



QUALIPAK

INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 1224

INTERIM REPORT 2006

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CORPORATE INFORMATION

DIRECTORS

Executive directors

Dr. Lam How Mun Peter
(Chairman and Managing Director)
Mr. Cheung Chung Kiu
Mr. Lam Hiu Lo
Mr. Leung Chun Cheong
Mr. Leung Wai Fai
Ms. Poon Ho Yee Agnes
Mr. Wu Hong Cho

Independent non-executive directors

Mr. Lam Kin Fung Jeffrey
Mr. Wong Wai Kwong David

AUDIT COMMITTEE

Mr. Lam Kin Fung Jeffrey *(Chairman)*
Mr. Wong Wai Kwong David

REMUNERATION COMMITTEE

Mr. Cheung Chung Kiu *(Chairman)*
Dr. Lam How Mun Peter
Mr. Lam Kin Fung Jeffrey
Mr. Wong Wai Kwong David

COMPANY SECRETARY

Ms. Cheung Fung Yee

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor
China United Centre
28 Marble Road
North Point
Hong Kong

LEGAL ADVISORS

Hong Kong
Cheung, Tong & Rosa
Woo Kwan Lee & Lo

Bermuda
Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

QUALIFIED ACCOUNTANT

Mr. Leung Chun Cheong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
BNP Paribas

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar and transfer office
Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE ADDRESS

<http://www.qualipakhk.com>

STOCK CODE

1224

INTERIM RESULTS

The Board of Directors of Qualipak International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	NOTES	1.1.2006 to 30.6.2006 HK\$'000 (Unaudited)	1.1.2005 to 30.6.2005 HK\$'000 (Unaudited)
Turnover	3	391,558	128,374
Cost of sales		(326,353)	(102,334)
Gross profit		65,205	26,040
Other income		1,541	964
Net investment income	5	10,781	3,024
Gain on disposal of a subsidiary		3,082	—
Change in fair value of investment property		1,330	—
(Allowance) reversal of allowance for bad and doubtful debts	6	(2,341)	5,063
Distribution costs		(8,585)	(4,302)
Administrative expenses		(24,216)	(13,173)
Share of results of associates		(1,812)	305
Finance costs		(1,326)	—
Profit before taxation	7	43,659	17,921
Taxation	8	(6,811)	(773)
Profit for the period		36,848	17,148
Attributable to:			
Equity holders of the parent		37,518	17,148
Minority interests		(670)	—
		36,848	17,148
Dividend paid	9	23,637	15,758
Earnings per share — Basic	10	0.95 cent	0.44 cent

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	NOTES	30.6.2006 HK\$'000 (Unaudited)	31.12.2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	160,243	161,934
Prepaid lease payments		24,895	25,213
Investment property		—	44,670
Interests in associates		31,846	38,455
Goodwill		34,553	34,553
Convertible bond/note — loan portion	12	30,577	14,441
		282,114	319,266
Current assets			
Inventories		83,888	86,014
Trade and other receivables	13	139,854	103,333
Prepaid lease payments		636	636
Investments held for trading		91,035	50,211
Conversion option derivative	12	3,125	226
Loan to an associate	14	3,000	3,000
Taxation recoverable		294	294
Deposits with brokerage companies		728	33,636
Pledged bank deposits		3,000	2,000
Short-term bank deposits		155,785	146,413
Bank balances and cash		42,181	13,636
		523,526	439,399
Current liabilities			
Trade and other payables	15	136,659	130,329
Consideration payable on acquisition of associates		2,885	—
Consideration payable on acquisition of subsidiaries		4,863	—
Loan from minority shareholders of a subsidiary		8,000	8,000
Taxation payable		18,079	11,310
Bank borrowings	16	35,899	15,448
		206,385	165,087
Net current assets		317,141	274,312
Total assets less current liabilities		599,255	593,578

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AT 30 JUNE 2006

	30.6.2006 HK\$'000 (Unaudited)	31.12.2005 <i>HK\$'000</i> <i>(Audited)</i>
Non-current liabilities		
Consideration payable on acquisition of associates	—	2,790
Consideration payable on acquisition of subsidiaries	—	4,657
Deferred taxation	2,663	2,750
	2,663	10,197
Net assets	596,592	583,381
Capital and reserves		
Share capital	39,395	39,395
Reserves	554,215	540,334
Equity attributable to equity holders of the parent	593,610	579,729
Minority interests	2,982	3,652
Total equity	596,592	583,381

