THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **QUALIPAK INTERNATIONAL HOLDINGS LIMITED**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an offer to acquire, purchase, or subscribe for or the solicitation of an offer to acquire, purchase or subscribe for any securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities.

QUALIPAK INTERNATIONAL HOLDINGS LIMITED
確利達國際控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1224)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; (2) PLACING OF NEW SHARES; (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (4) RE-ELECTION OF A RETIRING DIRECTOR

Financial adviser to Qualipak International Holdings Limited

taifook

TAIFOOK CAPITAL LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Goldbond Capital (Asia) Limited

A letter from the Board is set out on pages 7 to 31 of this circular. A letter from Goldbond Capital (Asia) Limited containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction is set out on pages 33 to 62 of this circular. The letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Transaction is set out on page 32 of this circular.

A notice convening the special general meeting of Qualipak International Holdings Limited to be held at Grand Rooms I & II, Lobby, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 6 November 2006 at 10:00 a.m. is set out on pages 281 to 283 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of Qualipak International Holdings Limited in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

20 October 2006

* *For identification purposes only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Sale Share by the Purchaser pursuant to the terms of the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 22 September 2006 entered into between the Vendor, the Purchaser, the Company and the Guarantor in relation to the Acquisition
"Announcement"	the joint announcement dated 28 September 2006 issued by Yugang and the Company in relation to, among other things, the Transaction and the Placing
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Buildings"	approximately 110,000 sq.m. of commercial and residential properties in Chongqing, the PRC owned by the PRC Company resulting from the development of land tracts
"BVI"	the British Virgin Islands
"Capital Increase"	the proposed increase in the authorised share capital of the Company from HK$100,000,000 to HK$500,000,000 by the creation of 40,000,000,000 additional Shares
"Closing Date"	means three business days after the fulfillment of all the conditions precedent under the Placing Agreement
"Company" or "Qualipak"	Qualipak International Holdings Limited (確利達國際控股有限公司*; stock code: 1224) a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Acquisition Agreement

* *For identification purposes only*

"Completion Date"	the date when Completion shall take place, being the second business day after all the Conditions have been satisfied or waived (as the case may be) or such other date as may be agreed in writing between the Parties
"Conditions"	the conditions precedent to Completion
"connected person(s)"	has the same meaning as ascribed to it under the Listing Rules
"Consideration"	the consideration under the Acquisition Agreement
"Consideration Qualipak Shares"	1,600,000,000 Shares, credited as fully paid-up and ranking pari passu with all other Shares in issue on the Completion Date, to be issued at Completion by the Company to the Vendor (or as it may direct) as part of the Consideration
"Conversion Shares"	the new Shares to be issued by the Company upon exercise of the conversion rights under the Convertible Note
"Convertible Note"	the HK$2,552,000,000 10-year 2% convertible note to be issued by the Company to the Vendor (or as it may direct) as part of the Consideration, the principal terms of which are set out in this circular and the form of the convertible note certificate is scheduled to the Acquisition Agreement
"Debts"	the debts in the aggregate amount of HK$67,553,298 owed as at 30 June 2006 by the Guarantor and Chongqing Industrial Limited (中渝實業有限公司), a company incorporated in Hong Kong and an entity controlled by the Guarantor, to the Subject Company which are interest-free and repayable on demand
"Designated Stock Exchange"	a stock exchange which is an appointed stock exchange for the purposes of the Companies Act 1981 of Bermuda in respect of which the Shares are listed or quoted and where such appointed stock exchange deems such listing or quotation to be the primary listing or quotation of the Shares
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Company and its subsidiaries immediately after Completion

"Goldbond"	Goldbond Capital (Asia) Limited, which is licensed by the Securities and Futures Commission of Hong Kong for carrying out Types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction
"Group"	the Company and its subsidiaries before Completion
"Guarantor" or "Mr. Cheung"	Mr. Cheung Chung Kiu, a Director, who also owns 100% equity interest in the Vendor
"HK Company"	Charm Best Investment Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Subject Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising Messrs. Lam Kin Fung Jeffrey, Wong Wai Kwong David and Wong Yat Fai, established to review and consider the terms of the Transaction
"Independent Shareholders"	Shareholders other than those who are required under the Listing Rules to abstain from voting on the resolution to approve the Transaction at the SGM
"Latest Practicable Date"	16 October 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Party(ies)"	the party(ies) to the Acquisition Agreement
"Placing"	the best-endeavours placing of the Placing Shares by the Placing Agent pursuant to the Placing Agreement

"Placing Agent"	CLSA Limited, which is licensed by the Securities and Futures Commission of Hong Kong for carrying out Types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO, being the placing agent appointed by the Company for the Placing
"Placing Agreement"	the placing agreement dated 22 September 2006 entered into between the Company and the Placing Agent in respect of the Placing
"Placing Shares"	up to 3,400,000,000 new Shares to be issued by the Company and placed by the Placing Agent pursuant to the terms of the Placing Agreement
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Company"	重慶中渝物業發展有限公司(Chongqing Zhongyu Property Development Company Limited), a wholly-owned foreign enterprise organised and existing under the laws of the PRC, which is wholly-owned by the Subject Company
"Properties"	11 parcels of land in Chongqing, the PRC owned by the PRC Company with a total site area of 865,668.57 sq.m., the land title certificates of which are vested in the PRC Company
"Purchaser"	Marvel Leader Investments Limited, a company incorporated in the BVI with limited liability and wholly-owned by the Company
"Receivables"	an aggregate amount of up to the equivalent of HK$250,000,000 in certain amounts receivables due from independent third parties to the PRC Company as set out in the Acquisition Agreement
"Sale Share"	the entire issued share capital of the Subject Company to be sold by the Vendor to the Purchaser pursuant to the terms and conditions under the Acquisition Agreement
"Savills"	Savills Valuation and Professional Services Limited, an independent valuer appointed by the Company and Yugang

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held to consider and if thought appropriate, to approve the Transaction, the Placing, the Capital Increase and the re-election of a retiring Director
"Share(s)"	share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subject Company"	Starthigh International Limited, a company incorporated in the BVI with limited liability, which is wholly-owned by the Vendor
"Subject Group"	the Subject Company and its subsidiaries
"Suspension"	the suspension of the trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 25 September 2006 up to 9:30 a.m. on Friday, 29 September 2006 pending the release of the Announcement
"Transaction"	the Acquisition and the transactions contemplated thereunder including the issue of the Consideration Qualipak Shares and the issue of the Convertible Note as contemplated by the Acquisition Agreement
"Vendor"	Thrivetrade Limited, a company incorporated in the BVI with limited liability and wholly-owned by the Guarantor
"Vigers"	Vigers Appraisal & Consulting Limited, an independent valuer appointed by the Company
"Yugang"	Yugang International Limited (渝港國際有限公司*; stock code: 613), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Yugang Group"	Yugang and its subsidiaries

* *For identification purposes only*

"Yugang Share(s)"	share(s) of HK$0.01 each in the issued share capital of Yugang
"Yugang Shareholder(s)"	holder(s) of Yugang Shares
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.
"sq.ft"	square feet
"sq.m."	square metre(s)

For the purpose of illustration only, amounts denominated in RMB and US$ in this circular have been translated into HK$ at the rate of HK$1.00 = RMB1.02 and US$1.00 = HK$7.79 respectively unless the context requires otherwise. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese version shall prevail.

QUALIPAK INTERNATIONAL HOLDINGS LIMITED
確 利 達 國 際 控 股 有 限 公 司*

(incorporated in Bermuda with limited liability)
(Stock Code: 1224)

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
Mr. Wong Yat Fai

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
7th Floor
China United Centre
28 Marble Road
North Point
Hong Kong

20 October 2006

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION;
(2) PLACING OF NEW SHARES;
(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND
(4) RE-ELECTION OF A RETIRING DIRECTOR**

INTRODUCTION

On 28 September 2006, the Board announced that on 22 September 2006, (i) the Acquisition Agreement had been entered into among the Vendor, the Purchaser, the Company and the Guarantor; and (ii) the Placing Agreement was entered into between the Company and the Placing Agent.

* *For identification purposes only*

The details of the Transaction and the Placing were already set out in the Announcement. The purpose of this circular is to give you (i) further information regarding the Transaction, the Placing and the Capital Increase; (ii) the notice of the SGM; (iii) the letter of advice from Goldbond to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction; (iv) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Transaction; and (v) other information as required under the Listing Rules. In addition, the details in respect of the re-election of Mr. Wong Yat Fai as an independent non-executive Director are also set out in this circular.

THE ACQUISITION AGREEMENT

Date: 22 September 2006

Parties:	(i)	Vendor	:	Thrivetrade Limited, a company wholly-owned by the Guarantor
	(ii)	Purchaser	:	Marvel Leader Investments Limited, a wholly-owned subsidiary of the Company
	(iii)	The Company	:	Qualipak International Holdings Limited
	(iv)	Guarantor	:	Mr. Cheung, as guarantor of the obligations of the Vendor

The Guarantor holds the entire issued share capital of the Vendor, an investment holding company whose only asset is its 100% interest in the Subject Company. The Vendor and the Guarantor are connected persons of the Company.

Assets to be acquired:

Sale Share

One share of US$1.00 (or approximately HK$7.79) in the share capital of the Subject Company, representing the entire issued share capital of the Subject Company. The Sale Share is owned by the Vendor.

Consideration:

The aggregate value of consideration for the sale and purchase of the Sale Share is HK$3,317,553,298 being as to:

(i) HK$448,000,000 to be satisfied by the issue of the Consideration Qualipak Shares at Completion;

(ii) HK$2,552,000,000 to be satisfied by the issue of the Convertible Note;

(iii) a sum representing such amount of the Receivables up to the equivalent of HK$250,000,000 as may be recovered by the Group, which will only be due and payable by the Purchaser to the Vendor on a dollar-for-dollar basis (but net of all taxes, costs and expenses) within 30 days after the later of (A) the Completion Date and (B) receipt by the PRC Company from time to time. The Purchaser is expected to settle the sum by cash out of the proceeds recovered (if any) from the Receivables or from the internal resources of the Group; and

(iv) HK$67,553,298 to be satisfied by the assumption by the Purchaser of the obligations to repay the Debts.

As at 31 August 2006, the market value of the Properties and Buildings of the PRC Company was appraised at RMB6,729,361,500 (or approximately HK$6,597,413,000) by Savills, an independent valuer. The Consideration was determined with reference to the unaudited combined net tangible assets of the Subject Company of approximately HK$4,282,443,000, adjusted for the difference between the market value (net of deferred tax effect) and the net carrying amount of the Properties and the Buildings of approximately HK$4,039,005,000 as at 31 August 2006.

The Consideration represents a discount of approximately 49.71% to the market value of the Properties and the Buildings and a discount of approximately 22.53% to the adjusted unaudited combined net tangible assets of the Subject Company. The Consideration has been determined after arm's length negotiations between Yugang, the Company and the Vendor.

(i) The Consideration Qualipak Shares

At Completion, 1,600,000,000 Shares credited as fully paid-up will be issued by the Company at the issue price of HK$0.28 per Consideration Qualipak Share, which was determined with reference to the unaudited consolidated net tangible assets of the Group of approximately HK$0.15 per Share as at 30 June 2006 and the prevailing market price of the Shares. The Consideration Qualipak Shares will rank pari passu in all respects with the Shares in issue at Completion. The issue price also represents:

(i) a discount of approximately 8.20% to HK$0.305, the closing price of the Shares as quoted on the Stock Exchange on 22 September 2006, being the last trading day of the Shares on the Stock Exchange prior to the Suspension;

(ii) a discount of approximately 7.89% to the average closing price of approximately HK$0.304 per Share for the five consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iii) a discount of approximately 8.50% to the average closing price of approximately HK$0.306 per Share for the 10 consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iv) a premium of approximately 90.48% over the audited consolidated net assets value of the Group of approximately HK$0.147 per Share as at 31 December 2005;

(v) a premium of approximately 85.43% over the unaudited consolidated net assets value of the Group of approximately HK$0.151 per Share as at 30 June 2006; and

(vi) a discount of approximately 20.00% to HK$0.350, the closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date.

The Consideration Qualipak Shares represent approximately 40.61% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.88% of the enlarged issued share capital of the Company immediately after Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to Completion save for the issue of the Consideration Qualipak Shares at Completion). Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Consideration Qualipak Shares.

(ii) Principal terms of the Convertible Note

The terms of the Convertible Note were negotiated between the Company and the Vendor on an arm's length basis and the principal terms are summarised below:

Principal amount: HK$2,552,000,000

Maturity date: The Company shall repay the principal amount outstanding under the Convertible Note to the holder of the Convertible Note together with all interest accrued on the tenth anniversary of the date of issue of the Convertible Note.

Conversion price: Subject to adjustments in certain events including share consolidation, share subdivision, capitalization issue, capital distribution, rights issue and issue of convertible securities by the Company and other dilutive events, the Conversion Shares shall, in respect of a conversion notice served on the Company during each period set out below, be issued at the following conversion prices:

Period from date of issue of the Convertible Note	*HK$ per Conversion Share*
First Year	0.280
Second Year	0.310
Third Year	0.326
Fourth Year	0.341

Period from date of issue of the Convertible Note	*HK$ per Conversion Share*
Fifth Year	0.357
Sixth Year	0.372
Seventh Year	0.388
Eighth Year	0.403
Ninth Year	0.419
Tenth Year	0.434

If at any time and from time to time during the First Year there is any change in the aggregate percentage of issued share capital of the Company which is not in public hands (within the meaning of the Listing Rules) such that such percentage falls below 75% (a "Change"), the Company shall, upon becoming aware of the same, promptly inform the holder of the Convertible Note in writing of particulars of the Change ("Notice of Change"). On the expiry of the period of 14 days after the date of receipt of a Notice of Change the conversion price for the Unconverted Portion (as hereafter defined) during the First Year shall become HK$0.31 per Conversion Share (being the conversion price of the Convertible Note in the Second Year), subject to adjustments. "Unconverted Portion" means such portion of the then outstanding principal amount of the Convertible Note which upon conversion would result in the aggregate percentage of issued share capital of the Company which is not in public hands rising back up to 75% (rounded down to the nearest whole number of Shares where applicable) which remains unconverted on the expiry of the period of 14 days after the date of receipt of a Notice of Change by the holder of the Convertible Note or (if the then outstanding principal amount of the Convertible Note is insufficient to make up such 75%) the outstanding principal amount of the Convertible Note which remains unconverted on the expiry of the period of 14 days after the date of receipt of a Notice of Change by the holder of the Convertible Note. Accordingly, whenever and to the extent that the Convertible Note may be converted without breaching the public float requirement of the Listing Rules during the First Year and the holder does not so convert, the conversion price will be increased to HK$0.31 per Conversion Share, subject to adjustments.

Interest rate:	Interest-free from the date of issue of the Convertible Note to the date which is the second anniversary of the date of the issue of the Convertible Note and at a rate of 2% per annum, accrued on a day to day basis on the principal amount of the Convertible Note outstanding commencing on the day immediately following the second anniversary of the date of issue of the Convertible Note. Payment by the Company of all or any part of the interest accrued from time to time can only be made in arrears on one or more anniversaries (commencing from the third anniversary) of the date of the issue of the Convertible Note as elected by the Company, provided that all accrued and unpaid interest will be paid on the tenth anniversary.
Prepayment:	The Company may at any time after the second anniversary of the Convertible Note give not less than one month's notice in writing to the holder of the Convertible Note to prepay such part or whole of the principal amount outstanding on the Convertible Note together with interest accrued until the date of actual prepayment. The holder of the Convertible Note may however at any time after the receipt of such notice but before actual prepayment still convert the whole or any amount to be prepaid into Conversion Shares.
Transferability:	Subject to any requirements and/or conditions of the Stock Exchange, the Convertible Note is fully transferable in whole or in part at any time.
Conversion period:	The holder of the Convertible Note has the right to convert the whole or part of the principal amount outstanding under the Convertible Note into the Conversion Shares at any time from the date of issue of the Convertible Note up to (and including) the maturity date of the Convertible Note at the relevant conversion price provided that the amount of the Convertible Note converted on each occasion shall not be less than HK$1,000,000, unless the principal amount outstanding under the Convertible Note is less than HK$1,000,000, in which case the whole of the principal amount outstanding under the Convertible Note may be converted.
Voting:	The holder of the Convertible Note will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Note.

Listing:	No application will be made for the listing of the Convertible Note on the Stock Exchange or any other stock exchanges. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Note.
Ranking:	The Conversion Shares will rank pari passu in all respects with all other existing Shares outstanding on the date on which the holder of the Convertible Note gives notice to exercise the conversion rights attached to the Convertible Note.

The Vendor has undertaken to the Company that, upon Completion, the Vendor will not exercise the Convertible Note to such an extent that if as a result of such exercise there is insufficient public float on the date of issue of the Conversion Shares. Upon Completion, the Company will undertake to the Stock Exchange that it will ensure that there will not be insufficient public float on the date of issue of Conversion Shares arising from the conversion of the Convertible Note.

On the basis that the Convertible Note is fully converted at the conversion price of HK$0.28 per Conversion Share, a total of 9,114,285,714 Conversion Shares under the Convertible Note will be issued, representing approximately 231.35% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 62.20% of the issued share capital of the Company as enlarged by the Consideration Qualipak Shares and the issue of such Conversion Shares (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until then save for the issue of the Consideration Qualipak Shares at Completion and the issue of the Conversion Shares). Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

The initial conversion price of HK$0.28 per Conversion Share during the first year of the conversion period represents:

(i) a discount of approximately 8.20% to HK$0.305, the closing price of the Shares as quoted on the Stock Exchange on 22 September 2006, being the last trading day of the Shares on the Stock Exchange prior to the Suspension;

(ii) a discount of approximately 7.89% to the average closing price of approximately HK$0.304 per Share for the five consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iii) a discount of approximately 8.50% to the average closing price of approximately HK$0.306 per Share for the 10 consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iv) a premium of approximately 90.48% over the audited consolidated net assets value of the Group of approximately HK$0.147 per Share as at 31 December 2005;

(v) a premium of approximately 85.43% over the unaudited consolidated net assets value of the Group of approximately HK$0.151 per Share as at 30 June 2006; and

(vi) a discount of approximately 20.00% to HK$0.350, the closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date.

Guarantee

The due and punctual performance and discharge by the Vendor of all its obligations (whether present or future, actual or contingent) under the Acquisition Agreement are guaranteed by the Guarantor.

Conditions of Completion:

Completion of the Acquisition and the assumption by the Purchaser of the obligations to repay the Debts under the Acquisition Agreement are conditional upon the fulfillment (or waiver, in certain cases as stated below) of the following Conditions:

(i) the approval of the Acquisition Agreement and the transactions contemplated thereunder by the Yugang Shareholders at a special general meeting (where the Guarantor and his associates will abstain from voting) taken on a poll;

(ii) the approval of the Acquisition Agreement and the transactions contemplated thereunder (including, in particular, the issue and allotment of the Consideration Qualipak Shares and the issue of the Convertible Note) by the Shareholders at the SGM (where the Guarantor, Yugang and their respective associates will abstain from voting) taken on a poll;

(iii) approval being granted or agreed to be granted by the Stock Exchange for the listing of, and permission to deal in, all the Consideration Qualipak Shares and the Conversion Shares on terms and conditions satisfactory to the Vendor and the Company;

(iv) approval of the Capital Increase by the Shareholders at the SGM; and

(v) if so required, approval being granted by the Bermuda Monetary Authority for the issue of the Consideration Qualipak Shares and the further issue by the Company of all unissued Shares within its authorised share capital of HK$500,000,000, and the subsequent transfer of all such Shares issued.

In the event that any of the Conditions has not been fulfilled on or before 31 December 2006 (or such later date as is otherwise agreed between the Parties in writing), the Acquisition Agreement shall cease and determine and be of no further effect, and no Party shall be entitled to any rights or benefits or be under any obligation under or in respect of the Acquisition Agreement or have any liability to any other Party, save in respect of any antecedent breach.

Upon Completion, the Guarantor and the Vendor will undertake in favour of Yugang that so long as the Guarantor and the Vendor and/or any of their respective associates hold in aggregate 30% or more of the voting rights of the Company, at the request of Yugang upon giving reasonable notice, the Guarantor and the Vendor will (i) propose person(s) nominated by Yugang ("Nominees") to be elected to the Board at the next annual general meeting of the Company following such request so that such Nominees may constitute at least one-quarter of the Directors, and (ii) to vote in favour of electing the Nominees at such annual general meeting. The undertaking will cease to have any effect and will terminate once Yugang holds less than 10% of the voting rights of the Company.

Completion

The Acquisition Agreement provides that Completion will take place on the Completion Date. The Directors expect that the Completion Date would be before 31 December 2006 after all the Conditions have been satisfied or waived.

THE PLACING AGREEMENT

Date:	22 September 2006
Issuer:	The Company
Placing Agent:	CLSA Limited
Placees:	The Placing Agent will use its best endeavours to procure professional and institutional investors (independent of and not connected with the Company or any of its connected persons) to subscribe for the Placing Shares.
Number of Placing Shares:	Up to 3,400,000,000 new Shares to be issued by the Company.
Placing price:	HK$0.28 per Placing Share.
Conditions precedent:	Completion of the Placing is conditional upon fulfillment of the following conditions on or before 31 March 2007 (or such other date as may be agreed between the Company and the Placing Agent):– (i) the Acquisition being completed in all material respects;

(ii) the grant of the listing of and permission to deal in the Placing Shares by the Listing Committee of the Stock Exchange;

(iii) the Bermuda Monetary Authority approving the issue of the Placing Shares (if required); and

(iv) the passing at the SGM of a resolution to approve the issue and allotment of the Placing Shares and (if so required) approval of the same by the Yugang Shareholders at a special general meeting of Yugang.

Completion: Completion of the Placing will take place on the Closing Date.

Ranking: The Placing Shares to be issued and allotted pursuant to the Placing shall be free and clear of all encumbrances and shall rank pari passu with all Shares in issue as at the Closing Date including the right to receive all dividends or other distributions declared, made or paid at any time after the Closing Date.

The issue price of HK$0.28 per Placing Share represents:

(i) a discount of approximately 8.20% to HK$0.305, the closing price of the Shares as quoted on the Stock Exchange on 22 September 2006, being the last trading day of the Shares on the Stock Exchange prior to the Suspension;

(ii) a discount of approximately 7.89% to the average closing price of approximately HK$0.304 per Share for the five consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iii) a discount of approximately 8.50% to the average closing price of approximately HK$0.306 per Share for the 10 consecutive trading days up to and including 22 September 2006 as quoted on the Stock Exchange;

(iv) a premium of approximately 90.48% over the audited consolidated net assets value of the Group of approximately HK$0.147 per Share as at 31 December 2005;

(v) a premium of approximately 85.43% over the unaudited consolidated net assets value of the Group of approximately HK$0.151 per Share as at 30 June 2006; and

(vi) a discount of approximately 20.00% to HK$0.350, the closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date.

The Placing Shares represent approximately 86.30% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 38.03% of the issued share capital of the Company as enlarged by the Consideration Qualipak Shares and the Placing Shares (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the completion of the Placing save for the issue of the Consideration Qualipak Shares at Completion and the Placing Shares). Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Placing Shares.

Since the Placing is not underwritten, there is no assurance that the Placing will be completed. The Acquisition is however not conditional upon completion of the Placing.

Termination of the Placing

The Placing Agent may by notice in writing to the Company given at any time prior to the Closing Date, terminate the Placing Agreement in any of the following circumstances:

(a) if there has been, since the time of execution of the Placing Agreement, any material adverse change in the financial condition of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business;

(b) if there shall have come to the notice of the Placing Agent any breach of, or any event rendering untrue, inaccurate or misleading in any material respect, any of the warranties, representations or covenants contained in the Placing Agreement or any failure to perform any of the Company's undertakings or agreements in the Placing Agreement;

(c) if, in the opinion of the Placing Agent, there has occurred any material adverse change in the financial markets in Hong Kong or the PRC, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international, financial, political or economic conditions or currency exchange rates or exchange controls as would in its view be likely to prejudice materially the success of the offering and distribution of the Placing Shares or dealings in the Placing Shares in the secondary market or make it impractical or inadvisable to market the Placing Shares; or

(d) if trading in any securities of the Company has been suspended or materially limited by the Stock Exchange (other than temporarily suspended pending release of price sensitive information of the Company required by the Stock Exchange), or if trading generally on any Hong Kong or PRC stock exchange has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any such exchange or system or by order of the Stock Exchange or any governmental authority, or a material disruption has occurred in commercial banking or securities settlement or clearance services in Hong Kong or if a banking moratorium has been declared by Hong Kong authorities.

Upon such notice being given, the parties to the Placing Agreement shall be released and discharged (except to the extent that any liability arises before or in relation to such termination) from its obligations under or pursuant to the Placing Agreement.

Lock up

The Company undertakes to the Placing Agent that, in the event that the Placing Agent has procured subscribers for a total of not less than 2,228,572,000 new Shares, from the date of the Placing Agreement and for a period of six months after the date of the Placing Agreement, it will not issue, offer, lend, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible into or exchangeable for Shares) or enter into an analogous transaction (including a derivative transaction) without the prior written consent of the Placing Agent, other than (i) the allotment of the Placing Shares pursuant to the Placing Agreement, (ii) the Shares to be issued upon exercise of warrants to purchase or subscribe for the Shares, or upon conversion of the convertible bonds and other securities convertible into the Shares, in each case, outstanding on the date of the Placing Agreement, (iii) the Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase the Shares) issued, offered, allotted, appropriated, modified or granted to employees (including Directors) or former employees of the Company, its subsidiaries and/or associated companies or persons related to such employees (including directors) or former employees, directly or indirectly, pursuant to any employee share scheme or arrangement for any one or more employees generally or as required by law, (iv) the issue and allotment of the Consideration Qualipak Shares, and (v) the issue of the Convertible Note and (vi) the issue of Conversion Shares. In the event that the Placing Agent procures subscribers for less than 2,228,572,000 new Shares, such six-month period shall be reduced to a three-month period. In such event, the Company undertakes that any issue of new Shares during the period from the end of such three-month period up to three months thereafter shall be at a price at or above the Placing Price.

Use of proceeds from the Placing

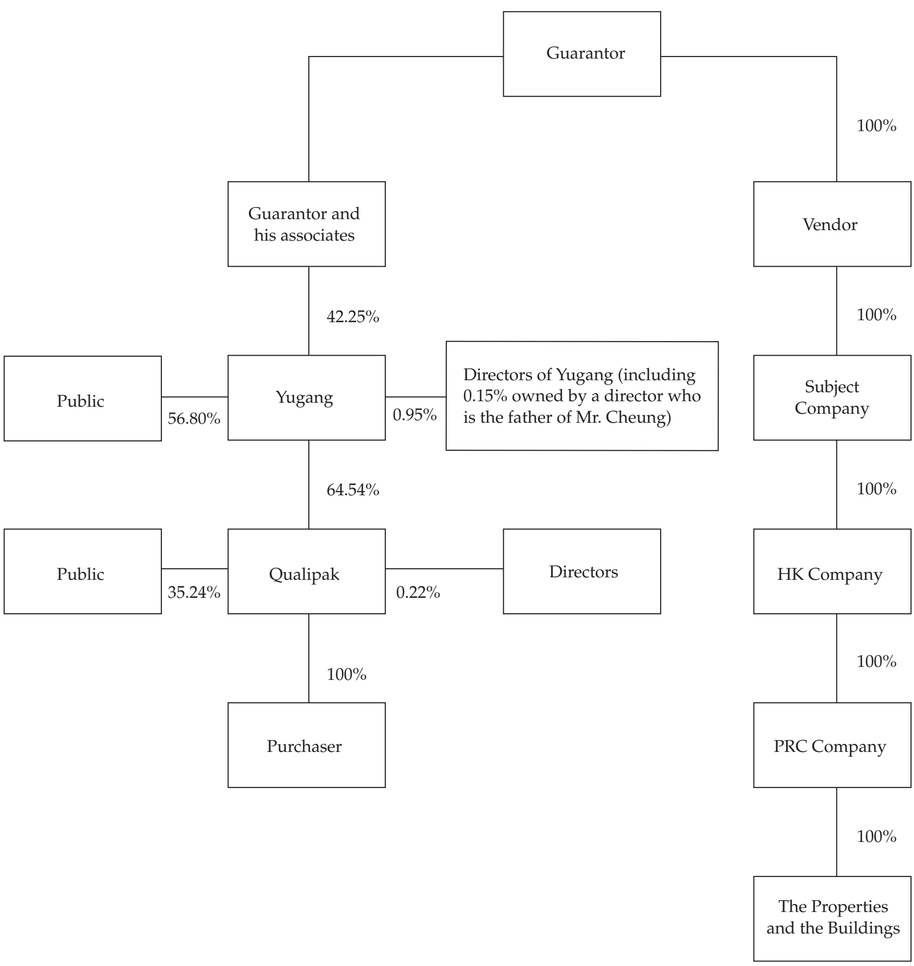
Assuming all the Placing Shares are successfully placed by the Placing Agent, the estimated net proceeds will be approximately HK$930 million. It is currently intended that the net proceeds from the Placing will be used to finance the development costs of the Properties, potential acquisition of future development projects and general working capital.

The Placing Shares will be issued under a mandate to be granted to the Directors pursuant to the ordinary resolution in respect of the Placing to be proposed at the SGM. The Board recommends the Shareholders to vote in favour of the ordinary resolution proposed in respect of the Placing at the SGM.

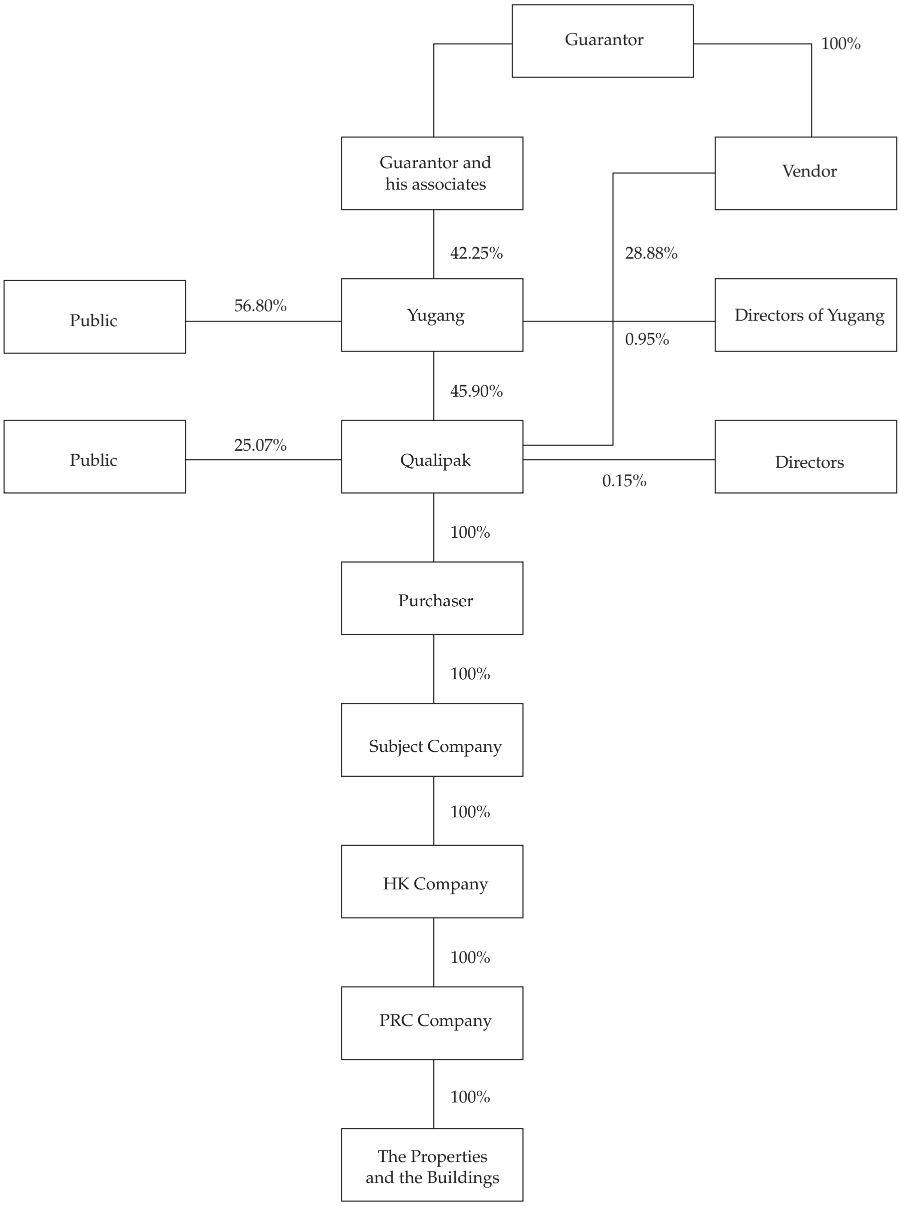
Corporate charts

The following diagrams illustrate the corporate and shareholding structure (taking no account of wholly-owned intermediate holding companies) of Yugang, the Company and the Subject Company (a) as at the Latest Practicable Date, (b) immediately after Completion (on the basis that the Placing Agreement is not completed and there is no conversion of the Convertible Note), (c) immediately after Completion (on the basis that all the Placing Shares have been successfully placed and there is no conversion of the Convertible Note), (d) immediately after Completion (on the basis that the Convertible Note is fully converted at the conversion price of HK$0.28 per Conversion Share and the Placing Agreement is not completed), and (e) immediately after Completion (on the basis that all the Placing Shares have been successfully placed and the Convertible Note is fully converted at the conversion price of HK$0.28 per Conversion Share):

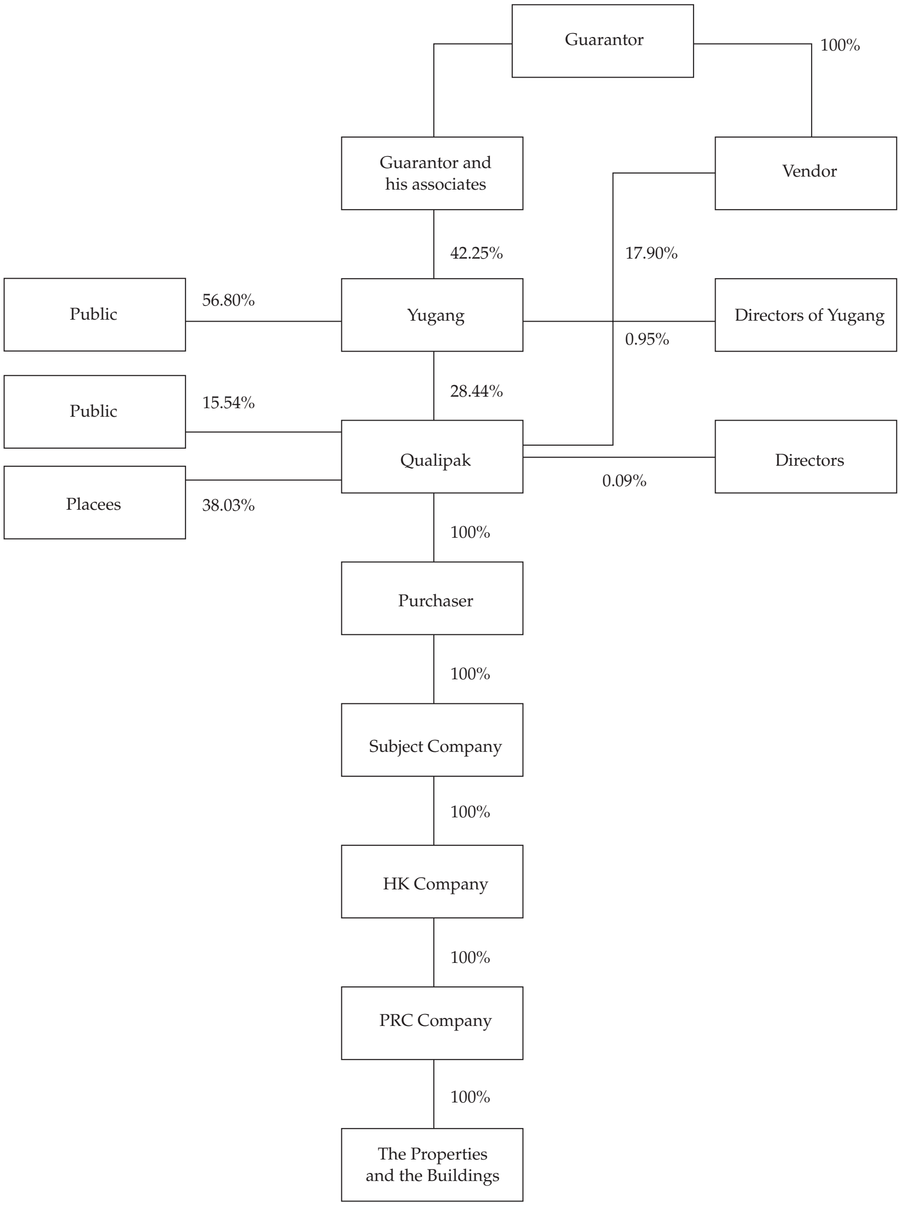
As at the Latest Practicable Date



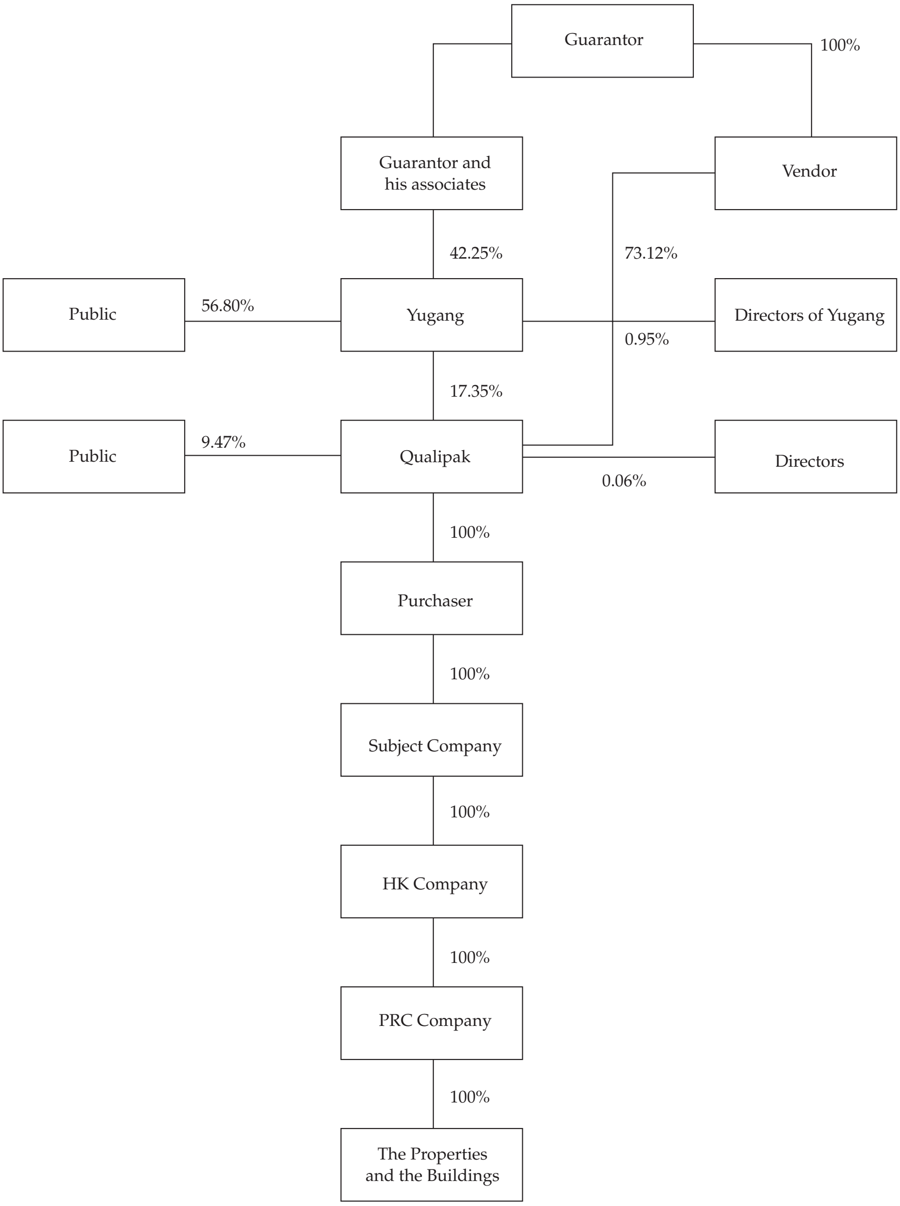
Immediately after Completion (on the basis that the Placing Agreement is not completed and there is no conversion of the Convertible Note)



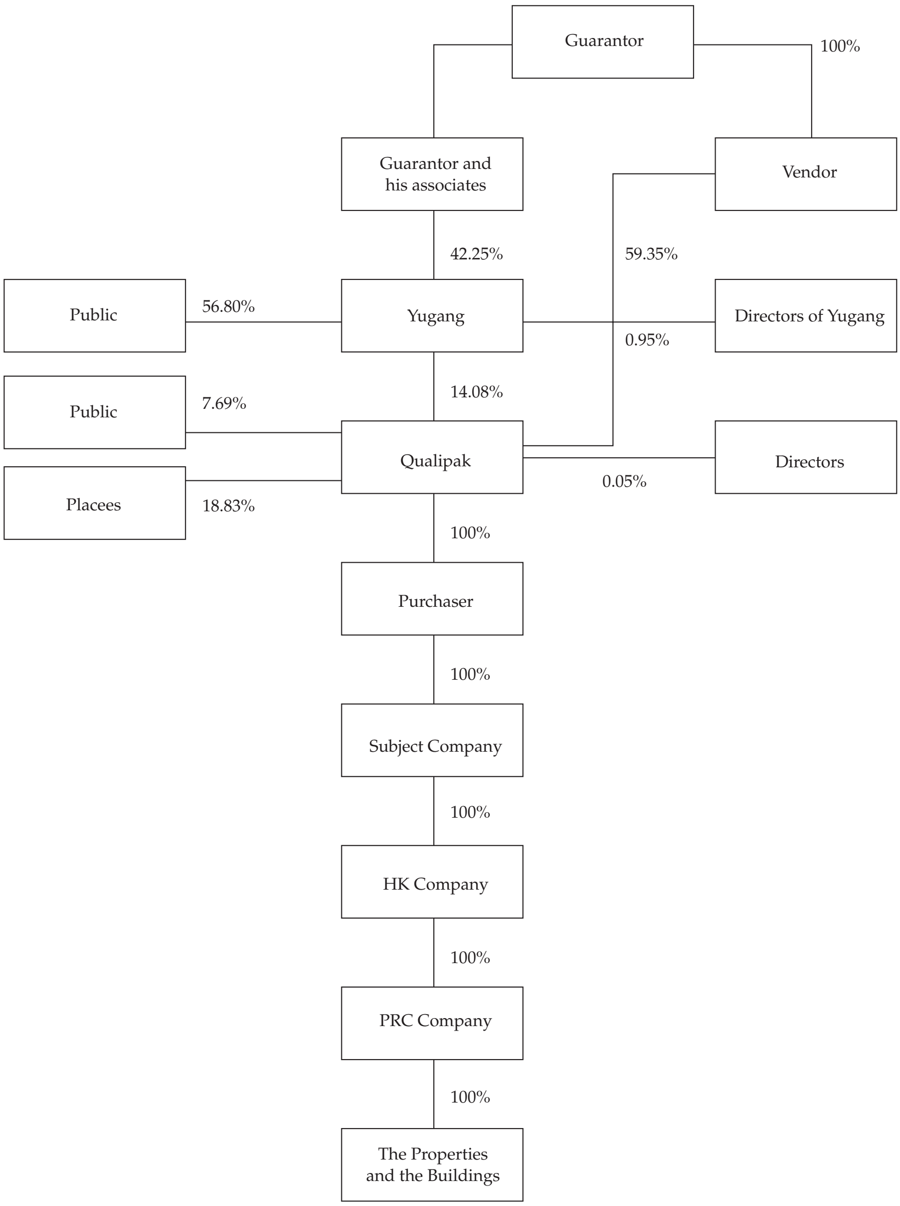
Immediately after Completion (on the basis that all the Placing Shares have been successfully placed and there is no conversion of the Convertible Note)



Immediately after Completion (on the basis that the Convertible Note is fully converted at the conversion price of HK$0.28 per Conversion Share and the Placing Agreement is not completed)



Immediately after Completion (on the basis that all the Placing Shares have been successfully placed and the Convertible Note is fully converted at the conversion price of HK$0.28 per Conversion Share)



PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

To facilitate the issue of the Consideration Qualipak Shares, the Conversion Shares and the Placing Shares, the Board also proposes to effect the Capital Increase, whereby the existing authorised share capital of the Company will be increased from HK$100,000,000 to HK$500,000,000 by the creation of an additional 40,000,000,000 Shares. The Capital Increase is subject to the approval by the Shareholders at the SGM. The Board recommends the Shareholders to vote in favour of the resolution on the Capital Increase at the SGM.

