying Shares are HONESTY WO906.
- (4) These underlying Shares (HONESTY WO906 and CNs) are held by Mr. Hoi Man Pak, the spouse of Ms. Wong Sao Lai.

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Save as disclosed above, as at 31 December 2006, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 20 of this annual report.

Directors' Interest in Contracts

Except for the related party transactions as disclosed in the accompanying financial statements, no other contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the review period under review or at any time during the period under review.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

Audit Committee

The audit committee of the Company ("Audit Committee") presently comprises three independent non-executive Directors. The Audit Committee has reviewed with the management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the financial statements for the year ended 31 December 2006.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to issue of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules.

Directors' Report

Donations

Charitable and other donations made by the Group during the year under review amounted to HK\$211,000.

Auditors

The accompanying financial statements were audited by Messrs CCIF CPA Limited. A resolution for their re-appointment as the Company's auditors for the ensuring year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors

Law Kar Po

Vice Chairman

Hong Kong, 20 April 2007