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent						Minority interests HK\$'000	Total HK\$'000
	Share capital	Share premium	Surplus account	Translation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2005	39,395	199,901	90,554	—	224,251	554,101	—	554,101
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	183	—	183	123	306
Profit for the year	—	—	—	—	41,203	41,203	1,818	43,021
Total recognised income for the year	—	—	—	183	41,203	41,386	1,941	43,327
Arising on acquisition of subsidiaries	—	—	—	—	—	—	1,711	1,711
2004 final dividend paid	—	—	—	—	(15,758)	(15,758)	—	(15,758)
At 31 December 2005 and 1 January 2006	39,395	199,901	90,554	183	249,696	579,729	3,652	583,381
Profit for the period and total recognised income for the period	—	—	—	—	37,518	37,518	(670)	36,848
2005 final dividend paid	—	—	—	—	(23,637)	(23,637)	—	(23,637)
At 30 June 2006	39,395	199,901	90,554	183	263,577	593,610	2,982	596,592
At 1 January 2005	39,395	199,901	90,554	—	224,251	554,101	—	554,101
Profit for the period and total recognised income for the period	—	—	—	—	17,148	17,148	—	17,148
2004 final dividend paid	—	—	—	—	(15,758)	(15,758)	—	(15,758)
At 30 June 2005	39,395	199,901	90,554	—	225,641	555,491	—	555,491

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	NOTE	1.1.2006 to 30.6.2006 HK\$'000 (Unaudited)	1.1.2005 to 30.6.2005 HK\$'000 (Unaudited)
Net cash (used in) from operating activities		(28,589)	27,618
Net cash from (used in) investing activities			
Disposal of a subsidiary	17	49,000	—
Redemption of convertible note		16,000	—
Dividend received from associates		4,797	—
Other investing cash flows		3,280	(93)
Purchase of property, plant and equipment		(3,385)	(38,065)
Purchase of investment properties		—	(44,669)
Acquisition of investment in an associate		—	(30,000)
		69,692	(112,827)
Net cash used in financing activities			
Dividend paid		(23,637)	(15,758)
Repayment of bank borrowings		(13,044)	—
New bank loans raised		33,495	—
		(3,186)	(15,758)
Net increase (decrease) in cash and cash equivalents		37,917	(100,967)
Cash and cash equivalents at beginning of the period		160,049	309,958
Cash and cash equivalents at end of the period		197,966	208,991

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments and investment property, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning either on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) — INT 8	Scope of HKFRS 2 ³
HK(IFRIC) — INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

3. TURNOVER

Turnover represents the amounts received and receivable in respect of sales of goods, less returns and discounts, to outside parties, net proceeds of trading in securities and investment income during the period.

An analysis of the Group's turnover is as follows:

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
Sales of goods	373,577	129,417
Realised gain on disposal of trading in securities	17,229⁽¹⁾	(2,029) ⁽²⁾
Investment income	752⁽³⁾	986
	391,558	128,374

Notes:

- (1) The amount represented the gain on derecognition of one of the Group's investments held for trading during the six months ended 30 June 2006 as a result of conversion of the Group's listed securities into the convertible bond of another listed company (see note 12).
- (2) The amount was derived from after taking into account of the gross proceeds from trading in securities amounted to approximately HK\$25,783,000 for the six months ended 30 June 2005.
- (3) The amount included interest income from convertible bond/note of approximately HK\$79,000 (1.1.2005 to 30.6.2005: HK\$159,000) for the six months ended 30 June 2006.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions — sales of packaging products, sales of travel bags and treasury investment. These divisions are the basis on which the Group reports its primary segment information.