INFORMATION ON THE SUBJECT COMPANY

Overview

The Subject Company is a company incorporated in the BVI on 17 March 2006 with limited liability, and is a wholly-owned subsidiary of the Vendor. The only major assets of the Subject Company are its 100% interest in the registered equity capital of the PRC Company (held via the HK Company) and the Debts.

The HK Company

The HK Company was incorporated in Hong Kong on 30 March 2006. Its sole director is the Guarantor. The HK Company is an investment holding company and its sole asset is its 100% interest in the PRC Company.

The PRC Company

The PRC Company is a wholly-owned foreign enterprise organised and existing under the laws of the PRC and was incorporated in the PRC on 11 June 1992. The PRC Company is one of the largest property developers in Chongqing with national class I certification from the Ministry of Construction, the PRC, and is principally engaged in the development, sale, leasing and management of high quality residential, commercial and retail properties.

Up to the Latest Practicable Date, the PRC Company has completed various property development projects of over one million sq.m.. The registered capital of the PRC Company is US$31,000,000 (or approximately HK$241,490,000).

The Properties

The Properties comprise 11 parcels of land, 10 of which are adjoining sites, and are situated right at the heart of the Yubei District of Chongqing, a district where the central government administration region, major highway junctions and a new rail transportation hub are located. The remaining parcel of land, albeit separate, is situated close to the new rail transportation hub. All these parcels of land have been earmarked for development as separate projects, consisting of hotels, commercial and residential complexes.

The Properties have a total site area of 865,668.57 sq.m. with a total buildable gross floor area of approximately 3.07 million sq.m.. All land premiums have been fully paid and land use certificate for every parcel of land has been obtained at the Latest Practicable Date. In addition, Building Ownership Certificate and/or Real Estate Title Certificate for each of the Buildings has been obtained as at the Latest Practicable Date. The market value of the Properties as at 31 August 2006 was valued at RMB6,524,614,000 (or approximately HK$6,396,680,000) by Savills, an independent valuer.

The Buildings

In addition to the holding of the Properties, the PRC Company also currently owns the Buildings as either its fixed assets or as rental properties. The market value of the Buildings as at 31 August 2006 was valued at RMB204,747,500 (or approximately HK$200,733,000) by Savills, an independent valuer.

Financial information

Based on the audited combined income statements of the Subject Company prepared in accordance with Hong Kong Financial Reporting Standards for the two years ended 31 December 2005 and the six months ended 30 June 2006, its audited combined net profit/(loss) before tax, audited combined tax, and audited combined profit/(loss) for the year/period were as follows:–

	Year ended 31 December 2004 *(RMB'000)*	**Year ended 31 December 2005** *(RMB'000)*	**Six months ended 30 June 2006** *(RMB'000)*
Profit/(Loss) before tax	54,382	16,951	(15,450)
Tax	(20,860)	(8,584)	4,699
Profit/(Loss) for the year/period	33,522	8,367	(10,751)

PROPOSED CHANGES IN DIRECTORS AND MANAGEMENT OF THE GROUP

It is not intended that there will be any change in the composition of the Board or the management of the Group as a result of Completion save and except that the Company may consider to re-designate the Guarantor from the executive Director to Chairman of the Company.

CHANGES IN THE SHAREHOLDING OF THE COMPANY

Upon Completion, the Company will cease to be a subsidiary of Yugang as a result of the issue of the Consideration Qualipak Shares. The simplified shareholding structures of the Company (a) as at the Latest Practicable Date; (b) immediately after Completion (on the basis that the Placing is not completed and there is no conversion of the Convertible

Note); (c) immediately after Completion and all the Placing Shares have been successfully placed (on the basis that there is no conversion of the Convertible Note), (d) immediately after Completion and full conversion of the Convertible Note but before the Placing; and (e) immediately after Completion, all the Placing Shares have been successfully placed and full conversion of the Convertible Note are shown in the table below (in each case assuming that there is no other change in the issued share capital of the Company from the Latest Practicable Date and assuming that the Convertible Note is converted at the conversion price of HK$0.28 per Conversion Share):

	As at the Latest Practicable Date *No. of Shares*	Percentage of issued share capital of the Company	Immediately after Completion *No. of Shares*	Percentage of issued share capital of the Company immediately after Completion	Immediately after Completion and all the Placing Shares have been successfully placed *No. of Shares*	Percentage of issued share capital of the Company immediately after Completion and all the Placing Shares have been successfully placed	Immediately after Completion and full conversion of the Convertible Note but before the Placing *No. of Shares*	Percentage of issued share capital of the Company immediately after Completion and full conversion of the Convertible Note but before the Placing	Immediately after Completion, all the Placing Shares have been successfully placed and full conversion of the Convertible Note *No. of Shares*	Percentage of issued share capital of the Company immediately after Completion, all the Placing Shares have been successfully placed and full conversion of the Convertible Note
Regulator Holdings Limited[1]	2,542,396,360	64.54%	2,542,396,360	45.90%	2,542,396,360	28.44%	2,542,396,360	17.35%	2,542,396,360	14.08%
Lam How Mun Peter	110,000	0.00%	110,000	0.00%	110,000	0.00%	110,000	0.00%	110,000	0.00%
Leung Chun Cheong	7,410,000	0.19%	7,410,000	0.13%	7,410,000	0.08%	7,410,000	0.05%	7,410,000	0.04%
Poon Ho Yee Agnes	1,040,000	0.03%	1,040,000	0.02%	1,040,000	0.01%	1,040,000	0.01%	1,040,000	0.01%
Vendor	–	0.00%	1,600,000,000	28.88%	1,600,000,000	17.90%	10,714,285,714	73.12%	10,714,285,714	59.35%
Placees and public[2]	1,388,580,510	35.24%	1,388,580,510	25.07%	4,788,580,510	53.57%	1,388,580,510	9.47%	4,788,580,510	26.52%
Placees under the Placing Agreement	*–*	*0.00%*	*–*	*0.00%*	*3,400,000,000*	*38.03%*	*–*	*0.00%*	*3,400,000,000*	*18.83%*
Other public Shareholders	*1,388,580,510*	*35.24%*	*1,388,580,510*	*25.07%*	*1,388,580,510*	*15.54%*	*1,388,580,510*	*9.47%*	*1,388,580,510*	*7.69%*
	3,939,536,870	100%	5,539,536,870	100%	8,939,536,870	100%	14,653,822,584	100%	18,053,822,584	100%

Notes:

1. Regulator Holdings Limited ("Regulator") is an indirect wholly-owned subsidiary of Yugang, which is, in turn, owned by Chongqing Industrial Limited ("Chongqing"), Timmex Investment Limited ("Timmex") and the Guarantor in aggregate as to 42.25%. The Guarantor, 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 beneficiaries of which included the Guarantor and his family. Prize Winner Limited is beneficially owned by the Guarantor and his associates. The Guarantor is deemed to be interested in the same number of Shares held by Regulator by virtue of his indirect shareholding interests in Chongqing. As the Guarantor has 100% beneficial interest in Timmex, he is also deemed to be interested in the same number of shares held by Timmex through Regulator.

2. Upon Completion, the Company will undertake to the Stock Exchange that it will ensure that there will not be insufficient public float on the date of issue of Conversion Shares arising from the conversion of the Convertible Note.

After Completion, if there is no further change in the issued share capital of the Company other than the issue of the Consideration Qualipak Shares and assuming full conversion of the Convertible Note but before the Placing, Yugang's interest in the Company will be further diluted from approximately 45.90% to approximately 17.35%. The Vendor has undertaken to the Company that, upon Completion, the Vendor will not exercise the Convertible Note to such an extent that if as a result of such exercise there is insufficient public float on the date of issue of the Conversion Shares. Upon Completion, the Company will undertake to the Stock Exchange that it will ensure that there will not be insufficient public float on the date of issue of Conversion Shares arising from the conversion of the Convertible Note. The Transaction will not result in a change in control of the Company for the purpose of Rule 14.65(3) of the Listing Rules.

DILUTION EFFECT ON THE SHAREHOLDERS

In view of the potential dilution effect on existing Shareholders on the exercise of the conversion rights attaching to the Convertible Note, for so long as the Convertible Note is outstanding, the Company will keep its Shareholders informed of the level of dilution and details of conversion as follows:

(i) The Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

(a) whether there is any conversion of the Convertible Note during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion of the Convertible Note during the relevant month, a negative statement to that effect;

(b) the outstanding principal amount of the Convertible Note after the conversion, if any;

(c) the total number of Shares issued pursuant to other transactions, including the Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;

(d) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and

(ii) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event no later than the fifth business day thereafter make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be), up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be).

BUSINESSES OF THE GROUP

The Group is principally engaged in the businesses of manufacturing and trading of watch boxes, gift boxes, spectacle cases and bags and pouches, treasury investment activities, and the design, manufacturing and sale of soft baggage, travel bags, back-packs and brief cases.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group has been actively looking for opportunities for expansion and diversification. During the last five years, whilst maintaining the competitiveness of its core manufacturing business, the Group has gradually expanded its business portfolio to include a widening range of manufacturing operations and treasury operations to provide the Group with a stronger and more diversified profit source.

The PRC Company is located in Chongqing, a key city for the economic development in the central-western regions of the PRC. The acquisition of the Subject Company provides the Company with an opportunity to take advantage of the PRC Company's strategic location and its early entry in the PRC property market to diversify the Group's business into property development and investment. In addition, the growth in the economy and the income level in the PRC are expected to result in an increase in demand in the real estate markets. Given the current market price and the trend of the supply of and demand for real estates in Chongqing, the Directors expect that the Enlarged Group's property development business to have optimistic prospects and will achieve a rapid growth rate in the coming years. Following the acquisition of the Subject Company, the asset base of the Enlarged Group will be very substantially enlarged. Given that the Consideration will be satisfied by the issue of the Consideration Qualipak Shares and Convertible Note, the Acquisition will not cause any depletion of the cash resources of the Enlarged Group immediately after Completion. Assuming full conversion of the Convertible Note, there would be no cash outflow for the Enlarged Group, which will result in a much enlarged equity base.

The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole. After Completion, the Enlarged Group will continue to carry on its existing operations, and will have property development and investment added as one of its core businesses. The Enlarged Group will also look for other land banks and property assets in Chongqing and other cities in the PRC.

FINANCIAL IMPACTS ON THE GROUP

The unaudited consolidated net assets value of the Group attributable to equity holders of the Company was approximately HK$593,610,000 or approximately HK$0.15 per Share as at 30 June 2006 based on a total of 3,939,536,870 Shares in issue as at 30 June 2006. Based on the "Unaudited pro forma financial information on the Enlarged Group" as set out in Appendix V to this circular, (i) the unaudited pro forma consolidated total assets of the Enlarged Group immediately after Completion would be approximately HK$8,001.8 million, as compared with the unaudited consolidated total assets of the Group of approximately HK$805.6 million as at 30 June 2006; (ii) the unaudited pro forma consolidated total liabilities of the Enlarged Group immediately after Completion would be approximately HK$4,776.1 million, as compared with the unaudited consolidated total liabilities of the Group of approximately HK$209.0 million as at 30 June 2006; and (iii) the unaudited pro forma consolidated net assets value of the Enlarged Group attributable to the equity holders of the Company will amount to approximately HK$3,222.7 million (or approximately HK$0.58 per Share based on a total of 5,539,536,870 Shares in issue upon Completion). On this basis, assuming full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share but before Placing and no change in the issued share capital of the Company other than the issue of the Consideration Qualipak Shares after Completion, the unaudited pro forma consolidated net assets value of the Enlarged Group attributable to the equity holders of the Company will amount to approximately HK$4,538.5 million (or approximately HK$0.31 per Share based on a total of 14,653,822,584 Shares in issue after Completion and full conversion of the Convertible Note). The Board is of the view that the Subject Company would contribute to the earnings of the Enlarged Group after Completion.

On the basis that there is no conversion and repayment of the Convertible Note before the maturity date and the effective interest rate of the Convertible Note is 9% per annum as determined by reference to the assessment made by Grant Sherman Appraisal Limited, an independent valuer, the total interest expenses on the Convertible Note will be approximately HK$1,645 million, which will be recorded by the Group during the period from the date of the issue of the Convertible Note to the tenth anniversary of the date of the issue of the Convertible Note. Among the aforesaid interest expenses of HK$1,645 million, however, only approximately HK$409 million will be the actual interest expenses payable to the holder of the Convertible Note according to the terms of the Convertible Note given the fact that the remaining interest expenses of approximately HK$1,236 million are not the interest expenses payable to the holder of the Convertible Note according to the terms of the Convertible Note but are only required to be recorded in the consolidated income statement of the Group in accordance with Hong Kong Accounting Standard 32. In addition, if the Convertible Note is partly or fully converted and/or repaid before its maturity, the amount of the aforesaid interest expenses will be reduced.

RE-ELECTION OF MR. WONG YAT FAI AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

As referred to in the announcements of the Company dated 23 June 2006 and 20 September 2006 respectively, following the resignation of Mr. Lam Ping Cheung on 22 June 2006, Mr. Wong Yat Fai was appointed on 20 September 2006 as an independent non-executive Director, an Audit Committee member and a Remuneration Committee member of the Company. In accordance with the Company's bye-laws, Mr. Wong Yat Fai will hold office until the SGM and shall be eligible for re-election at the SGM.

Mr. Wong, aged 46, holds a professional diploma in banking from The Hong Kong Polytechnic University. He has over 13 years of working experience with an international banking group. Mr. Wong is currently an executive director of 139 Holdings Limited, and an independent non-executive director of Yugang, Y.T. Realty Group Limited and The Cross-Harbour (Holdings) Limited. The shares of all of these companies are listed on the Stock Exchange. Save as disclosed, Mr. Wong did not hold any other positions with the Company or its subsidiaries, and had not held any directorship in other listed public companies in the last three years up to the Latest Practicable Date.

Mr. Wong will receive a Director's fee of HK$200,000 per annum determined with reference to his duties and responsibilities with the Company and will be reviewed on an annual basis, but is not entitled to receiving any bonus payments, whether fixed or discretionary in nature. Mr. Wong has not entered into any service contract with the Company and has no fixed term of service with the Company, but he will be subject to retirement by rotation and re-election pursuant to the Company's bye-laws. Mr. Wong does not have any business relationships with any directors, senior management, substantial or controlling shareholder of the Company. As at the Latest Practicable Date, Mr. Wong did not have any interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, the Board is not aware of any other matters in relation to the above re-election that need to be brought to the attention of Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Having considered the background and independence of Mr. Wong, the Directors consider the re-election of Mr. Wong as an independent non-executive Director is in the interests of the Company and the Shareholders. Accordingly, the Directors recommend all Shareholders to vote in favor of the resolution proposed in respect of the re-election.

REQUIREMENTS UNDER THE LISTING RULES

The value of the Consideration exceeds 100% under the consideration ratio for the Company. The Vendor and the Guarantor are the connected persons of the Company. Hence, for the purpose of Rules 14.06 and 14A.13 of the Listing Rules, the Acquisition constitutes a very substantial acquisition and a connected transaction for the Company. Pursuant to Rules 14.49 and 14A.18 of the Listing Rules, the Transaction is therefore subject to the approval of the Independent Shareholders. In relation to such approval, the Guarantor, Yugang and their respective associates (who held in aggregate approximately 64.54% of the issued share capital of the Company as at the Latest Practicable Date) will abstain from voting. Voting on the Transaction by the Independent Shareholders will be conducted by way of poll at the SGM.

The Independent Board Committee, comprising Messrs. Lam Kin Fung Jeffrey, Wong Wai Kwong David and Wong Yat Fai, being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the Transaction. Goldbond has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to provide advice in respect of the terms of the Transaction.

SGM

Set out on pages 281 to 283 of this circular is a notice convening the SGM which will be held at Grand Rooms I & II, Lobby, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 6 November 2006 at 10:00 a.m. at which ordinary resolutions will be proposed to approve the Transaction, the Placing, the Capital Increase and the re-election of Mr. Wong Yat Fai as an independent non-executive Director.

The Board recommends the Shareholders to vote in favour of the ordinary resolutions proposed in respect of the Placing, the Capital Increase and the re-election of Mr. Wong Yat Fai as an independent non-executive Director at the SGM. The Board recommends the Independent Shareholders to vote in favour of the ordinary resolution proposed in respect of the Transaction at the SGM. The recommendation from the Independent Board Committee to the Independent Shareholders in relation to the voting on the ordinary resolution proposed in respect of the Transaction at the SGM is set out on page 32 of this circular.

The form of proxy for use by the Independent Shareholders or Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of a form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from Goldbond to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction, the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Transaction and the information set out in the appendices to this circular.

As Completion and completion of the Placing Agreement are subject to the fulfilment of a number of conditions precedent, the Transaction or the Placing may or may not proceed. Shareholders and potential investors of the Shares are reminded to exercise caution when dealing in the Shares.

Yours faithfully,
By order of the Board of
Qualipak International Holdings Limited
Lam How Mun Peter
Chairman and Managing Director

QUALIPAK INTERNATIONAL HOLDINGS LIMITED
確利達國際控股有限公司*

(incorporated in Bermuda with limited liability)
(Stock Code: 1224)

20 October 2006

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION

We refer to the circular dated 20 October 2006 issued by Qualipak International Holdings Limited of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in this circular, unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to give you a recommendation in respect of the terms of the Transaction.

We wish to draw your attention to the letter from the Board as set out on pages 7 to 31 of the circular which sets out, among other things, information relating to the Transaction and the letter from Goldbond to the Independent Board Committee and the Independent Shareholders as set out on pages 33 to 62 of the circular which contains its advice to us and to you in relation to the Transaction.

Having considered the terms of the Transaction and taken into account the advice of Goldbond, we consider that the terms of the Transaction are in the interests of the Group and the Independent Shareholders as a whole and are fair and reasonable so far as the Group and the Independent Shareholders are concerned. As such, we would recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Transaction.

Yours faithfully,
Independent Board Committee

Lam Kin Fung Jeffrey	**Wong Wai Kwong David**	**Wong Yat Fai**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purposes only*

The following is the text of a letter of advice from Goldbond Capital (Asia) Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular:

39th Floor, Tower 1,
Lippo Centre,
89 Queensway,
Hong Kong.

20 October 2006

The Independent Board Committee and the Independent Shareholders
Qualipak International Holdings Limited
7th Floor, China United Centre,
28 Mable Road,
North Point,
Hong Kong.

Dear Sirs,

CONNECTED TRANSACTION AND
VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF CERTAIN PROPERTY INTERESTS
IN CHONGQING, THE PRC

INTRODUCTION

We refer to our engagement under which Goldbond Capital (Asia) Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transaction. Details of the Transaction are set out in the circular dated 20 October 2006 issued by the Company (the "Circular") to the Shareholders, of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transaction are fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

In formulating our opinions and recommendations, we have relied on the statements, information and facts supplied by, the opinion expressed by and the representations of, the Directors and management of the Group concerning the Transaction, including those set out in the Circular. We have assumed that all statements, information and facts supplied by, the opinion expressed by and representations of, the Directors and management of the Group concerning the Transaction, including those set out in the Circular, were true, complete and accurate in all aspects at the time they were made and given and continue to be so in all material respects at the date of despatch of the Circular. We have also assumed that all statements of beliefs, opinions, assumptions and intentions made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have been provided with sufficient information to enable us to reach an independent view to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to suspect that any relevant information have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate, or misleading. In addition, we haven taken all reasonable steps as required under Rule 13.80 of the Listing Rules to satisfy ourselves that there is a reasonable basis for our advice as stated herein. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted any independent investigation into any related transactions referred to in the Circular, or into the businesses, affairs and prospects of the Group.

We are a licensed securities dealer and corporate finance adviser under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and together with our affiliates provide a full range of financial advisory and broking services, which, in the course of normal trading activities, we and our affiliates may from time to time effect transactions and hold securities, including derivative securities, of the Company for our own account and the accounts of our customers.

BACKGROUND OF THE TRANSACTION

On 22 September 2006, the Purchaser, a wholly-owned subsidiary of the Company, and the Company entered into the Acquisition Agreement with the Vendor and the Guarantor. Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire the Sale Share from the Vendor for an aggregate consideration of HK$3,317,553,298. The Sale Share represents the entire issued share capital of the Subject Company currently owned by the Vendor. The performance by the Vendor of all its obligations under the Acquisition Agreement is guaranteed by the Guarantor.

The Consideration is satisfied as to:

(i) HK$448,000,000 by the issue of the Consideration Qualipak Shares at Completion;

(ii) HK$2,552,000,000 by the issue of the Convertible Note;

(iii) a sum representing such amount of the Receivables up to the equivalent of HK$250,000,000 as may be recovered by the Group, which will only be due and payable by the Purchaser to the Vendor on a dollar-for-dollar basis (but net of all taxes, costs and expenses) within 30 days after the later of (A) the Completion Date and (B) the receipt by the PRC Company from time to time; and

(iv) HK$67,553,298 by the assumption by the Purchaser of the obligations to repay the Debts.

Based on the combined balance sheet in the accountants' report of the Subject Company as set out in Appendix III to the Circular, the net assets attributable to equity holders of the Subject Company as at 30 June 2006 were approximately RMB248 million (without taking into account the valuation of the Properties and Buildings mentioned below).

The Subject Company indirectly holds 100% interest in the registered equity capital of the PRC Company which in turn owns the Properties and the Buildings. Based on the valuation report ("Valuation Report") prepared by Savills, an independent valuer, set out in Appendix VII to the Circular, the Properties and the Buildings were valued at RMB6,524,614,000 (or approximately HK$6,396,680,000) and RMB204,747,500 (or approximately HK$200,733,000) as at 31 August 2006 respectively.

The Subject Company is a wholly-owned subsidiary of the Vendor which in turn is wholly-owned by Mr. Cheung Chung Kiu ("Mr. Cheung"). As Mr. Cheung (together with his associates) is the controlling shareholder of Yugang (stock code: 613), which holds approximately 64.54% in the Company, the Acquisition under the Transaction constitutes a connected transaction of the Company pursuant to the Listing Rules. In addition, the Transaction also constitutes a very substantial acquisition of the Company pursuant to the Listing Rules. As the Transaction constitutes a connected transaction of the Company, it is subject to the approval of the Independent Shareholders at the SGM, where Mr. Cheung, Yugang and their respective associates have to abstain from voting in respect of the resolution relating to the Transaction.

On 22 September 2006, the Company also entered into a conditional placing agreement and appointed CLSA Limited as the Placing Agent to place, on a best endeavours basis, up to 3,400,000,000 new Shares to professional and institutional investors (independent of and not connected with the Company or its connected persons). Details of the Placing Agreement are set out in the Letter from the Board ("Letter from the Board") contained in the Circular.

The net proceeds are estimated to be about HK$930 million if all the Placing Shares are successfully placed. Completion of the Placing is conditional on, inter alia, the Acquisition being completed in all material respects. Completion of the Acquisition Agreement is however not conditional on the completion of the Placing Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the terms of the Transaction, and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

I. Reasons for and benefits of the Transaction

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 treasury investment activities. As mentioned in the Letter from the Board, the Group has been actively looking for opportunities for expansion and diversification. During the last five years, whilst maintaining the competitiveness of its core manufacturing business, the Group has gradually expanded its business portfolio to include a widening range of manufacturing operations and treasury operations.

The Directors believe that given the strong potentials of Chongqing as a growth centre in central-western PRC, the city's property market has optimistic prospects and will maintain a fast growth rate in the coming years. As stated in the Letter from the Board, the acquisition of the Subject Company provides Qualipak with an opportunity to take advantage of the PRC Company's strategic location and her early entry in the PRC property market to diversify its business into property development and investment.

As the Company expects a growth prospect for the property market in Chongqing, we have looked into the development of the PRC property market, in particular in Chongqing.

1. Economic indicators in Chongqing

Chongqing is one of the 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 table below sets out economic statistics of Chongqing for the periods indicated.

Year		**2001**	**2002**	**2003**	**2004**	**2005**
Nominal GDP *(RMB in billions)*	Chongqing	176.6	199.0	227.3	269.3	307.0
Per capita GDP *(RMB)*	Chongqing	5,664	7,034	8,077	9,608	10,978
Real GDP growth rate *(%)*	PRC	8.3	9.1	10.0	10.1	9.9
	Chongqing	9.0	10.3	11.5	12.2	11.5

(Source: China Statistical Yearbook 2006, Chongqing Statistical Yearbook 2005, the websites of National Bureau of Statistics of China and Chongqing Municipal Bureau of Statistics)

Chongqing has experienced substantial economic growth in the recent years. The real GDP growth rate of Chongqing increased from 9% to 12.2% during the years from 2001 to 2004, although there was a slight decrease in 2005 when compared with that of 2004. As can been seen from the above table, the real GDP growth rate of Chongqing exceeded the average national growth rate for each of the past five years.

2. *The property market in the PRC*

The urban population in the PRC has increased from approximately 481 million in 2001 to 562 million in 2005. During the same period, the per capita disposable income for urban household has also increased from RMB6,860 in 2001 to RMB10,243 in 2005, representing a CAGR of approximately 10.54%. Below is a table showing the urbanization rate and per capita disposable income levels of the urban population in the PRC for the periods indicated.

Year	**2001**	**2002**	**2003**	**2004**	**2005**
Urban population *(in millions)*	481	502	524	543	562
Total population *(in millions)*	1,276	1,285	1,292	1,300	1,308
Urbanization rate *(%)*	37.7	39.1	40.6	41.8	43.0
Per capita disposable income for urban households *(RMB)*	6,860	7,703	8,472	9,422	10,243

(Source: China Statistical Yearbook 2001 to 2006)

It is expected that the demand for private properties will increase as a result of the increase in the urban population and the amount of disposable income for urban population.

The following table sets forth selected data relating to the PRC real estate market for the periods indicated.

Year	**2001**	**2002**	**2003**	**2004**	**2005**
Sale volume indicators:					
(sq.m. in millions)					
Gross floor area of residential buildings sold	199.4	237.0	297.8	338.2	495.9
Gross floor area of office buildings sold	5.0	5.4	6.3	6.9	11.0
Gross floor area of residential & office buildings sold	204.4	242.4	304.1	345.1	506.9
Sale revenue indicators:					
(RMB in billions)					
Sales revenue of residential buildings	402.1	495.8	654.3	861.9	1,456.4
Sales revenue of office buildings	23.1	23.4	26.5	38.3	75.9
Sales revenue of residential & office buildings	425.2	519.2	680.8	900.3	1,532.3

(Source: China Statistical Yearbook 2005-2006)

During the period from 2001 to 2005, there was an upward trend in the sales revenue of residential and office buildings in the PRC. The sales revenue of residential and office buildings of 2005 represents a growth rate of approximately 70.2% over 2004, and a CAGR of approximately 37.8% over 2001. The gross floor area of residential and office buildings sold in 2005 represents a growth rate of approximately 46.9% over that of 2004 and a CAGR of approximately 25.5% over that of 2001.

3. *The property market in Chongqing*

The following table sets out investment amount in property market in Chongqing from 2001 to 2004.

Year	**2001**	**2002**	**2003**	**2004**
Investment in real estate *(RMB in billions)*	19.67	24.59	32.79	40.51
Investment in residential buildings *(RMB in billions)*	11.07	13.07	17.74	21.71
Investment in office buildings *(RMB in billions)*	1.06	0.96	1.19	1.4

(Source: Chongqing Statistical Yearbook 2001-2005, the website of Chongqing Municipal Bureau of Statistics)

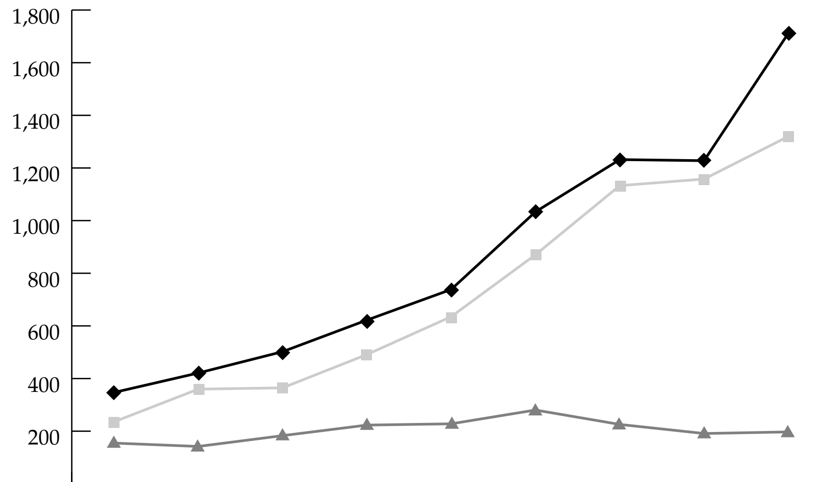
As can been seen from the above table, the total investment in real estate in Chongqing increased year by year for the period from 2001 to 2004.

Residential property market in Chongqing

According to the research report from Chong Qing (Hong Kong) Centaline Property Consultants Limited, a total GFA of approximately 17.12 million sq.m. of residential properties was completed in Chongqing in 2005. A total GFA of approximately 13.19 million sq.m. of residential properties was sold in Chongqing in 2005, representing an increase of approximately 14.0% over that of 2004.

Set out below is a chart showing the average gross floor area of residential property completed, sold, and vacant in Chongqing for the periods indicated.

(Unit: 10,000 sq.m.)



	1997	1998	1999	2000	2001	2002	2003	2004	2005
Completed	347.00	421.00	502.00	622.00	738.40	1,033.40	1,231.80	1,227.70	1,712.04
Sold	235.33	359.73	364.59	491.09	635.04	870.41	1,132.95	1,157.95	1,319.90
Vacant	154.82	142.03	183.06	223.14	228.00	280.36	225.62	191.16	197.20

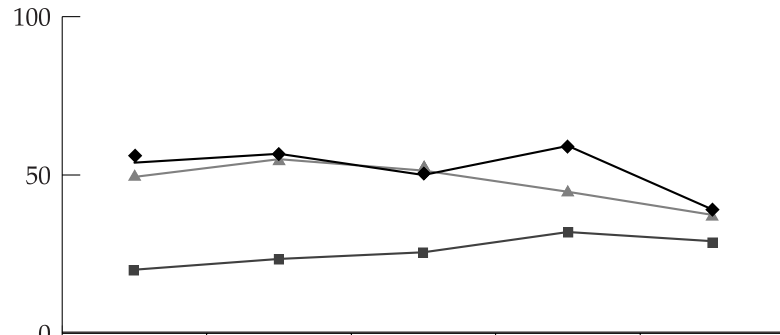
(Source: Research report from Chong Qing (Hong Kong) Centaline Property Consultants Limited)

From 1997 to 2005, the average gross floor area of vacant residential property in Chongqing remained at a relatively low and stable level of approximately 2,000,000 sq.m. despite the continuous increase in completed residential property during the same period. The gross floor area of residential property completed and sold demonstrated an upward trend during the same period, with a relatively sharp increase in 2005.

Office property market in Chongqing

The chart below sets out the average gross floor area of office property completed, sold, and vacant in Chongqing for the periods indicated:

(Unit: 10,000 sq.m.)



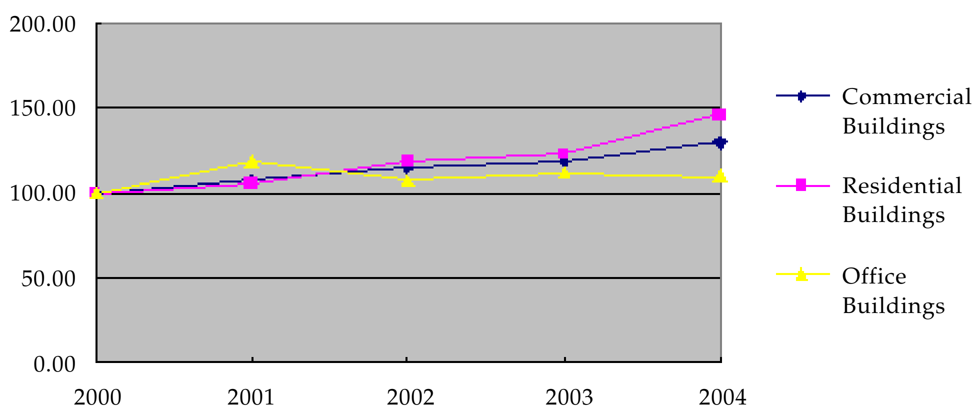
	2000	2001	2002	2003	2004
Completed	53.9	56.7	50	59.2	39.1
Sold	20.1	23.5	25.6	32	29.1
Vacant	49.4	55	51.4	44.7	37.4

(Source: Research report from Chong Qing (Hong Kong) Centaline Property Consultants Limited)

It can been seen from the table that in recent years, the vacant office property in Chongqing has been reduced to about 374,000 sq.m. in 2004, which indicated a relatively steady market for office property.

Sale price trend of Chongqing property market

Sale price index (base year 2000)



(Source: Chongqing Statistical Yearbook 2001 to 2005)

The sale price index (base year 2000) above shows a general trend of increasing property sale prices in Chongqing from 2000 to 2004. Sale price per square metre for commercial buildings and residential buildings maintained a steady growth and increased by approximately 29.6% and 45.8% respectively from 2000 to 2004. For the office buildings sector, sale price slightly fluctuated from 2000 to 2002 but generally followed an increasing trend with an increase of approximately 9.2% from 2000 to 2004.

Chongqing Yubei District

In the 11th Five Year Plan, the Chongqing Municipal Government encourages intensive development in urban areas and intends to shift the development center to the northern part of the city. Being the "North Window" of Chongqing, the Yubei District is strategically important in the whole development blueprint of Chongqing.

In recent years, the Yubei District Government strived to complete the 10th Five Year Plan in advance during which, among other things, the real estate market was substantially developed. In 2005, investment in real estate of the Yubei District reached about RMB10.45 billion, accounting for approximately 20% of total investment in real estate in Chongqing. In the same year, the GFA of properties completed and sold reached about 3.04 million sq.m. and 2.92 million sq.m. respectively.

Based on the information set out above, it is indicated that the property market in the PRC as well as in Chongqing has relatively stable development with a positive trend, and we concur with the Directors that the acquisition of the Subject Company provides the Company with an opportunity to take advantage of the PRC Company's strategic location and her early entry in the PRC property market to diversify its business into property development and investment.

II. Business and financial review of the Subject Company

1. The Subject Company

The only assets of the Subject Company are its 100% interest in the registered equity capital of the PRC Company (held via its wholly-owned subsidiary, HK Company) and the Debts.

Based on the accountants' report on the Subject Company as set out in Appendix III to the Circular, a summary of the combined income statements of the Subject Company is extracted as below:

	Year ended 31 December 2003 *(RMB'000)*	Year ended 31 December 2004 *(RMB'000)*	Year ended 31 December 2005 *(RMB'000)*	Six months ended 30 June 2006 *(RMB'000)*
Revenue	152,243	235,359	214,598	10,202
Gross profit	8,319	61,348	63,822	7,118
Profit/(Loss) attributable to equity holders of the Subject Company	(13,922)	33,522	8,367	(10,751)

The Subject Group has revenues of approximately RMB152 million, RMB235 million and RMB215 million for the three years ended 31 December 2005 and a revenue of approximately RMB10 million for the six months ended 30 June 2006. For the three years ended 31 December 2005, the Subject Group had a loss attributable to equity holders of the Subject Company of approximately RMB14 million, a profit attributable to equity holders of the Subject Company of approximately RMB33.5 million, RMB8.4 million respectively. For the six months ended 30 June 2006, the Subject Group had a loss attributable to equity holders of the Subject Company of approximately RMB10.8 million.