The principal activities are as follows:

- | | | |
|-----------------------------|---|--|
| Sales of packaging products | — | Manufacture and trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units |
| Sales of travel bags | — | Manufacture and trading of soft luggages, travel bags, backpacks and brief cases |
| Treasury investment | — | Investments in securities, convertible notes and convertible bonds |

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Segment information about these businesses is presented below:

	Sales of packaging products <i>HK\$'000</i>	Sales of travel bags <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2006				
Turnover	151,900	221,677	17,981	391,558
Result				
Segment result	18,893	1,113	23,856	43,862
Unallocated corporate expenses				(5,757)
Unallocated corporate income				4,280
Gain on disposal of a subsidiary				3,082
Change in fair value of investment property				1,330
Share of results of associates				(1,812)
Finance costs				(1,326)
Profit before taxation				43,659
Taxation				(6,811)
Profit for the period				36,848
		Sales of packaging products <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2005				
Turnover		129,417	(1,043)	128,374
Result				
Segment result		20,508	(1,358)	19,150
Unallocated corporate expenses				(4,424)
Unallocated corporate income				2,890
Share of results of associates				305
Profit before taxation				17,921
Taxation				(773)
Profit for the period				17,148

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover	
	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
Europe	109,378	48,521
North and South America	192,663	36,784
Hong Kong	64,668	35,134
Others	24,849	7,935
	391,558	128,374

5. NET INVESTMENT INCOME

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
Bank interest income	4,280	2,890
Gain arising from redemption of convertible notes	1,333	240
Losses arising from changes in fair value of conversion option derivative	—	(1,221)
Unrealised holding gain arising on fair value changes of investments held for trading	5,168	1,115
	10,781	3,024

6. (ALLOWANCE) REVERSAL OF ALLOWANCE FOR BAD AND DOUBTFUL DEBTS

During the six months ended 30 June 2006, the Group provided allowance for bad and doubtful debts of approximately HK\$2,341,000 in the condensed consolidated income statement.

During the six months ended 30 June 2005, the Group collected a total amount of approximately HK\$5,063,000 in respect of several trade receivables which were provided for in the previous years and the amounts recovered have been recognised in the condensed consolidated income statement.

7. PROFIT BEFORE TAXATION

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation	5,380	4,031
Impairment of goodwill of associates (included in share of results of associates)	1,900	—

8. TAXATION

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	(6,811)	(1,497)
Deferred tax credit	—	724
Taxation for the period	(6,811)	(773)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

9. DIVIDEND PAID

During the period, a final dividend of HK\$0.0060 per share for 2005, amounting to approximately HK\$23,637,000 (2005: HK\$0.0040 per share for 2004, amounting to approximately HK\$15,758,000) was paid to the shareholders. The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent at approximately HK\$37,518,000 (1.1.2005 to 30.6.2005: HK\$17,148,000) and on 3,939,536,870 shares in issue during both periods.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$3,385,000 (1.1.2005 to 30.6.2005: HK\$38,065,000) on the acquisition of property, plant and equipment.

12. CONVERTIBLE BOND/NOTE

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
Unlisted convertible bond/note		
— loan portion	30,577	14,441
— conversion option derivative — fair value	3,125	226
	33,702	14,667

At 31 December 2005, the Group held a convertible note with a principal amount of HK\$16,000,000 which was subsequently redeemed by the issuer at cost of HK\$16,000,000 on 7 March 2006.

During the six months ended 30 June 2006, the listed issuer of one of the Group's investments held for trading announced to offer the following options to all of its shareholders as a result of the group reorganisation.

All shareholders of the listed issuer of the investments held for trading could accept either to receive (i) one share of another listed company plus HK\$1.8 in cash for every five existing shares of the listed shares or (ii) one convertible bond of another listed company with face value of HK\$15 for every five existing shares of the listed shares. In addition, the listed issuer of the investments held for trading also offered mandatory unconditional cash offer of HK\$0.386 in cash per share to all of its shareholders upon the completion of the share transfer.

12. CONVERTIBLE BOND/NOTE (continued)

The Group finally accepted to receive one convertible bond of another listed company with face value of HK\$15 for every five existing shares of the listed shares and received convertible bond of another listed company with a principal amount of HK\$37,500,000.

The convertible bond bore interest-rate at 2% per annum and conferred rights to the bearer to convert the whole or part of the outstanding amount into shares of the company at a conversion price of HK\$9.0 per share in the defined period.

The convertible bond can be redeemed by the issuer at its face value at any time from the date of issue until the maturity date of the convertible bond, and can only be redeemed by the Group at its face value upon maturity in June 2011 to the extent of the amount not previously converted.