The turnover of the Subject Group was primarily derived from property sales and rental income. As set out in Appendix IV to the Circular, the relatively low turnover of the Subject Company for the six months ended 30 June 2006 was primarily due to the fact that the Subject Group focused on corporate planning and no new property development was embarked on during the period. The drop in profit for the year ended 31 December 2005 as compared to that for the year ended 31 December 2004 was primarily attributable to an increase in administrative and operating expenses.

Based on the combined balance sheet in the accountants' report of the Subject Company as set out in Appendix III to the Circular, the net assets attributable to equity holders of the Subject Company as at 30 June 2006 were approximately RMB248 million.

The Subject Company indirectly holds 100% interest in the registered equity capital of the PRC Company which owns the Properties and the Buildings. Based on the Valuation Report, the aggregate value of the Properties and the Buildings were RMB6,729,361,500 (or approximately HK$6,597,413,000) as at 31 August 2006.

After taking into account the market value of the Properties and Buildings as at 31 August 2006 as appraised by Savills, as well as the deferred tax impact, the unaudited adjusted combined net tangible assets value of the Subject Company is HK$4,282,443,000.

2. The PRC Company

As stated in the Letter from the Board, the PRC Company was incorporated in Chongqing, the PRC on 11 June 1992 and is a wholly owned foreign enterprise. It is principally engaged in the development, sale, leasing and management of residential, commercial and retail properties. It is one of the largest property developers in Chongqing with national class I certification from the Ministry of Construction, the PRC.

The PRC Company owns the Properties and the Buildings. The Properties comprise 11 parcels of land in Chongqing, the PRC. The Properties have a total site area of 865,668.57 sq.m. with a total buildable gross floor area of approximately 3.07 million sq.m. As stated in the Letter from the Board, ten of the 11 parcels of land are adjoining sites, and are situated right at the heart of the Yubei District of Chongqing, a district where the central government administration region, major highway junctions and a new rail transportation hub are located. These parcels have a total site area of about 796,352 sq.m. The remaining parcel of land with a site area of about 69,317 sq.m., albeit separate, is situated close to the new rail transportation hub. All these parcels of land have been earmarked for development as separate projects, consisting of hotels, commercial and residential complexes. As advised by the Directors, the land premium of the Properties has been fully paid and as at the Latest Practicable Date, the land use certificates have been obtained by the PRC Company.

As advised by the Company, the following table sets out the proposed usage of these sites based on the preliminary development plans of the Properties:

Proposed usage	**Gross Floor Area** *('000 sq.m.)*
Townhouse and Villa	23
Residential	1,761
Hotel and serviced apartment	64
Commercial	544
Office	331
Others (Car parking spaces and other auxiliary facilities)	347
Total	3,070

The Buildings consist of 35 residential units with approximately 4,981 sq.m., and commercial properties (including car parking spaces and other auxiliary facilities) with an aggregate gross floor area of approximately 87,497 sq.m. The Buildings are currently held by the PRC Company either as fixed assets or as rental properties. Of the total market value of the Buildings based on the Valuation Report, HK$59,274,000 are held as fixed assets and HK$140,390,000 are held as investment properties, and HK$1,069,000 are held as completed properties for sale. In respect of the rental properties, based on the accountants' report of the Subject Company set out in Appendix III to the Circular, rental income of approximately RMB7.7 million and approximately RMB12.0 million were generated for the two years ended 31 December 2005.

As stated in the Letter from the Board, up to the Latest Practicable Date, the PRC Company has completed various development projects of over one million sq.m.

III. Consideration for the Acquisition

1. Basis of the Consideration

The aggregate value of the Consideration for the sale and purchase of the Sale Share amounts to HK$3,317,553,298, which will be satisfied as to:

(i) HK$448,000,000 by the issue of Consideration Qualipak Shares;

(ii) HK$2,552,000,000 by the issue of the Convertible Note;

(iii) a sum representing such amount of the Receivables up to the equivalent of HK$250,000,000 as may be recovered by the Qualipak Group, which shall only be due and payable by the Purchaser to the Vendor on a dollar-for-dollar basis (but net of all taxes, costs and expenses) within 30 days after the later of (A) the Completion Date and (B) receipt by the PRC Company from time to time; and

(iv) HK$67,553,298 by the assumption by the Purchaser of the obligations to repay the Debts.

As disclosed in the Letter from the Board, the Consideration was determined with reference to the unaudited combined net tangible assets of the Subject Company of HK$4,282,443,000 which has been adjusted for the difference between the market value (net of deferred tax effect) and the net carrying amount of the Properties and the Buildings of approximately HK$4,039,005,000 as at 31 August 2006.

The aggregate value of the Properties and Buildings of the PRC Company was appraised at RMB6,729,361,500 (or approximately HK$6,597,413,000) as at 31 August 2006 by Savills, an independent valuer, the report of which is set out in Appendix VII to the Circular. We have discussed with Savills the valuation methodology adopted for the preparation of the Valuation Report and noted that it has complied with the requirements set out in Chapter 5 and Practice Note 12 of the Listing Rules. As stated in the Valuation Report, the Properties are classified into two categories: (i) interest held by the PRC Company for future development ("Category I Properties") and (ii) interest held by the PRC Company in a development project ("Category II Property"). In valuing the Category I Properties, it has adopted direct comparison approach assuming sale of each of the Properties in its existing state and by making reference to the comparable sale transactions as available in the relevant market and the latest development proposals in respect of the Properties provided by the Subject Company. In valuing Category II Property, it has made reference to the comparable sales transactions as available on the market and information provided by the Company including development proposal, the development programme, development contract and other relevant information. In valuing the Buildings, Savills has made reference to comparable sales transactions as available in the market and where appropriate on the basis of capitalisation of net income. Having discussed with Savills, Savills considered it has obtained, reviewed and considered all relevant information for preparation of the valuation report and we consider that the valuation methodology adopted by Savills in valuing the Properties and the Buildings are generally consistent with market practices.

The calculation of the unaudited adjusted combined net tangible assets of the Subject Company as extracted from Note 5 to the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix V to the Circular is set out below:

	HK$'000
Net assets of the Subject Group	243,438
Fair values adjustments on acquisition *(Note 1)*	6,028,365
Deferred tax liabilities recognized in respect of fair value adjustments	(1,989,360)
Fair value of net assets of the Subject Group	4,282,443

Note 1:

	Value as at 31 August 2006 per Valuation Report *HK$'000*	Carrying cost as at 30 June 2006 *HK$'000*	Adjustments for excess amount *HK$'000*
Properties under development	6,396,680	396,083	6,000,597
Buildings			
– As fixed assets	59,274	31,506	27,768
– Investment properties	140,390	140,657	0 *(Note 2)*
– Completed properties for sale	1,069	696	0 *(Note 2)*
	6,597,413	568,942	6,028,365

Note 2:

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix V to the Circular, no adjustment was made as to the amount of approximately HK$106,000, being the difference between the value of investment properties and completed properties for sale of the Subject Group as at 31 August 2006 per Valuation Report and its carrying cost as at 30 June 2006.

As the unaudited adjusted combined net assets of the Subject Company, being the fair value of net assets of the Subject Company, are approximately HK$4,282 million, the Consideration represents a discount of approximately 22.53% to the unaudited adjusted combined net assets value of the Subject Company. Having taken into account such discount, we consider that the Consideration is fair and reasonable so far as the interest of the Independent Shareholders are concerned.

2. *Issue price of the Consideration Qualipak Shares*

Of the Consideration, HK$448 million will be satisfied by the issue of the Consideration Qualipak Shares.

At completion, a total of 1,600 million Shares will be issued at an issue price of HK$0.28 per Consideration Qualipak Share, which is the same as the issue price of the Placing Shares. As at the Latest Practicable Date, there are 3,939,536,870 Shares in issue. The 1,600 million Consideration Qualipak Shares represent approximately 40.61% of the existing issued share capital of the Company and approximately 28.88% of the issued share capital of the Company as enlarged by the Consideration Qualipak Shares.

As stated in the Letter from the Board, the issue price has been determined by reference to the net tangible assets per Share of HK$0.151 as at 30 June 2006 and the then prevailing market price of the Shares.

The issue price of the Consideration Qualipak Shares represents discounts to the Share prices during different periods ended 22 September 2006, being the last trading day prior to suspension of trading of the Shares pending the release of the Announcement, and details of such discounts are set out below:

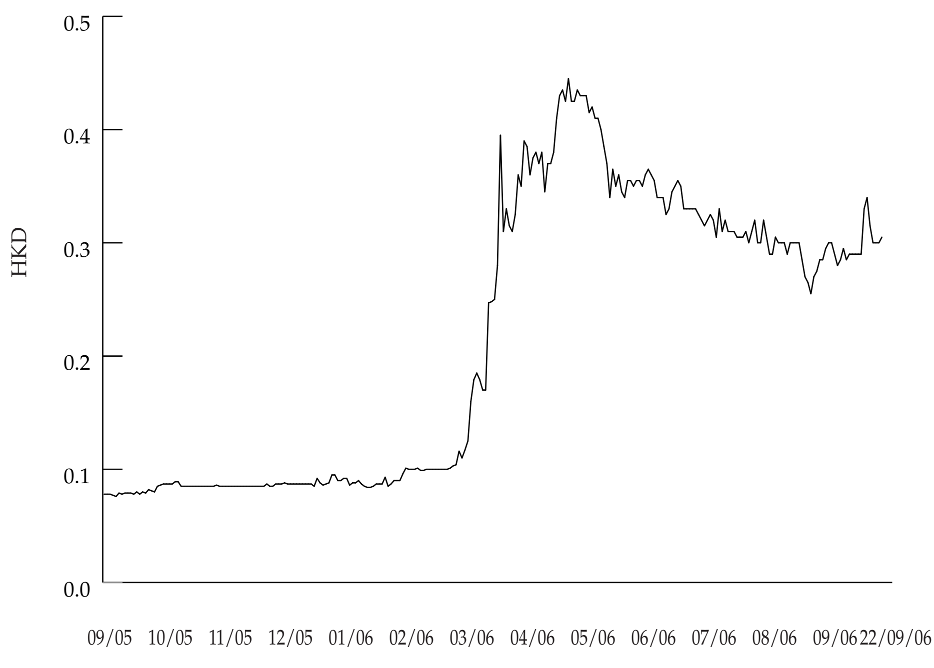
	Share price	Discount of the Issue Price to the Share price
As at 22 September 2006, being the last trading day prior to the suspension of trading of the Shares pending the release of the Announcement	HK$0.305	8.2%
Five-day average up to and including 22 September 2006	HK$0.304	7.9%
Ten-day average up to and including 22 September 2006	HK$0.306	8.5%
One-month average up to and including 22 September 2006	HK$0.296	5.4%
As at the Latest Practicable Date	HK$0.350	20.0%

To assess whether the issue price of the Consideration Qualipak Shares is fair and reasonable, we have identified acquisition transactions by companies listed in Hong Kong which involved the issue of shares to satisfy all or part of the consideration since 1 March 2006, being approximately six months prior to the issue of the Announcement ("Consideration Shares Comparable Issues").

Company Name	Date of Announcement (yyyy-mm-dd)	Stock Code	Issue Price HK$	Premium/ (discount) of issue price over/to closing price immediately before the date of announcement or the suspension of trading in the shares pending the release of announcement %
Pearl Oriental Innovation Ltd.	2006-09-26	632	3.900	17.82
Oriental Investment Corporation Ltd.	2006-09-26	735	0.240	(4.00)
Kiu Hung International Holdings Ltd.	2006-09-26	381	0.330	(18.52)
Innomaxx Biotechnology Group Ltd.	2006-08-10	340	0.400	(41.18)
Nippon Asia Investments Holdings Ltd.	2006-08-08	603	0.060	0.00
China Merchants DiChan (Asia) Limited	2006-08-02	632	4.000	(2.44)
Jolimark Holdings Ltd.	2006-07-31	2028	1.340	(1.47)
China Merchants DiChan (Asia) Limited	2006-07-20	632	3.900	(6.59)
Yanion International Holdings Ltd.	2006-07-13	82	0.630	(30.00)
Everbest Century Holdings Ltd.	2006-07-04	578	0.320	16.36
Hantec Investment Holdings Ltd.	2006-06-29	111	0.680	1.49
Xinyu Hengdeli Holdings Ltd.	2006-06-28	3389	3.200	(14.09)
Inner Mongolia Development (Holdings) Limited	2006-06-09	279	0.200	16.96
New Smart Energy Group Ltd.	2006-05-09	91	0.250	(5.66)
Sino Prosper Holdings Ltd.	2006-05-04	766	1.420	4.41
Uni-Bio Science Group Ltd.	2006-04-26	690	0.900	(52.63)
PYI Corporation Ltd.	2006-04-11	498	2.450	(14.78)
Softbank Investment International (Strategic) Limited	2006-04-07	648	0.100	44.93
CITIC International Financial Holdings Ltd.	2006-03-31	183	3.410	(1.87)
GOME Electrical Appliances Holding Ltd.	2006-03-29	493	8.050	0.00
Artfield Group Ltd.	2006-03-24	1229	1.200	(7.69)
Vision Grande Group Holdings Ltd.	2006-03-24	2300	7.000	(19.08)
Ming Pao Enterprise Corporation Ltd.	2006-03-20	685	1.350	(2.17)
Zida Computer Technologies Limited	2006-03-13	859	0.930	14.81
Nubrands Group Holdings Ltd.	2006-03-07	835	0.153	11.68
Credit Card DWA Security System (Holdings) Ltd.	2006-03-01	1051	0.054	(11.48)
			High	44.93
			Low	(52.63)
			Average	(4.05)
The Company	2006-09-28	1224	0.280	(8.20)

As illustrated from the above table, the issue price of the Consideration Shares Comparable Issues ranged from a discount of about 52.63% to a premium of about 44.93% to the last share closing price (the "Last Closing Price") prior to the publication of the related announcement. Of all the Consideration Shares Comparable Issues, 16 were with issue price being at a discount to the Last Closing Price ranging from 1.47% to 52.63% with an average discount of 14.60%, and there were 8 Consideration Shares Comparable Issues with issue price being at a premium to the Last Closing Price, ranging from 1.49% to 44.93%. Issue price of two Consideration Shares Comparable Issues were the same as the Last Closing Price. The discount of the issue price of the Consideration Qualipak Shares as compared to the closing price of the Shares, being 8.20%, on 22 September 2006 falls within such range, and when comparing such discount, there are eight Consideration Shares Comparable Issues having a larger discount than that of the Consideration Qualipak Shares.

We have also reviewed the Share price performance and daily trading volume of the Shares from 1 September 2005 to 22 September 2006, being the last trading day prior to the suspension of trading of the Shares pending the issue of the Announcement.



We note from the above Share price performance chart during the period from 1 September 2005 to 22 September 2006, closing prices of the Shares were between a range of HK$0.08 to HK$0.45, with an average closing price of HK$0.21. As can been seen from the above chart, the price of the Shares experienced an upward trend since March 2006.

The issue price of Consideration Qualipak Shares of HK$0.28 represents a premium of approximately 33.3% to such average closing price of HK$0.21.

In addition, comparing to the net asset value per Share of the Company as at 30 June 2006 and as at 31 December 2005, being HK$0.151 and HK$0.147, the issue price of the Consideration Qualipak Shares represents a premium of about 85.43% and 90.48% respectively.

Having considered (i) the historical share price performance of Shares; (ii) comparison on the discount and premium of the issue price to/over the Last Closing Price of the Consideration Share Comparables Issues; (iii) comparison of the issue price of the Consideration Qualipak Shares to the net asset value per Share as at 30 June 2006 of HK$0.151 and net asset value per Share as at 31 December 2005 of HK$0.147; and (iv) the issue price of the Consideration Shares is the same as that of the Placing Shares, we concur with the view of the Directors that the issue price of the Consideration Qualipak Shares, in the context of the Acquisition as a whole, is fair and reasonable.

3. Principal terms of the Convertible Note

Convertible Note in the amount of HK$2,552,000,000 will be issued to satisfy part of the Consideration. Upon full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share, a total of 9,114,285,714 Conversion Shares will be issued, representing approximately 231.35% of the existing issued Share capital of the Company as at the Latest Practicable Date and approximately 62.20% of the issued share capital of the Company as enlarged by the Consideration Qualipak Shares and the issue of the Conversion Shares. Details of the principal terms of the Convertible Note are set out in the Letter from the Board.

A. Conversion price during the first year

The initial conversion price of HK$0.28 per Conversion Share during the first year of the conversion period represents:

(i) a discount of 8.20% to HK$0.305, the closing Share price on 22 September 2006, being the last trading day prior to suspension of trading of Shares pending the issue of the Announcement;

(ii) a discount of 8.50% to the 10 days' average closing price of HK$0.306 prior to such suspension;

(iii) a discount of 5.4% to the one-month average closing price prior to such suspension; and

(iv) the same price as the issue price of Consideration Qualipak Shares and the same issue price for the Placing Shares.

As stated in the Letter from the Board, if at any time and from time to time during the first year there is any change in the aggregate percentage of issued share capital of the Company, the Company will inform the holder of the Convertible Note and such holder can within 14 days of such notice convert the Convertible Note at a conversion price of HK$0.28 up to the level that public float of the Company can be maintained. If the holder of the Convertible Note chooses not to convert during the 14 day period, the conversion price of the unconverted portion of the Convertible Note which could have been converted without breaching the public float requirement will increase to HK$0.31 per Conversion Share.

As advised by the Directors, it is the intention of the Company, in order to lower its gearing, to issue as many Consideration Qualipak Shares as possible to satisfy part of the Consideration. However, the number of Consideration Qualipak Shares that could be issued is restricted by the minimum public float requirement. As such, the reason for setting the Conversion Price during the first year at HK$0.28 and the above-mentioned conversion mechanism was to allow and encourage the Vendor to convert the Convertible Note at a conversion price equivalent to the issue price of the Consideration Qualipak Shares, which is HK$0.28, when the public float of the Company increase to above 25%. As such, under this mechanism, we consider that, taking into consideration the fact that the Convertible Note during the first year is interest-free and the above conversion mechanism in effect limit the conversion period given to the Vendor as often provided by normal convertible notes, the conversion price of the Convertible Note for the first year is acceptable.

B. Conversion price after the first year

The conversion price of the Convertible Note during the second to the tenth year and the comparison between the conversion price and the average closing price per Share at different dates up to and including 22 September 2006, being the last trading date prior to the suspension of the Shares pending the issue of the Announcement and the premiums/(discounts) that the conversion price represents are set out below:

Period from date of issue of the Convertible Note	**Conversion price (HK$ per Conversion Share)**	**Conversion premium to closing price of HK$0.305**	**Conversion premium to 10 days' average price of HK$0.306**	**Conversion premium to one-month average price of HK$0.296**
Second Year	0.31	1.64%	1.31%	4.73%
Third Year	0.326	6.89%	6.54%	10.14%
Fourth Year	0.341	11.80%	11.44%	15.20%
Fifth Year	0.357	17.05%	16.67%	20.61%
Sixth Year	0.372	21.97%	21.57%	25.68%
Seventh Year	0.388	27.21%	26.80%	31.08%
Eighth Year	0.403	32.13%	31.70%	36.15%
Ninth Year	0.419	37.38%	36.93%	41.55%
Tenth Year	0.434	42.30%	41.83%	46.62%

In order to assess the terms of the Convertible Note, we have identified acquisition transactions by companies listed in Hong Kong which involved the issue of convertible note to satisfy all or part of the consideration since 1 January 2006 with term length of 2 years or above ("CB Comparable Issues").

Issuer	Stock Code	Date of Announcement	Principal Amount		Premium/ (discount) of conversion price over/to closing price immediately before the date of announcement or the suspension of trading in the shares pending for the release of announcement	Interest rate (p.a.)	Yield to maturity	Term
			HK$ million		%	%	%	*(years)*
Teem Foundation Group Ltd.	628	2006-09-18	134.4		(39.00)	5.00	5.00	10
Daido Group Ltd.	544	2006-06-07	104.4		(3.33)	0.00	0.00	5
Honesty Treasure International Holdings Ltd.	600	2006-02-28	93.8		(15.90)	2.50	2.50	5
Cheung Tai Hong Holdings Ltd.	199	2006-02-07	60.0		12.80	0.00	0.00	4.5
China HealthCare Holdings Limited	673	2006-04-28	18.4		(31.80)	2.00	2.00	4
Good Fellow Group Ltd.	910	2006-01-20	210.4		(21.57)	1.50	1.50	4
Wing Shan International Ltd.	570	2006-08-22	282.4		6.25	3.00	3.00	3.5
Yanion International Holdings Ltd.	82	2006-07-13	66.3		(30.00)	0.00	0.00	3
Everbest Century Holdings Ltd.	578	2006-07-04	20.0		27.27	1.00	1.00	3
CCT Telecom Holdings Ltd.	138	2006-04-28	30.0		(2.60)	0.00	0.00	3
				1st yr:	(11.11)			
Yue Da Holdings Ltd.	629	2006-04-07	75.0	2nd yr:	11.11	3.50	3.50	3
				3rd yr:	33.33			
K.P.I. Co. Ltd. *(Note 1)*	605	2006-07-04	93.0		45.45	0.00	10.23	2
			High		45.45	5.00	10.23	
			Low		(39.00)	0.00	0.00	
			Average		(5.30)	1.54	2.39	
The Company	1224	2006-09-28	2552.0	2nd yr:	1.64	1st & 2nd yr: 0	1.57	10
				3rd yr:	6.89	3rd yr & after: 2		

Note 1: redemption value for KPI COMPANY (605) is 113% of the principal amount.

The conversion price of eight of the 12 CB Comparable Issues was set at a discount ranging from approximately 2.6% to 39.0% to the Last Closing Price while four of them had the conversion price set at a premium ranging from approximately 6.25% to 45.45% over their respective Last Closing Price. The issue price of the Convertible Note for the second year to the tenth year representing a range of premium of 1.64% to 42.3% over the closing price of the Shares on the last trading day prior to the date of the Announcement falls within the range of those of the CB Comparable Issues.

Given that (i) the conversion prices of the Convertible Note for the second year to the tenth year represent premiums of approximately 1.64% to 42.3% over the Share closing price of the last trading day prior to the date of the Announcement, which is within the range of those of the CB Comparable Issues; and (ii) the lowest conversion price of the Convertible Note of HK$0.28 represents premiums of approximately 85.43% and 90.48% over the net asset value per Share as at 30 June 2006 and net asset value per Share as at 31 December 2005 respectively, we consider that the conversion price as stipulated under the Convertible Note is acceptable.

C. Interest rate

The Convertible Note is interest-free for the first two years after the date of issue and thereafter bears an interest rate of 2% per annum, accrued on a day to day basis on the principal amount of the Convertible Note outstanding. Payment by the Company of all or any part of the interest accrued from time to time can only be made in arrears on one or more anniversaries (commencing from the third anniversary) of the date of the issue as elected by the Company, provided that all accrued and unpaid interest will be paid on the tenth anniversary.

As illustrated in the above table, the CB Comparable Issues are interest bearing at a rate ranging from 0% to 5% per annum. Yields to maturity of CB Comparable Issues are from a range of 0% to 10.23% with an average of 2.39%. The yield to maturity of the Convertible Note is 1.57%, which is within the range of those of the CB Comparable Issues and slightly below the average yield of the CB Comparable Issues. As advised by the Directors, the Group's bank borrowings of HK$35.9 million as at 30 June 2006 as disclosed in its 2006 interim report bear interest rates ranging from 5.75% to 6.85%, which are higher than the yield to maturity of the Convertible Note.

Given that the interest rate/yield to maturity of the Convertible Note is (i) lower than the Group's present external borrowing rates of 5.75% to 6.85%, and (ii) represents the lower end of the interest rate/yield to maturity range of the CB Comparable Issues, we concur with the Directors' view that the interest rate of the Convertible Note is fair and reasonable.

D. Others

We note part of the Consideration is settled as follow:

(i) a sum up to HK$250,000,000 is expected to be settled by the Purchaser when the Receivables are recovered by the Group, and will be due and payable on a dollar-for-dollar basis; and

(ii) HK$67,553,298 to be satisfied by the assumption by the Purchaser of the obligations to repay the Debts.

The above arrangement for settlement of Consideration by the Purchaser would effectively delay the payment, and hence the cash outflow of the Group.

IV. Effect on the financial position of the Group

The following discussion on the effect on the financial position of the Group is based on pro forma information set out in Appendix V to the Circular. Shareholders are advised to refer to such Appendix for details and should note that, as stated in Appendix V, the unaudited pro forma financial information set out therein has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2006 or any future date and the results for the period presented or for any future period.

1. Effect on net asset value

Based on the financial information on the Group set out in Appendix I to the Circular, the audited consolidated net asset value of the Group attributable to equity holders of the Company is approximately HK$579.7 million or equivalent to approximately HK$0.147 per Share as at 31 December 2005 (based on the then Shares in issue of 3,939,536,870 Shares). The unaudited consolidated net asset value of the Group attributable to equity holders of the Company was approximately HK$593.6 million or equivalent to approximately HK$0.151 per Share as at 30 June 2006 (based on the then Shares in issue of 3,939,536,870 Shares).

According to the "Unaudited pro forma financial information on the Enlarged Group" set out in Appendix V to the Circular, upon Completion, the unaudited consolidated net asset value of the Enlarged Group attributable to equity holders of the Company will be HK$3,222,735,000 or equivalent to approximately HK$0.58 per Share (based on 5,539,536,870 Shares in issue), which represents an increase of approximately 295% to the audited net asset value per Share as at 31 December 2005 and an increase of approximately 284% to the unaudited consolidated net asset value per Share as at 30 June 2006. One of the pro forma adjustments that increase the unaudited consolidated net asset value of the Enlarged Group attributable to equity holders of the Company is the equity component of the Convertible Note being approximately HK$1,236 million. In accordance with Hong Kong Accounting Standard 32, an imputed interest expense of approximately HK$1,645 million for the

Convertible Note has to be recorded by the Group during the period from the date of issue of the Convertible Note to the tenth anniversary of the date of the issue of the Convertible Note, details of which are discussed in the following paragraph 2 headed "Effect on earnings".

Assuming full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share but before the Placing, the unaudited consolidated net asset value of the Enlarged Group attributable to its equity holders will be HK$4,538,500,000 or equivalent to approximately HK$0.31 per Share (based on 14,653,822,584 Shares in issue), which represents an increase of approximately 111% and 105% to the audited net asset value per Share as at 31 December 2005 and unaudited net asset value per Share as at 30 June 2006 respectively. Shareholders should note that the Vendor has undertaken to the Company that, upon Completion, the Vendor will not exercise the Convertible Note to such an extent that if as a result of such exercise there is insufficient public float on the date of issue of the Conversion Shares.

2. *Effect on earnings*

The Company recorded a profit attributable to Shareholders of approximately HK$41.2 million (audited) and HK$37.5 million (unaudited) for the year ended 31 December 2005 and the six months ended 30 June 2006 respectively. According to the "Unaudited pro forma financial information on the Enlarged Group" set out in Appendix V to the Circular, upon Completion, the pro forma profit attributable to the equity holders of the Company would be approximately HK$912.2 million. Such increase mainly comes from an unaudited pro forma adjustment of approximately HK$944.9 million for an excess over cost of a business combination. Shareholders are advised to refer to the unaudited pro forma financial information on the Enlarged Group set out in Appendix V to the Circular for details, in particular Notes 5 and 6. As advised by the Company, the actual amount to be recognized in the income statement of the Company in the financial year when Completion takes place depends on the actual fair value of the Consideration and the actual consolidated net asset value of the Subject Company at the date of the Completion.

Based on the pro forma consolidated income statement of the Enlarged Group set out in Appendix V to the Circular, there was a finance cost of approximately HK$59 million for the six months ended 30 June 2006, representing the imputed interest expenses on the Convertible Note at 9% per annum, as if the Convertible Note was issued on 1 January 2006. Shareholders are advised to refer to Note 9 as set out in Appendix V.

As stated in the Letter from the Board, on the basis that there is no conversion and repayment of the Convertible Note before the maturity date and the effective interest rate of the Convertible Note is 9% per annum as determined by reference to the assessment made by Grant Sherman Appraisal Limited, the total interest expenses on the Convertible Note will be approximately HK$1,645 million, which will be recorded by the Group during the period from the date of the issue of the Convertible Note to the tenth anniversary of the date of the issue of the Convertible Note.

Such interest expenses are calculated as 9% on the liabilities component of the Convertible Note of the then year. Based on the pro forma consolidated income statement of the Enlarged Group set out in Appendix V to the Circular, the liabilities component of the Convertible Note is amounting to approximately HK$1,316 million on initial recognition, and therefore the finance cost for the first year is approximately HK$118 million. The amount of the liabilities component of the Convertible Note will increase yearly by the net amount of the difference between the imputed interest expenses recorded for the year and the actual interest expenses payable to the holder of the Convertible Note for that year. As stated in the Letter from the Board, among the above-mentioned total interest expenses of HK$1,645 million, only approximately HK$409 million will be the actual interest expenses payable to the holder of the Convertible Note according to the terms of the Convertible Note (which is free for the first two years and 2% for the subsequent years) and the remaining interest expenses of approximately HK$1,236 million are not the interest expenses payable to the holder of the Convertible Note according to the terms of the Convertible Note but are only required to be recorded in the consolidated income statement of the Group in accordance with Hong Kong Accounting Standard 32. In addition, if the Convertible Note is partly or fully converted and/or repaid before its maturity, the amount of total interest expenses will be reduced.

3. *Effect on gearing*

Based on the unaudited consolidated balance sheet of the Group as at 30 June 2006, the gearing ratio, which is calculated as the total loans (including bank loans and loan from minority shareholders of a subsidiary) of approximately HK$43.9 million divided by the Company's Shareholders' fund of approximately HK$593.6 million, was approximately 7.4%. Upon Completion, based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix V to the Circular, the total loans of the Enlarged Group (including bank loan, loan from minority shareholders of a subsidiary, amount due to related parties, and the liabilities component of the Convertible Note of HK$1,315,765,000) would become HK$2,207.8 million, and the Shareholders' fund would be HK$3,222.7 million. Therefore, gearing ratio would increase to 68.5%. Upon full conversion of the Convertible Note, the gearing ratio of the Enlarged Group will decrease to approximately 19.7%. Having considered (i) the potential benefit brought by the Acquisition to the Group; and (ii) the possible further reduction in the gearing ratio of the Enlarged Group as a result of the conversion of the Convertible Note, we consider that the increase in gearing ratio as a result of the Transaction is acceptable.

4. *Working capital*

Given that the Consideration will be satisfied by the issue of Consideration Qualipak Shares, the Convertible Note, assumption of the Debts and the remaining amount of HK$250,000,000 which will be due and payable when the Receivables are recovered, there is no immediate cash outflow from the Group in order to satisfy the Consideration. Based on the unaudited consolidated balance sheet of the Group as at 30 June 2006, the unaudited cash and bank balance, short term bank deposits,

deposits with brokerage companies and pledged bank deposits of the Group amounted to approximately HK$201 million. Upon completion of the Transaction, based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix V to the Circular, the pro forma cash and cash equivalents, short term bank deposits as current assets, deposits with brokerage companies and pledged deposits of the Enlarged Group will increase to approximately HK$335.2 million.

However, we note that, as set out in Appendix V to the Circular, upon Completion, the Enlarged Group will have pro forma net current liabilities of approximately HK$279.6 million. Of the total current assets of approximately HK$1,032 million, total amount of pledged deposits, short term bank deposits, cash and cash equivalents and deposits with brokerage companies is approximately HK$335.2 million. Of the total current liabilities of approximately HK$1,311 million, approximately HK$675 million is interest-bearing bank loans ("Bank Loans") which will become due for repayment within one year from 30 June 2006. The Directors are of the view that, given (i) the Properties and the Buildings have an aggregate market value of approximately HK$6,597.4 million as appraised by Savills as at 31 August 2006 and the PRC Company has only bank borrowings of approximately HK$789 million as at 30 June 2006, representing approximately 12% of the market value of the Properties and Buildings as appraised by Savills as at 31 August 2006, and (ii) the PRC Company's successful experience in renewing similar bank loans in the previous years, they do not foresee any difficulties in renewing the Bank Loans when they fall due in the coming year. Shareholders should note that in the event that the Company fails (i) to renew the Bank Loans or (ii) obtain any new bank loan for repayment of the Bank Loans or (iii) obtain financing from equity or debt markets or other sources, and the completion of the Placing Agreement does not take place and the then internal financial resources available is insufficient for repayment of the Bank Loans, the Enlarged Group will need to dispose of certain Properties and the Buildings in order to satisfy such repayment.

V. Dilution effect on the interests of the Independent Shareholders

A table showing the changes in the shareholding interests of the Company before and immediately after Completion, with and without taking into account the Placing, and shareholding changes in the Company immediately after Completion and full conversion of the Convertible Note, with and without taking into account the Placing, is set out in the Letter from the Board.

The Shareholding interests of the Independent Shareholders will be reduced from approximately 35.24% to:

(i) 25.07% upon Completion;

(ii) 15.54% immediately after Completion and full completion of the Placing Agreement;

(iii) 9.47% immediately after Completion and full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share but before the Placing; and

(iv) 7.69% immediately after Completion and full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share and full completion of the Placing Agreement.

The Vendor has undertaken to the Company that, upon Completion, the Vendor will not exercise the Convertible Note to such an extent that if as a result of such exercise there is insufficient public float on the date of issue of the Conversion Shares.

Although the dilution effect is quite substantial when the Convertible Note is fully converted, having considered that (i) the lowest conversion price per Share represents a premium of approximately 85% over the unaudited net asset value per Share as at 30 June 2006 of approximately HK$0.151, (ii) the Vendor has undertaken to the Company in respect of maintaining the minimum public float of the Shares as required by the Listing Rules; (iii) the overall terms of the Convertible Note, in particular the interest free period of two years and low interest rate of two percent for the remaining years of the Convertible Note; and (iv) benefits brought by the Acquisition, we consider that the dilution effect as a result of the issue of the Consideration Qualipak Shares and potential dilution effect arising from conversion of the Convertible Note are acceptable.

VI. Other areas for the attention of the Independent Shareholders

1. Government policy on property market

From 1999 to 2003, a series of policies was issued by the PRC Government to encourage the development of real estate. However, starting from 2004, several policies were introduced with an aim to restricting future property development and, discouraging increasing property speculation activities, in particular to the luxurious properties in the PRC.

Recently, on 29 May 2006, the Ministry of Land of the PRC and eight other governmental authorities jointly issued an opinion regarding adjustment in the structure of housing supplies and stabilization of housing prices (the "Opinion"). The Opinion introduced a series of new measures to stabilize the PRC's property market including, among others, an imposition of tax upon the transfer of a residential unit within 5 years of purchase; an increase in interest rates for mortgage loans; an increase in minimum down payment from 20% to 30% for the purchasers of new residential units larger than 90 square metres; an increase in the proportion of capital fund requirement for property development projects (excluding ordinary housing) from 20% to 35% and so on. The Opinion also requires residential units smaller than 90 square metres to account for at least 70% of the total floor area in any new residential projects.

Sequential measures were introduced to further rationalize and standardize transactions and to regulate the access by foreign investment to the domestic property market.

Although the implementation of such policies are intended to promote more balanced property development and investment activities in the long-run, these measures may have short term impact on the current property market in the PRC, in which the PRC Company is engaging in. In this regard, the Group's property development and investment business may be affected adversely should the PRC Government or the local authority introduce more stringent measures, which in general restrain the development of the property market in China, in the future.

2. Newly engaging in the PRC property development business by the Group

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 treasury investment activities.

As advised by the Directors, upon Completion, the Group will continue to carry on its existing operations, and will have property development and investment added as one of its core businesses.

Shareholders should note that the Acquisition is the first PRC property project that the Group is engaged in and the scale of the Properties and the Buildings is quite large. The performance of the Group's PRC property development business, including the operation of the PRC Company and the development project for the Properties, may be subject to various factors: on a macro viewpoint, including the PRC government's policy as discussed above, and the market demand and supply during different periods; and on a micro viewpoint, overall management of the Group's property development projects, the Group's funding strategy for the development of the project, the level of acceptance of the Group's properties by prospective purchasers, the funding requirement and any potential fluctuation of the construction costs, etc.

As far as the development of the Properties is concerned, it is estimated that the Enlarged Group will require a substantial capital expenditure for the full development of the Properties in the next six years. The Directors consider that the main sources of the Enlarged Group's financing are the pre-sale and sale proceeds, the proceeds from the Placing, bank borrowings and internal resources. Given that the Placing is on a best endeavour basis, there is no assurance that the Group can obtain the intended proceeds from the Placing. In addition, there can be no assurance that the Enlarged Group will have sufficient cash flow to finance the development of the Properties and that the Enlarged Group will be able to arrange adequate financing for the development of the Properties as some of the factors are out of its control.

The policy initiatives of the PRC Government in recent years which restrict PRC commercial banks from financing certain types of property development projects may have adverse impact on the Enlarged Group's ability and flexibility to obtain bank loans for financing its development of the Properties.

In the event that the Enlarged Group is unable to secure the funding for the development of the Properties according to its plan, there may be delay in the development of the Properties and/or changes to the development plan. Any delay or changes in the plan for the development of the Properties will likely have an adverse impact on the profitability of the Qualipak Group.

As advised by the Directors, each of Mr. Cheung, the existing director of the Company and being proposed to be appointed as Chairman of the Company upon completion of the Transaction, and Dr. Lam How Mun Peter, the existing Chairman and managing director of the Company, has approximately 15 and 20 years of experience in the PRC property development and investment business respectively. In particular Mr. Cheung has participated in the property development projects in Chongqing. Coupled with the fact that the PRC Company has completed several property projects in Chongqing of over one million square metres, which demonstrated a proven track record, the Directors consider that, with the above-mentioned experienced management and leveraged on the local expertise that the PRC Company has, the Group is able to participate in the PRC property business as well as manage the development project of the Properties although it is new to the Group.

VII. Recommendation

Despite the fact that the Acquisition will involve certain business risk as detailed in the above section headed "Other areas for the attention of the Independent Shareholders" and the dilution effect on the interests of the Independent Shareholders, we, having taken into account the above factors and reasons, in particular:

– the Acquisition provides the Company with an opportunity to take advantage of the PRC Company's strategic location and her early entry in the PRC property market to diversify its business into the property development and investment;

– the Consideration represents a discount of approximately 22.53% to the unaudited adjusted combined net assets of the Subject Company of HK$4,282,443,000 which has been adjusted for the difference between the market value (net of deferred tax effect) and the net carrying amount of the Properties and the Buildings of approximately HK$4,039,005,000 as at 31 August 2006;

– the discount of issue price of the Consideration Qualipak Shares to the closing price of Shares on 22 September 2006 falls within the range of those of Consideration Shares Comparable Issues and such issue price represents a premium of approximately 85.4% and 90.5% over unaudited net asset value per Share as at 30 June 2006 and audited net asset value per Share as at 31 December 2005;

– the Convertible Note during the first year is interest-free and the conversion mechanism during the first year in effect limit the conversion period given to the Vendor;

– the conversion prices of the Convertible Note for the second year to the tenth year represent premiums of approximately 1.64% to 42.3% over the Last Closing Price, which is within the range of those of the CB Comparable Issues;

– the lowest conversion price of the Convertible Note of HK$0.28 represents premiums of approximately 85.4% and 90.5% over the net asset value per Share as at 30 June 2006 and the net asset value per Share as at 31 December 2005 respectively; and

– Upon Completion, the proforma net asset value per Share will increase to approximately HK$0.58 representing an increase of approximately 295% to the audited net asset value per Share of approximately HK$0.147 as at 31 December 2005 and an increase of approximately 284% to the unaudited net asset value per Share of approximately HK$0.151 as at 30 June 2006,

consider that the terms of the Acquisition Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned and it is in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition Agreement.

Yours faithfully,
For and on behalf of
Goldbond Capital (Asia) Limited
Stacey Wong
Head of Corporate Finance

(A) SUMMARY OF RESULTS AND FINANCIAL POSITION

The following is a summary of the audited consolidated results of the Group for the three years ended 31 December 2005 as extracted from the published audited financial statements of the Group, and the unaudited consolidated results of the Group for the six months ended 30 June 2006 and the six months ended 30 June 2005 as extracted from the published interim report of the Group.

The Group has adopted the new/revised Hong Kong Financial Reporting Standards ("HKFRS") in its 2005 financial statements with 2004 comparatives restated as required. The financial statements for the year ended 31 December 2003 have not been restated to conform with the new revised HKFRS.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)		(Unaudited)	(Unaudited)
Turnover	202,227	294,351	445,248	128,374	391,558
Cost of sales	(142,435)	(200,715)	(373,110)	(102,334)	(326,353)
Gross Profit	59,792	93,636	72,138	26,040	65,205
Other income	5,358	2,178	4,201	964	1,541
Net investment income	–	17,166	8,330	3,024	10,781
Gain on disposal of convertible note receivable	–	–	–	–	–
Gain on disposal of subsidiary	–	–	–	–	3,082
Change in fair value of investment property	–	–	–	–	1,330
(Allowance)Reversal of allowance for bad and doubtful debts	–	(9,681)	4,463	5,063	(2,341)
Distribution costs	(4,495)	(8,647)	(10,794)	(4,302)	(8,585)
Administrative expenses	(23,266)	(37,263)	(35,450)	(13,173)	(24,216)
Share of results of associates	–	–	5,211	305	(1,812)
Finance costs	(3,517)	–	(704)	–	(1,326)
Profit before taxation	33,872	57,389	47,395	17,921	43,659
Taxation	(4,970)	(15,277)	(4,374)	(773)	(6,811)
Profit for the period/year	28,902	42,112	43,021	17,148	36,848
Attributable to:					
Equity holders of the parent	28,902	42,112	41,203	17,148	37,518
Minority interests	–	–	1,818	–	(670)
	28,902	42,112	43,021	17,148	36,848
Dividend paid	13,788	15,758	23,637	15,758	23,637
Earnings per share					
– basic	0.90 cent	1.07 cents	1.05 cents	0.44 cent	0.95 cent
– diluted	0.82 cent	–	–	–	–

CONSOLIDATED BALANCE SHEET

	At 31 December			At 30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$,000*	*HK$'000*
		(Restated)		(Unaudited)
Non-current assets				
Property, plant and equipment	118,751	100,036	161,934	160,243
Interest in properties	6,618	–	–	–
Prepaid lease payments	–	22,832	25,213	24,895
Investment property	–	–	44,670	–
Interests in associates	–	–	38,455	31,846
Goodwill	–	–	34,553	34,553
Convertible note receivable	32,000	16,000	–	–
Convertible bond/note – loan portion	–	–	14,441	30,577
Club membership	242	35	–	–
	157,611	138,903	319,266	282,114
Current assets				
Inventories	42,245	43,866	86,014	83,888
Trade and other receivables	152,104	34,371	103,333	139,854
Prepaid lease payments	–	572	636	636
Investments held for trading	–	–	50,211	91,035
Other investments	–	84,226	–	–
Conversion option derivative	–	–	226	3,125
Convertible note receivable	10,500	–	–	–
Loan to an associate	–	–	3,000	3,000
Taxation recoverable	126	11	294	294
Deposits with brokerage companies	–	2,900	33,636	728
Pledged bank deposits	–	–	2,000	3,000
Short-term bank deposits	198,737	303,735	146,413	155,785
Bank balances and cash	1,856	3,323	13,636	42,181
	405,568	473,004	439,399	523,526
Current liabilities				
Trade and other payables	32,605	44,580	130,329	136,659
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	3,615	9,982	11,310	18,079
Bank borrowings	–	–	15,448	35,899
	36,220	54,562	165,087	206,385
Net current assets	369,348	418,442	274,312	317,141
Total assets less current liabilities	526,959	557,345	593,578	599,255
Non-current liabilities				
Consideration payable on acquisition of associates	–	–	2,790	–
Consideration payable on acquisition of subsidiaries	–	–	4,657	–
Deferred taxation	783	2,845	2,750	2,663
	783	2,845	10,197	2,663
Net assets	526,176	554,500	583,381	596,592

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$,000*	*HK$'000*
		(Restated)		(Unaudited)
Capital and reserves				
Share capital	39,395	39,395	39,395	39,395
Reserves	486,781	515,105	540,334	554,215
Equity attributable to equity holders of the parent	526,176	554,500	579,729	593,610
Minority interests	–	–	3,652	2,982
Total equity	526,176	554,500	583,381	596,592

(B) AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 DECEMBER 2005

Set out below are the audited consolidated income statement of the Group for the two years ended 31 December 2005, the audited consolidated balance sheet of the Group as at 31 December 2004 and 31 December 2005, the audited consolidated statement of changes in equity of the Group for the two years ended 31 December 2005, the audited consolidated cash flow statement of the Group for the two years ended 31 December 2005, together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2005:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
Turnover	7	445,248	294,351
Cost of sales		(373,110)	(200,715)
		72,138	93,636
Other income		4,201	2,178
Net investment income	9	8,330	17,166
Reversal of allowance (allowance) for bad and doubtful debts		4,463	(9,681)
Distribution costs		(10,794)	(8,647)
Administrative expenses		(35,450)	(37,263)
Share of results of associates		5,211	–
Finance costs	13	(704)	–
Profit before taxation	10	47,395	57,389
Taxation	14	(4,374)	(15,277)
Profit for the year		43,021	42,112
Attributable to:			
Equity holders of the parent		41,203	42,112
Minority interests		1,818	–
		43,021	42,112
Dividends	15	23,637	15,758
Earnings per share – basic	16	1.05 cents	1.07 cents

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	*17*	161,934	100,036
Prepaid lease payments	*18*	25,213	22,832
Investment property	*19*	44,670	–
Interests in associates	*20*	38,455	–
Goodwill	*21*	34,553	–
Convertible note receivable	*22*	–	16,000
Convertible note receivable – loan portion	*23*	14,441	–
Club membership	*24*	–	35
		319,266	138,903
Current assets			
Inventories	*25*	86,014	43,866
Trade and other receivables	*26*	103,333	34,371
Prepaid lease payments	*18*	636	572
Investments held for trading	*27*	50,211	–
Other investments	*28*	–	84,226
Conversion option derivative	*23*	226	–
Loan to an associate	*29*	3,000	–
Taxation recoverable		294	11
Deposits with brokerage companies	*30*	33,636	2,900
Short-term bank deposits	*30*	146,413	303,735
Pledged bank deposits	*31*	2,000	–
Bank balances and cash	*30*	13,636	3,323
		439,399	473,004
Current liabilities			
Trade and other payables	*32*	130,329	44,580
Loan from minority shareholders of a subsidiary	*33*	8,000	–
Taxation payable		11,310	9,982
Bank borrowings	*34*	15,448	–
		165,087	54,562
Net current assets		274,312	418,442
Total assets less current liabilities		593,578	557,345

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Consideration payable on acquisition of associates	*35*	2,790	–
Consideration payable on acquisition of subsidiaries	36	4,657	–
Deferred taxation	*37*	2,750	2,845
		10,197	2,845
Net assets		583,381	554,500
Capital and reserves			
Share capital	38	39,395	39,395
Reserves		540,334	515,105
Equity attributable to equity holders of the parent		579,729	554,500
Minority interests		3,652	–
Total equity		583,381	554,500

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent							
	Share capital	**Share premium**	**Surplus account**	**Translation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000 (Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	39,395	199,901	90,554	–	196,326	526,176	–	526,176
Profit for the year and total recognised income for the year	–	–	–	–	42,112	42,112	–	42,112
Dividends paid	–	–	–	–	(13,788)	(13,788)	–	(13,788)
At 31 December 2004	39,395	199,901	90,554	–	224,650	554,500	–	554,500
At 1 January 2005								
– as previously reported	39,395	199,901	90,554	–	224,650	554,500	–	554,500
– effect of changes in accounting policies *(Note 3)*	–	–	–	–	(399)	(399)	–	(399)
– as restated	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
Dividend paid	–	–	–	–	(15,758)	(15,758)	–	(15,758)
Arising on acquisition of subsidiaries	–	–	–	–	–	–	1,711	1,711
	39,395	199,901	90,554	183	249,696	579,729	3,652	583,381

Note: The surplus account represents the aggregate of reserves other than retained profits of the subsidiaries at 1 April 1998 and the excess of the nominal value of the shares issued and issuable by the Company over the nominal value of the issued share capital of the subsidiaries acquired pursuant to the group reorganisation in 1998.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		47,395	57,389
Adjustments for:			
(Reversal of allowance) allowance for bad and doubtful debts		(4,463)	9,681
Bank interest income		(5,729)	(2,280)
Depreciation and amortisation		9,354	8,020
Interest expenses		704	–
Share of result of associates		(5,211)	–
Unrealised holding gain arising on fair value changes of investments held for trading		(3,953)	–
Losses arising from changes in fair value of Conversion option derivative		1,592	–
Gain arising from change in fair value of investment property		(1)	–
Gain arising from redemption of convertible note receivable		(240)	–
Imputed interest income from convertible note Receivable		(418)	–
Loss (gain) on disposals of property, plant and Equipment		84	(150)
Unrealised holding gain on other investments		–	(14,886)
Allowance for obsolete inventories		–	3,339
Operating cash flows before movements in working capital		39,114	61,113
Increase in inventories		(12,179)	(4,960)
(Increase) decrease in trade and other receivables		(18,005)	108,052
Decrease in investments held for trading		37,968	–
Increase in trade and other payables		2,716	11,975
Increase in other investments		–	(37,340)
Increase in convertible note receivable		–	(5,500)
Increase in deposits with brokerage companies		(30,736)	(2,900)
Cash from operations		18,878	130,440
Hong Kong Profits Tax paid		(4,674)	(6,733)
Interest paid		(404)	–
NET CASH FROM OPERATING ACTIVITIES		13,800	123,707
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	39	(31,144)	–
Acquisition of associates		(30,549)	–
Increase in pledged bank deposit		(2,000)	–
Purchase of investment property		(44,669)	–
Purchase of property, plant and equipment		(42,028)	(5,884)
Loan to an associate		(3,000)	–
Interest received from bank		5,729	2,280
Proceeds on disposals of property, plant and equipment		35	150
NET CASH USED IN INVESTING ACTIVITIES		(147,626)	(3,454)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH OUTFLOW FROM FINANCING ACTIVITIES			
Dividends paid		(15,758)	(13,788)
Loan from minority shareholders of a subsidiary		3,394	–
Repayment of bank borrowings		(542)	–
NET CASH USED IN FINANCING ACTIVITIES		(12,906)	(13,788)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT		(146,732)	106,465
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(277)	–
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		307,058	200,593
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		160,049	307,058
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Short-term bank deposits		146,413	303,735
Bank balances and cash		13,636	3,323
		160,049	307,058

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is Regulator Holdings Limited, a company which is incorporated in the British Virgin Islands, and its ultimate holding company is Yugang International Limited ("Yugang"), a company which is also incorporated in Bermuda with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The financial statements are presented in Hong Kong dollars ("HKD") which is the functional currency of the Company. The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries and associates are set out in notes 48 and 20 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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 Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" ("HKFRS 3") which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

Goodwill arising on an acquisition of a subsidiary and an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary and associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses after initial recognition and will be tested for impairment at least annually.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" ("HKAS 32") and HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investment" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified its "other investments" with carrying amount of HK$84,226,000 which are held for trading purpose to "investments held for trading" and measured them in accordance with the requirements of HKAS 39. No adjustment has been made to the Group's retained profits at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Convertible note receivables

By 31 December 2004, the convertible note receivables which are held for long-term purposes are stated at cost less any identified impairment loss that is other than temporary.

From 1 January 2005 onwards, the Group classified and measured its convertible note receivables in accordance with the requirements of HKAS 39. Under HKAS 39, convertible note receivables are separated into two components: (i) loan portion and (ii) conversion option derivative.

Loan portion is carried at amortised cost using the effective interest method at subsequent balance sheet date. Conversion option derivative is carried at fair value at each balance sheet date, with changes in fair value recognised in profit or loss.

As a result of the change in accounting policy, an adjustment of HK$399,000 has been made to the Group's opening retained profits on 1 January 2005 (see note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. Investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Income statement items		
Increase in turnover in relation to effect of recognition of imputed interest income from convertible note receivable – loan portion	418	–
Decrease in net investment income in relation to		
– losses arising from changes in fair value of conversion option derivative	(1,593)	–
– gain arising from redemption of convertible note receivable	240	–
Decrease in amortisation of goodwill arising from acquisition of subsidiaries (as if the goodwill was amortised over 20 years)	1,728	–
Decrease in amortisation of goodwill arising from acquisition of associates (as if the goodwill was amortised over 20 years)	1,572	–
Increase in other income in relation to gain arising from change in fair value of investment property	1	–
Increase in profit for the year	2,366	–

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	31.12.2004	Retrospective adjustments	31.12.2004	Opening adjustments	1.1.2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)		(Restated)		(Restated)
Balance sheet items					
Property, plant and equipment	116,992	(16,956)	100,036	–	100,036
Interest in properties	6,448	(6,448)	–	–	–
Prepaid lease payments	–	22,832	22,832	–	22,832
Convertible note receivable	16,000	–	16,000	(16,000)	–
Convertible note receivable – loan portion	–	–	–	14,714	14,714
Prepaid lease payments	–	572	572	–	572
Other investments	84,226	–	84,226	(84,226)	–
Investments held for trading	–	–	–	84,226	84,226
Conversion option derivative	–	–	–	887	887
Total effects on assets and liabilities		–		(399)	
Retained profits and total effects on equity	224,650	–	224,650	(399)	224,251

There was no financial effect of the application of the new HKFRSs to the Group's equity at 1 January 2004.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill

Goodwill arising on an acquisition of a subsidiary and an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary and associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary and an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Revenue recognition

Sales of goods are recognised when the goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Sales of investments are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (if any), are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation are provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives, using the straight line method.

Construction in progress represents assets in the course of construction for production, rental or administrative purposes. They are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Club membership

Costs incurred in the acquisition of club membership are capitalised and amortised on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. The Group's investments are classified as investments held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, convertible note receivable, deposits with brokerage companies, short-term bank deposits, bank balances and loan to an associate are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss ("Other financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables, consideration payable on acquisition of subsidiaries/associates and loan from minority shareholders of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme are charged as expenses as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Inventories

The Group does not have a general provision policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. Procedurewise, the sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements.

Trade receivables

In making the judgement, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the industry of manufacture and trading of packaging products and travel bags as a whole.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is HK$34,553,000 arising from acquisition of subsidiaries. Details of the recoverable amount calculations of subsidiaries are disclosed in note 21.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, convertible note receivable, deposits with brokerage companies, short-term deposits, bank balances and cash, bank borrowings, trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has currency exposure as majority of its sales are denominated in U.S. Dollars ("USD") which are linked up with Hong Kong Dollars. On the other hand, the expenditure including expenditures incurred in the operation of manufacturing plants and capital expenditures are denominated in Renminbi ("RMB"), which expose the Group to foreign currency risk.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against HKD may have impact on the results of operations of the Group.

On 21 July 2005, the People's Bank of China announced that RMB would no longer be pegged to USD and instead would be linked to a basket of currencies. The exchange rate of USD against RMB was adjusted from 8.2765 to 8.1100 yuan per USD immediately. The directors believe the appreciation of RMB against USD will have an impact on the Group.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's investments held for trading and conversion option derivative are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considered the risk is insignificant to the Group.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits and the deposits with brokerage companies to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

7. 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 (Note 1), investment income (Note 2) and interest income from provision of financial services during the year.

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

	2005	**2004**
	HK$'000	*HK$'000*
Sales of goods	447,432	254,443
Net proceeds of trading in securities *(Note 1)*	(4,041)	36,192
Investment income *(Note 2)*	1,857	2,632
Interest income from provision of financial services	–	1,084
	445,248	294,351

Notes:

(1) The amount was derived from after taking into account of the gross proceeds from trading in securities amounted to HK$34,636,000 (2004: HK$60,686,000) for the year ended 31 December 2005.

(2) The amount included imputed interest income of HK$418,000 (2004: nil) from convertible note receivable.

8. 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 and convertible notes, and provision of financial services

Segment information about these businesses is presented below:

Year 2005

		Sales of packaging products HK$'000	Sales of travel bags HK$'000	Treasury investment HK$'000	Total HK$'000
(i)	*Income statement*				
	Turnover	277,442	169,990	(2,184)	445,248
	Result				
	Segment result	39,900	5,530	4,943	50,373
	Unallocated corporate expenses				(8,730)
	Unallocated corporate income				1,245
	Share of results of associates				5,211
	Finance costs				(704)
	Profit before taxation				47,395
	Taxation				(4,374)
	Profit for the year				43,021
(ii)	*Balance sheet*				
	ASSETS				
	Segment assets	391,993	134,862	99,008	625,863
	Interests in associates				38,455
	Taxation recoverable				294
	Unallocated corporate assets				94,053
	Consolidated total assets				758,665
	LIABILITIES				
	Segment liabilities	52,294	89,485	108	141,887
	Taxation payable				11,310
	Deferred taxation				2,750
	Unallocated corporate liabilities				19,337
	Consolidated total liabilities				175,284
(iii)	*Other information*				
	Capital addition	39,431	30,585	190	70,206
	Depreciation and amortisation of property, plant and equipment	7,644	965	73	8,682
	Amortisation of prepaid lease payments	572	65	–	637
	Amortisation of club membership	35	–	–	35
	Losses arising from changes in fair value of conversion option derivative	–	–	1,593	1,593
	Loss on disposals of property, plant and equipment	–	84	–	84

Year 2004

		Sales of packaging products HK$'000	Treasury investment HK$'000	Total HK$'000
(i)	*Income statement*			
	Turnover	254,443	39,908	294,351
	Result			
	Segment result	16,596	50,715	67,311
	Unallocated corporate expenses			(10,517)
	Unallocated corporate income			595
	Taxation			(15,277)
	Profit for the year			42,112
(ii)	*Balance sheet*			
	ASSETS			
	Segment assets	444,389	110,936	555,325
	Taxation recoverable			11
	Unallocated corporate assets			56,571
	Consolidated total assets			611,907
	LIABILITIES			
	Segment liabilities	38,244	3,264	41,508
	Taxation payable			9,982
	Deferred taxation			2,845
	Unallocated corporate liabilities			3,072
	Consolidated total liabilities			57,407
(iii)	*Other information*			
	Allowance for bad and doubtful debts	9,681	–	9,681
	Depreciation and amortisation of property, plant and equipment	7,178	63	7,241
	Capital addition	5,702	182	5,884
	Allowance for obsolete inventories	3,339	–	3,339
	Amortisation of prepaid lease payments	572	–	572
	Amortisation of club membership	207	–	207

Note: No business segment of sales of travel bags was presented in 2004 as that business was only acquired in 2005.

Geographical segments

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

	Turnover	
	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong	73,071	117,713
Europe	127,678	81,162
North and South America	207,138	79,884
Others	37,361	15,592
	445,248	294,351

Analysis of carrying amounts of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located has not been presented as more than 90% of the Group's assets are situated in the People's Republic of China (the "PRC"), including Hong Kong.

9. NET INVESTMENT INCOME

	2005	**2004**
	HK$'000	*HK$'000*
Bank interest income	5,729	2,280
Unrealised holding gain arising on fair value changes of investments held for trading	3,953	–
Losses arising from changes in fair value of conversion option derivative	(1,592)	–
Gain arising from redemption of convertible note receivable	240	–
Unrealised holding gain on other investments	–	14,886
	8,330	17,166

10. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(Note 11)*	6,341	11,971
Other staff costs	14,261	9,925
Total staff costs	20,602	21,896
Allowance for obsolete inventories (included in cost of sales)	–	3,339
Amortisation of club membership	35	207
Auditors' remuneration	764	475
Depreciation and amortisation		
– property, plant and equipment	8,682	7,241
– prepaid lease payments	637	572
	9,319	7,813
Loss on disposals of property, plant and equipment	84	–
Minimum lease payments under operating lease in respect of land and buildings	2,434	2,621
Shipping and handling expenses (included in distribution expenses)	7,546	6,699
and after crediting:		
Bank interest income	5,729	2,280
Dividend income from listed equity investments	1,439	906
Gain arising from change in fair value of investment property	1	–
Gain on disposals of property, plant and equipment	–	150
Gross rental income from investment properties	527	–
Less: Direct operating expenses from investment property that generated rental income during the year	(50)	–
	477	–

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

Year 2005

	Lam How Mun Peter HK$'000	Cheung Chung Kiu HK$'000	Lam Hiu Lo HK$'000	Leung Chun Cheong HK$'000	Leung Wai Fai HK$'000	Poon Ho Yee Agnes HK$'000	Lam Kin Fung Jeffrey HK$'000	Lam Ping Cheung HK$'000	Wong Wai Kwong David HK$'000	Total 2005 HK$'000
Fees	–	–	–	–	–	–	200	200	200	600
Other emoluments										
Salaries and other benefits	3,200	–	–	1,079	130	1,105	–	–	–	5,514
Retirement benefits schemes contribution	120	–	–	50	6	51	–	–	–	227
Total emoluments	3,320	–	–	1,129	136	1,156	200	200	200	6,341

Year 2004

	Lam How Mun Peter *HK$'000*	Cheung Chung Kiu *HK$'000*	Lam Hiu Lo *HK$'000*	Leung Chun Cheong *HK$'000*	Leung Wai Fai *HK$'000*	Poon Ho Yee Agnes *HK$'000*	Lam Kin Fung Jeffrey *HK$'000*	Lam Ping Cheung *HK$'000*	Wong Wai Kwong David *HK$'000*	Total 2004 *HK$'000*
Fees	–	–	–	–	–	–	200	200	52	452
Other emoluments										
Salaries and other benefits	2,940	–	–	962	130	988	–	–	–	5,020
Performance related incentive payment *(Note)*	6,000	–	–	120	–	175	–	–	–	6,295
Retirement benefits schemes contribution	108	–	–	44	6	46	–	–	–	204
Total emoluments	9,048	–	–	1,126	136	1,209	200	200	52	11,971

During the year, the Group also provided one of its leasehold properties in Hong Kong as quarters for one of the executive directors of the Company. The estimated monetary value of such accommodation, included in the amount disclosed above, using the rateable value as an approximation, is HK$600,000 (2004: HK$600,000).

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No directors have waived any emoluments during the year.

Note: The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics during the year ended 31 December 2004.

12. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December 2005 included three (2004: three) executive directors of the Company, whose emoluments are included in note 11. The details of the emoluments paid to the other two (2004: two) highest paid individuals were as follows:

	2005 *HK$'000*	**2004** *HK$'000*
Salaries and other benefits	1,199	1,092
Performance related incentive payments	–	85
Retirement benefit scheme contributions	54	50
	1,253	1,227

Their emoluments were within the following bands:

	Number of individuals	
	2005	**2004**
Nil to HK$1,000,000	2	2

13. FINANCE COSTS

	2005 *HK$'000*	2004 *HK$'000*
Interest on bank borrowings wholly repayable within five years	404	–
Imputed interest expense from consideration payable on acquisition of subsidiaries	205	–
Imputed interest expense from consideration payable on acquisition of associates	95	–
	704	–

14. TAXATION

	2005 *HK$'000*	2004 *HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– current year	(3,564)	(8,577)
– (under)overprovision in prior years	(1,553)	56
– additional tax assessments for the years of assessment from 1993/94 to 2002/03	–	(4,694)
	(5,117)	(13,215)
Deferred taxation credit (charge) *(Note 37)*	743	(2,062)
Taxation for the year	(4,374)	(15,277)

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

In prior years, certain subsidiaries of the Company were in discussion with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. During the year ended 31 December 2004, these subsidiaries and the IRD reached a compromised settlement of HK$4,694,000 in respect of additional tax liabilities for the years of assessment from 1993/94 to 2002/03.

Pursuant to the Deed of Indemnity dated 14 April 1999 made between Chuang Hing Limited ("CHL"), Willie International Holdings Limited ("WIL") (formerly known as China United Holdings Limited) and the Company as set out in the paragraph headed "Other Information" in Appendix 5 to the prospectus dated 15 April 1999 issued by the Company, CHL and WIL agreed with the Company and its subsidiaries (together the "Companies") that CHL and WIL would jointly and severally indemnify each of the Companies against taxation falling on any of the Companies resulting from profits or gains earned or accrued on or before 27 April 1999.

Thereafter the composition of the management of CHL and WIL had been changed. The directors of the Company are of the opinion that the recovery of tax indemnity involves lengthy and costly litigation procedures, the outcome of which cannot be determined with reasonable certainty and being beneficial to the Group in consideration of the time and expenditure required. Hence, the Company has no intention to pursue recovery of the tax indemnity.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 *HK$'000*	2004 *HK$'000*
Profit before taxation	47,395	57,389
Less: Share of results of associates	(5,211)	–
Profit before taxation attributable to the Company and its subsidiaries	42,184	57,389
Tax at the domestic income tax rate of 17.5% (2004: 17.5%) *(Note)*	(7,382)	(10,043)
Tax effect of income not taxable for tax purpose	1,430	504
Tax effect of expenses not deductible for tax purpose	(73)	(1,300)
Tax effect of Hong Kong Profits Tax on concessionary rate	2,794	863
Additional tax assessments for the years of assessment from 1993/94 to 2002/03	–	(4,694)
(Under)overprovision in prior years	(1,553)	56
Others	410	(663)
Taxation for the year	(4,374)	(15,277)

Note: The domestic income tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

15. DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Proposed final dividend of HK$0.0060 (2004: HK$0.0040) per share	23,637	15,758

The final dividend of HK$0.0060 (2004: HK$0.0040) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2005 *HK$'000*	2004 *HK$'000*
Earnings		
Profit attributable to equity holders of the parent for the purposes of calculating basic earnings per share	41,203	42,112

	2005	2004
Number of shares		
Number of shares for the purposes of basic earnings per share	3,939,536,870	3,939,536,870

Impact of changes in accounting policies

The following table summaries the impact on basic earnings per share as a result of changes in the Group's accounting policies during the year as described in notes 2 and 3.

	Basic 2005	Basic 2004
	HK cents	*HK cents*
Reported figures before adjustments	0.99	1.07
Adjustments arising from changes in accounting policies	0.06	–
As restated	1.05	1.07

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Leasehold improve-ments	Plant and machinery	Electricity supply system	Furniture, fixtures and equipment	Moulds	Construc-tion in progress	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST									
At 1 January 2004	82,728	3,856	22,805	2,729	14,338	7,707	–	2,652	136,815
Additions	700	378	1,922	–	944	1,322	–	618	5,884
Disposals	–	–	–	–	–	–	–	(474)	(474)
At 31 December 2004	83,428	4,234	24,727	2,729	15,282	9,029	–	2,796	142,225
Currency realignment	352	–	106	–	25	–	–	10	493
Additions	36,363	318	1,666	–	1,975	957	190	559	42,028
Acquired on acquisition of subsidiaries	20,240	–	5,518	–	1,406	–	–	1,014	28,178
Disposals	–	–	(33)	–	(119)	–	–	(1,121)	(1,273)
At 31 December 2005	**140,383**	**4,552**	**31,984**	**2,729**	**18,569**	**9,986**	**190**	**3,258**	**211,651**
DEPRECIATION AND AMORTISATION									
At 1 January 2004	3,703	2,717	15,141	657	7,000	4,261	–	1,943	35,422
Provided for the year	1,787	372	1,939	273	1,327	1,001	–	542	7,241
Eliminated on disposals	–	–	–	–	–	–	–	(474)	(474)
At 31 December 2004	5,490	3,089	17,080	930	8,327	5,262	–	2,011	42,189
Provided for the year	2,428	440	2,398	273	1,512	1,088	–	543	8,682
Eliminated on disposals	–	–	(14)	–	(78)	–	–	(1,062)	(1,154)
At 31 December 2005	**7,918**	**3,529**	**19,464**	**1,203**	**9,761**	**6,350**	**–**	**1,492**	**49,717**
CARRYING VALUES									
At 31 December 2005	**132,465**	**1,023**	**12,520**	**1,526**	**8,808**	**3,636**	**190**	**1,766**	**161,934**
At 31 December 2004	77,938	1,145	7,647	1,799	6,955	3,767	–	785	100,036

Note: Owner-occupied leasehold land situated in Hong Kong is included in property, plant and equipment as the allocation between the land and buildings elements cannot be made reliably.

Items of property, plant and equipment are depreciated and amortised on a straight-line basis at the following rates per annum:

Leasehold properties	2% or over the unexpired terms of the leases, if less than 50 years
Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Plant and machinery	10%
Electricity supply system	10%
Furniture, fixtures and equipment	10%
Moulds	15%
Motor vehicles	25%

The carrying value of leasehold properties shown above comprises:

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Properties held on long lease in Hong Kong	53,879	18,320
Properties held on medium-term lease in Hong Kong	6,380	6,538
	60,259	24,858
Properties held on medium-term lease in the PRC	72,206	53,080
	132,465	77,938

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold interest in lands and property outside Hong Kong under medium-term leases.

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Analysed for reporting purposes as:		
Current asset	636	572
Non-current asset	25,213	22,832
	25,849	23,404

Leasehold interest in lands and property are amortised over the unexpired terms of the leases on a straight-line basis.

19. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
Additions during the year ended 31 December 2005	44,669
Increase in fair value recognised in income statement	1
At 31 December 2005	44,670

The carrying amount of investment property as at 31 December 2005 comprises property held on long lease in Hong Kong.

The fair value of the Group's investment property at 31 December 2005 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional surveyors not connected with the Group. Messrs. Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties. The increase in fair value of investment property of HK$1,000 has been recognised in the consolidated income statement.

All of the Group's leasehold interest in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

20. INTERESTS IN ASSOCIATES

	2005	**2004**
	HK$'000	*HK$'000*
Cost of investment in associates – unlisted	33,244	–
Share of post-acquisition profits	5,211	–
	38,455	–

On 3 June 2005, the Group acquired 30% of the issued share capital of Technical International Holdings Limited ("Technical International"), a company incorporated in the British Virgin Islands with limited liability, at a cash consideration of HK$33,000,000, subject to adjustment, as described in the circular of the Company dated 27 June 2005. Technical International and its subsidiaries ("Technical Group") are principally engaged in the business of design, trading and marketing of knives, corkscrews and kitchenware.

The total consideration of HK$33,000,000 shall be satisfied in cash, of which HK$30,000,000 was paid during the year ended 31 December 2005, and the remaining balance of HK$3,000,000 shall be paid after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 3 June 2005) in 2007. Details of the carrying amount of the consideration payable are set out in note 35.

The vendor, Technical Group Holdings Limited, and the guarantors, Mr. Brian Sun and Ms. Chan Pui Ling Stella, (hereinafter collectively referred to as the "Warrantors") have jointly and severally guaranteed to the Group that the audited consolidated net profits derived from the activities of Technical Group in its normal and ordinary course of business after tax and minority interests (the "Audited Net Profits") as shown in its audited financial statements for each of the two years ending 31 December 2005 and 2006 (the "Guaranteed Year") shall not be less than HK$20,000,000. If the Audited Net Profits in respect of the Guaranteed Year is less than HK$20,000,000, an amount equal to 30% of 5.5 times of the difference between HK$20,000,000 and the Audited Net Profits of that Guaranteed Year shall become payable by the Warrantors to the Group.

Included in the cost of investment in associates is goodwill of HK$31,438,000 arising on acquisition of associates during the year. The movement of goodwill is set out below.

	Goodwill
	HK$'000
GOODWILL OF ASSOCIATES	
COST	
Arising on acquisition of associates in 2005 and balance at 31 December 2005	31,438

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	*HK$'000*
Total assets	48,485	–
Total liabilities	(25,095)	–
Net assets	23,390	–
Group's share of net assets of associates	7,017	–
Turnover	141,303	–
Profit for the period from date of acquisition to 31 December 2005	17,370	–
Group's share of result of associates for the period from date of acquisition to 31 December 2005	5,211	–

The retained profits of the Group as at 31 December 2005 included HK$5,211,000 (2004: nil) retained by associates of the Group.

At 31 December 2005, the Group had interests in the following associates:

Name of associate	**Place of incorporation/ operation**	**Issued and fully paid share capital**	**Attributable equity interest held by the Group**	**Principal activities**
Technical International	British Virgin Islands *	US$10,000	30%	Investment holding
Technical (HK) Manufacturing Limited *(Note a)*	Hong Kong	HK$10	30%	Design, trading and marketing of knives and kitchenware
Technical Development (HK) Limited *(Note a)*	Hong Kong	HK$10	30%	Design, trading and marketing of corkscrew and kitchenware

* *It is an investment holding company which has no specific principal place of operation.*

Note:

(a) Technical International directly holds the entire interests in Technical (HK) Manufacturing Limited and Technical Development (HK) Limited.

21. GOODWILL

	HK$'000
GROSS VALUE	
Arising on acquisition of subsidiaries in 2005 and balance at 31 December 2005	34,553

Particulars regarding impairment testing on goodwill arising from acquisition of subsidiaries are disclosed as follows:

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the cash-generating unit ("CGU") of trading of travel bags business segment. The carrying amount of goodwill as at 31 December 2005 allocated to the CGU of trading of travel bags business segment is HK$34,553,000.

During the year ended 31 December 2005, management of the Group determines that there is no impairment of any of its CGUs containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period and discount rate of 5.98%. No growth rate is assumed in the calculation. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectation for the market development.

22. CONVERTIBLE NOTE RECEIVABLE

	2005	**2004**
	HK$'000	*HK$'000*
Unlisted debt security, at cost	–	16,000

At 31 December 2004, the Group held a convertible note of HK$16,000,000 which was issued by a company with its shares listed on the Stock Exchange. The convertible note bore interest rate at 6.8% per annum and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of the company at a conversion price of HK$0.15 per share in the defined period.

The convertible note can be redeemed by the issuer at its face value at any time from the date of issue until a date seven days prior to (and excluding) the maturity date of the convertible note and can only be redeemed by the Group at its face value upon maturity in April 2007 to the extent of the amount not previously converted.

In the opinion of the directors, the above convertible note was worth at least its carrying value at 31 December 2004.

From 1 January 2005 onwards, the Group classified and measured its convertible note receivable in accordance with the requirements of HKAS 39. Under HKAS 39, the convertible note receivable of HK$16,000,000 at 31 December 2004 has been separated into two components at 1 January 2005, of which the loan portion of the convertible note receivable amounted to HK$14,714,000 and the conversion option derivative of the convertible note receivable amounted to HK$887,000 (see note 3).

During the year ended 31 December 2005, this convertible note receivable (including loan portion and call option portion) was redeemed by the issuer at cost of HK$16,000,000 and a gain arising from the redemption of the convertible note receivable amounted to HK$240,000.

23. CONVERTIBLE NOTE RECEIVABLE

	2005	**2004**
	HK$'000	*HK$'000*
Unlisted convertible note		
– loan portion	14,441	–
– conversion option derivative - fair value	226	–
	14,667	–

At 31 December 2005, the Group held a convertible note with a principal amount of HK$16,000,000 which was issued by a company with its shares listed on the Stock Exchange. The convertible note is interest-free and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of the company at a conversion price of HK$0.05 per share in the defined period.

The convertible note can be redeemed by the issuer at its face value at any time from the date of issue until a date seven days prior to (and excluding) the maturity date of the convertible note, and can only be redeemed by the Group at its face value upon maturity in April 2010 to the extent of the amount not previously converted.

On application of HKAS 39, the fair value of the convertible note receivable - loan portion is determined based on an effective interest rate of 2.41% on initial recognition.

The fair value of the conversion option derivative is determined by using the Black-Scholes Model.

The fair value of the Group's convertible note receivable - loan portion at 31 December 2005 was approximate to the corresponding carrying amount.

Subsequent to 31 December 2005, the Group's convertible note receivable was redeemed by the issuer at cost of HK$16,000,000 on 7 March 2006.

24. CLUB MEMBERSHIP

	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	780
AMORTISATION	
At 1 January 2004	538
Provided for the year	207
At 31 December 2004	745
Provided for the year	35
At 31 December 2005	780
CARRYING VALUE	
At 31 December 2005	–
At 31 December 2004	35

Club membership is amortised over its expected useful live of five years on a straight line method.

25. INVENTORIES

	2005	**2004**
	HK$'000	*HK$'000*
Raw materials	30,939	20,268
Work in progress	38,700	12,679
Finished goods	16,375	10,919
	86,014	43,866

All inventories were carried at cost at the balance sheet date.

26. TRADE AND OTHER RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Trade receivables *(Note)*	94,538	28,501
Other receivables	8,795	4,870
Loan receivable	–	1,000
	103,333	34,371

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

The ageing analysis of trade receivables at the balance sheet date is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	65,204	13,987
31 to 60 days	19,844	10,453
Over 60 days	9,490	4,061
	94,538	28,501

The loan receivable of HK$1,000,000 at 31 December 2004 was unsecured but was guaranteed by directors of the borrowers and repaid during the year ended 31 December 2005. The loan was interest bearing at 2% per annum over and above the prime lending rate per annum.

The fair value of the Group's trade and other receivables at 31 December 2005 was approximate to the corresponding carrying amounts.

Note: Trade receivables included discounted bills with recourse of HK$12,916,000 (2004: nil) at 31 December 2005. The maturity date of the discounted bills with recourse is within three months from inception date of the discounted bills.

27. INVESTMENTS HELD FOR TRADING

	2005	2004
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	50,211	–

As 31 December 2005, all investments held for trading are stated at fair value and the fair value of the investments have been determined by reference to bid prices quoted in active markets.

28. OTHER INVESTMENTS

	2005	2004
	HK$'000	*HK$'000*
Listed equity securities	–	76,203
Listed debt security	–	8,023
Total:		
Listed in Hong Kong	–	65,731
Listed in overseas	–	18,495
	–	84,226
Market value of listed securities	–	84,226

29. LOAN TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable within one year. The directors consider the carrying amount of loan to an associate approximated its fair value.

30. DEPOSITS WITH BROKERAGE COMPANIES/SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

Deposits with brokerage companies and short-term bank deposits are carried at an average fixed interest rate of 2.71% and 2.68% respectively. The fair values of the deposits with brokerage companies and short-term bank deposits at 31 December 2005 were approximate to the corresponding carrying amounts.

The fair value of bank balances and cash at 31 December 2005 was approximate to the corresponding carrying amount.

31. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to a bank to secure banking facilities granted to the Group. The deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged bank deposits are carried at an average fixed interest rate of 3.38% and the fair value of the pledged bank deposits at 31 December 2005 was approximate to the corresponding carrying amount.

32. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$100,079,000 (2004: HK$23,157,000). The ageing analysis of trade payables at the balance sheet date is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	47,242	9,456
31 to 60 days	30,347	7,183
Over 60 days	22,490	6,518
	100,079	23,157

The fair value of the Group's trade and other payables at 31 December 2005 was approximate to the corresponding carrying amounts.

33. LOAN FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

The directors consider the carrying amounts of loan from minority shareholders of a subsidiary approximated their fair value. The amounts are unsecured, non-interest bearing and repayable on demand.

34. BANK BORROWINGS

	2005	**2004**
	HK$'000	*HK$'000*
Discounted bills with recourse	12,916	–
Secured bank loan	2,404	–
Unsecured bank loan	128	–
	15,448	–

The above bank borrowings are supported by:

Guarantees provided by the Company and minority shareholders of a subsidiary	12,916	–
Pledge of assets	2,404	–
No guarantee required	128	–
	15,448	–

At 31 December 2005, the Group's bank borrowings of HK$15,448,000 (2004: nil) are repayable within one year and carry fixed interest at a range from 5.26% to 7.75% per annum.