The convertible bond comprised of two components — loan portion and conversion option. Since the economic characteristics and risks of the conversion option are not closely related to the host contract, it is separated from the host contract as conversion option derivative on initial recognition.

On application of HKAS 39, the fair value of the convertible bond — loan portion is determined based on an effective interest rate of 6.47% on initial recognition and the fair value of the conversion option derivative is determined by using the Black-Scholes Model.

The realised gain on derecognition of the Group's investments held for trading amounting to approximately HK\$17,229,000 represents the difference between the initial fair value of the convertible bond of approximately HK\$33,654,000 plus the mandatory unconditional cash received by the Group of HK\$4,825,000, minus the carrying amount of investments held for trading of approximately HK\$21,250,000 at the date of derecognition.

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK\$132,533,000 (31.12.2005: HK\$94,538,000). The aged analysis of trade receivables at the reporting date is as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
0 to 30 days	88,132	65,204
31 to 60 days	26,628	19,844
Over 60 days	17,773	9,490
	132,533	94,538

The Group allows an average credit period of 60 days to its trade customers.

14. LOAN TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand. The directors consider the carrying amount of loan to an associate approximates its fair value.

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$109,926,000 (31.12.2005: HK\$100,079,000). The aged analysis of trade payables at the reporting date is as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
0 to 30 days	52,309	47,242
31 to 60 days	35,517	30,347
Over 60 days	22,100	22,490
	109,926	100,079

16. BANK BORROWINGS

An analysis of bank borrowings at the reporting date is as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Discounted bills with recourse	33,495	12,916
Secured bank loan	2,404	2,404
Unsecured bank loan	—	128
	35,899	15,448

At 30 June 2006, the Group's bank borrowings are repayable within one year and carry effective interest at a range from 4.60% to 8.25% per annum.

17. DISPOSAL OF A SUBSIDIARY

During the six months ended 30 June 2006, the Group disposed of a wholly-owned subsidiary namely Wiseteam Assets Limited ("Wiseteam"), to an independent third party at a consideration of approximately HK\$49,000,000. Wiseteam was engaged in property investment and a gain on disposal of approximately HK\$3,082,000 was recognised.

	<i>HK\$'000</i>
Net assets disposed of:	
Investment property	46,000
Other receivables	5
Intra-group debts	(43,689)
Deferred taxation	(87)
	2,229
Assignment of intra-group debt	43,689
	45,918
Gain on disposal of a subsidiary	3,082
Total consideration	49,000
Cash inflow arising from disposal of a subsidiary:	
Cash received	49,000

The subsidiary disposed of during the six months ended 30 June 2006 contributed insignificant turnover and profit from operations to the Group.

18. PLEDGE OF ASSETS

At 30 June 2006, the Group pledged its leasehold interest in land and properties with an aggregate carrying value of approximately HK\$9,287,000 (31.12.2005: HK\$8,779,000) and bank deposits of approximately HK\$3,000,000 (31.12.2005: HK\$2,000,000) as securities for general banking facilities granted to the Group.

19. CAPITAL COMMITMENTS

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements for the acquisition of property, plant and equipment	787	1,092

20. CONTINGENT LIABILITIES

At 30 June 2006, the Group executed a guarantee amounting to HK\$12,000,000 (31.12.2005: HK\$6,000,000) to a bank as securities for banking facilities granted to its associate.

No financial guarantee has been recognised as the fair value of financial guarantee is insignificant.

21. RELATED PARTY TRANSACTIONS

During the period, the Group entered into transactions with related parties as follows:

Name of related party	Relationship	Nature of transactions	1.1.2006 to 30.6.2006 <i>HK\$'000</i>	1.1.2005 to 30.6.2005 <i>HK\$'000</i>
Technical Development (HK) Limited	Associate	Sales of goods by the Group	65	—
Thomas Wagner GmbH	Minority shareholder of a subsidiary	Sales of goods by the Group	13,431	—

Compensation of key management personnel

The remuneration of directors and other members of key management during the period as follows:

	1.1.2006 to 30.6.2006 <i>HK\$'000</i>	1.1.2005 to 30.6.2005 <i>HK\$'000</i>
Short-term benefits	4,006	3,170

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

22. POST BALANCE SHEET EVENT

Subsequent to 30 June 2006, the Group entered into a sale and purchase agreement with an independent third party on 15 August 2006 to acquire a property at a cash consideration of approximately HK\$33,985,000.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: NIL).

BUSINESS REVIEW

During the period under review, the principal activities of the Group are the manufacturing and trading of watches boxes, gift boxes, spectacles cases, bags and pouches; the design, manufacture and sale of soft luggage, travel bags, backpacks and brief cases; and the treasury investment activities. Revenue for the Group increased by 205.0% to HK\$391.6 million (six months ended 30 June 2005: HK\$128.4 million) and profit attributable to shareholders of HK\$37.5 million (six months ended 30 June 2005: HK\$17.1 million). The increase in profits included a gain of HK\$17.2 million in respect of a convertible bond held for investment purpose. Earnings per share for the period increased by 115.9% to HK\$0.95 cent comparing to HK\$0.44 cent for the six months ended 30 June 2005. The substantial increase in revenue was mainly due to the contribution from the luggage products business acquired in July last year where there was no comparable revenue in the corresponding period, and 17.4% growth over the corresponding period of the packaging business in the six months ended 30 June 2006.

Currently, the Group's profits mainly came from three core businesses, comprising approximately 43.1% from packaging products, 2.5% from luggage products, and 54.4% from treasury investment.

Packaging Business

Turnover of the packaging business during the period under review rose by 17.3% to HK\$151.9 million (six months ended 30 June 2005: HK\$129.4 million) and a segment profit of about HK\$18.9 million (six months ended 30 June 2005: HK\$20.5 million) was recorded for this period. Sales to Europe contributed 38.7% to the packaging business revenue while sales to America reduce by 5.3% to 23.3%. The remaining contributions were mainly from the sales in Hong Kong and the Asia Pacific market segments. The continued fluctuations in raw material prices and the increasing labour costs dented the gross margin which was partially offset by mild increases in the average selling price. Accordingly, the Group's packaging business was able to achieve satisfactory results even under such a challenging operating environment.

Luggage Business

Turnover of the luggage business during the period rose to HK\$221.7 million and a segment profit of about HK\$1.1 million was recorded for this period. Sales to America and Europe accounted for 70.9% and 22.8% respectively. After our acquisition in July last year, substantial efforts by the management were undertaken to increase productivity, and to streamline operations and tighten cost control, resulting in higher profit margin achieved during the recent period.

Other Businesses

Treasury investments achieved a profit of HK\$23.9 million (six months ended 30 June 2005: a loss of HK\$1.4 million).

Following the acquisition in June 2005 of an associated company which is principally engaged in the manufacturing of wine openers and related bar accessories, the share of losses from this 30% owned company amounted to HK\$1.8 million during the period after writing off HK\$1.9 million cost of goodwill impairment (six months ended 30 June 2005: a profit of HK\$0.3 million). This is in accordance with the seasonal trade nature of the business, which typically achieves a much higher turnover and profits in the second half year.

On 5 June 2006, the disposal of an office premise situated at 30th floor of China United Centre to an independent third party at HK\$49 million was completed. Details of the disposal were disclosed in the Company's circular dated 19 April 2006.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group continues to adopt prudent funding and treasury policies. The shareholders' funds as at 30 June 2006 were HK\$594 million (31 December 2005: HK\$580 million). As at 30 June 2006, the Group had cash on hand amounting to HK\$201.7 million (31 December 2005: HK\$195.7 million), and bank borrowings of HK\$35.9 million (31 December 2005: HK\$15.4 million), including approximately HK\$2.4 million bearing interest at fixed rates while approximately HK\$33.5 million at floating rates. The gearing ratio (total borrowings to shareholders' equity) was 6.0% (31 December 2005: 2.6%).

Working Capital

Working capital increased by HK\$42.8 million or 15.6% to HK\$317.1 million as at 30 June 2006 (31 December 2005: HK\$274.3 million) mainly due to the disposal of an investment property in the period.

Investments

At 30 June 2006, the Group held a portfolio of Hong Kong listed securities with a market value of HK\$91 million and a convertible bond valued at HK\$33.7 million. The dividend, interest and other income from these investments for the period was HK\$0.7 million (six months ended 30 June 2005: HK\$0.9 million). The unrealized holding gain on listed securities reflected in the current period amounted to HK\$5.2 million (six months ended 30 June 2005: HK\$1.1 million).