The maturity date of the discounted bills with recourse is within three months from inception date of the discounted bills.

The fair value of the Group's bank borrowings approximates to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong dollars	128	–
US dollars	12,916	–
Renminbi	2,404	–
	15,448	–

35. CONSIDERATION PAYABLE ON ACQUISITION OF ASSOCIATES

The amount represents the consideration payable on acquisition of 30% issued share capital of Technical International (see also note 20) and the amount is interest bearing at 1% per annum.

On application of HKAS 39, the fair value of the consideration payable on acquisition of associates is determined based on an effective interest rate of 5.98% on initial recognition.

The fair value of the consideration payable on acquisition of associates at 31 December 2005 was approximate to the corresponding carrying amount.

36. CONSIDERATION PAYABLE ON ACQUISITION OF SUBSIDIARIES

The amount represents the consideration payable on acquisition of 60% issued share capital of Hoi Tin Universal Limited (see also note 39).

On application of HKAS 39, the fair value of the consideration payable on acquisition of subsidiaries is determined based on an effective interest rate of 5.98% on initial recognition.

The fair value of the consideration payable on acquisition of subsidiaries at 31 December 2005 was approximate to the corresponding carrying amount.

37. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	783	–	783
Charge (credit) for the year	2,226	(164)	2,062
At 31 December 2004	3,009	(164)	2,845
Acquisition of subsidiaries	648	–	648
Credit for the year	(715)	(28)	(743)
At 31 December 2005	**2,942**	**(192)**	**2,750**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

The Group did not have any significant unprovided deferred taxation during the year or at the balance sheet date.

38. SHARE CAPITAL

	Number of shares	**Amount**
	'000	*HK$'000*
Shares of HK$0.01 each		
Authorised share capital:		
At 1 January 2004, 31 December 2004 and 31 December 2005	10,000,000	100,000
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	3,939,537	39,395

39. ACQUISITION OF SUBSIDIARIES

On 23 March 2005, the Group entered into a sale and purchase agreement to acquire 60% of the issued share capital of Hoi Tin Universal Limited ("Hoi Tin"), a company incorporated in Hong Kong, at a cash consideration of HK$36,000,000, subject to adjustment, as described in the circular of the Company dated 30 April 2005. Hoi Tin and its subsidiaries ("Hoi Tin Group") are engaged in the business of the design, manufacture and sale of soft luggages, travel bags, backpacks and brief cases.

The total consideration of HK$36,000,000 shall be satisfied in cash, of which HK$31,000,000 was paid during the year ended 31 December 2005, and the remaining balance of HK$5,000,000 shall be paid after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 23 March 2005) in 2007.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$34,553,000.

The vendors, Messrs. Chau Tin Ping, Tse On Kuen, Wong Kam Hoi and Wong Kong, have jointly and severally guaranteed to the Group that the audited consolidated net profits after tax and minority interests of Hoi Tin Group (the "Audited Net Profits") as shown in its audited financial statements for each of the twelve months period ending 31 March 2006 and 31 March 2007 (the "Guaranteed Period") shall not be less than HK$10,000,000. If the Audited Net Profits in respect of the Guaranteed Period is less than HK$10,000,000, an amount equal to 60% of six times of the difference between HK$10,000,000 and the Audited Net Profit of that Guaranteed Period shall become payable by the vendors to the Group.

The net assets acquired in the acquisition, and the goodwill arising, are as follows:

	Acquirees' carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	26,221	1,957	28,178
Prepaid lease payments	2,992	–	2,992
Inventories	29,969	–	29,969
Trade and other receivables	46,494	–	46,494
Bank balances and cash	1,308	–	1,308
Trade and other payables	(83,033)	–	(83,033)
Taxation payable	(602)	–	(602)
Bank borrowings	(15,990)	–	(15,990)
Deferred taxation	(2)	(646)	(648)
Loans from minority shareholders of a subsidiary	(4,606)	–	(4,606)
	2,751	1,311	4,062
Minority interests			(1,711)
Goodwill on acquisition			34,553
Total consideration			36,904
Satisfied by:			
Cash paid			31,000
Consideration payable on acquisition of subsidiaries			4,452
Direct expenses paid in connection with acquisition of subsidiaries			1,452
			36,904
Net cash outflow arising on acquisition:			
Cash consideration paid			(31,000)
Bank balances and cash acquired			1,308
Direct expenses incurred in connection with the acquisition			(1,452)
Net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(31,144)

The goodwill arising from the acquisition of Hoi Tin is attributable to the anticipated profitability of the distribution of the Group's products from the combination.

Hoi Tin contributed turnover of approximately HK$169,990,000 and profit before taxation of approximately HK$5,163,000 to the Group during the period from 4 July 2005 (date of acquisition) to 31 December 2005.

If the acquisition had been completed on 1 January 2005, total unaudited turnover and profit for the year of the Group would be approximately HK$584,363,000 and HK$40,683,000, respectively. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and result of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

40. SHARE OPTION SCHEME

The share option scheme adopted at the special general meeting held on 9 April 1999 (the "Old Scheme") was terminated and a new share option scheme (the "Existing Scheme") was adopted at the special general meeting of the Company held on 29 April 2005. During the year, no share options have been granted or exercised under the Old Scheme and no share options have been granted or exercised under the Existing Scheme since its adoption.

Under the Existing Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within 10 years after its adoption at the discretion of the board of directors of the Company (the "Board"). The following is a summary of the Existing Scheme. For the purpose of this section, reference to "Eligible Group" means (i) the Company and each of its substantial shareholders; (ii) each associate or substantial shareholder or direct or indirect associated company or jointly controlled entity of any of the Company or of a substantial shareholder referred to in (i) above; (iii) each associate or substantial shareholder or direct or indirect associated company or jointly controlled entity of any of the foregoing entities referred to in (ii) above; (iv) each associate or substantial shareholder or direct or indirect associated company or jointly controlled entity of any of the foregoing entities referred to in (iii) above; and (v) each associate or substantial shareholder or direct or indirect associated company or jointly controlled entity of any of the foregoing entities referred to in (iv) above; and reference to "Employee" means any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director) of any member of the Eligible Group.

Purpose

The purpose of the Existing Scheme is to recognise and motivate the contribution of Employees and other person(s) who may make a contribution to the Group and to provide incentives and help the Group in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long time business objectives of the Group.

Participants

The participants include any director, officer and Employee of any member of the Eligible Group; and any executive, officer or employee of any business, consultant, professional and other advisers to any member of the Eligible Group or any person proposed to be appointed to any of the aforesaid positions who in the sole opinion of the board of directors of the Company has contributed or is expected to contribute to the Group.

Maximum number of shares available for subscription

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Existing Scheme and any other schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

Maximum entitlement of each participant

Unless approved by the shareholders of the Company at a general meeting, the total number of shares issued and to be issued upon the exercise of options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the issued share capital of the Company.

Maximum period for exercising an option

An option may be exercised in accordance with the terms of the Existing Scheme at any time during a period to be notified by the Board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

Basis of determining the exercise price

The exercise price per share shall be determined by the Board and shall be at least the higher of:

(i) the closing price of the shares as stated in daily quotation sheets of the Stock Exchange on the date on which the option is offered, which must be a trading day;

(ii) the average closing price of the shares as stated in daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date as mentioned in (i) above; and

(iii) the nominal value of the shares.

A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

Life of the Existing Scheme

The Existing Scheme shall remain in force for a period of 10 years commencing on 29 April 2005 to 28 April 2015.

No options were granted by the Company during both years and there were no options outstanding at 31 December 2005 and 2004.

41. PLEDGE OF ASSETS

At 31 December 2005, the Group pledged its leasehold interest in land and properties with an aggregate carrying value of approximately HK$8,779,000 (2004: HK$6,537,000) and bank deposits of HK$2,000,000 (2004: nil) as securities for general banking facilities granted to the Group.

42. OPERATING LEASE COMMITMENTS

The Group as leasee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	1,718	322
In the second to fifth years inclusive	59	–
	1,777	322

Operating lease payments represent rental payable by the Group for certain of its manufacturing plants, office properties and quarters. These leases are negotiated for terms of one to two years and rentals are fixed throughout the lease period.

43. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements for the acquisition of property, plant and equipment	1,092	–

44. CONTINGENT LIABILITIES

At 31 December 2005, the Group executed a guarantee amounting to HK$6,000,000 (2004: nil) to a bank as securities for banking facilities granted to its associates, Technical Group.

45. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2004, the Group's convertible note receivable of HK$32,000,000 was converted into 26.67 million shares of a company listed on the Stock Exchange at a conversion price of HK$1.20 per share.

46. RETIREMENT BENEFIT SCHEME

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefit scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

In light of the introduction of the Mandatory Provident Fund ("MPF") Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the retirement benefit scheme and participated in an approved MPF scheme with HSBC Life (International) Limited effective 1 December 2000 to provide scheme choice to existing employees. All new employees after 1 December 2000 are required to participate in the MPF Scheme. Mandatory and voluntary benefits are being provided under the MPF Scheme.

The employees employed in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The details of retirement benefit scheme contributions for the Company's directors and the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Gross retirement benefit scheme contributions	868	719
Less: Forfeited contributions utilised to offset contributions	(46)	(17)
Net retirement benefit scheme contributions	822	702

At 31 December 2005 and 2004, there were no forfeited contributions outstanding in the forfeiture accounts which were available to offset future employers' contributions to the scheme.

47. RELATED PARTY TRANSACTIONS

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

Name of related company	Relationship	Nature of transactions	2005 HK$'000	2004 HK$'000
Technical Development (HK) Limited	Associate	Sales of goods by the Group	170	–

Compensation of key management personnel

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

	2005 HK$'000	2004 HK$'000
Short-term benefits	6,341	11,971

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

48. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Ablelink Investments Limited	British Virgin Islands #	Ordinary US$100	100	Investment holding
Empire New Assets Limited	British Virgin Islands/ Hong Kong	Ordinary US$100	100	Property holding
Ensure Success Holdings Limited	British Virgin Islands #	Ordinary US$100	100	Investment holding
Gainwin Packaging Limited	Hong Kong	Ordinary HK$2	100	Inactive
Global Palace Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US$1,000	100	Property holding
Hoi Tin	Hong Kong	Ordinary HK$1,000,000	60	Sale of soft luggages, travel bags, backpacks and brief cases
Magic Hands International Limited	British Virgin Islands	Ordinary US$100	100	Inactive
Onestep Enterprises Limited	British Virgin Islands #	Ordinary US$100	100	Investment holding

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Permate Production Inc.	British Virgin Islands	Ordinary US$20	100	Inactive
Qualipak Development Limited *(Note a)*	British Virgin Islands #	Ordinary US$10,000	100	Investment holding
Qualipak Finance Limited	Hong Kong	Ordinary HK$2	100	Provision of financial services
Qualipak Fortune Inc.	British Virgin Islands	Ordinary US$10,000	100	Inactive
Qualipak Manufacturing (China) Limited	British Virgin Islands #	Ordinary US$1	100	Investment holding
Qualipak Manufacturing Limited *(Note b)*	Hong Kong	Ordinary HK$100 Non-voting deferred HK$22,303,857	100	Manufacture and sale of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.	PRC (wholly-owned Foreign Enterprise)	Registered HK$16,000,000	100	Inactive
Qualipak Nominees Limited	British Virgin Islands	Ordinary US$1	100	Inactive
Qualipak Production Inc.	British Virgin Islands	Ordinary US$10,000	100	Inactive
Qualipak Vision Inc.	British Virgin Islands	Ordinary US$10,000	100	Inactive
Qualipak Wonder Inc.	British Virgin Islands	Ordinary US$10,000	100	Inactive
Winning Hand Management Limited	British Virgin Islands/PRC	Ordinary US$1	100	Property holding
Wiseteam Assets Limited	British Virgin Islands/ Hong Kong	Ordinary US$100	100	Property holding
Wisdom Way Limited	Hong Kong	Ordinary HK$2	100	Property holding
Worthwell Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US$50,000	100	Investment holding

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Young Comfort Development Limited *(Note c)*	Hong Kong	Ordinary HK$10,000	45	Manufacture and sale of soft luggages, travel bags, backpacks and brief cases
海天環球旅游用品（蘇州）有限公司 *(Note d)*	PRC (wholly-owned Foreign Enterprise)	Registered US$5,000,000	60	Manufacture and sale of soft luggages, travel bags, backpacks and brief cases

These are investment holding companies which have no specific principal place of operations.

Notes:

(a) The Company directly holds the entire interest in Qualipak Development Limited. The equity interests of all other companies are indirectly held by the Company.

(b) The non-voting deferred shares have restricted rights on distribution of profits, capital and voting.

(c) Hoi Tin directly holds 75% equity interest in Young Comfort Development Limited.

(d) Hoi Tin directly holds the entire interest in 海天環球旅游用品（蘇州）有限公司.

None of the subsidiaries had issued any debt securities at 31 December 2005 or at any time during the year.

49. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2005	2004
	HK$'000	*HK$'000*
Non-current assets		
Interests in subsidiaries	159,531	159,531
Current assets		
Other receivables	472	457
Amounts due from subsidiaries	398,950	364,886
Tax recoverable	93	–
Bank balances	25	37
	399,540	365,380
Current liabilities		
Other payables and accrued charges	1,309	1,072
Amounts due to subsidiaries	26,402	26,932
Taxation payable	–	78
	27,711	28,082
Net current assets	371,829	337,298
Net assets	531,360	496,829
Capital and reserves		
Share capital *(Note 38)*	39,395	39,395
Share premium	199,901	199,901
Contributed surplus	158,331	158,331
Retained profits	133,733	99,202
Total equity	531,360	496,829

Profit of the Company for the year ended 31 December 2005 amounted to approximately HK$34,531,000 (2004: HK$21,522,000).

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2005	2004
	HK$'000	*HK$'000*
Retained profits	133,733	99,202
Contributed surplus	158,331	158,331
	292,064	257,533

50. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2005:

(a) The Group's convertible note receivable was redeemed by the issuer at cost of HK$16,000,000 on 7 March 2006.

(b) As announced by the Company on 31 March 2006, the Group entered into a conditional sale and purchase agreement on 30 March 2006 with an independent third party to dispose of the entire issued capital of its subsidiary, Wiseteam Assets Limited, which has as its only asset of an investment property with carrying amount of HK$44,670,000 at 31 December 2005, at a cash consideration of HK$49,000,000.

The Group also agreed to assign the shareholder's loan to Wiseteam Assets Limited to the independent third party.

(c) The Company has given guarantee to the extent of HK$6,000,000 in favour of a bank in respect of banking facilities granted to its associates, Technical Group.

(C) UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below are the unaudited condensed consolidated income statement of the Group for the six months ended 30 June 2006, the unaudited condensed consolidated balance sheet of the Group as at 30 June 2006, the unaudited condensed consolidated statement of changes in equity of the Group for the six months ended 30 June 2006, the unaudited condensed consolidated cash flow statement of the Group for the six months ended 30 June 2006, together with the accompanying notes as extracted from the interim report of the Company for the six months ended 30 June 2006:

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

	30.6.2006	**31.12.2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
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							
	Share capital	**Share premium**	**Surplus account**	**Translation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*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	**1.1.2005 to 30.6.2005**
	HK$'000	*HK$'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

Segment information about these businesses is presented below:

	Sales of packaging products HK$'000	Sales of travel bags HK$'000	Treasury investment HK$'000	Total HK$'000
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 HK$'000	Treasury investment HK$'000	Total HK$'000
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

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	**1.1.2005 to 30.6.2005**
	HK$'000	*HK$'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	**1.1.2005 to 30.6.2005**
	HK$'000	*HK$'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	**1.1.2005 to 30.6.2005**
	HK$'000	*HK$'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.

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	**31.12.2005**
	HK$'000	*HK$'000*
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	**31.12.2005**
	HK$'000	*HK$'000*
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	**31.12.2005**
	HK$'000	*HK$'000*
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.

	HK$'000
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	**31.12.2005**
	HK$'000	*HK$'000*
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**	**1.1.2005 to 30.6.2005**
			HK$'000	*HK$'000*
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	**1.1.2005 to 30.6.2005**
	HK$'000	*HK$'000*
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.

(A) WORKING CAPITAL

The Board is of the opinion that, after taking into account the existing financing available to the Enlarged Group, the working capital requirements, the expected cash flows of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular in the absence of unforeseen material circumstances.

(B) MATERIAL ADVERSE CHANGES

The Board confirms that there have not been any material adverse changes in the financial or trading position of the Group since 31 December 2005, the date to which the last published audited accounts of the Group were made up.

(C) INDEBTEDNESS

Securities and guarantees

Borrowings

At the close of business on 31 August 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank loans of approximately HK$2,450,000, discounted bills with recourse of approximately HK$41,300,000, bank overdrafts of approximately HK$6,810,000 and loans from minority shareholders of a subsidiary of approximately HK$8,000,000.

The secured bank loans, discounted bills with recourse and bank overdrafts, in aggregate, amounting to approximately HK$50,560,000 were secured by corporate guarantees from the Company, of which, (a) the bank loans of approximately HK$2,450,000 were additionally secured by the Group's leasehold land in Suzhou, the PRC with carrying value of approximately HK$2,980,000 as at 31 August 2006; (b) the discounted bills with recourse and bank overdrafts of approximately HK$48,110,000, in aggregate, were additionally secured by (i) the bank deposits of the Group of HK$3,000,000, (ii) the leasehold land and building of the Group located at Suzhou, the PRC with aggregate carrying value of approximately HK$22,700,000 as at 31 August 2006 and (iii) the leasehold properties of the Group located in Hong Kong with aggregate carrying value of approximately HK$6,270,000 as at 31 August 2006.

The loans from minority shareholders of a subsidiary of approximately HK$8,000,000 were unguaranteed and unsecured.

Amounts in foreign currency have, for the purpose of this indebtedness statement of the Group, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 August 2006.

Pledge of Assets

As at 31 August 2006, certain assets of the Group including the bank deposits of HK$3,000,000, the leasehold land and building located at Suzhou, the PRC with aggregate carrying value of HK$22,700,000 and the leasehold properties located in Hong Kong with aggregate carrying value of approximately HK$6,270,000 were pledged to certain banks to secure facilities granted to the Group.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 August 2006, the Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding.

(D) MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS OF THE GROUP

Year ended 31 December 2003

Business review

The outbreak of Severe Acute Respiratory Syndrome in the first quarter of 2003 significantly disrupted business activities in Hong Kong and Asia during that period, thus hurting and further delaying the economic recovery and growth in these regions. Due to the overall adverse economic conditions, the Group's total turnover for the financial year ended 31 December 2003 was approximately HK$191.9 million, representing a decrease of approximately 12.3% as compared with approximately HK$218.9 million for the year ended 31 December 2002.

Despite the decrease in the Group's revenue, operating profit improved from approximately HK$27.3 million to approximately HK$33.9 million. The Group's profit attributable to shareholders for the year was approximately HK$28.9 million, representing an increase of approximately 16.5% as compared with the year ended 31 December 2002. Operating profit was increased as a result of the improved product mix in the sales of packaging products, the introduction of new high end design lines as well as profit on disposal of convertible note and decrease in interest expenses. With the growth in sales for 2003 to the European market, both North America and Europe contributed to the Group's revenue almost in equal proportions.

Financial review

Investments

As at 31 December 2003, the Group had investments in convertible notes issued by two companies listed on the Stock Exchange of approximately HK$32 million and HK$10.5 million respectively.

Liquidity and financial resources

As at 31 December 2003, the Group's net assets value was approximately HK$526.2 million as compared with approximately HK$354.4 million as at 31 December 2002. The increase was attributable to a total of 1,562,500,000 shares issued during the year following the conversion of the convertible note payable into shares of the Company in June 2003 and the increase in retained profits during the year.

As at 31 December 2003, the Group had cash in hand of approximately HK$200.6 million. The Group had no external borrowings as at 31 December 2003.

Exchange risk

Approximately 71.2% of cash and deposits were denominated in US$ and approximately 28.8% were denominated in HK$. The Group's trade receivables were mainly invoiced in HK$ and US$ and had no significant exposure to foreign exchange risk. The Group did not undertake any foreign exchange hedging activity.

Capital expenditure

During the year ended 31 December 2003, the Group invested approximately HK$2.7 million in plant, machinery, equipment and other tangible assets.

Employees

As at 31 December 2003, the Group had approximately 3,500 employees, the majority of whom were employed in the PRC. The total remuneration of the employees of the Group amounted to approximately HK$14.2 million for the year ended 31 December 2003.

Pledge of assets

As at 31 December 2003, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK$6,695,000 (31 December 2002: HK$6,853,000) as security for general banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2003, the Company had contingent liabilities in respect of guarantees amounting to HK$20,000,000 given to banks for general banking facilities granted to subsidiaries. The banking facilities were not utilised as at 31 December 2003.

Year ended 31 December 2004

Business review

The consolidated turnover of the Group amounted to approximately HK$294 million, representing an increase of approximately 53.4% over the year ended 31 December 2003 (which amounted to approximately HK$191.9 million). Net profit increased by approximately 45.7% to approximately HK$42.1 million for the year ended 31 December 2004 (year ended 31 December 2003: approximately HK$28.9 million).

Consumer spending continued to grow in the United States and European markets. Sales volume in terms of quantity increased by approximately 19.7% as compared with that in 2003. North America continued to be the Group's major market which accounted for approximately 31.4% of the Group's revenue for the year ended 31 December 2004. Europe and Asia Pacific market segments contributed approximately 31.9% and approximately 30.6% respectively of the Group's revenue. The gross profit margin for the Group's manufacturing operation was slightly affected by rising labour and material costs during the year ended 31 December 2004.

The operating profit for the year ended 31 December 2004 was approximately HK$57.4 million, which increased by approximately HK$23.5 million as compared with that in 2003. The dividend and interest income from investments in securities for the year ended 31 December 2004 were approximately HK$0.9 million and approximately HK$1.7 million respectively. The unrealised holding gain on listed securities amounted to approximately HK$14.9 million for the year ended 31 December 2004.

Financial review

Investments

As at 31 December 2004, the Group held a portfolio of listed securities with market value of approximately HK$76.2 million, convertible notes and fixed rate notes of approximately HK$24.0 million issued by companies listed on the Stock Exchange.

Liquidity and financial resources

The shareholders' funds as at 31 December 2004 was approximately HK$554.5 million, representing an increase of approximately 5.4% as compared with the shareholders' funds as at 31 December 2003.

As at 31 December 2004, the Group had net cash of approximately HK$309.9 million, as compared with net cash of approximately HK$200.6 million as at 31 December 2003. The Group had no external borrowings as at 31 December 2004.

Exchange risk

Sales and purchase transactions of the Group are primarily denominated in US$ and/or HK$, whereas bank deposits are maintained in US$ and HK$. The Group's exposure to foreign exchange risk is thus minimal.

Capital expenditure

For the year ended 31 December 2004, the Group invested approximately HK$5.9 million in plant, machinery, equipment and other tangible assets.

Employees

As at 31 December 2004, the Group had approximately 4,000 employees (31 December 2003: 3,500). The total remuneration of the employees of the Group amounted to approximately HK$21.9 million for the year ended 31 December 2004.

Pledge of assets

As at 31 December 2004, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK$6,537,000 as security for general banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2004, the Company had contingent liabilities in respect of guarantees amounting to HK$20 million given to banks for general banking facilities granted to subsidiaries. None of this banking facilities was utilised as at 31 December 2004.

Year ended 31 December 2005

Business review

For the year ended 31 December 2005, the Group's turnover increased by approximately 51.2% to approximately HK$445.3 million. The Group's revenue was attributable as to approximately 62.0% from packaging products and approximately 38.0% from luggage products. Profit attributable to Shareholders decreased by approximately 2.2% to approximately HK$41.2 million.

The substantial increase in turnover was due to the contribution of the newly-acquired luggage products business in the year. The Group's packaging business achieved satisfactory results in the year ended 31 December 2005 despite the challenging operating environment resulting from rising raw material costs and the overall increase in labour costs. Fluctuations in raw material prices and increased labour costs weakened the Group's gross margin. Sales volume in terms of quantity decreased by approximately 2.1% as a result of the change in sales mix in 2005. Sales to Europe recorded a growth of approximately 29.5%, accounting for approximately 38.1% of the Group's total turnover. Sales to North and South America accounted for approximately 27.7% of the Group's total turnover.

Treasury investments achieved a profit of approximately HK$4.9 million (31 December 2004: approximately HK$50.7 million) which comprised securities trading losses of approximately HK$4.0 million, a dividend income of approximately HK$1.4 million, a provision for devaluation in fair value of convertible note receivable of approximately HK$0.9 million, a bank interest income of approximately HK$4.4 million and an unrealised holding gain on investments of approximately HK$4.0 million respectively.

The Group acquired in July 2005 a 60% interest in Hoi Tin Universal Limited ("Hoi Tin"), an OEM manufacturer of luggage products. Following the smooth operations of the new production plant in Suzhou, the PRC, turnover of Hoi Tin increased substantially during the last quarter of 2005. More specifically, overheads were reduced to bring them in line with the level of sales. The business was able to achieve a higher profit margin than before.

Following the acquisition of a 30% interest in Technical International Holdings Limited in June 2005, the share of profit from this associated company amounted to approximately HK$5.2 million for the six months ended 31 December 2005.

Financial review

Investments

As at 31 December 2005, the Group held a portfolio of listed securities with a market value of approximately HK$50.2 million and a convertible note of approximately HK$14.6 million issued by a company listed on the Stock Exchange.

Liquidity and financial resources

The shareholders' funds as at 31 December 2005 was approximately HK$580.0 million, representing an increase of approximately 4.7% from approximately HK$554 million as at 31 December 2004.

As at 31 December 2005, the Group had cash on hand of approximately HK$195.7 million (2004: approximately HK$309.9 million) and bank borrowings of approximately HK$15.4 million (2004: nil). As at 31 December 2005, the gearing ratio (being total borrowings to shareholders' equity) of the Group was approximately 2.6%. The Group's bank borrowings increased from nil as at 31 December 2004 to approximately HK$15.4 million as at 31 December 2005, as a result of the bank borrowings of Hoi Tin, a company acquired by the Group in July 2005.

Exchange risk

Sales and purchase transactions of the Group were primarily denominated in US$ and/or HK$, whereas bank deposits are maintained in HK$ and US$. The Group's exposure to foreign exchange risk was thus minimal.

Capital expenditure

For the year ended 31 December 2005, the Group invested approximately HK$5.7 million in plant, machinery, equipment and other tangible assets, and approximately HK$81.0 million in two office premises. One of the office premises has been let to earn rental income. The Group also spent approximately HK$1.1 million to expand the production facility in its luggage manufacturing plant in China.

Employees

As at 31 December 2005, the Group had approximately 5,756 employees. The total remuneration of the employees of the Group amounted to approximately HK$20.6 million for the year ended 31 December 2005.

Pledge of assets

As at 31 December 2005, the Group pledged (i) leasehold properties with a carrying amount of approximately HK$6,379,000 as security for general banking facilities granted to the Group; (ii) a piece of land as security for a revolving credit bank facility granted to a subsidiary of the Company; and (iii) fixed deposits as security for general banking facilities granted to a subsidiary of the Company.

Contingent liabilities

As at 31 December 2005, the Company had contingent liabilities in respect of guarantees amounting to approximately HK$35.3 million and approximately HK$6.0

million, respectively, given to banks for general banking facilities granted to subsidiaries and its associated company. As at 31 December 2005, one subsidiary of the Company had utilised its banking facilities to the extent of HK$13.0 million.

Six months ended 30 June 2006

Business review

During the six months ended 30 June 2006, the revenue of the Group increased by approximately 205.0% to approximately HK$391.6 million (six months ended 30 June 2005: HK$128.4 million). The Group's profit attributable to shareholders increased to approximately HK$37.5 million (six months ended 30 June 2005: HK$17.1 million). The increase in profits included a gain of approximately HK$17.2 million in respect of a convertible bond held for investment purpose. The substantial increase in revenue was mainly attributable to the contribution from the luggage products business acquired in July 2005, and the growth in the revenue of the packaging business during the six months ended 30 June 2006.

During the six months ended 30 June 2006, approximately 43.1%, 2.5% and 54.4% of the Group's profits were derived from packaging products, luggage products and treasury investment.

Packaging business

The turnover of the packaging business for the six months ended 30 June 2006 increased by approximately 17.3% to approximately HK$151.9 million (six months ended 30 June 2005: approximately HK$129.4 million). A segment profit of approximately HK$18.9 million (six months ended 30 June 2005: approximately HK$20.5 million) was recorded for the period. Sales to Europe contributed approximately 38.7% to the packaging business revenue whilst sales to America reduced by approximately 5.3% to approximately 23.3%. The remaining contributions were mainly from the sales in Hong Kong and the Asia Pacific markets. 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

The turnover of the luggage business during the period increased to approximately HK$221.7 million and a segment profit of approximately HK$1.1 million was recorded for the period. Substantial efforts by the management were undertaken to increase productivity, streamline operations and tighten cost control, which resulted in a higher profit margin during the six months ended 30 June 2006.

Treasury investment

Treasury investments achieved a profit of approximately HK$23.9 million (six months ended 30 June 2005: a loss of approximately HK$1.4 million). The dividend, interest and other income from these investments for the period amounted to approximately HK$0.7 million (six months ended 30 June 2005: approximately HK$0.9 million). The unrealised holding gain on listed securities during the period amounted to approximately HK$5.2 million (six months ended 30 June 2005: approximately HK$1.1 million).

Other businesses

Following the acquisition of an associated company which is principally engaged in the manufacturing of wine openers and related bar accessories in June 2005, the share of loss from this 30% owned company amounted to approximately HK$1.8 million during the period, after writing off cost of goodwill impairment of approximately HK$1.9 million (six months ended 30 June 2005: a profit of approximately HK$0.3 million).

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 which were set out in the Company's circular dated 19 April 2006.

Financial review

Investments

As at 30 June 2006, the Group held a portfolio of Hong Kong listed securities with a market value of approximately HK$91 million and a convertible bond of approximately HK$33.7 million.

Liquidity and financial resources

The shareholders' funds as at 30 June 2006 was approximately HK$594 million. As at 30 June 2006, the Group had cash on hand of approximately HK$201.7 million, and bank borrowings of approximately HK$35.9 million, including approximately HK$2.4 million bearing interest at fixed rates while approximately HK$33.5 million at floating rates. As at 30 June 2006, the gearing ratio (being total borrowings to shareholders' equity) of the Group was approximately 6.0%. The Group's bank borrowings increased from approximately HK$15.4 million as at 31 December 2005 to approximately HK$35.9 million as at 30 June 2006, which was attributable to the increase in borrowings of Hoi Tin as a result of the expansion of its scale of operations.

Exchange risk

Sales and purchase transactions and the bank borrowings of the Group were primarily denominated in US$ and/or HK$, whereas bank deposits were maintained in HK$ and US$. Therefore the Group's exposure to foreign exchange risk was minimal.

Capital expenditure

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

Employees

As at 30 June 2006, the Group had approximately 6,310 employees. The total remuneration of the employees of the Group amounted to approximately HK$14.6 million for the six months ended 30 June 2006.

Pledge of assets

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

Contingent liabilities

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

(E) FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Existing businesses

The Directors expect the Group's businesses to expand in the coming years. The Group's 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 RMB. Given the Group's operational efficiency and stable customer base, the Directors expect continued growth in the packaging business. Taking into account the growth in the tourism industry, efficient operations and good customer relationships, the Directors expect the profitability of the luggage business will also improve in the coming year.

The Directors believe that the Group is well prepared to meet the competition in its existing businesses. The management has been continuing to seek further investment or acquisition opportunities and to consolidate the Group's existing operations and add new product categories, and in turn, to achieve solid returns for the Shareholders.

The Subject Company

The Subject Company is principally engaged in property development and investment in Chongqing, the PRC. The Chongqing property market has recorded a healthy trend of rising prices and sales.

Plans for office, residential, retail, entertainment and hotel properties are being drawn, in conjunction with well known architects and designers, to achieve product diversity and to meet the needs of the market. The Subject Company seeks to maintain an appropriate balance between income from properties sales and recurring income derived from investment properties. In 2006 and 2007, the Subject Company will begin construction of Phase III of Huijing Terrace and the Flying Dragon Garden. The Subject Company expects to realise the profits in the second half of 2007.

Extensive infrastructure developments are expected to be constructed and completed in the near future by the Chongqing government. These infrastructure developments should further boost economic developments in Chongqing. Together with the steadily rising Gross Domestic Product of Chongqing, such developments will lead to an increased demand for properties. The Subject Company's land bank is centrally located in the new Yubei District which is near the Chongqing airport and is where most major government organisations and offices have now relocated. With its close proximity to the new railway station and transport hubs, the land bank is at a most desirable location.

While the PRC's economy and its property industry sector continue their strong growth, property developers are faced with rising costs of construction materials. In light of these challenges, the management of the Subject Company, with its vast experience in property development, will counter with stringent cost control measures, and streamlined operation. The Directors believe that the Subject Company has established a strong brand name and leadership in the Chongqing property market.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Ernst &Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG

18th Floor
Two International
Finance Centre
8 Finance Street
Central
Hong Kong

20 October 2006

The Directors
Qualipak International Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Starthigh International Ltd (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), prepared on the basis set out in Note 1 of Section II below, for each of the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006 (the "Relevant Periods") for inclusion in the circular of Qualipak International Holdings Limited ("Qualipak") dated 20 October 2006 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of the Company.

The Company was incorporated in the British Virgin Islands ("BVI") on 17 March 2006 with limited liability under the International Business Companies Ordinance of the BVI. Pursuant to a group reorganisation as detailed in Note 1 of Section II below (the "Reorganisation"), which was completed on 30 June 2006, the Company became the intermediate holding company of Chongqing Zhongyu Property Development Co., Ltd. ("CQ Zhongyu") which is the holding company of all the subsidiaries established in the People's Republic of China (the "PRC") set out in Note 1 of Section II below.

CQ Zhongyu was established in the PRC as a limited liability company on 11 June 1992. During the Relevant Periods, CQ Zhongyu was principally engaged in property development and investment.

All companies now comprising the Group, its associate and jointly-controlled entity have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Company since its date of incorporation as it was newly incorporated and has not been involved in any significant business transactions since incorporation other than the Reorganisation. The subsidiaries, associate and jointly-controlled entity of CQ Zhongyu were established in the PRC and have prepared statutory accounts in accordance with the accounting principles and the relevant financial regulations of the PRC (the "PRC GAAP") applicable to these companies and were not audited by us.

For the purpose of this report, the directors of the Company have prepared accounts for the companies established in the PRC in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS financial statements") based on their PRC GAAP accounts for the Relevant Periods. We have carried out an independent audit of the HKFRS financial statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have performed a review of the comparative financial information which includes the combined income statements, combined statement of changes in equity and combined cash flow statement of the Group for the six months ended 30 June 2005, together with the notes thereon, (the "30 June 2005 Financial Information") for which the directors of the Company are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2005 Financial Information.

The combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Periods, the combined balance sheets of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006, together with the notes thereto (collectively the "Financial Information") as set out in this report have been prepared, and are presented on the basis set out in Section I & II below.

The directors of the Company are responsible for the preparation of the Financial Information and the 30 June 2005 Financial Information. In preparing the Financial Information and the 30 June 2005 Financial Information that give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion and a review conclusion, based on our examination and review, on the Financial Information and the 30 June 2005 Financial Information, respectively, and to report our opinion and review conclusion thereon.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Note 1 of Section II below, gives a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods, and of the state of affairs of the Group as at 31 December 2003, 2004, 2005 and 30 June 2006.

On the basis of our review, which does not constitute an audit, we are not aware of any material modification that should be made to the 30 June 2005 Financial Information.

I. FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	*5*	152,243	235,359	214,598	158,026	10,202
Cost of sales		(143,924)	(174,011)	(150,776)	(134,685)	(3,084)
Gross profit		8,319	61,348	63,822	23,341	7,118
Other income and gains	*5*	11,939	10,087	5,128	2,274	1,004
Selling and distribution costs		(966)	(1,860)	(1,510)	(799)	(521)
Administrative expenses		(8,222)	(6,932)	(14,455)	(3,716)	(8,560)
Other operating expenses		(2,704)	(1,617)	(8,428)	(40)	(1,269)
Fair value gains/(losses) on investment properties, net	*13*	(2,341)	22,164	10,001	3,542	(239)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		6,025	83,190	54,558	24,602	(2,467)
Finance costs	*7*	(18,709)	(20,553)	(31,799)	(13,484)	(11,796)
Share of losses of:						
A jointly-controlled entity	*16*	(3,152)	(6,285)	(3,196)	(1,598)	–
An associate		(1,956)	(1,970)	(2,612)	(570)	(1,187)
PROFIT/(LOSS) BEFORE TAX	*6*	(17,792)	54,382	16,951	8,950	(15,450)
Tax	*9*	3,958	(20,860)	(8,584)	(3,669)	4,699
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(13,834)	33,522	8,367	5,281	(10,751)
ATTRIBUTABLE TO:						
Equity holders of the Company		(13,922)	33,522	8,367	5,281	(10,751)
Minority interests		88	–	–	–	–
		(13,834)	33,522	8,367	5,281	(10,751)
Dividends		–	–	–	–	–

Combined balance sheets

		31 December			30 June
		2003	**2004**	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	16,593	19,804	46,094	45,261
Investment properties	*13*	79,660	141,030	144,840	143,470
Prepaid land lease payments	*14*	302	490	847	840
Properties under development	*15*	369,522	373,460	381,774	396,322
Interest in a jointly-controlled entity	*16*	(98,224)	(13,765)	48,175	–
Interest in an associate	*18*	(55,328)	59,232	65,939	77,133
Available-for-sale equity investments	*19*	44,165	50,038	46,651	46,798
Deferred tax assets, net	*28*	3,358	–	–	–
Pledged deposits	*24*	35,415	104,130	104,130	44,870
Total non-current assets		395,463	734,419	838,450	754,694
CURRENT ASSETS					
Properties under development for sale	*15*	176,120	21,613	6,437	7,683
Completed properties for sale	*20*	–	1,806	911	710
Trade receivables	*21*	4,080	6,666	2,248	404
Prepayments, deposits and other receivables	*22*	312,636	150,860	16,062	177,217
Tax recoverable		620	–	–	–
Due from related parties	*23*	181,359	111,416	175,028	183,134
Pledged deposits	*24*	114,889	65,053	56,977	114,923
Cash and cash equivalents	*24*	88,493	29,842	9,394	21,301
Total current assets		878,197	387,256	267,057	505,372
CURRENT LIABILITIES					
Trade and bills payables	*29*	93,043	43,862	26,626	21,377
Interest-bearing bank loans	*27*	650,311	563,730	757,527	652,127
Tax payable		–	9,086	10,958	9,480
Other payables and accruals	*30*	342,791	172,680	182,385	108,780
Due to related parties	*23*	5,672	7,300	17,508	59,962
Total current liabilities		1,091,817	796,658	995,004	851,726
NET CURRENT LIABILITIES		(213,620)	(409,402)	(727,947)	(346,354)

		31 December			30 June
		2003	**2004**	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		181,843	325,017	110,503	408,340
NON-CURRENT LIABILITIES					
Interest-bearing bank loans	*27*	125,000	227,280	–	152,961
Deferred tax liabilities, net	*28*	–	7,372	11,771	7,072
Total non-current liabilities		125,000	234,652	11,771	160,033
Net assets		56,843	90,365	98,732	248,307
EQUITY					
Equity attributable to equity holders of the Company:					
Issued capital	*25*	–	–	–	–
Reserves	*26(i)*	56,843	90,365	98,732	248,307
Total equity		56,843	90,365	98,732	248,307

Balance sheet of the Company

		30 June 2006
	Notes	*RMB'000*
NON-CURRENT ASSET		
Investment in a subsidiary		–
CURRENT ASSET		
Cash and cash equivalents		8
CURRENT LIABILITY		
Due to a related party		19
NET CURRENT LIABILITY		(11)
Net liability		(11)
EQUITY		
Issued capital	*25*	–
Reserves	*26(ii)*	(11)
		(11)

Note: The investment in a subsidiary represented 1 share of HK$1 issued at par by Charm Best Investment Ltd., a limited liability company incorporated in Hong Kong on 30 March 2006.