Capital Expenditure

During the period, the Group invested HK\$3.4 million in plant, machinery, equipment and other tangible assets. All these capital expenditure were financed from internal resources.

Exposure to Fluctuation in Exchange Rate

Sales and purchase transactions, and the bank borrowings of the Group are primarily denominated in United States Dollars and/or Hong Kong Dollars, whereas bank deposits are maintained in Hong Kong dollars and US dollars, therefore the exposure to foreign exchange risk is minimal.

Contingent Liabilities

At 30 June 2006, the Company had contingent liabilities in respect of guarantees amounting to HK\$44.3 million and HK\$12.0 million, respectively, given to banks for general banking facilities granted to subsidiaries and an associated company. At 30 June 2006, one of our subsidiaries had utilized banking facilities to the extent of HK\$35.9 million. As at 30 June 2006, the Group had no other material contingencies.

Pledge of Assets

At 30 June 2006, the Group has pledged its leasehold properties with an aggregated carrying value of approximately HK\$6.3 million; a piece of land where a subsidiary's production facility is located of approximately HK\$2.9 million; and a fixed deposit of approximately HK\$3.0 million, as security for general banking facilities granted to the Group.

Employees

At 30 June 2006, the Group had approximately 6,310 employees. The Group remunerates its staff based on their merit, qualification and competence. The Group has also established an incentive bonus scheme. In general, salary review is conducted annually. Employees are also eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors.

Share Option Scheme

The Company adopted the existing share option scheme on 29 April 2005. During the six months ended 30 June 2006, no options were granted, exercised, cancelled or lapsed under the scheme, nor was there any outstanding options at the beginning or at the end of the period.

Post Balance Sheet Event

Subsequent to 30 June 2006, a wholly-owned subsidiary of the Company has entered into an agreement with an independent third party to purchase a property at a cash consideration of approximately HK\$33,985,000, which will be financed from internal resources. This property is intended for the Group's own use.

PROSPECTS

Economies in America and Europe continued to grow although rising short-term interest rates and high oil prices may restrain consumer spending. We expect our businesses to be expanding in the coming years. Our focus will remain on increasing productivity, and exercising effective cost control to soften part of the negative impact from the fluctuation in raw material prices and upward revaluation of the Renminbi.

Given the Group's operational efficiency and stable customer base, we expect continued growth in the packaging business. Given growth in the tourism industry, efficient operations and good customer relationships, we expect the profitability of the luggage business will also improve in the coming year.

Likewise, we expect growth in the associated company which has been rapidly gaining reputation as one of the key players in the manufacturing of wine openers and related bar accessories. It is also branching into the digital electronic home appliances sector.

Looking ahead, we believe the Group is well prepared to meet the competition in our existing businesses. The management has been continuing to seek further investment or acquisition opportunities and to consolidate our existing operations and add new product categories, and in turn, to achieve solid returns for our shareholders.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Appendix 14 Code on Corporate Governance Practices (the "Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2006, except for the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Dr. Lam How Mun Peter assumes the roles of both Chairman and Managing Director of the Company, and is in charge of the overall management of the Company. The Company considers that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject for re-election. None of the existing non-executive directors are appointed for a specific term. However, all the non-executive directors shall be subject to retirement by rotation at the annual general meetings pursuant to the Company's Bye-laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, the rotation of directors at the annual general meeting held on 29 May 2006 was in accordance with the Company's previous Bye-laws which stipulated that at each annual general meeting not exceeding one-third of the directors for the time being shall retire from office by rotation provided that the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. To fully comply with this Code Provision, a special resolution was passed at the same annual general meeting to amend the Company's Bye-laws and that every directors (including the chairman and managing director) shall be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.

Following the resignation of Mr. Lam Ping Cheung on 22 June 2006 as independent non-executive director, audit committee member and remuneration committee member of the Company, the number of independent non-executive directors and of audit committee members fell below the minimum number required under the Listing Rules, and a majority of the members of the Remuneration Committee was temporarily not formed by independent non-executive directors. The Board shall appoint an independent non-executive director, audit committee member and remuneration committee member of the Company within three months from the date of his resignation pursuant to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee currently comprises two independent non-executive directors and its terms of reference which clearly set out the authorities and duties of the Audit Committee have been posted on the Company's website. The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2006.