Combined statements of changes in equity

		Attributable to equity holders of the Company						
	Notes	Issued capital RMB'000	Merger reserve RMB'000 (Note)	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2003		–	63,191	–	7,574	70,765	532	71,297
Net loss for the year		–	–	–	(13,922)	(13,922)	88	(13,834)
Disposal of a subsidiary	31	–	–	–	–	–	(620)	(620)
At 31 December 2003 and 1 January 2004		–	63,191	–	(6,348)	56,843	–	56,843
Net profit for the year		–	–	–	33,522	33,522	–	33,522
Transfer to statutory reserves	10	–	–	892	(892)	–	–	–
At 31 December 2004 and 1 January 2005		–	63,191	892	26,282	90,365	–	90,365
Net profit for the year		–	–	–	8,367	8,367	–	8,367
At 31 December 2005 and 1 January 2006		–	63,191	892	34,649	98,732	–	98,732
Issuance of shares		–	160,326	–	–	160,326	–	160,326
Net loss for the period		–	–	–	(10,751)	(10,751)	–	(10,751)
At 30 June 2006		–	223,517	892	23,898	248,307	–	248,307
At 1 January 2005		–	63,191	892	26,282	90,365	–	90,365
Net profit for the period (unaudited)		–	–	–	5,281	5,281	–	5,281
Transfer to statutory reserves (unaudited)	10	–	–	334	(334)	–	–	–
At 30 June 2005 (unaudited)		–	63,191	1,226	31,229	95,646	–	95,646

Note: The merger reserve of the Group represents the difference between the issued capital of CQ Zhongyu and the nominal value of the share capital issued by the Company upon the Reorganisation as discussed in note 1 of this section.

Combined cash flow statements

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		(17,792)	54,382	16,951	8,950	(15,450)
Adjustments for:						
Finance costs	7	18,709	20,553	31,799	13,484	11,796
Share of losses of a jointly-controlled entity and an associate		5,108	8,255	5,808	2,168	1,187
Bank interest income	5	(3,255)	(5,107)	(4,209)	(1,477)	(769)
Reversal of business tax provision	5	(4,383)	(4,040)	–	–	–
Gain on disposal of a subsidiary	5	(2,367)	–	–	–	–
Loss on disposal of a jointly-controlled entity		–	–	–	–	1,188
Dividend income from an unlisted investment	5	(1,754)	(682)	(744)	(744)	(147)
Loss on disposal of investment properties	6	3,209	53	1,566	1,282	202
Depreciation	6	1,068	1,905	2,486	582	1,454
Amortisation of prepaid land lease payments	6	5	5	14	4	7
Fair value losses/(gains) on investment properties	13	2,341	(22,164)	(10,001)	(3,542)	239
Loss on cancellation of available-for-sale equity shares	6	–	–	4,131	–	–
Operating profit/(loss) before working capital changes		889	53,160	47,801	20,707	(293)
Decrease/(increase) in properties under development		21,151	136,545	3,545	14,517	(3,218)
Decrease/(increase) in completed properties for sale		–	(1,806)	895	198	201
Decrease/(increase) in trade receivables		4,040	(2,586)	4,418	4,971	1,844
Decrease/(increase) in prepayments, deposits and other receivables		(88,649)	161,776	134,798	(124,914)	(114,168)
Decrease/(increase) in amounts due from related parties		(14,373)	69,943	(63,612)	(40,215)	(8,106)
Increase/(decrease) in trade and bills payables		51,223	(49,181)	(17,236)	(21,116)	(5,249)
Increase/(decrease) in other payables and accruals		28,493	(170,111)	9,705	209,553	(73,605)
Increase in amounts due to related parties		3,672	1,628	10,208	5,000	42,454

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash generated from/(used in) operations		6,446	199,368	130,522	68,701	(160,140)
Interest received		3,255	5,107	4,209	1,477	769
Interest paid		(46,436)	(51,475)	(54,965)	(25,001)	(24,372)
Business tax refund received		4,383	4,040	–	–	–
PRC corporate income tax paid		(1,186)	(424)	(2,313)	(2,315)	(1,478)
Net cash inflow/(outflow) from operating activities		(33,538)	156,616	77,453	42,862	(185,221)
CASH FLOWS FROM INVESTING ACTIVITIES						
Dividends received		865	–	–	–	–
Purchases of items of property, plant and equipment		(284)	(1,863)	(4,623)	(22)	(621)
Additions to investment properties		–	–	(103)	–	–
Proceeds from disposal of investment properties		11,850	2,241	6,687	5,138	929
Purchase of available-for-sale equity investments		(150)	(5,191)	–	–	–
Proceeds from disposal of a subsidiary	*31*	7,343	–	–	–	–
Advance to a jointly-controlled entity		(1,521)	(90,744)	(65,136)	(21,226)	–
Advance to an associate		(18,302)	(116,530)	(9,319)	(4,280)	(12,381)
Net decrease/(increase) in pledged deposits		(43,686)	(18,879)	8,076	(1,309)	1,314
Net decrease/(increase) in non-pledged deposits with original maturity of more than three months when acquired		7,345	33,923	(1,243)	(1,130)	(395)
Net cash outflow from investing activities		(36,540)	(197,043)	(65,661)	(22,829)	(11,154)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital contribution from a shareholder		–	–	–	–	160,326
New bank loans		501,920	607,000	449,730	383,130	404,550
Repayment of bank loans		(416,387)	(591,301)	(481,810)	(403,710)	(356,550)
Net cash inflow/(outflow) from financing activities		85,533	15,699	(32,080)	(20,580)	208,326

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		15,455	(24,728)	(20,288)	(547)	11,951
Cash and cash equivalents at beginning of year/period		39,105	54,570	29,842	29,842	8,151
Effect of foreign exchange rate changes, net		10	–	(1,403)	–	(439)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		54,570	29,842	8,151	29,295	19,663
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*24*	54,570	29,842	8,151	29,295	19,663

II. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the British Virgin Islands ("BVI") on 17 March 2006 with limited liability under the International Business Companies Ordinance of the BVI. On 30 June 2006, the Group underwent a reorganisation (the "Reorganisation"). Prior to the Reorganisation, Mr. Cheung Chung Kiu ("Mr. Cheung") was the sole shareholder of Chongqing Zhongyu Property Development Co., Ltd. (hereinafter referred to as "CQ Zhongyu"). CQ Zhongyu was the then holding company of all the other subsidiaries, associate and jointly-controlled entity comprising the Group. As part of the Reorganisation, the Company acquired from Mr. Cheung the entire equity interest in CQ Zhongyu, and became a holding company of the Group.

Since the Company and CQ Zhongyu were wholly-owned and controlled by Mr. Cheung before and after the completion of the Reorganisation, the Reorganisation is considered as a business combination under common control. Accordingly, the Financial Information includes the results, assets and liabilities, and cash flows of CQ Zhongyu, its subsidiaries, associate and jointly-controlled entity now comprising the Group as if the current group structure had been in existence from the beginning of the Relevant Periods or since the respective dates of their registration, whichever is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

Particulars of the companies comprising the Group, which have characteristics substantially similar to a private company incorporated in Hong Kong, are set out below:

Company name	Date of incorporation/ registration and operations	Issued/ registered and fully paid share capital at the date of this report	Percentage of equity interest attributable to the Group during the Relevant Periods Direct	Indirect	Principal activities
Subsidiary – incorporated in Hong Kong:					
Charm Best Investment Ltd. *(note a)*	30 March 2006	HK$1	100	–	Investment holding
Subsidiaries – established in the PRC:					
Chongqing Zhongyu Property Development Co., Ltd. (重慶中渝物業發展有限公司) *(note e)*	11 June 1992	USD31,000,000	–	100	Property development and investment
Chongqing Shuaitong Property Development Co. Ltd. (重慶帥通物業發展有限公司) *(note b)*	7 April 2006	RMB10,000,000	–	100	Dormant
Chongqing Jiazhou Agricultural Sideline Products Wholesale Market (重慶加州農副產品批發市場) *(note c)*	25 October 1995	RMB8,880,000	–	90	Lease of a wholesale market

Company name	Date of incorporation/ registration and operations	Issued/ registered and fully paid share capital at the date of this report	Percentage of equity interest attributable to the Group during the Relevant Periods Direct	Indirect	Principal activities
Jointly-controlled entity – established in the PRC:					
Chongqing Pacific Housing Development Co. Ltd. (重慶太平洋屋業發展有限公司) *(notes d, e)*	23 April 1993	USD9,500,000	–	40	Property development
Associate – established in the PRC:					
Chongqing Technological City Stock Co. Ltd. (重慶科技城有限責任公司) *(note e)*	12 April 2002	RMB100,000,000	–	30	Property development

Notes:

(a) Charm Best Investment Ltd. was incorporated on 30 March 2006 with registered capital and paid-up capital of HK$1, and no statutory accounts have been prepared since its date of incorporation.

(b) 重慶帥通物業發展有限公司 was established by CQ Zhongyu on 7 April 2006 with registered capital and paid-up capital of RMB10,000,000, and no statutory accounts have been prepared since its date of incorporation.

(c) Pursuant to share transfer agreements dated 5 November 2003, the Group sold its entire interest in 重慶加州農副產品批發市場. No statutory accounts have been prepared for the 10 months ended 31 October 2003.

(d) Pursuant to a share transfer agreement dated 18 April 2006, the Group sold its entire interest in 重慶太平洋屋業發展有限公司.

(e) The statutory accounts of these companies for the years ended 31 December 2003, 2004 and 2005 were audited by 北京永拓會計師事務所有限責任公司重慶分公司 and no statutory accounts have been prepared for the six months ended 30 June 2006.

The Financial Information set out in this report has been prepared under the going concern concept, notwithstanding that the Group had net current liabilities of approximately RMB346,354,000 as at 30 June 2006, because the ultimate shareholder has agreed to provide adequate funds for the Group to meet its liabilities as and when they fall due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information. The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in a subsidiary is stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither unilateral/joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the combined income statement and combined reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interest in a jointly-controlled entity is stated in the combined balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's interest in a jointly-controlled entity. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Jointly-controlled operations

The arrangements entered into by the Group with other parties for property development without establishing separate entities are considered to be jointly-controlled operations pursuant to HKAS 31 "Interests in Joint Ventures". In respect of its interests in such operations, the Group recognises the land costs and other expenses incurred by the Group as properties under development. The Group's profit earned from the sale of properties under the operations is recognised upon the registration of property certificates by the purchasers, after netting off any related balance in properties under development at that time.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the combined income statement and combined reserves, respectively. The Group's interest in an associate is stated in the combined balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associate is included as part of the Group's interest in an associate. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the combined balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate and a jointly-controlled entity, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the combined balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for an associate and a jointly-controlled entity is included in the Group's share of the associate's and jointly-controlled entity's profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise construction costs, borrowing costs, professional fees, prepaid land lease payments and other costs directly attributable to such properties incurred during the development period.

Properties under development which have been pre-sold or intended for sale and are expected to be completed within one year from the balance sheet date are classified under current assets. On completion, the properties are transferred to completed properties for sale.

Revenue is only recognised upon completion of the development. Sales deposits/instalments received and receivable from purchasers in respect of pre-sale of properties under development prior to completion of the development are included in current liabilities.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the combined cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and interest in a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of properties, when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectibility of related receivables is reasonably assured;

(b) rental income, in the period in which the properties are let out on the straight-line basis over the lease terms;

(c) property management income, when the related management services are provided; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Retirement benefits schemes

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.63% and 6.52% has been applied to the expenditure on the individual assets.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of fair value of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Land appreciation tax ("LAT")

The provision of land appreciation tax is estimated and made according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for land appreciation tax is calculated.

4. SEGMENT INFORMATION

The Group's turnover and profit for the Relevant Periods were mainly derived from sale of properties in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business or geographical segments is provided.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the gross proceeds, after business tax, from the sale of properties, and the gross rental income received and receivable from investment properties during the Relevant Periods.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue					
Sale of properties	151,602	239,746	213,979	161,132	2,152
Gross rental income	8,359	7,658	11,961	4,850	8,508
	159,961	247,404	225,940	165,982	10,660
Less: Business tax	(7,718)	(12,045)	(11,342)	(7,956)	(458)
	152,243	235,359	214,598	158,026	10,202
Other income and gains					
Bank interest income	3,255	5,107	4,209	1,477	769
Reversal of business tax provision	4,383	4,040	–	–	–
Gain on disposal of a subsidiary *(note 31)*	2,367	–	–	–	–
Dividend income from an unlisted investment	1,754	682	744	744	147
Others	180	258	175	53	88
	11,939	10,087	5,128	2,274	1,004

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of properties sold	135,643	172,226	149,878	134,424	2,406
Depreciation *(note 12)*	1,068	1,905	2,486	582	1,454
Amortisation of prepaid land lease payments *(note 14)**	5	5	14	4	7
Loss on cancellation of available-for-sales equity shares	–	–	4,131	–	–
Litigation settlement expenses	–	–	3,000	–	–
Minimum lease payments under operating leases of land and buildings	550	550	754	382	107
Auditors' remuneration	30	30	35	–	300
Employee benefits expense (including directors' remuneration – *note (8)*):					
Salaries, allowances and benefits in kind	1,887	1,967	1,610	971	1,146
Retirement benefits scheme contributions	217	364	194	94	38
	2,104	2,331	1,804	1,065	1,184
Foreign exchange differences, net	38	14	4,701	–	889
Loss on disposal of interest in a jointly-controlled entity	–	–	–	–	1,188
Loss on disposal of investment properties	3,209	53	1,566	1,282	202

* *The amortisation of prepaid land lease payments is included in "Administrative expenses" on the face of the combined income statements.*

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on bank loans wholly repayable within five years	44,190	45,511	49,108	22,889	23,446
Interest on bills receivable	2,246	5,964	5,857	2,112	926
Total interest	46,436	51,475	54,965	25,001	24,372
Less: Interest capitalised	(27,727)	(30,922)	(23,166)	(11,517)	(12,576)
	18,709	20,553	31,799	13,484	11,796

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(i) Directors' remuneration

No remuneration has been paid or is payable in respect of any of the Relevant Periods by the Company or its subsidiary to the directors of the Company.

No directors of the Company waived or agreed to waive any remuneration during the Relevant Periods.

(ii) Five highest paid individuals

During the Relevant Periods, none of the five highest paid individuals is director of the Company. The remuneration of each of the non-director highest paid employees for each of the Relevant Periods fell within the range of nil to RMB1,040,000 (equivalent to HK$1,000,000), and an analysis of which is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	190	251	232	114	113
Retirement benefits scheme contributions	–	3	3	1	2
	190	254	235	115	115

(iii) During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAX

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods. The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for each of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current – Mainland China	1,050	10,130	4,185	3,082	–
Deferred *(note 28)*	(5,008)	10,730	4,399	587	(4,699)
Total tax charge/(credit) for the year/period	(3,958)	20,860	8,584	3,669	(4,699)

A reconciliation of the tax expense applicable to profit before tax using the statutory income tax rate to the tax expense at the Group's effective income tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) before tax	(17,792)	54,382	16,951	8,950	(15,450)
At statutory income tax rate of 33%	(5,871)	17,946	5,594	2,953	(5,099)
Loss attributable to a jointly-controlled entity and an associate	1,685	2,723	1,916	716	392
Expenses not deductible	228	191	1,074	–	8
Tax charge/(credit) at the Group's effective rate	(3,958)	20,860	8,584	3,669	(4,699)

10. DISTRIBUTION OF PROFIT

According to the articles of association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the companies shall appropriate certain percentage of net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the equity. The staff bonus and welfare shall be accounted for as liabilities. The appropriation to such funds is at the discretion of the board of directors of the respective companies. There has not been any appropriation to enterprise expansion fund and staff bonus and welfare fund during the Relevant Periods.

11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the Group's results for the Relevant Periods on the combined basis as disclosed in note 1 above.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Con-struction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2003	7,096	3,086	9,730	368	20,280
Additions	–	64	220	–	284
Transfer from properties under development *(note 15)*	13,768	–	–	–	13,768
Disposal of a subsidiary *(note 31)*	–	(65)	–	(368)	(433)
At 31 December 2003 and 1 January 2004	20,864	3,085	9,950	–	33,899
Additions	1,367	115	381	–	1,863
Transfer from properties under development *(note 15)*	3,253	–	–	–	3,253
At 31 December 2004 and 1 January 2005	25,484	3,200	10,331	–	39,015
Additions	4,563	60	–	–	4,623
Transfer from properties under development *(note 15)*	24,153	–	–	–	24,153
Disposals	–	–	(421)	–	(421)
At 31 December 2005 and 1 January 2006	54,200	3,260	9,910	–	67,370
Additions	210	411	–	–	621
At 30 June 2006	54,410	3,671	9,910	–	67,991
Accumulated depreciation					
At 1 January 2003	4,802	2,302	9,175	–	16,279
Depreciation provided during the year	672	189	207	–	1,068
Disposal of a subsidiary *(note 31)*	–	(41)	–	–	(41)
At 31 December 2003 and 1 January 2004	5,474	2,450	9,382	–	17,306
Depreciation provided during the year	1,564	178	163	–	1,905
At 31 December 2004 and 1 January 2005	7,038	2,628	9,545	–	19,211
Depreciation provided during the year	2,204	163	119	–	2,486
Disposals	–	–	(421)	–	(421)
At 31 December 2005 and 1 January 2006	9,242	2,791	9,243	–	21,276
Depreciation provided during the period	1,312	83	59	–	1,454
At 30 June 2006	10,554	2,874	9,302	–	22,730
Net carrying amount:					
At 31 December 2003	15,390	635	568	–	16,593
At 31 December 2004	18,446	572	786	–	19,804
At 31 December 2005	44,958	469	667	–	46,094
At 30 June 2006	43,856	797	608	–	45,261

At 31 December 2005 and 30 June 2006, the Group's buildings with aggregate net carrying amounts of RMB17,302,000 and RMB16,950,000 were pledged to secure banking facilities granted to the Group (note 27).

13. INVESTMENT PROPERTIES

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	97,060	79,660	141,030	144,840
Additions	–	–	103	–
Net profit/(loss) from a fair value adjustment	(2,341)	22,164	10,001	(239)
Transfer from properties under development *(note 15)*	–	41,500	1,959	–
Disposal	(15,059)	(2,294)	(8,253)	(1,131)
At end of year/period	79,660	141,030	144,840	143,470

The Group's investment properties were located in Mainland China and were held under long term leases.

The Group's investment properties were revalued on 20 October 2006 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are either held for capital appreciation or leased to third parties under operating leases, further summary details of which are included in note 33(a).

At each of the balance sheet dates during the Relevant Periods, the aggregate net carrying amounts of the Group's investment properties pledged to secure banking facilities were as follows:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured banking facilities granted to:				
The Group *(note 27)*	28,318	48,613	37,744	37,737
A jointly-controlled entity	–	2,321	2,517	–
A joint venture partner	17,890	33,290	34,660	34,510
An independent third party	–	–	5,329	–
	46,208	84,224	80,250	72,247

14. PREPAID LAND LEASE PAYMENTS

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	–	302	490	847
Transfer from properties under development *(note 15)*	307	193	371	–
Amortisation	(5)	(5)	(14)	(7)
At end of year/period	302	490	847	840

The Group's interests in land use rights in the PRC were held under long term leases.

15. PROPERTIES UNDER DEVELOPMENT

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	550,300	545,642	395,073	388,211
Additions (including development costs and capitalised interests)	85,837	41,859	47,883	15,794
Transfer to completed properties for sale	(76,420)	(147,482)	(28,262)	–
Transfer to property, plant and equipment *(note 12)*	(13,768)	(3,253)	(24,153)	–
Transfer to investment properties *(note 13)*	–	(41,500)	(1,959)	–
Transfer to prepaid land lease payments *(note 14)*	(307)	(193)	(371)	–
At end of the year/period	545,642	395,073	388,211	404,005
Properties under development classified as non-current assets	369,522	373,460	381,774	396,322
Properties under development held for sale classified as current assets	176,120	21,613	6,437	7,683
	545,642	395,073	388,211	404,005

The Group's properties under development were located in Mainland China and were held under long term leases.

At each of the balance sheet dates during the Relevant Periods, the aggregate carrying amounts of the Group's properties under development pledged to secure banking facilities were as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured banking facilities granted to:				
The Group *(note 27)*	198,211	183,542	159,192	247,511
A jointly-controlled entity	48,195	47,585	51,486	–
An associate	37,751	38,809	48,073	–
A joint venture partner	18,837	10,757	13,093	–
An independent third party	–	15,871	15,406	1,953
	302,994	296,564	287,250	249,464

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	20,966	14,681	11,485	–
Goodwill on acquisition, at cost	20,157	20,157	20,157	–
	41,123	34,838	31,642	–
Due from/(to) a jointly-controlled entity	(139,347)	(48,603)	16,533	–
	(98,224)	(13,765)	48,175	–

The balances with the jointly-controlled entity are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

The Group's investment in the jointly-controlled entity was held through a wholly-owned subsidiary of the Company. Particulars of the jointly-controlled entity are set out in note 1 of this section.

The Group's investment in the jointly-controlled entity was disposed of by the Group in the period ended 30 June 2006.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of the jointly-controlled entity's assets and liabilities:				
Current assets	100,760	76,990	83,734	–
Non-current assets	29,723	30,040	35,983	–
Current liabilities	(94,540)	(80,560)	(106,364)	–
Non-current liabilities	(14,977)	(11,789)	(1,868)	–
Net assets	20,966	14,681	11,485	–
Share of the jointly-controlled entity's results:				
Turnover	3,676	3,162	3,415	–
Other revenue	123	795	58	–
Total revenue	3,799	3,957	3,473	–
Total expenses	(6,951)	(10,242)	(6,669)	–
Tax	–	–	–	–
Loss after tax	(3,152)	(6,285)	(3,196)	–

17. INTEREST IN A JOINTLY-CONTROLLED OPERATION

The Group entered into an agreement with Chongqing Tongya Real Estate Co., Ltd (重慶通亞房地產開發有限公司) (the "joint venture partner") for the development of a property in Mainland China. Pursuant to the terms of the agreement, the Group contributes the subject development site and the joint venture partner bears all the other development costs. At the respective balance sheet dates, the aggregate amounts of assets and results recognised in the Group's financial statements in relation to the interest in the jointly-controlled operation are as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets	40,463	42,118	61,451	61,408
Turnover	48,278	–	147,728	859
Profit/(loss) before tax	10,744	–	19,767	(215)

18. INTEREST IN AN ASSOCIATE

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	27,775	25,805	23,193	22,006
Due from/(to) an associate	(83,103)	33,427	42,746	55,127
	(55,328)	59,232	65,939	77,133

The balances with an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of these balances approximate to their fair values.

The Group's investment in the associate is held through a wholly-owned subsidiary of the Company. Particulars of the associate are set out in note 1 of this section.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets	258,154	274,486	263,227	173,353
Liabilities	165,570	188,470	185,919	100,001
Revenue	–	–	–	–
Loss	6,520	6,567	8,708	3,956

19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

The available-for-sale equity investments as at each balance sheet date include the unlisted equity shares in Bank of Communication Co. Ltd. and Chongqing Commercial Bank, which are entities established in the PRC.

The unlisted equity investments of the Group were stated at cost less any impairment losses and not at fair value because they did not have quoted market price in an active market, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed.

At 31 December 2003, the Group's available-for-sale equity investments with an aggregate net carrying amount of approximately RMB12,723,000 was pledged to secure banking facilities granted to the Group (note 27).

20. COMPLETED PROPERTIES FOR SALE

The Group's completed properties for sale were located in Mainland China and were held under long term leases.

21. TRADE RECEIVABLES

The Group's trade receivables mainly arise from the sale of properties. Consideration in respect of properties sold is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. Trade receivables are non-interest-bearing. An aged analysis of the trade receivables net of provision at the respective balance sheet dates is as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	442	437	1,260	346
4 to 6 months	–	4,321	–	–
7 to 12 months	736	340	126	–
1 to 2 years	1,602	178	338	–
Over 2 years	1,300	1,390	524	58
	4,080	6,666	2,248	404

The carrying amounts of trade receivables approximate to their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance to suppliers	1,301	769	464	1,050
Deposits and other debtors	311,335	150,091	15,598	176,167
	312,636	150,860	16,062	177,217

The carrying amounts of prepayments, deposits and other receivables approximate to their fair values.

23. DUE FROM/TO RELATED PARTIES

		31 December			30 June
		2003	2004	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due from key management personnel	*(i)*	12,486	15,363	13,141	12,847
Due from a joint venture partner	*(ii)*	32,548	29,759	100,879	106,174
Due from other related parties		136,325	66,294	61,008	64,113
		181,359	111,416	175,028	183,134
Due to key management personnel	*(i)*	2,284	–	–	15,217
Due to other related parties		3,388	7,300	17,508	44,745
		5,672	7,300	17,508	59,962

All the balances with related parties are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(i) The key management personnel are directors of CQ Zhongyu during the Relevant Periods.

(ii) The amount comprises cash advances to and the Group's share of sales proceeds from the jointly-controlled operation received on behalf by the joint venture partner.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December			30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	54,570	29,842	8,151	19,663
Time deposits	184,227	169,183	162,350	161,431
	238,797	199,025	170,501	181,094
Less: Amounts pledged for short-term banking facilities *(note 27)*	(150,304)	(169,183)	(161,107)	(159,793)
Cash and cash equivalents	88,493	29,842	9,394	21,301
Denominated in RMB	83,710	28,524	8,451	19,542
Denominated in other currencies	155,087	170,501	162,050	161,552
	238,797	199,025	170,501	181,094
Pledged time deposits	150,304	169,183	161,107	159,793
Less: Portion classified as current assets	(114,889)	(65,053)	(56,977)	(114,923)
Non-current portion	35,415	104,130	104,130	44,870

The cash and cash equivalents of the Group denominated in RMB are not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and three years depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

25. ISSUED CAPITAL

The Company was incorporated on 17 March 2006 with an authorised capital of US$50,000 divided into 50,000 shares of US$1 each. On 12 April 2006, 1 share of US$1 was issued at par for cash. At 30 June 2006, the issued capital of the Company is detailed below:

Authorised:	
50,000 shares of US$1 each	US$50,000
Issued:	
1 share of US$1	RMB8

As set out in note 1 above, the Financial Information has been prepared as if the current group structure had been in existence throughout the Relevant Periods. For the purpose of the preparation of the combined balance sheets, the balance of issued capital of CQ Zhongyu at 31 December 2003, 2004, and 2005 was included in the merger reserve account.

26. RESERVES

(i) Group

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the combined statements of changes in equity.

(ii) Company

	Accumulated losses *RMB'000*
At 17 March 2006 (date of incorporation)	–
Net loss for the period	(11)
At 30 June 2006	(11)

27. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	2003	31 December 2004	2005	30 June 2006
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current						
Secured	4.50-8.34	2004-2007	647,111	555,730	757,527	652,127
Unsecured	5.84-7.14	2004-2005	3,200	8,000	–	–
			650,311	563,730	757,527	652,127
Non-current						
Secured	4.94-7.72	2005-2009	120,000	227,280	–	152,961
Unsecured	5.49	2005	5,000	–	–	–
			125,000	227,280	–	152,961
			775,311	791,010	757,527	805,088

	2003	31 December 2004	2005	30 June 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	650,311	563,730	757,527	652,127
In the second year	125,000	227,280	–	152,961
	775,311	791,010	757,527	805,088

Notes:

(a) Certain bank loans are secured by the Group's assets with aggregate values as listed below:

Pledged assets	*Notes*	2003 *RMB'000*	31 December 2004 *RMB'000*	2005 *RMB'000*	30 June 2006 *RMB'000*
Property, plant and equipment	*12*	–	–	17,302	16,950
Investment properties	*13*	28,318	48,613	37,744	37,737
Properties under development	*15*	198,211	183,542	159,192	247,511
Available-for-sale equity investments	*19*	12,723	–	–	–
Time deposits	*24*	150,304	169,183	161,107	159,793

(b) Certain bank loans with aggregate carrying amounts as listed below are secured or guaranteed by other parties:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured by properties of independent third parties	23,000	23,000	23,000	53,000
Secured by properties of a jointly-controlled entity	93,000	174,500	187,500	–
Guaranteed by a jointly-controlled entity	–	8,000	48,900	–
Guaranteed by Mr. Zeng Wei Cai, a director of CQ Zhongyu (secured)	–	–	31,000	31,000
Guaranteed by a joint venture partner and an independent third party (secured)	–	–	–	100,000

(c) Except for the secured bank loans equivalent to approximately RMB56,282,000, RMB56,280,000, RMB54,877,360 and RMB54,877,360 as at 31 December 2003, 2004, 2005 and 30 June 2006, respectively, which are denominated in United States dollars, all other borrowings are denominated in RMB.

Other interest rate information:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed rate:				
Secured bank loans	–	84,900	82,100	239,100
Unsecured bank loans	–	3,000	–	–
	–	87,900	82,100	239,100
Floating rate:				
Secured bank loans	767,111	698,110	675,427	565,988
Unsecured bank loans	8,200	5,000	–	–
	775,311	703,110	675,427	565,988
	775,311	791,010	757,527	805,088

The carrying amounts of the Group's borrowings approximate to their fair values.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Gross deferred tax liabilities

	Accelerated tax depreciation *RMB'000*	Revaluation of investment properties *RMB'000*	Total *RMB'000*
At 1 January 2003	1,240	1,088	2,328
Deferred tax charged/(credited) to the income statement during the year *(note 9)*	402	(1,764)	(1,362)
At 31 December 2003 and 1 January 2004	1,642	(676)	966
Deferred tax charged to the income statement during the year *(note 9)*	426	7,254	7,680
At 31 December 2004 and 1 January 2005	2,068	6,578	8,646
Deferred tax charged to the income statement during the year *(note 9)*	691	2,434	3,125
At 31 December 2005 and 1 January 2006	2,759	9,012	11,771
Deferred tax charged/(credited) to the income statement during the period *(note 9)*	362	(196)	166
At 30 June 2006	3,121	8,816	11,937

Gross deferred tax assets

	Income tax charged based on deemed profit *RMB'000*	Losses available for offset against future taxable profit *RMB'000*	Total *RMB'000*
At 1 January 2003	678	–	678
Deferred tax credited to the income statement during the year *(note 9)*	1,050	2,596	3,646
At 31 December 2003 and 1 January 2004	1,728	2,596	4,324
Deferred tax charged to the income statement during the year *(note 9)*	(454)	(2,596)	(3,050)
At 31 December 2004 and 1 January 2005	1,274	–	1,274
Deferred tax charged to the income statement during the year *(note 9)*	(1,274)	–	(1,274)
At 31 December 2005 and 1 January 2006	–	–	–
Deferred tax credited to the income statement during the period *(note 9)*	–	4,865	4,865
At 30 June 2006	–	4,865	4,865

The movement of net deferred tax liabilities/(assets) balances after offsetting is as follows:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	1,650	(3,358)	7,372	11,771
Deferred tax charged/(credited) to the income statement during the year *(note 9)*	(5,008)	10,730	4,399	(4,699)
At end of year/period	(3,358)	7,372	11,771	7,072

There are no unrecognised deferred tax assets or liabilities during the Relevant Periods.

29. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables of the Group at the respective balance sheet dates, based on the invoice date, is as follows:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	32,960	9,127	5,447	379
4 to 6 months	27,270	6,453	2,361	76
7 to 12 months	17,928	2,891	4,037	5,008
1 to 2 years	12,594	14,592	9,858	11,300
Over 2 years	2,291	10,799	4,923	4,614
	93,043	43,862	26,626	21,377

The carrying amounts of trade and bills payables approximate to their fair values.

At 31 December 2005, included in the Group's trade payables are amounts due to a related company of approximately RMB2,622,000, which are repayable on credit terms similar to those offered by the major suppliers of the Group.

30. OTHER PAYABLES AND ACCRUALS

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accruals	10,110	10,100	14,100	13,847
Receipt in advance	204,298	16,291	21,843	23,079
Other tax payables	9,467	37,959	41,037	37,515
Other liabilities	118,916	108,330	105,405	34,339
	342,791	172,680	182,385	108,780

The carrying amounts of other payables and accruals approximate to their fair values.

31. DISPOSAL OF A SUBSIDIARY

	Notes	Year ended 31 December 2003 RMB'000
Net assets disposed of:		
Property, plant and equipment	12	392
Prepayments, deposits and other receivables		66,733
Cash and bank balances		657
Trade and bills payables		(2)
Interest-bearing bank loans		(60,850)
Tax payable		(85)
Other payables and accruals		(592)
Minority interests		(620)
		5,633
Gain on disposal of a subsidiary	5	2,367
		8,000
Satisfied by:		
Cash		8,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Year ended 31 December 2003 RMB'000
Cash consideration	8,000
Cash and bank balances disposed of	(657)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	7,343

The results of the subsidiary disposed of in the year ended 31 December 2003 had no significant impact on the Group's combined revenue or result for that year.

32. CONTINGENT LIABILITIES

The Group had the following contingent liabilities at each of the balance sheet dates during the Relevant Periods:

		31 December			30 June
		2003	**2004**	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees in respect of mortgage facilities for certain customers	*(i)*	28,127	29,669	29,859	29,859
Guarantees in respect of bank loans of independent third parties	*(ii)*	13,000	13,000	4,000	–
		41,127	42,669	33,859	29,859

(i) As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group provided guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Under the arrangement, in the event of default in mortgage payments by the purchasers, the Group is obliged to repay the outstanding mortgage principals together with the accrued interest and penalty owed by the purchasers to the banks.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision for the guarantees has been made in the financial statements.

(ii) These represent guarantees provided to banks in respect of the bank loans obtained by certain independent third parties. The directors consider that the risk of default in payment was remote, and therefore no provision for the guarantees has been made in the financial statements.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from 6 months to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At each of the balance sheet dates during the Relevant Periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	1,322	1,797	1,835	4,716
In the second to fifth years, inclusive	–	–	–	1,441
	1,322	1,797	1,835	6,157

(b) As lessee

The Group leased certain of its office premises and subleased properties under operating lease arrangements. Leases for the properties are negotiated for terms ranging from 1 year to 10 years.

At each of the balance sheet dates during the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

		31 December		**30 June**
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	550	567	17	17
In the second to fifth years, inclusive	550	–	–	–
	1,100	567	17	17

The Company did not have any operating lease commitment at each of the balance sheet dates during the Relevant Periods.

34. COMMITMENTS

In addition to the operating lease commitment detailed in note 33(b) above, the Group had the following commitments at each of the balance sheet dates during the Relevant Periods:

		31 December		**30 June**
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Property development expenditure	28,676	7,004	2,908	6,539

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed details in notes 16,18,23 and 27 of this section, the Group had the following material transactions with related parties during the Relevant Periods:

(a) Assets pledged to secure banking facilities of a jointly-controlled entity

At 31 December 2003, 2004 and 2005, the Group's properties under development and investment properties with aggregate net carrying amounts of approximately RMB48,195,000, RMB49,906,000 and RMB54,003,000, respectively, were pledged to secure the banking facilities granted to a jointly-controlled entity.

(b) Assets pledged to secure banking facilities of an associate

At 31 December 2003, 2004 and 2005, the Group's properties under development with aggregate net carrying amounts of approximately RMB37,751,000, RMB38,809,000, RMB48,073,000, respectively, were pledged to secure banking facilities granted to an associate.

(c) Assets pledged to secure banking facilities of a joint venture partner

At 31 December 2003, 2004, 2005 and 30 June 2006, the Group's properties under development and investment properties with aggregate net carrying amounts of approximately RMB36,727,000, RMB44,047,000, RMB47,753,000 and RMB34,510,000, respectively, were pledged to secure banking facilities granted to a joint venture partner.

(d) Provision of buildings to a related party for the operation of a school at nil rental

At 31 December 2003, 2004, 2005 and 30 June 2006, the Group's buildings and prepaid land lease payments with aggregate carrying amounts of approximately RMB14,076,000, RMB13,442,000, RMB12,809,000 and RMB12,492,000, respectively, were provided to a family member of a director of CQ Zhongyu for the operation of a school at nil rental.

(e) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Short term employee benefits	36	49	48	22	23

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

36. FINANCIAL INSTRUMENTS

The financial assets of the Group mainly include cash and bank balances, trade receivables, available-for-sale equity investments and other current assets. Financial liabilities of the Group mainly include trade and other payables and interest-bearing bank loans.

The carrying amounts of the Group's financial instruments approximated to their fair value as at each of the balance sheet dates. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. CONCENTRATION OF RISK

The main risks arising from the Group's financial instruments are business risk, cash flow interest rate risk , foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(i) Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing, and financing regulations in the property development industry.

(ii) Cash flow interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk.

(iii) Foreign currency risk

The Group's businesses are located in the PRC and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for US dollar bank loans and short term bank deposits. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

(iv) Credit risk

The Group has no concentration of credit risk. The carrying amounts of trade and other receivables, cash and cash equivalents included in the combined balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 32.

(v) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet its construction commitments.

III. SUBSEQUENT EVENTS

No significant events took place subsequent to 30 June 2006.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiary in respect of any period subsequent to 30 June 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS ON THE SUBJECT COMPANY

Year ended 31 December 2003

Business review

During the year ended 31 December 2003, the construction of the Jiazhou City Garden project was nearly completed and pre-sales of property units was launched. Phase I of the Huijing Terrace development, (a joint-venture project in which the Subject Company has an interest of 70%) was completed with a total gross floor area of approximately 23,700 sq.m.. The Subject Company expanded its scale of operation through co-operation with other parties in property development, which forms a strong foundation for its long-term development in the area to build a particular type of community and lifestyle. During the year, the income from the joint venture development alone accounted for approximately RMB48.3 million. There were strong demands for the property units in Jiazhou Garden, a completed project development. The Subject Company retained ownership of several rental portfolios which included shopping malls, retail properties, car parks and residential properties, which together generated a steady rental income of approximately RMB8.4 million during the year.

Financial review

Liquidity and financial resources

The Subject Company had cash and bank deposits of approximately RMB238.8 million as at 31 December 2003. The Subject Company's cash and cash equivalents at 31 December 2003 were mostly deposits in HK$ and US$. As at 31 December 2003, the total assets of the Group amounted to approximately RMB1,273.7 million, in which current assets accounted for approximately RMB878.2 million.

Total liabilities accounted for approximately RMB1,216.8 million, in which current liabilities amounted to approximately RMB1,091.8 million and non-current liabilities amounted to approximately RMB125.0 million. Bank borrowings of approximately RMB775.3 million were mainly used to finance the property development projects of the Subject Company. With the exception of bank borrowings equivalent to approximately RMB56.3 million which was denominated in US$, all other bank borrowings were denominated in RMB in meeting daily operation payments.

As at 31 December 2003, the Subject Company's gearing ratio (expressed as a percentage of bank borrowings net of cash and bank balances over shareholders' equity) was approximately 943.9%. The high gearing ratio was mainly due to the fact that substantial bank borrowings had been obtained to finance property developments.

Pledge of assets

As at 31 December 2003, assets with an aggregate carrying value of approximately RMB512.2 million were pledged to banks as security for banking facilities granted to the Subject Company, an associate of the Subject Company, a jointly-controlled entity, and a joint venture partner.

Employees

The total number of staff at 31 December 2003 was 114.

Exchange risk

The Subject Company conducted its business operations almost exclusively in RMB and hence had minimal exposure to exchange risk.

Contingent liabilities

As at 31 December 2003, the Subject Company had the following contingent liabilities:

(i) guarantees given to banks as security for the mortgage loans obligations of purchasers from the Subject Company amounted to approximately RMB28.1 million; and

(ii) guarantees in respect of bank loans of independent third parties amounted to approximately RMB13.0 million.

Year ended 31 December 2004

Business review

The Subject Company achieved a profit after tax of approximately RMB33.5 million for the year ended 31 December 2004. The Subject Company's turnover recorded a significant growth of approximately 54.6% to approximately RMB235.4 million, of which approximately 96.9% was contributed by property sales and approximately 3.1% by rental income. Property sales in the year comprised:

(i) three residential blocks of Jiazhou City Garden with a gross floor area of approximately 72,000 sq.m. were completed and sold;

(ii) Kechuang Building, a 15-storey office complex with a gross floor area of about 25,000 sq.m. was sold which gave rise to a turnover of approximately RMB59.2 million; and

(iii) sales of a construction site with superstructures thereon to the People's Bank of China provided a revenue of approximately RMB54.5 million.