The interim financial statements for the six months ended 30 June 2006 have not been audited but have been reviewed by the Company's external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all the directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2006.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of the directors and chief executives of the Company 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 ("SFO")) as recorded in the register required to be kept by the Company under 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 of the Listing Rules, were as follows:

(a) Interests in shares of the Company (long positions)

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Dr. Lam How Mun Peter	Personal	110,000	0.00%
Mr. Cheung Chung Kiu	Corporate (Notes 1 & 3)	2,542,396,360	64.54%
Mr. Leung Chun Cheong	Personal	7,410,000	0.19%
Ms. Poon Ho Yee Agnes	Personal	1,040,000	0.03%

(b) Interests in shares of Yugang International Limited (“Yugang”), the Company’s ultimate holding company (long positions)

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (<i>Notes 2 & 3</i>)	3,465,434,684	39.72%
	Personal	53,320,000	0.61%
	Total	3,518,754,684	40.33%
Mr. Lam Hiu Lo	Personal	41,800,000	0.48%

(c) Interests in underlying shares of Yugang (long positions)

Name of director	Nature of interest	Number of underlying shares held	Approximate percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (<i>Note 4</i>)	605,792,682	6.94%

Notes:

- Such shares are held through Regulator Holdings Limited (“Regulator”), an indirect wholly-owned subsidiary of Yugang, which is, in turn, owned by Chongqing Industrial Limited (“Chongqing”) and Timmex Investment Limited (“Timmex”) in aggregate as to 39.72%. Mr. Cheung Chung Kiu is deemed to be interested in the same number of shares held by Regulator by virtue of his indirect shareholding interests in Chongqing. As Mr. Cheung Chung Kiu has 100% beneficial interest in Timmex, he is also deemed to be interested in the same number of shares held by Timmex through Regulator.
- Such shares are held by Chongqing as to 3,194,434,684 shares and Timmex as to 271,000,000 shares. Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his shareholding interests in Chongqing and Timmex.
- Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which included Mr. Cheung Chung Kiu and his family. Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates. Mr. Cheung Chung Kiu has 100% beneficial interest in Timmex.
- Such interest is derived from a convertible note in the principal sum of HK\$70,000,000 issued by Yugang to Timmex in which Mr. Cheung Chung Kiu has 100% beneficial interest. The convertible note has a maturity date on 31 July 2007, and can be converted into Yugang’s shares at a conversion price of HK\$0.075 per share during the period from 31 July 2004 to 31 July 2005, HK\$0.082 per share for the period from 1 August 2005 to 31 July 2006 and HK\$0.089 per share for the period from 1 August 2006 to 31 July 2007, subject to adjustment. As at 30 June 2006, Timmex has exercised the conversion right attached to the convertible note in respect of the amount of HK\$20,325,000 and a total number of 271,000,000 shares in Yugang was issued to Timmex. Such shares are part of the shares interested by Mr. Cheung Chung Kiu as disclosed under paragraph (b) “Interests in shares of Yugang International Limited (“Yugang”), the Company’s ultimate holding company (long positions)” above.

Save as disclosed above, at 30 June 2006, the Company had not been notified of any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder (long positions)	Capacity	Number of shares held	Approximate percentage of issued share capital
Regulator	Beneficial interest	2,542,396,360 (Note)	64.54%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Yugang	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Chongqing	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Palin Holdings Limited ("Palin")	Interest of controlled corporations	2,542,396,360 (Note)	64.54%

Note: The interests held by Regulator, Yugang-BVI, Yugang, Chongqing and Palin respectively as shown above refer to interests in the same block of shares. Regulator is a direct wholly-owned subsidiary of Yugang-BVI, Yugang-BVI is in turn a direct wholly-owned subsidiary of Yugang. Yugang is owned by Chongqing as to 36.61% and Timmex as to 3.11%. Chongqing and Palin are controlled by Mr. Cheung Chung Kiu. The said interests are also duplicated with the interest in the Company's shares of Mr. Cheung Chung Kiu as disclosed under the heading "Directors' and Chief Executives' Interests in the Shares of the Company and its Associated Corporations" above.

Save as disclosed above, at 30 June 2006, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Lam How Mun Peter
Chairman and Managing Director

Hong Kong, 12 September 2006