Financial review

Liquidity and financial resources

As at 31 December 2004, the Subject Company had interest-bearing bank borrowings of approximately RMB791.0 million. Cash and bank balances were approximately RMB199.0 million, of which approximately 85.7% was dominated in US$ and HK$. With the continuous cash inflow from property sales, existing banking facilities and cash on hand, the Subject Company was able to meet its on-going cash requirements.

As at 31 December 2004, about 71.3% of the Subject Company's bank loans was due within one year. Most of the borrowings were of floating-rate in nature. As at 31 December 2004, the Subject Company's gearing ratio (expressed as a percentage of bank borrowings net of cash and bank balances over shareholders' equity) was approximately 655.1%. The decrease in gearing ratio (as compared with that as at 31 December 2003) was attributable to upsurge in property sales in the year, which in turn increased the shareholders' equity.

Pledge of assets

As at 31 December 2004, certain assets of the Subject Company with an aggregate carrying value of approximately RMB549.9 million (2003: RMB512.2 million) were pledged with banks for loan facilities used by the Subject Company, an associate of the Subject Company, a jointly-controlled entity, a joint venture partner and an independent third party.

Employees

As at 31 December 2004, the Subject Company had 90 staff.

Exchange risk

The Subject Company conducted its business operations almost exclusively in RMB and hence had minimal exposure to exchange risk.

Contingent liabilities

As at 31 December 2004, the Subject Company had the following contingent liabilities

(i) guarantees given to banks as security for the mortgage loans granted to purchasers of properties from the Subject Company amounting to approximately RMB29.7 million; and

(ii) guarantees in respect to bank loans granted to independent third parties amounting to approximately RMB13 million.

Year ended 31 December 2005

Business review

Turnover remained high at approximately RMB214.6 million. The gross profit margin increased from approximately 26.1% to approximately 29.7%. The consolidated profit attributable to shareholders was substantially reduced to approximately RMB8.4 million due to an increase in administrative and operating expenses and finance costs.

There was a strong demand for luxury houses. Phase II of Huijing Terrace, a joint-venture luxury project development with a gross floor area of 69,603 sq.m. provided a revenue of approximately RMB147.7 million, while sales of remaining units in both the Jiazhou Garden and Jiazhou City Garden provided a revenue of approximately RMB7.8 million. The sales of a piece of land to the Chongqing Municipal Authority generated a revenue of approximately RMB43 million.

Financial review

Liquidity and financial resources

As at 31 December 2005, the total assets of the Subject Company amounted to approximately RMB1,105.5 million and the total liabilities amounted to approximately RMB1,006.8 million, representing a decrease of approximately RMB16.2 million and approximately RMB24.5 million respectively as compared with the corresponding amounts as at 31 December 2004.

As at 31 December 2005, the Subject Company had cash and bank deposits of approximately RMB170.5 million (2004: RMB199.0 million), of which approximately RMB161.1 million (2004: RMB169.2 million) were pledged for the Group's banking facilities to finance construction costs. The Subject Company's gearing was expected to gradually decline in the medium term with the cash flow from future developments. As at 31 December 2005, the Subject Company's gearing ratio (expressed as a percentage of bank borrowings net of cash and bank balances over shareholders' equity) was approximately 594.6%. The improved gearing ratio (as compared with that as at 31 December 2004) was attributable to contribution from property sales, which in turn increased shareholders' equity.

Pledge of assets

As at 31 December 2005, certain assets of the Subject Company with an aggregate carrying value of approximately RMB545.9 million (2004: RMB549.9 million) were pledged with banks for loan facilities used by the Subject Company, an associate of the Subject Company, a jointly-controlled entity, a joint venture partner and an independent third party.

Employees

As at 31 December 2005, the Subject Company and its subsidiaries had 89 employees.

Exchange risk

Transactions of sales and purchases of properties of the Subject Company were primarily denominated in RMB whilst most of the Subject Company's bank loans were denominated in RMB. The exposure to foreign exchange risk was thus minimal.

Contingent Liabilities

As at 31 December 2005, the Subject Company had the following contingent liabilities

(i) guarantees given to banks as security for the mortgage loans granted to purchasers of properties from the Subject Company amounting to approximately RMB29.9 million; and

(ii) guarantees with respect to bank loans granted to independent third parties amounting to RMB4 million.

Six months ended 30 June 2006

Business review

In the first half of 2006, the Subject Company focused on corporate planning and no new property development was embarked. Revenue from property sales was approximately RMB2.2 million while rental income amounted to approximately RMB8.5 million.

Financial review

Liquidity and financial resources

As at 30 June 2006, the Subject Company had bank deposits, cash and bank balances of approximately RMB181.1 million. Shareholders' equity increased by approximately RMB149.6 million to approximately RMB248.3 million was mainly due to the increase in the registered capital of the PRC Company of approximately RMB160.3 million during the period.

As at 30 June 2006, the Subject Company had outstanding bank borrowings of approximately RMB805.1 million, representing an increase of approximately 6.3 % from the amount outstanding at 31 December 2005. The increase in bank borrowings was largely due to payment for construction in progress. The bank borrowings were largely secured by the Subject Company's portfolio of properties and pledged deposits. About 81.0 % of the bank borrowings were repayable within one year. Most of the Subject Company's bank borrowings were floating-rate in nature.

As at 30 June 2006, the Subject Company's gearing ratio (expressed as a percentage of bank borrowings net of cash and bank balances over shareholders' equity) was approximately 251.3%. The gearing ratio improved from 31 December 2005 due to additional contribution of registered capital amounting to US$20 million during the six months ended 30 June 2006.

Pledge of assets

At 30 June 2006, certain banking facilities used by the Subject Company, an associate of the Subject Company, a joint-venture partner and an independent third party, were secured by certain assets of the Subject Company with an approximate amount of approximately RMB498.5 million.

Employees

As at 30 June 2006, the Subject Company had 81 employees. The Subject Company has established an incentive bonus scheme for its employees, in which the benefits are determined based on the performance of the Subject Company and individual employees. Other benefits such as medical benefits, unemployment benefits and provident fund are also offered to employees.

Exchange risk

The Subject Company's income was primarily denominated in RMB. Bank borrowings in RMB were used to finance construction and operating costs. Thus, the Subject Company was not exposed to foreign exchange risk.

Contingent liabilities

As at 30 June 2006, guarantees given to banks as security for mortgage loans granted to purchasers of properties from the Subject Company amounted to approximately RMB29.9 million.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out below is for illustrative purpose only and does not form part of the accountants' report prepared by the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix III to this circular.

The accompanying unaudited pro forma financial information of the Group has been prepared to illustrate the effect of the Acquisition, details of which are set out in section headed "Letter from the Board" in this circular.

To provide additional financial information, the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on the unaudited consolidated balance sheet of the Group and the audited combined balance sheet of the Subject Group as at 30 June 2006, which have been extracted from Appendices I and III to this circular. The unaudited pro forma consolidated balance sheet is prepared on the basis as if the Acquisition had been completed on 30 June 2006.

To provide additional financial information, the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group have been prepared based on the unaudited consolidated income statement and consolidated cash flow statement of the Group and the audited combined income statement and combined cash flow statement of the Subject Group for the six months ended 30 June 2006, which have been extracted from Appendices I and III to this circular. The unaudited pro forma consolidated income statement and consolidated cash flow statement are prepared on the basis as if the Acquisition had been completed on 1 January 2006.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2006 or any future date and the results and cash flows for the period presented or for any future period.

1. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	Unaudited consolidated balance sheet of the Group as at 30 June 2006	Audited combined balance sheet of the Subject Group as at 30 June 2006	Audited combined balance sheet of the Subject Group as at 30 June 2006	Unaudited pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
NON-CURRENT ASSETS						
Property, plant and equipment	160,243	45,261	44,374	27,768	*3a*	232,385
Investment properties	–	143,470	140,657			140,657
Prepaid land lease payments	24,895	840	824			25,719
Properties under development	–	396,322	388,551	5,920,193	*3b*	6,308,744
Convertible note – Loan portion	30,577	–	–			30,577
Goodwill	34,553	–	–			34,553
Interest in an associate	31,846	77,133	75,621			107,467
Available-for-sale equity investments	–	46,798	45,880			45,880
Pledged deposits	–	44,870	43,990			43,990
Total non-current assets	282,114	754,694	739,897			6,969,972
CURRENT ASSETS						
Inventories	83,888	–	–			83,888
Properties under development for sale	–	7,683	7,532	80,404	*3b*	87,936
Completed properties for sale	–	710	696			696
Trade receivables	132,533	404	396			132,929
Prepayments, deposits and other receivables	7,321	177,217	173,742			181,063
Prepaid land lease payments	636	–	–			636
Loan to an associate	3,000	–	–			3,000
Investments held for trading	91,035	–	–			91,035
Convertible option derivative	3,125	–	–			3,125
Tax recoverable	294	–	–			294
Due from related parties	–	183,134	179,543	(67,553)	*6*	111,990
Deposits with brokerage companies	728	–	–			728
Pledged deposits	3,000	114,923	112,670			115,670
Short term bank deposits	155,785	1,638	1,606			157,391
Cash and cash equivalents	42,181	19,663	19,277			61,458
Total current assets	523,526	505,372	495,462			1,031,839

	Unaudited consolidated balance sheet of the Group as at 30 June 2006	Audited combined balance sheet of the Subject Group as at 30 June 2006	Audited combined balance sheet of the Subject Group as at 30 June 2006	Unaudited pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
CURRENT LIABILITIES:						
Trade and bills payables	109,926	21,377	20,959			130,885
Interest-bearing bank loans	35,899	652,127	639,340			675,239
Tax payable	18,079	9,480	9,294			27,373
Other payables and accruals	26,733	108,780	106,647	20,000	*12*	153,380
Consideration payable on acquisition of associates	2,885	–	–			2,885
Consideration payable on acquisition of subsidiaries	4,863	–	–	250,000	*6*	254,863
Loan from minority shareholders of a subsidiary	8,000	–	–			8,000
Due to related parties	–	59,962	58,786			58,786
Total current liabilities	206,385	851,726	835,026			1,311,411
NET CURRENT ASSETS/(LIABILITIES)	317,141	(346,354)	(339,564)			(279,572)
TOTAL ASSETS LESS CURRENT LIABILITIES	599,255	408,340	400,333			6,690,400
NON-CURRENT LIABILITIES:						
Interest-bearing bank loans	–	152,961	149,962			149,962
Convertible note	–	–	–	1,315,765	*6, 8*	1,315,765
Deferred tax liabilities, net	2,663	7,072	6,933	1,989,360	*4*	1,998,956
Total non-current liabilities	2,663	160,033	156,895			3,464,683
Net assets	596,592	248,307	243,438			3,225,717
EQUITY						
Equity attributable to equity holders of the Company:						
Issued capital	39,395	–	–	16,000	*6, 7*	55,395
Share premium	199,901	–	–	432,000	*6, 7*	631,901
Other reserves	354,314	248,307	243,438	701,452	*5, 11*	1,299,204
Equity component of convertible bond	–	–	–	1,236,235	*6, 8*	1,236,235
Equity attributable to equity holders of the parent	593,610	248,307	243,438			3,222,735
Minority Interests	2,982	–	–			2,982
Total equity	596,592	248,307	243,438			3,225,717

2. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	Unaudited consolidated income statement of the Group for six months ended 30 June 2006	**Audited combined income statement of the Subject Group for six months ended 30 June 2006**	**Audited combined income statement of the Subject Group for six months ended 30 June 2006**	**Unaudited pro forma adjustments**	*Notes*	**Pro forma Enlarged Group**
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
REVENUE	391,558	10,202	10,002			401,560
Cost of sales	(326,353)	(3,084)	(3,024)			(329,377)
Gross profit	65,205	7,118	6,978			72,183
Other income and gains	15,404	1,004	984			16,388
Selling and distribution costs	(10,926)	(521)	(511)			(11,437)
Administrative expenses	(24,216)	(8,560)	(8,391)	(695)	*10*	(33,302)
Other operating expenses	–	(1,269)	(1,244)			(1,244)
Fair value gains/(losses) on investment properties, net	1,330	(239)	(234)			1,096
Excess over cost of a business combination	–	–	–	944,890	*5*	944,890
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	46,797	(2,467)	(2,418)			988,574
Finance costs	(1,326)	(11,796)	(11,565)	(59,209)	*9*	(72,100)
Share of losses of an associate	(1,812)	(1,187)	(1,164)			(2,976)
PROFIT/(LOSS) BEFORE TAX	43,659	(15,450)	(15,147)			913,498
Tax	(6,811)	4,699	4,607	229	*10*	(1,975)
PROFIT/(LOSS) FOR THE PERIOD	36,848	(10,751)	(10,540)			911,523
ATTRIBUTABLE TO:						
Equity holders of the Company	37,518	(10,751)	(10,540)	885,215		912,193
Minority interests	(670)	–	–			(670)
	36,848	(10,751)	(10,540)			911,523

3. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	Unaudited consolidated cash flow statement of the Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Unaudited pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax	43,659	(15,450)	(15,147)	(59,904)	*9, 10*	(31,392)
Adjustments for:						
Finance costs	–	11,796	11,565	59,209	*9*	70,774
Share of losses/(gains) of a jointly-controlled entity and an associate	(88)	1,187	1,164			1,076
Bank interest income	(4,280)	(769)	(754)			(5,034)
Gain on disposal of a subsidiary	(3,082)	–	–			(3,082)
Loss on disposal of a jointly-controlled entity	–	1,188	1,165			1,165
Dividend income from an unlisted investment	–	(147)	(144)			(144)
Loss on disposal of investment properties	–	202	198			198
Depreciation and amortisation	5,380	1,454	1,425	695	*10*	7,500
Loss on disposal of items of property, plant and equipment	14	–	–			14
Unrealised gain on investment held for trading	(5,168)	–	–			(5,168)
Imputed interest income from convertible note receivable	(79)	–	–			(79)
Amortisation of prepaid land lease payments	–	7	7			7
Fair value losses/(gains) on investment properties	(1,330)	239	234			(1,096)
Increase in imputed finance costs from consideration payables	301	–	–			301
Impairment loss on goodwill from associate	1,900	–	–			1,900
Impairment of stocks	1,399	–	–			1,399
Impairment on trade and other receivables	2,341	–	–			2,341
Interest expenses	3,711	–	–			3,711
Operating profit before working capital changes	44,678	(293)	(287)			44,391

	Unaudited consolidated cash flow statement of the Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Unaudited pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
Decrease in inventories	727	–	–			727
Increase in properties under development	–	(3,218)	(3,155)			(3,155)
Decrease in completed properties for sale	–	201	197			197
Decrease/(increase) in trade receivables	(38,836)	1,844	1,808			(37,028)
Increase in prepayments, deposits and other receivables	–	(114,168)	(111,929)			(111,929)
Increase in amounts due from related parties	–	(8,106)	(7,947)			(7,947)
Increase/(decrease) in trade and bills payables	6,330	(5,249)	(5,146)			1,184
Decrease in other payables and accruals	–	(73,605)	(72,162)			(72,162)
Increase in amounts due to related parties	–	42,454	41,621			41,621
Decrease in loan receivables	(1,333)	–	–			(1,333)
Decrease in deposits with brokerage companies	32,908	–	–			32,908
Increase in investments held for trading	(69,310)	–	–			(69,310)
Cash used in operations	(24,836)	(160,140)	(157,000)			(181,836)
Interest received	–	769	754			754
Interest paid	(3,711)	(24,372)	(23,894)			(27,605)
PRC corporate income tax paid	–	(1,478)	(1,449)			(1,449)
Hong Kong profits tax paid	(42)	–	–			(42)
Net cash outflow from operating activities	(28,589)	(185,221)	(181,589)			(210,178)
CASH FLOWS FROM INVESTING ACTIVITIES						
Dividends received	4,797	–	–			4,797
Purchases of items of property, plant and equipment	(3,385)	(621)	(609)			(3,994)
Proceeds from disposal of investment properties	–	929	911			911
Proceeds from disposal of a subsidiary	49,000	–	–			49,000
Advance to an associate	–	(12,381)	(12,138)			(12,138)
Net decrease/(increase) in pledged deposits	(1,000)	1,314	1,288			288
Net increase in non-pledged deposits with original maturity of more than three months when acquired	(9,372)	(395)	(387)			(9,759)
Redemption of convertible note	16,000	–	–			16,000
Interest received	4,280	–	–			4,280
Net cash inflow/(outflow) from investing activities	60,320	(11,154)	(10,935)			49,385

	Unaudited consolidated cash flow statement of the Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Audited combined cash flow statement of the Subject Group for the six months ended 30 June 2006	Unaudited pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*	*Note 2*			
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital contribution from a shareholder	–	160,326	157,182			157,182
New bank loans	33,495	404,550	396,618			430,113
Repayment of bank loans	(13,044)	(356,550)	(349,559)			(362,603)
Dividends paid	(23,637)	–	–			(23,637)
Net cash inflow/(outflow) from financing activities	(3,186)	208,326	204,241			201,055
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,545	11,951	11,717			40,262
Cash and cash equivalents at beginning of period	13,636	8,151	7,991			21,627
Effect of foreign exchange rate changes, net	–	(439)	(431)			(431)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	42,181	19,663	19,277			61,458
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	42,181	19,663	19,277			61,458

Notes:

1. The balances are extracted from the unaudited financial information of the Group as at 30 June 2006 as set out in Appendix I to this circular.

2. The balances are extracted from the audited financial information of the Subject Group as at 30 June 2006 as set out in Appendix III to this circular and was translated to Hong Kong dollar at translation rate of RMB1.02=HK$1.00.

3a. The fair value adjustment for buildings of approximately HK$27,768,000 represents the excess of the estimated fair value of property, plant and equipment of approximately HK$72,142,000, by reference to the valuation of the properties as at 31 August 2006 as set out in Appendix VII to this circular, above the aggregate carrying amount of the property, plant and equipment of approximately HK$44,374,000 in the audited financial statements of the Subject Group as at 30 June 2006, as set out in Appendix III to this circular.

3b. The fair value adjustment for properties under development of approximately HK$6,000,597,000 represents the excess of the estimated fair value of the properties upon Completion of approximately HK$6,396,680,000, by reference to the valuation of the properties as at 31 August 2006 as set out in Appendix VII to this circular, above the aggregate carrying amount of the properties of approximately HK$396,083,000 in the audited financial statements of the Subject Group as at 30 June 2006, as set out in Appendix III to this circular.

4. The deferred tax liabilities have been calculated at 33%, being the applicable tax rate of the Subject Group, of the fair value adjustment for the property, plant and equipment and properties under development as set out in Notes 3a and 3b above, respectively. The relevant portion of the deferred tax liabilities will be reversed and credited to the income statement upon depreciation of property, plant and equipment over its useful life or future sales of the properties.

5. The adjustment represents the recognition of the excess over cost of a business combination of approximately HK$944,890,000 in income statement arising from the Acquisition. Under HKFRS 3 "Business Combinations", the Group will apply purchase method to account for the Acquisition of the Subject Group in the consolidated financial statements of the Group. The amount of HK$944,890,000 represents the excess of the fair values of identifiable assets, liabilities and contingent liabilities of the Subject Group, amounting to approximately HK$4,282,443,000 over the cost of Acquisition of approximately HK$3,337,553,000 (including total consideration for the Acquisition of approximately HK$3,317,553,000 and estimated direct legal and professional costs of approximately HK$20,000,000 incurred for the acquisition):

	HK$'000
Net assets of the Subject Group acquired	243,438
Fair values adjustments on acquisition *(Notes 3a and 3b)*	6,028,365
Deferred tax liabilities recognised in respect of fair value adjustments *(Note 4)*	(1,989,360)
Fair value of net assets of the Subject Group acquired	4,282,443
Total cost of acquisition *(Note 6)*	3,337,553
Excess over cost of a business combination	944,890

6. The aggregate value of consideration for the sale and purchase of the sale share is HK$3,317,553,298, being as to:

   (i) HK$448,000,000 to be satisfied by the issue of the Consideration Qualipak Shares at Completion;

(ii) HK$2,552,000,000 to be satisfied by the Convertible Note;

(iii) a sum representing such amount of Receivables up to the equivalent of HK$250,000,000 as may be recovered by the Group, which will only be due and payable by the Purchaser to the Vendor on a dollar-for-dollar basis (but net of all taxes, costs and expenses) within 30 days after the later of (A) the Completion date and (B) receipt by the PRC Company from time to time. The Purchaser is expected to settle the sum by cash out of the proceeds recovered (if any) from the Receivables or from the internal resources of the Group; and

(iv) HK$67,553,298 to be satisfied by the assumption by the Purchaser of the obligations to repay the Debts.

	HK$'000
Consideration of the Acquisition is to be satisfied by:	
Consideration Qualipak Shares *(note 7)*	448,000
Convertible Note	2,552,000
Receivables	250,000
Assumption by the Purchaser of the obligations to repay Debts	67,553
	3,317,553
Estimated expenses incurred on Acquisition *(note 12)*	20,000
Total cost of acquisition	3,337,553

7. Upon the issuance of new shares by the Group at value of HK$448,000,000, the share capital of the Group increases by HK$16,000,000 and the share premium arising from the issuance is HK$432,000,000.

8. The Convertible Note, being compound financial instrument that contains both financial liability and equity components, is split between the equity element of HK$1,236,235,000 and a liability component of HK$1,315,765,000. The liability component was determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, representing the fair value of the contractual obligation to deliver cash to the Convertible Note holder.

9. This represents the imputed interest expenses on the Convertible Note of HK$59,209,000 at 9% per annum, as if the Convertible Note was issued on 1 January 2006. The effective interest rate of the Convertible Note is determined by reference to the assessment made by Grant Sherman Appraisal Limited, an independent valuer.

10. This represents the depreciation of the buildings arising from the fair value adjustment as set out in Note 3a and the related deferred tax calculated at 33% of the fair value adjustment, on the basis that the acquisition was completed on 1 January 2006. The buildings are depreciated on the straight-line basis to write off the cost of the buildings to its residual value over their estimated useful life of 20 years.

11. The adjustment on other reserves comprises the elimination of the pre-acquisition reserves of approximately HK$243,438,000 of the Subject Group and the recognition of the excess over the cost of a business combination of HK$944,890,000.

12. The estimated expenses of direct legal and professional costs related to the Acquisition, among others, the preparation of this circular of the acquisition are approximately HK$20,000,000.

4. LETTER FROM THE REPORTING ACCOUNTANTS

ERNST & YOUNG

20 October 2006

The Directors
Qualipak International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information ("Unaudited Pro Forma Financial Information") of Qualipak International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix V to the circular dated 20 October 2006 (the "Circular") issued by the Company, in connection with the proposed acquisition of the entire issued share capital of Starthigh International Ltd and its subsidiaries (the "Subject Group") (the "Proposed Acquisition") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors, for illustrative purposes only, to provide information about how the Proposed Acquisition, resulting in the formation of an enlarged group (the "Enlarged Group"), might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 184 to 194 to the Circular.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position, the results and cash flows of:

- the Enlarged Group had the transaction actually occurred as at the date indicated therein; or
- the Enlarged Group at any future date or for any future period.

OPINION

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

Set out below are the texts of the letter, summary of valuations and valuation certificates received from Vigers, an independent property valuer, in connection with its valuation as at 31 August 2006 of the property interests of the Group.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10/F The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

20 October 2006

The Directors
Qualipak International Holdings Limited
7th Floor
China United Centre
29 Marble Road
North Point
Hong Kong

Dear Sirs,

RE: VALUATION OF VARIOUS PROPERTIES IN HONG KONG AND IN THE PRC

In accordance with your instructions for us to value of the property interest exhibited to us as held by Qualipak International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") located in the People's Republic of China (the "PRC") and the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), we confirmed that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 August 2006 ("the date of valuation") for the purpose of public document.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests in Group I, which are held by the Group in Hong Kong, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

In valuing the property interests in Group II, which are held and occupied by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land prices in Zhongshan City and Wujiang City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

For property interests in Group III and IV which are rented by the Group in Hong Kong and the PRC, we have assigned no commercial value to them mainly due to the prohibition against assignment, the lack of substantial profit rents.

Our valuations have been made on the assumption that the owner sells the properties in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the properties. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the property interests, we have assumed that the owner has free and uninterrupted rights to use, occupy or assign the property interests for the whole of the unexpired term of the respective land use rights. Furthermore, we have also assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interests were granted without any onerous conditions or undue delay.

In the course of our valuations, we have not caused title searches to be made for the property interests at the relevant government bureau in the PRC and for the properties in Hong Kong, we have caused searches to be made at the Land Registry. However, we have been provided the original copy of the title documents relating to the property interests in the PRC for inspection. We have not, however, verified the ownership, encumbrances or the existence of any subsequent amendments which do not appear on the copies handed to us. All documents have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and therefore are only approximations.

We have relied to a considerable extent on information provided by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property in which you have valid interests. Dimensions, measurements and areas included in the attached valuation certificate is based on information contained in the documents provided to us by you and are therefore only approximations.

Furthermore, we have relied on the legal opinion provided by the Group's PRC legal adviser, Grandall Legal Group (Shenzhen) (the "PRC Legal Opinion"). Details of the current status of titles, grant of major approvals, licenses and documents of the property interest set out in the valuation certificate are based on the PRC Legal Opinion so provided. We have no responsibility for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

In valuing the property interests in Hong Kong, the Government Leases of which expire before 30 June 1997, we have taken account of the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance (Cap. 150 of the Laws of Hong Kong) that such leases will be extended without premium until 30 June 2047 and that an annual rent of three per cent. of the rateable value will be charged from the date of extension.

We have inspected the exterior and interior of the properties in September and October 2006, however, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, therefore, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

In valuing the property interest, we have complied with all the requirements set out in Chapter 5 and Practice Notes 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars (HK$). The exchange rate used in valuing the property in the PRC as at 31 August 2006 was HK$1=RMB1.03. There has been no significant fluctuation in the exchange rates for RMB against Hong Kong Dollars between that date and the date of this letter.

We enclosed herewith our summary of valuation together with the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS MHKIS, MSc(e-com) has over twenty years' experience in undertaking valuations of properties in Hong Kong and Macau and has over thirteen years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

Group I – Property interests held by the Group in Hong Kong

	Property	Market value as at 31 August 2006	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2006
1.	Flat No. 97 on 21/F of Tower 18 (of Parkview Corner) and Car Parking Space No. 226 on Car Park Entrance 3 (Level 4) of the Garage, Hong Kong Parkview, No. 88 Tai Tam Reservoir Road, Hong Kong	HK$30,000,000	100%	HK$30,000,000
2.	Unit K on 23rd Floor and Units A and L on 27th Floor, Shield Industrial Centre, Nos. 84-92 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong	HK$8,600,000	100%	HK$8,600,000
3.	Car Parking Space Nos. 12 and 13 and the adjoining 13A on 5th Floor, China United Centre, No. 28 Marble Road, Hong Kong	HK$900,000	100%	HK$900,000
4.	7th Floor, China United Centre, No. 28 Marble Road, Hong Kong	HK$36,000,000	100%	HK$36,000,000
	Sub-total	**HK$75,500,000**		**HK$75,500,000**

Group II – Property interests held by the Group in the PRC

	Property	Market value as at 31 August 2006	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2006
5.	A parcel of land and structures thereof located at Jie Min Administrative District, Sanjiao Town, Zhongshan City, Guangdong Province, the PRC	RMB74,400,000 (equivalent to approximately HK$72,233,000)	100%	RMB74,400,000 (equivalent to approximately HK$72,233,000)
6.	An industrial complex situated at Fenghu Village, Beiku Commune (also known as 2 Feng Yang Road), Lili Town, Wujiang City, Jiangsu Province, the PRC	RMB31,000,000 (equivalent to approximately HK$30,097,000)	60%	RMB18,600,000 (equivalent to approximately HK$18,058,000)
	Sub-total	**RMB105,400,000 (equivalent to approximately HK$102,330,000)**		**RMB93,000,000 (equivalent to approximately HK$90,291,000)**

Group III – Property interests leased by the Group in Hong Kong

	Property	Market value as at 31 August 2006	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2006
7.	Unit 607 on 6th Floor, Shui Hing Centre, No. 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong	No commercial value	100%	Nil
8.	Unit 608 on 6th Floor, Shui Hing Centre, No. 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong	No commercial value	100%	Nil
9.	Unit 801 on 8th Floor, China United Centre, No. 28 Marble Road, Hong Kong	No commercial value	100%	Nil
	Sub-total	**Nil**		**Nil**

Group IV – Property interests leased by the Group in the PRC

	Property	Market value as at 31 August 2006	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2006
10.	Industrial Block No. 3 and Dormitory Block No. 3 at No. 6 Industrial Area, Fangmabu, Guanlan Town, Baoan District, Shenzhen City, the PRC	No commercial value	100%	Nil
11.	Industrial Block No. 8 and Dormitory Block No. 8 at No. 6 Industrial Area, Fangmabu Guanlan Town, Baoan District, Shenzhen City, the PRC	No commercial value	100%	Nil
12.	Various buildings located on Macau Industrial Zone, Zhangge Village, Dashuikeng, Guanlan Town, Baoan District, Shenzhen City, the PRC	No commercial value	100%	Nil
13.	Various buildings located on Dalinggu, the 2nd Industrial Zone, Guanlan Village, Guanlan Town, Baoan District, Shenzhen, the PRC	No commercial value	100%	Nil
14.	A building located on No. 76 Yucai Road, Beiku Commune, Lili Town, Wujiang City, Jiangsu Province, the PRC	No commercial value	60%	Nil
	Sub-total	**Nil**		**Nil**
	Grand-total	**HK$177,830,000**		**HK$165,791,000**

VALUATION CERTIFICATE

Group I – Property interests held by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006
1.	Flat No. 97 on 21/F of Tower 18 (of Parkview Corner) and Car Parking Space No. 226 on Car Park Entrance 3 (Level 4) of the Garage, Hong Kong Parkview, No. 88 Tai Tam Reservoir Road, Hong Kong 231/190149th equal undivided shares of and in Rural Building Lot No. 1051 and the extension thereto	The property comprises a residential unit on 21st Floor and a carparking space of a 23-storey residential building completed in 1989. The property has a gross floor area of approximately 2,620 sq.ft. The property is held under Condition of Sale No. UB11574 for a term of 75 years commencing from 3 December 1981 with the right of renewal for further 75 years.	The property at present is occupied by the Group for residential use	HK$30,000,000 **Interest attributable to the Group** 100% **Capital value attributable to the Group as at 31 August 2006** HK$30,000,000

Notes:

1. According to the Land Register, the current registered owner of the property is Global Palace Investments Limited.

2. As advised by the Group, Global Palace Investments Limited is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006
2.	Unit K on 23rd Floor and Units A and L on 27th Floor, Shield Industrial Centre, Nos. 84-92 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong 70/7000 equal undivided shares of and in Tsuen Wan Inland Lot No. 43	The property comprises three units on 23rd Floor and 27th Floor of a 30-storey industrial building completed in 1984. The property comprises a total gross floor area of approximately 13,183 sq.ft. The particulars of the gross floor area are as follows: **Unit** — **Gross floor area** *(sq.ft.)* Unit K on 23rd Floor — 3,076 Unit A on 27th Floor — 3,159 Unit L on 27th Floor — 6,948 Total — 13,183 The property is held under Conditions of Sale No. UB5192 for a term of 75 years commencing from 1 July 1898 with the right of renewal for a further term of 24 years less the last 3 days thereof which said term is extended until 30 June 2047 at an annual rent of 3% to the then rateable value charged from the date of extension.	The property at present is occupied by the Group for storage and industrial use.	HK$8,600,000 **Interest attributable to the Group** 100% **Capital value attributable to the Group as at 31 August 2006** HK$8,600,000

Notes:

1. According to the Land Register, the current registered owner of the property is Wisdom Way Limited.

2. The property is subject to a mortgage to secure general banking facilities in favour of the Hong Kong and Shanghai Banking Corporation Limited dated 30 March 1995 vide a memorial no. UB6270887.

3. As advised by the Group, Wisdom Way Limited is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006
3.	Car Parking Space Nos. 12 and 13 and the adjoining 13A on 5th Floor, China United Centre, No. 28 Marble Road, Hong Kong 16/23400th equal undivided shares of and in Sub-section 2, Section B of Sub-section 3, the remaining portion of Sub-section 3, Section A of Sub-section 3, Sub-section 5, Sub-section 4, the remaining portion, the remaining portion of Section A of sub-section 1, Sub-section 5 of Section A of Sub-section 1, Sub-section 3 of Section A of Sub-section 1, Sub-section 2 of Section A of Sub-section 1, Sub-section 4 of Section A of sub-section 1 and Sub-section 6 of Section A of Sub-section 1 of Section A of Inland Lot No. 3504	The property comprises three carparking spaces on 5th Floor of a 30-storey building completed in 1997. The property is held under Conditions of Sale No. UB3369 for a term of 75 years commencing from 17 October 1932 with the right of renewal for further 75 years.	The property at present is occupied by the Group as carparking space.	HK$900,000 **Interest attributable to the Group** 100% **Capital value attributable to the Group as at 31 August 2006** HK$900,000

Notes:

1. According to a Land Register, the current registered owner of the property is Qualipak Manufacturing Limited.

2. As advised by the Group, Qualipak Manufacturing Limited is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006
4.	7th Floor, China United Centre, No. 28 Marble Road, Hong Kong 617/23400th equal undivided shares of and in Sub-section 2, Section B of Sub-section 3, the remaining portion of Sub-section 3, Section A of Sub-section 3, Sub-section 5, Sub-section 4, the remaining portion, the remaining portion of Section A of sub-section 1, Sub-section 5 of Section A of Sub-section 1, Sub-section 3 of Section A of Sub-section 1, Sub-section 2 of Section A of Sub-section 1, Sub-section 4 of Section A of sub-section 1 and Sub-section 6 of Section A of Sub-section 1 of Section A of Inland Lot No. 3504	The property comprises the whole on 7th Floor of a 30-storey building completed in 1997. The property has a gross floor area of approximately 10,963 sq.ft. The property is held under Conditions of Sale No. UB3369 for a term of 75 years commencing from 17 October 1932 with the right of renewal for further 75 years.	The property at present is occupied by the Group as office and ancillary uses.	HK$36,000,000 **Interest attributable to the Group** 100% **Capital value attributable to the Group as at 31 August 2006** HK$36,000,000

Notes:

1. According to the Land Register, the current registered owner of the property is Empire New Assets Limited.

2. As advised by the Group, Empire New Assets Limited is an indirect wholly-owned subsidiary of the Company.

Group II – Property interests held by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006 *(refer to note 4)*
5.	A parcel of land and structures thereof located at Jie Min Administrative District, Sanjiao Town, Zhongshan City, Guangdong Province, the PRC	The property comprises a parcel of land together with sixteen 1-6-storey buildings completed in 2001 erected thereon. The property has a site area and total gross floor area of approximately 80,000 sq.m. and 59,015.88 sq.m. respectively. The particulars of the building portion are summarized in Note 4. The property has been granted a land use right for a term of 50 years expiring on 31 March 2047 for industrial use.	The property at present is occupied by the Group as workshop and staff quarters.	RMB74,400,000 (equivalent to approximately HK$72,233,000) **Interest attributable to the Group** 100% **Capital value attributable to the Group as at 31 August 2006** RMB74,400,000 (equivalent to approximately HK$72,233,000)

Notes:

1. According to a Land Use Right Transfer Agreement and its supplementary agreement both entered into between Orient Sheen Investment Limited (Party A) and Winning Hand Management Limited (Party B) dated 22 May 1997 and 6 June 1997 respectively, Party A has agreed to transfer the land use right together with the buildings and structures erected thereon of the property to Party B at a consideration of HK$18,000,000.

2. Pursuant to a State-owned Land Use Right Ownership Certificate (Document No. Zhong Fu Guo Yong (2000) Zi No. 040139), the land use right of the property having a site area of approximately 80,000 sq.m. has been granted to Winning Hand Management Limited for a term of 50 years expiring on 31 March 2047 for industrial use.

3. As advised by the Group, Winning Hand Management Limited is an indirect wholly-owned subsidiary of the Company.

4. As advised by the Group, the building portion comprises sixteen buildings having a total gross floor area of approximately 59,015.88 sq.m., however, the buildings have not obtained the relevant Building Ownership Certificates, the particulars of the building portion are summarized as follows:

Building name	Gross floor area *(sq.m.)*	No. of storey	Year of completion
Canteen	4,498.93	2	2001
Electricity Room		1	2001
Senior Staff Quarter A		3	2001
Senior Staff Quarter B		3	2001
Staff Quarter A		6	2001
Staff Quarter B	20,328.66	6	2001
Staff Quarter C		6	2001
Staff Quarter D		6	2001
Staff Quarter E		6	2001
6 Blocks of Factory Building	32,007.84	3	2001
Office Building	2,180.45	3	2001
Total	59,015.88		

5. According to the information provided by the company, we are given to understand that the building portion of the property is in the process of applying the relevant Building Ownership Certificates and expected to be obtained within a reasonable period of time. In undertaking our valuation, we have assumed that the property has obtained the Building Ownership Certificates and can be freely transfer, lease and mortgage in the open market.

6. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The Group has been granted the land use right of the property and is entitled to transfer, lease and mortgage the land portion in the market

   (b) The land portion of the property is free from mortgage, charges, legal orders and other encumbrances which may cause adversely effect to the ownership of the property.

   (c) The building portion of the property has been issued with the Construction Work Planning Permit and has preceded the checking and acceptance work. Thus, there is no foreseeable obstacle for the Group to obtain the relevant Building Ownership Certificates.

	Property	Description and tenure	Particulars of occupancy	Market value as at 31 August 2006
6.	An industrial complex situated at Fenghu Village, Beiku Commune (also known as 2 Feng Yang Road), Lili Town, Wujiang City, Jiangsu Province, the PRC	The property comprises a parcel of land together with thirteen 1 to 4-storey buildings and structures completed from 2005 to 2006 erected thereon. The property has a site area and total gross floor area of approximately 66,667.1 sq.m. and 18,794.05 sq.m. respectively. The particulars of the building portion are summarized in Note 2. The property has been granted a land use right for a term of 50 years expiring on 9 May 2053 for industrial use.	The property at present is occupied by the Group as workshop, godown and ancillary uses.	RMB31,000,000 (equivalent to approximately HK$30,097,000) **Interest attributable to the Group** 60% **Capital value attributable to the Group as at 31 August 2006** RMB18,600,000 (equivalent to approximately HK$18,058,000)

Notes:

1. According to a State-owned Land Use Right Ownership Certificate (Document No.: Wu Guo Yong (2004) Zi No. 080058), the land use right of the property having a site area of approximately 66,667.1 sq.m. has been granted to Hoi Tin Universal Travel Goods (Suzhou) Limited for a term of 50 years expiring on 9 May 2053 for industrial use.

2. Pursuant to a Building Ownership Certificate (Document No.: Wu Fang Quan Zheng Bei Ku Zi No. 08000933), the ownership of the eight buildings having a total gross floor area of approximately 15,993.32 sq.m. is vested in Hoi Tin Universal Travel Goods (Suzhou) Limited. However, there are five buildings having a total gross floor area of approximately 2,800.73 sq.m. have not obtained the Building Ownership Certificates. The particulars are summarized as follows:

Building Name	**Gross floor area** *(sq.m.)*	**No. of storey**	**Year of completion**	**Building Ownership Certificate** *(Document No.)*
Security Guard Room – 1	29.95	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Main Production Workshop	9,183.77	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Air Compressor Room	22.69	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Small Warehouse	31.13	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Security Guard Room – 2	19.89	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Staff Quarter – 1	3,095.47	4	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Canteen	514.95	1	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Staff Quarter – 2	3,095.47	4	2005	Wu Fang Quan Zheng Bei Ku Zi No. 08000933
Toilet	150.47	1	2005	Nil
Transformer Room	200	1	2005	Nil
Boiler Room	60.26	1	2005	Nil
Shop	200	1	2005	Nil
Ancillary Workshop and warehouse	2,190	1	2006	Nil
Total	18,794.05			

3. For the buildings have not obtained the relevant Building Ownership Certificates, we have assessed no commercial value due to they are forbidden to transfer, lease and mortgage in the open market. However, for indicative purpose, the market value of these five buildings as at 31 August 2006 is circa RMB1,840,000 (equivalent to approximately HKD1,786,000) on the basis of assuming that these buildings have obtained the relevant title certificates and are freely transferable in the open market.

4. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) Hoi Tin Universal Travel Goods (Suzhou) Limited has been granted the land use right of the property, which is entitled to transfer, lease and mortgage the land portion in the market.

   (b) Hoi Tin Universal Travel Goods (Suzhou) Limited is the current registered owner of the buildings under the Building Ownership Certificate (Document No.: Wu Fang Quan Zheng Bei Ku Zi No. 08000933).

   (c) The buildings mentioned in Note (b) and the land portion of the property are free from mortgage, charges, legal orders and other encumbrances which may cause adversely effect to the ownership of the property.

   (d) The toilet, transformer room, boiler room, shop and the ancillary workshop and warehouse have obtained the Construction Work Planning Permit, Construction Work Commencement Permit and have passed the Fire-resistance Checking. However, the Building Ownership Certificate will be issued after the completion of the Completion Checking and Acceptance.

5. According to the information provided by the Group, Hoi Tin Universal Travel Goods (Suzhou) Limited is a company 60% indirectly owned by Qualipak International Holdings Ltd.

Group III – Property interests leased by the Group in Hong Kong

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
7.	Unit 607 on 6th Floor, Shui Hing Centre, No. 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong	The property comprises a unit on 6th Floor of a 9-storey building completed in 1986. The property has a gross floor area of approximately 1,715 sq.ft.	The property is leased to the Group by an independent third party for a term of two years commencing from 16 January 2005 to 15 January 2007 at a monthly rent of HK$10,290 exclusive of management fee and air-conditioning charges. The property at present is occupied by the Group as office.	No commercial value

Notes:

1. According to the Land Register, the current registered owner of the property is the lessor, Grandeur Investments Limited.

2. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

3. The property is subject to a tripartite legal charge and mortgage to secure banking facilities in favour of Standard Chartered Bank vide a memorial no. UB7744027 dated 7 April 1999.

4. As advised by the Group, Hoi Tin Universal Limited is a company 60% indirectly owned by the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
8.	Unit 608 on 6th Floor, Shui Hing Centre, No. 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong	The property comprises a unit on 6th Floor of a 9-storey building completed in 1986. The property has a gross floor area of approximately 1,960 sq.ft.	The property is leased to the Group by an independent third party for a term of two years commencing from 1 February 2005 to 31 January 2007 at a monthly rent of HK$11,760 exclusive of management fee and air-conditioning charges. The property at present is occupied by the Group as office.	No commercial value

Notes:

1. According to the Land Register, the current registered owner of the property is the lessor, Grandeur Investments Limited.

2. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

3. The property is subject to a tripartite legal charge and mortgage to secure banking facilities in favour of Standard Chartered Bank vide a memorial no. UB7744027 dated 7 April 1999.

4. As advised by the Group, Hoi Tin Universal Limited is a company 60% indirectly owned by the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
9.	Unit 801 on 8th Floor, China United Centre, No. 28 Marble Road, Hong Kong	The property comprises a unit on 8th Floor of a 30-storey building completed in 1997. The property has a gross floor area of approximately 2,463 sq.ft.	The property is leased to the Group by an independent third party for a term of two years commencing from 15 March 2006 to 14 March 2008 at a monthly rent of HK$23,398.5 exclusive of management fee and air-conditioning charges. The property at present is occupied by the Group as office.	No commercial value

Notes:

1. According to the Land Register, the current registered owner of the property is the lessor, Kingsluck Limited.

2. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

3. As advised by the Group, Gainwin Packaging Limited is an indirect wholly-owned subsidiary of the Company.

Group IV – Property interests leased by the Group in the PRC

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
10.	Industrial Block No. 3 and Dormitory Block No. 3 at No. 6 Industrial Area, Fangmabu, Guanlan Town, Baoan District, Shenzhen City, the PRC	The property comprises the whole of a 4-storey industrial building and a 4-storey dormitory building both completed in or about 1990. The property has a total gross floor area of approximately 4,723 sq.m.	The property is leased to the Group by an independent third party for a term of 50 years commencing from 1 July 1992 to 30 June 2042 and the rental is exempted. The property is at present occupied by the Group as workshop and staff quarters.	No commercial value

Notes:

1. According to the information provided by the Group, the lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

2. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The lessor is the current registered owner of the property which is entitled to lease the property to the Group. The tenancy agreement entered into between the lessor and the Group is valid, legally effective and enforceable to both parties.

   (b) The industrial building of the property is subject to a mortgage in favour of the Rural Credit Cooperatives of Guanlan, Shenzhen commencing from 13 June 2002 at a consideration of RMB9,000,000.

   (c) The dormitory of the property is subject to a mortgage in favour of the Agricultural Bank of China (Shenzhen Longhua Branch) commencing from 29 August 2003 at a consideration of RMB37,000,000.

3. According to the opinion given by the Group's PRC legal advisers , we are given to understand that the title of the property is not held by the Group and the property cannot be freely transferred. Thus, we have attributed no commercial value to the property.

4. Furthermore, we are instructed by the Group to assess the Discounted Replacement Cost (DRC) of the property. The Discounted Replacement Cost of the property as at 31 August 2006 is circa RMB3,200,000 (equivalent to approximately HK$3,100,000).

5. As advised by the Group, Qualipak Production Inc. is an indirect wholly-owned subsidiary of the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
11.	Industrial Block No. 8 and Dormitory Block No. 8 at No. 6 Industrial Area, Fangmabu Guanlan Town, Baoan District, Shenzhen City, the PRC	The property comprises the whole of a 4-storey industrial building and a 4-storey dormitory building both completed in or about 1990. The property has a total gross floor area of approximately 4,864 sq.m.	The property is leased to the Group by an independent third party for a term of 50 years commencing from 16 December 1992 to 16 December 2042 and the rental is exempted. The property is at present occupied by the Group as workshop and staff quarters.	No commercial value

Notes:

1. According to the information provided by the Group, the lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

2. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The lessor is the current registered owner of the property which is entitled to lease the property to the Group. The tenancy agreement entered into between the lessor and the Group is valid, legally effective and enforceable to both parties.

   (b) The property is subject to a mortgage in favour of the Agricultural Bank of China (Shenzhen Longhua Branch) commencing from 29 August 2003 at a consideration of RMB37,000,000.

3. According to the opinion given by the Group's PRC legal advisers , we are given to understand that the title of the property is not held by the Group and the property cannot be freely transferred. Thus, we have attributed no commercial value to the property.

4. Furthermore, we are instructed by the Group to assess the Discounted Replacement Cost (DRC) of the property. The Discounted Replacement Cost of the property as at 31 August 2006 is circa RMB3,200,000 (equivalent to approximately HK$3,100,000).

5. As advised by the Group, Permate Production Inc. is an indirect wholly-owned subsidiary of the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
12.	Various buildings located on Macau Industrial Zone, Zhangge Village, Dashuikeng, Guanlan Town, Baoan District, Shenzhen City, the PRC	The property comprises a 3-storey industrial building, a 4-storey staff quarter and ancillary buildings completed in or about 1990. The property has a total gross floor area of approximately 5,680 sq.m.	The property is leased to the Group by an independent third party for a term of five years commencing from 16 September 2006 to 15 September 2011 at a monthly rent of RMB65,320. The property at present is occupied by the Group as factory.	No commercial value

Notes:

1. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

2. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The tenancy agreement is valid, legally effective and enforceable to both parties.

3. As advised by the Group, Qualipak Production Inc. is an indirect wholly-owned subsidiary of the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
13.	Various buildings located on Dalinggu, the 2nd Industrial Zone, Guanlan Village, Guanlan Town, Baoan District, Shenzhen, the PRC	The property comprises a 3-storey industrial building and a 3-storey staff quarter both completed in or about 1995. The property has a total gross floor area of approximately 4,000 sq.m.	The property is leased to the Group by an independent third party for a term of two years commencing from 1 October 2005 to 31 September 2007 at a monthly rent of RMB32,500. The property at present is occupied by the Group as factory.	No commercial value

Notes:

1. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

2. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The tenancy agreement is valid, legally effective and enforceable to both parties.

3. As advised by the Group, Qualipak Production Inc. is an indirect wholly-owned subsidiary of the Company.

	Property	Description	Particulars of occupancy	Market value as at 31 August 2006
14.	A building located on No.76 Yucai Road, Beiku Commune, Lili Town, Wujiang City, Jiangsu Province, the PRC	The property comprises portion of a 3-storey building completed in or about 1998. The property has a total gross floor area of approximately 400 sq.m. (excluding of the public corridor).	The property is leased to the Group by an independent third party for a term of one year commencing from 1 May 2006 to 30 April 2007 at an annual rent of RMB50,000 exclusive of management fee and other operating outgoings. The property at present is occupied by the Group as office.	No commercial value

Notes:

1. According to the information provided by the Group, the lessor is an independent third party, which is not connected and is independent of, any of the directors, or any of their respective associates of the Group.

2. We have been provided with a PRC legal opinion on the title to the property interest issued by Grandall Legal Group (Shenzhen), the PRC legal adviser, which contains, *inter alias*, the following information:

   (a) The tenancy agreement is valid, legally effective and enforceable to both parties.

3. According to the information provided by the Group, Hoi Tin Universal Travel Goods (Suzhou) Limited is a company 60% indirectly owned by the Company.

Set out below are the texts of the letter, summary of values and valuation certificates received from Savills, an independent property valuer, in connection with its valuation as at 31 August 2006 of the property interests of the Subject Group.

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EA LICENCE: C-023750
savills.com

The Board of Directors
Yugang International Limited
Rooms 3301-3307
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

The Board of Directors
Qualipak International Holdings Limited
7th Floor, China United Centre
28 Marble Road
North Point
Hong Kong

20 October 2006

Dear Sirs,

In accordance with the instructions from Yugang International Limited ("Yugang") and Qualipak International Holdings Limited ("Qualipak") (collectively referred to as the "Companies") to value various property interests held by 重慶中渝物業發展有限公司 (Chongqing Zhongyu Property Development Company Limited) ("Chongqing Zhongyu") in the People's Republic of China ("PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 31 August 2006.

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owners of the properties have enforceable title to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the terms as granted.

In valuing the properties in Group I, which are held by Chongqing Zhongyu for future development, we have valued them by direct comparison approach assuming sale of each of the properties in its existing state and by making reference to the comparable sales transactions as available in the relevant market and the latest development proposals supplied to us. Based on the supplied preliminary development proposals, we consider that the gross floor areas to be built are reasonable based on the prevailing urban planning.

In valuing the interest held by Chongqing Zhongyu in a development project in Group II, we have made reference to the comparable sales transactions as available on the market and information provided by the Companies including development proposal, development programme, development contract and other relevant information.

In valuing the properties in Group III, which are held by Chongqing Zhongyu for occupation or investment, we have valued them by making reference to comparable sales transactions as available in the market and where appropriate on the basis of capitalization of net income shown on the schedule handed to us with due allowance for reversionary income potential of these properties.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Companies and their legal advisers on PRC laws, Chongqing Zhibo Law Firm, regarding the titles and other legal matters relating to the property interests and have accepted advice given to us on matters such as planning approvals or statutory notices, easements, tenure, identification of the properties, particulars of occupancy, development proposals, estimated construction costs, estimated completion dates, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Companies and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Companies which is material to our valuation. We were also advised by the Companies that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior of the properties valued. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. We have not carried out investigations on site to determine the suitability of the ground conditions and the services etc for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated are in Renminbi.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has about 22 years' experience in the valuation of properties in Hong Kong and about 17 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I – Properties held by Chongqing Zhongyu for future development in the PRC

No.	Property	Capital value in existing state as at 31 August 2006
1.	Three parcels of land located at the south of Xingai Road, (Lot Nos. 15, 16 and 17-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB1,540,000,000
2.	A site located at east of Songpai Road, (Lot No. 9), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB740,000,000
3.	A site located at the southeast of the junction of Xingai Road and Nation Road No. 201, (Lot No. 10-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB1,105,000,000

No.	Property	Capital value in existing state as at 31 August 2006
4.	A site located at the west of Nation Road No. 201, (Lot No. 6-1) Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB142,000,000
5.	Three parcels of land (Lot No. 19), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB825,000,000
6.	A site located at the east of Nation Road No. 201, (Lot No. 3-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB600,000,000
7.	A site located at the west of Nation Road No. 201, (Lot No. 4), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB1,000,000,000

No.	Property	Capital value in existing state as at 31 August 2006
8.	A site located at Longtoushi (Lot No. 035) Renhe Tuenzhu Gaoxinyuan Northern New District Chongqing PRC	RMB430,000,000
9.	Two sites (Lot No. 20 and Lot No. 11-1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB80,000,000
10.	A site (Lot No. 22) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB24,614,000
11.	A site (Lot No. 7-1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB8,000,000
	Sub-total:	**RMB6,494,614,000**

Group II – Interest held by Chongqing Zhongyu in a development project in the PRC

No.	Property	Capital value in existing state as at 31 August 2006
12.	A site (Lot No. 1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	RMB30,000,000
	Sub-total	**RMB30,000,000**

Group III – Properties held by Chongqing Zhongyu for owner-occupation or investment in the PRC

No.	Property	Capital value in existing state as at 31 August 2006
13.	Portion of Levels 1, 2 and 3, Units 3 and 4 on Level 17 and Unit 7 on Level 26, Block A2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB6,320,000
14.	Portion of Levels 1, 2 and 3, Units 1 and 2 on Level 6 and Unit 4 on Level 32/33, Block A3, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB13,250,000

No.	Property	Capital value in existing state as at 31 August 2006
15.	Unit 5 on Level 3, Block A4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB320,000
16.	Units 3 to 6 on Level 1 and Units 5 and 6 on Level 2, Block A9, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB1,750,000
17.	Unit 2 on Level 20, Block B1, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB227,000
18.	Portion of Levels 1 to 4, Block B2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB12,590,000
19.	Portion of Levels 1, 2 and 3 and Unit 1 on Level 24/25, Block B4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB25,852,000

No.	Property	Capital value in existing state as at 31 August 2006
20.	Portion of Levels 1 and 2 of Block C2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB5,960,000
21.	Portion of Levels 1 and 2 and 11 residential units in Block C3, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB3,918,500
22.	Units 1 and 4 on Level 4, Unit 1 on Level 5, Unit 4 on Level 6 and Unit 4 on Level 7, Block C4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB1,200,000
23.	A market located at Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB3,950,000
24.	A two-level basement car park of Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB17,670,000

No.	Property	Capital value in existing state as at 31 August 2006
25.	Education Building, Jiazhou Primary School, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB9,460,000
26.	Composite Building of Jiazhou Primary School, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB6,460,000
27.	The car park basement of connective level between Blocks 4 and 5, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB470,000
28.	Block 7, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB40,920,000
29.	Portion of Levels 1 to 3, Blocks 8 and 9, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB22,570,000

No.	Property	Capital value in existing state as at 31 August 2006
30.	The basement car park of connective floor between Blocks 9 and 10, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB600,000
31.	The car park in the basement, Levels 1 to 3, Units 5 on Levels 15, 16, 17 and 24 of Block 13, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB14,400,000
32.	Jiazhou City Garden Kindergarten, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB3,620,000
33.	Carports A and B located at Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	RMB9,000,000
34.	Basement Levels 1 to 2, Kechuang Building, Longxi Town, Yubei District, Chongqing, PRC	RMB4,240,000
	Sub-total:	**RMB204,747,500**
	Grant Total:	**RMB6,729,361,500**

VALUATION CERTIFICATE

Group I – Properties held by Chongqing Zhongyu for future development in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
1.	Three parcels of land located at the south of Xingai Road, (Lot Nos. 15, 16 and 17-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises three contiguous parcels of irregular-shaped level site with a total site area of approximately 261,343.2 sq.m. (2,813,098 sq.ft.). The property is planned to be developed into a residential and commercial composite development with a total planned gross floor area of approximately 764,112 sq.m. (8,224,901 sq.ft.). According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	Portion of Lot No. 15 of the property is subject to two tenancy agreements for respective terms expiring on 31 December 2006 and 8 February 2007 at annual rents of RMB80,000 and RMB246,873.60 respectively. A temporary driving range is erected on portion of Lot No. 16 of the property for a term expiring on 31 December 2006 for an annual rent of RMB40,000. The remaining portion of the property is currently vacant and pending for development.	RMB1,540,000,000

Use	Approximate Gross Floor Area	
	(sq.m.)	*(sq.ft.)*
Residential		
High-rise apartment bldg.	663,464	7,141,526
Semi-detached Townhouse	12,940	139,286
Villas	9,690	104,303
Commercial	68,018	732,146
Ancillary Facilities	10,000	107,640
Total	764,112	8,224,901

The proposed development will also comprise 6,543 car parking spaces.

As advised by the Companies, the construction of the proposed development is expected to commence in early 2007 and expected for completion by the end of 2009. Estimated pre-sale commencement time will be in the second half of 2007.

The property is held under a land use rights for a term expiring on 29 May 2063 for residential uses.

Notes:

1. Pursuant to three Certificates for Use of State-owned Land Nos. Yu Wai Guo Yong (2003) Zi 076, Yu Wai Guo Yong (2003) Zi 077 and Yu Wai Guo Yong (2003) Zi 078 all issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 4 November 2003, the land use rights of three parcels of land with respective site areas of 152,504.135 sq.m. (Lot No. 15), 100,696.21 sq.m. (Lot No. 16) and 41,476.35 sq.m. (Lot No. 17-1) were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a land use term expiring on 29 May 2063 for residential uses.

2. According to the information provided by the Companies, portion of Lot No. 15 with a site area of approximately 33,330.0 sq.m. has been resumed by Chongqing State-owned Land Resources and Housing Administration Bureau and is to be excluded from our valuation.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable;

   (ii) Lot No. 16 is subject to a mortgage in favour of Bank of Communications Xinpaifang Sub-branch for an amount of RMB117,500,000; and

   (iii) Lot No. 17-1 is subject to a mortgage in favour of Chongqing Commercial Bank Daxigou Sub-branch for an amount of RMB39,000,000.

   (iv) Based on a reply letter – Yu Gui Han Fu (2006) Bei Long Zi No. 0031 issued by the Chongqing Planning Bureau on 14 April 2006, the usage of Lot Nos. 15, 16 and 17 is residential and commercial.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
2.	A site located at east of Songpai Road, (Lot No. 9), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with a site area of approximately 81,339.02 sq.m. (875,533 sq.ft.). The property is planned to be developed into a residential, hotel and commercial composite development with a total planned gross floor area of approximately 307,354.00 sq.m. (3,308,358 sq.ft.). According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	The property is currently vacant and pending for development.	RMB740,000,000

Use	Approximate Gross Floor Area (sq.m.)	(sq.ft.)
Residential		
High-rise apartment	170,098	1,830,935
Serviced apartment	25,003	269,132
Commercial	73,503	791,186
Hotel	38,750	417,105
Total	307,354	3,308,358

The proposed development will also comprise a car park basement with a floor area of approximately 57,079 sq.m. (614,398 sq.ft.).

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2007 and expected for completion in mid 2010. Estimated pre-sale commencement time will be in the first half of 2008.

The property is held under a land use rights for a term expiring on 25 May 2063 for composite uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land Yu Wai Guo Yong (2004) Zi 013 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 7 January 2004, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property with a site area of 81,339.02 sq.m. for a term expiring on 25 May 2063 for composite uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land price or land premium payable; and

   (ii) the property is subject to a mortgage in favour of Agricultural Bank of China Jiangbei Sub-branch for an amount of RMB47,600,000.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
3. A site located at the southeast of the junction of Xingai Road and Nation Road No. 201, (Lot No. 10-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with site area of approximately 103,434.88 sq.m. (1,113,373 sq.ft.). The property is planned to be developed into a residential, office and commercial composite development with a total planned gross floor area of approximately 312,669 sq.m. (3,365,570 sq.ft.). According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	Portion of the property with a land area of approximately 2,250.5 sq.m. (24,224 sq.ft.) is subject to a tenancy agreement for a term commencing on 10 January 2006 and expiring on the date when Zhong Yu commences its redevelopment work. The remaining portion of the property is currently vacant and pending for development.	RMB1,105,000,000

Use	Approximate Gross Floor Area (sq.m.)	(sq.ft.)
Residential	112,849	1,214,707
Office	82,072	883,423
Commercial	102,590	1,104,279
Ancillary Facilities	15,158	163,161
Total	312,669	3,365,570

The proposed development will also comprise a car park basement with a floor area of approximately 37,293 sq.m. (401,422 sq.ft.).

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2007 and expected for completion in mid 2009. Estimated pre-sale commencement time will be in the first half of 2008.

The property is held under a land use rights for a term expiring on 29 May 2063 for residential uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2003) Zi 072 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 4 November 2003, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for a term expiring on 29 May 2063 for residential uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable; and

   (ii) portions of the property with site areas of 33,350 sq.m. and 10,000 sq.m. are subject to respective mortgages in favour of Chongqing Commercial Bank Jianxin Bei Road Sub-branch and China Minsheng Bank Corporation Limited Chongqing Sub-branch for amounts of RMB23,000,000 and RMB9,700,000 respectively; and

   (iii) there is no legal impediment to confirm the usage of Lot No. 10-1 as quoted from the Certificate for Use of State-owned Land as composite commercial uses.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
4.	A site located at the west of Nation Road No. 201, (Lot No. 6-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with a site area of approximately 29,224.74 sq.m. (314,575 sq.ft.). The property is planned to be developed into a residential and commercial composite development with a total planned gross floor area of approximately 84,747 sq.m. (912,217 sq.ft.). According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	A temporary structure with a floor area of approximately 3,106.45 sq.m. (33,438 sq.ft.) is erected on the property and is leased out on temporary basis. The remaining portion of the property is currently vacant.	RMB142,000,000

Use	Approximate Gross Floor Area (sq.m.)	(sq.ft.)
Residential	38,710	416,674
Commercial	23,297	250,769
Ancillary Facilities	6,850	73,733
Car Park	15,890	171,040
Total	84,747	912,217

As advised by the Companies, the construction of the proposed development is expected to commence in early 2007 and expected for completion by the end of 2008. Estimated pre-sale commencement time will be in the second half of 2007.

The property is held under a land use rights for a term expiring on 25 May 2063 for composite uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2004) Zi 008 issued by Chongqing Land Resources and Housing Administration Bureau on 7 January 2004, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for a term expiring on 25 May 2063 for composite uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable; and

   (ii) portion of the property with site areas of 28,410 sq.m. is subject to a mortgage in favour of China Everbright Bank Jiangbei Sub-branch for an amount of RMB33,800,000.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
5.	Three parcels of land (Lot No. 19), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises 3 parcels of adjoining irregular-shaped level site with a total site area of approximately 143,868.63 sq.m. (1,548,602 sq.ft.). The property is planned to be developed into a residential, office and commercial composite development with a total planned gross floor area of approximately 300,740.00 sq.m. (3,237,165 sq.ft.). The proposed development will also comprise 1,172 car parking spaces. According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	Portion of the land together with Lot No. 4 are subject to three tenancy agreements with the latest one expiring on 9 February 2008 at a total annual rent of approximately RMB3,126,000. There is a temporary structure erected on portion of the property. The remaining portion of the property is vacant and pending for development.	RMB825,000,000

Use	Approximate Gross Floor Area (sq.m.)	(sq.ft.)
Residential	170,875	1,839,299
Commercial	68,350	735,719
Office	61,515	662,147
Total	300,740	3,237,165

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2008 and expected for completion in mid 2010. Estimated pre-sale commencement time will be in the first half of 2009.

The property is held under land use rights for respective terms expiring on 25 May 2062, 29 May 2063 and 29 May 2063 respectively for residential uses.

Notes:

1. Pursuant to three Certificates for Use of State-owned Land No. Yu Guo Yong (1997) Zi 061, Yu Wai Guo Yong (2003) 079 and Yu Wai Guo Yong (2003) 080 all issued by Chongqing Land Resources and Housing Administration Bureau on 23 June 1997, 4 November 2003 and 4 November 2003 respectively, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for respective terms expiring on 25 May 2062, 29 May 2063 and 29 May 2063 respectively for residential uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable; and

   (ii) portions of the property with site areas of 50,000.251 sq.m. and 4,241.53 sq.m. are subject to respective mortgages in favour of Agricultural Bank of China Chengdu Zongfu Sub-branch and Chongqing Commercial Bank Jianxin Bei Road Sub-branch for amounts of RMB126,800,000 and RMB8,000,000 respectively; and

   (iii) there is no legal impediment to confirm the usage of Lot No. 19 as quoted from the Certificate for Use of State-owned Land as composite commercial uses.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
6.	A site located at the east of Nation Road No. 201, (Lot No. 3-1), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with site area of approximately 47,936.97 sq.m. (515,994 sq.ft.).	The property is currently vacant and pending for development.	RMB600,000,000

The property is planned to be developed into a residential, office and commercial composite development with a total planned gross floor area of approximately 236,729 sq.m. (2,548,151 sq.ft.). The proposed development will also comprise 922 car parking spaces.

According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–

Use	Approximate Gross Floor Area	
	(sq.m.)	*(sq.ft.)*
Residential	134,505	1,447,812
Commercial	53,802	579,125
Office	48,422	521,214
Total	236,729	2,548,151

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2008 and expected for completion in mid 2010. Estimated pre-sale commencement time will be in the first half of 2009.

The property is held under a land use rights for a term expiring on 29 May 2063 for residential uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2003) Zi 070 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 4 November 2003, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for a term expiring on 29 May 2063 for residential uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable; and

   (ii) portion of the property with a site area of 45,038.06 sq.m. is subject to a mortgage in favour of Bank of Communications Chongqing Sub-branch for an amount of US$6,800,000; and

   (iii) there is no legal impediment to confirm the usage of Lot No. 3-1 as quoted from the Certificate for Use of State-owned Land as composite commercial uses.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
7.	A site located at the west of Nation Road No. 201, (Lot No. 4), Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with site area of approximately 96,917.17 sq.m. (1,043,216 sq.ft.). The property is planned to be developed into a residential, office and commercial composite development with a total planned gross floor area of approximately 468,555 sq.m. (5,043,526 sq.ft.). The proposed development will also comprise 1,826 car parking spaces. According to the development proposal provided, the details of the proposed development of the property are summarised as follows:	The property together with portion of Lot No. 19 is subject to a tenancy agreement for a term of three years commencing on 10 November 2003 and expiring on 10 November 2006 at a current annual rent of RMB3,000,000. There is a temporary structure erected on the property. The remaining portion of the property is vacant and pending for development.	RMB1,000,000,000

Use	Approximate Gross Floor Area	
	(sq.m.)	*(sq.ft.)*
Residential	266,224	2,865,635
Commercial	106,490	1,146,258
Office	95,841	1,031,633
Total	468,555	5,043,526

As advised by the Companies, the construction of the proposed development is expected to commence in early 2009 and expected for completion by the end of 2010. Estimated pre-sale commencement time will be in the second half of 2009.

The property is held under a land use rights for a term expiring on 25 May 2063 for composite uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2004) Zi 012 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 9 January 2004, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for a term expiring on 25 May 2063 for composite uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

    (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable; and

    (ii) the property is subject to a mortgage in favour of Bank of Communications Xinpaifang Sub-branch for an amount of RMB100,000,000.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
8.	A site located at Longtoushi (Lot No. 035) Renhe Tuenzhu Gaoxinyuan Northern New District Chongqing PRC	The property comprises a parcel of irregular-shaped level site with a site area of approximately 69,316.85 sq.m. (746,127 sq.ft.). The property is planned to be developed into a residential, office and commercial composite development with a total planned gross floor area of approximately 209,545 sq.m. (2,255,543 sq.ft.). The proposed development will also comprise 816 car parking spaces. According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–	The property is currently vacant and pending for development.	RMB430,000,000

Use	Approximate Gross Floor Area	
	(sq.m.)	*(sq.ft.)*
Residential	119,060	1,281,562
Commercial	47,624	512,625
Office	42,861	461,356
Total	209,545	2,255,543

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2008 and expected for completion in mid 2010. Estimated pre-sale commencement time will be in the first half of 2009.

The property is held under land use rights for respective terms of 40 and 70 years commencing on 17 June 2005 and expiring on 17 June 2045 and 17 June 2075 for commercial and residential uses respectively.

Notes:

1. Pursuant to the Real Estate Title Certificate No. 100 Fang Di Zheng 2006 Zi 817 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 31 August 2006, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of the property for a term expiring on 17 June 2045 for commercial uses and a term expiring on 17 June 2075 for residential uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
9.	Two sites (Lot No. 20 and Lot No. 11-1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises two parcels of irregular-shaped level site with site areas of approximately 2,584.80 sq.m. (27,823 sq.ft.) and 17,337.76 sq.m. (186,624 sq.ft.).	The property is currently vacant and pending for development.	RMB80,000,000

The property is planned to be developed into a residential development with a total planned gross floor area of approximately 80,859 sq.m. (870,366 sq.ft.).

According to the development proposal provided, the details of the proposed development of the property are summarised as follows:–

Use	Approximate Gross Floor Area (sq.m.)	(sq.ft.)
Residential	61,453	661,480
Car park	19,406	208,886
Total	80,859	870,366

As advised by the Companies, the construction of the proposed development is expected to commence in mid 2007 and expected for completion in mid 2009. Estimated pre-sale commencement time will be in the first half of 2008.

Lot No. 20 of the property is held under a land use rights for a term expiring on 25 May 2063 for composite uses.

Lot No. 11-1 is held under a land use rights for a term expiring on 29 May 2063 for residential uses.

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Guo Yong (1994) Zi 112 issued by Chongqing State-owned Land Bureau on 12 December 1994, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of a parcel of land of the property with a site area of 2,584.80 sq.m. for a term of 70 years for composite uses.

2. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2003) Zi 074 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 4 November 2003, Chongqing Zhongyu was granted with the land use rights of a parcel of land with a site area of 81,137.67 sq.m. for a term expiring on 29 May 2063 for residential uses.

   Portion of the land of the said Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2003) Zi 074 has been developed as Phases I and II of Huijing Terrace. The remaining vacant site area of the land is approximately 17,337.759 sq.m. which is included in our valuation.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land premium payable.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
10.	A site (Lot No. 22) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with a site area of approximately 7,118.67 sq.m. (76,625 sq.ft.). Portion of the property with a site area of approximately 5,325.33 sq.m. (57,322 sq.ft.) is planned to be developed into a residential development with a total planned gross floor area of approximately 16,009.00 sq.m. (172,321 sq.ft.). The proposed development will also comprise a car park with a floor area of approximately 3,842 sq.m. (41,355 sq.ft.). As advised by the Companies, the construction of the proposed development is expected to commence in mid 2007 and expected for completion in mid 2009. Estimated pre-sale commencement time will be in the first half of 2008. Portion of the property with a site area of approximately 1,793.34 sq.m. (19,304 sq.ft.) is subject to an Agreement for joint development (see note 2 (ii)). The property is held under a land use rights for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.	The property is currently vacant and pending for development.	RMB24,614,000 (see note 3)

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Guo Yong (1997) Zi 062 issued by Chongqing State-owned Land Bureau on 23 June 1997, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of a parcel of land with a site area of 11,965.05 sq.m. for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) Chongqing Zhongyu Yu is entitled to use and develop the property within the land use terms without any land price or land premium payable; and

   (ii) Chongqing Zhongyu entered into a contract with Chongqing Long Xi Zhi Ye Consulting Company Limited (重慶市龍溪置業諮詢有限公司) on 13 June 2003 to jointly develop a project. Chongqing Zhongyu has invested a parcel of land with an area of approximately 1,793.34 sq.m. in the project in return for a sum of RMB1,614,000. The said amount of RMB1,614,000 was received by Chongqing Zhongyu.

3. The said amount of money as mentioned in item 2 has been taken into account in our valuation.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
11.	A site (Lot No. 7-1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of irregular-shaped level site with a site area of approximately 5,245.88 sq.m. (56,467 sq.ft.). The property is planned to be developed into a residential development with a total planned gross floor area of approximately 8,161.00 sq.m. (87,845 sq.ft.). The proposed development will also comprise a car park with a floor area of approximately 1,638 sq.m. (17,631 sq.ft.). As advised by the Companies, the construction of the proposed development is expected to commence in mid 2007 and expected for completion in mid 2009. Estimated pre-sale commencement time will be in the first half of 2008. The property is held under a land use rights for a term expiring on 25 May 2063 for composite uses.	The property is currently vacant and pending for development.	RMB8,000,000

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2004) Zi 007 issued by Chongqing State-owned Land Resources and Housing Administration Bureau in January 2004, Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) was granted with the land use rights of a parcel of land with a site area of 5,245.88 sq.m. for a term expiring on 25 May 2063 for composite uses.

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   Chongqing Zhongyu is entitled to use and develop the property within the land use term at no or extra land premium payable.

Group II – Interest held by Chongqing Zhongyu in a development project in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
12.	A site (Lot No. 1) located at Chongqing International Finance and Trade Development Area, Xinpaifang, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of land with a site area of approximately 11,778.79 sq.m. (126,787 sq.ft.). The property is planned to be developed into a residential and commercial composite development with a total planned gross floor area of approximately 52,491.32 sq.m. (565,017 sq.ft.) which is scheduled to be completed by the end of 2007. The property is held under a land use rights for a term expiring on 29 May 2063 for residential uses.	The property is vacant	RMB30,000,000

Notes:

1. Pursuant to the Certificate for Use of State-owned Land No. Yu Wai Guo Yong (2003) Zi 066 issued by the People's Government of Chongqing, the land use rights of the property with a site area of approximately 11,778.79 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 29 May 2063 for residential uses.

2. Pursuant to a Site of Jiazhou No. 1 Development Contract entered into between Chongqing Zhongyu and Chongqing Zhong Rui Enterprises Company Ltd ("Zhong Rui") (重慶中瑞實業有限公司) on 6 April 2005 ("Contract"), Chongqing Zhongyu and Zhong Rui agreed to jointly develop the property. Under the contract, Zhong Rui will pay an amount of RMB25,000,000 to Chongqing Zhongyu. Chongqing Zhongyu is also entitled to share an extra profit of RMB1,000,000 when the average selling price of the residential units of the proposed development upon completion is RMB100 per sq.m above RMB3,200 per sq.m. and get another RMB1,000,000 when the average selling price is RMB100 per sq.m. more than before with a cap of RMB5,000,000.

   Zhong Rui has already paid RMB19,000,000 to Chongqing Zhongyu. We have taken into account such amount in our valuation.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' legal adviser, which contains, inter-alia, the following information:

   (i) Chongqing Zhongyu is entitled to use and develop the property within the land use terms at no or extra land price or land premium payable;

   (ii) the property is subject to a mortgage in favour of Bank of Communications Chongqing Sub-branch for an amount of US$6,800,000; and

   (iii) the contract as mentioned as item (2) is lawful and binding on both parties.

Group III – Properties held by Chongqing Zhongyu for owner-occupation or investment in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
13.	Portion of Levels 1, 2 and 3, Units 3 and 4 on Level 17 and Unit 7 on Level 26, Block A2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1, 2 and 3 of the commercial podium and 3 residential units of a 30-storey residential tower erected upon a 3-level commercial podium completed in about 1997. The commercial and residential portions of the property have gross floor areas of approximately 1,822.78 sq.m. (19,620 sq.ft.) and 449.29 sq.m. (4,836 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.	Portion of Level 1 of the property with a floor area of approximately 40.00 sq.m. is currently subject to a tenancy expiring on 31 December 2008 at a monthly rental of RMB1,040. Portion of Level 1 with a floor area of approximately 276.03 sq.m. is occupied as property management office and the remaining portion of the property is currently vacant.	RMB6,320,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 041 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the land use rights of a parcel of land of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.

2. Pursuant to Building Ownership Certificate Nos. Fang Quan Zheng 201 Zi 0162364 and Yu Bei Qu Zi 29899 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered; and

   (iv) except for Levels 2 and 3 of the property which are mortgaged to Zhongqing Commercial Bank Jian Xin Bei Road Sub-branch, the reminder of the property is not subject to any mortgages.

4. The breakdown of our valuation is as follows:

   Commercial : RMB5,400,000
   Residential : RMB920,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
14. Portion of Levels 1, 2 and 3, Units 1 and 2 on Level 6 and Unit 4 on Level 32/33, Block A3, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1, 2 and 3 of the commercial podium and 3 residential units of a 30-storey residential tower erected upon a 3-level commercial podium completed in about 1997. The commercial and residential portions of the property have gross floor areas of approximately 4,736.79 sq.m. (50,987 sq.ft.) and 549.22 sq.m. (5,912 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.	Portion of Level 2 of the property is currently subject to two tenancies with the latest one expiring in March 2008 at a total monthly rental of approximately RMB7,000. The remaining portion of the property is currently vacant.	RMB13,250,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 075 issued by Chongqing State-owned Land Resources and Housing Administration Bureau dated on 28 August 1997, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 073125 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 19 December 2001, the building ownership of the commercial podium of Block A3 with a gross floor area of 4,736.79 sq.m. is held by Chongqing Zhongyu.

3. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 073126 issued by the Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the three residential units of the property with a total gross floor area of approximately 549.22 sq.m. is held by Chongqing Zhongyu.

4. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreements are lawful and legally binding on both landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered;

   (iv) the property is not subject to any mortgages; and

   (v) there is no legal impediment to confirm the usage of the land on which Block A3 is erected as quoted from the Certificate for Use of State-owned Land as composite commercial uses.

5. The breakdown of our valuation is as follows:

   Commercial : RMB12,120,000
   Residential : RMB1,130,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
15. Unit 5 on Level 3, Block A4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a residential unit on Level 3 of a 33-storey residential tower erected upon a 4-level commercial podium completed in about 1997. The property has a gross floor area of approximately 154.10 sq.m. (1,659 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 26 February 1992 and expiring on 25 February 2062 for residential uses.	The property is currently subject to a tenancy commencing on 1 October 2004 and expiring on 30 September 2006 at a monthly rental of RMB1,150.	RMB320,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 074 issued by the Chongqing State-owned Land Resources and Housing Administration Bureau, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 26 February 1992 and expiring on 25 February 2062 for residential uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 074115 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreement is lawful and legally binding on both the landlord and the tenant but not liable to other third parties as the said tenancy agreement has not been registered; and

   (iv) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
16.	Units 3 to 6 on Level 1 and Units 5 and 6 on Level 2, Block A9, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises six residential units of a 30-storey residential tower completed in about 1997. The property has a total gross floor area of approximately 848.64 sq.m. (9,135 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.	The property is currently vacant.	RMB1,750,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 081 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 26 May 1992 and expiring on 25 May 2062 for residential uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 034924 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
17. Unit 2 on Level 20, Block B1, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a residential unit on Level 20 of a 30-storey residential tower completed in about 1997. The property has a gross floor area of approximately 130.62 sq.m. (1,406 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.	The property is currently vacant.	RMB227,000

Notes:

1. Pursuant to Certificate for Use of State-owned Land No. Yu Guo Yong (1997) Zi 043 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.

2. Pursuant to Building Ownership Certificate No. Yu Te Fang Zi 60293 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. According to the information provided by the Companies, the property has been sold to an independent third party at a consideration of RMB227,017.56 and the sales is to be completed on or before 31 December 2006.

4. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the property is not subject to any mortgages; and

   (iv) Chongqing Zhongyu has entered into a sales contract with an independent third party to sell the property. The said sales contract is lawful and legally binding. The purchaser has paid part of the consideration and there is no legal impediment for the transfer of ownership.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
18. Portion of Levels 1 to 4, Block B2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1 to 4 of the commercial podium of a 25-storey residential tower erected upon a 3-level commercial podium completed in about 1997. The property have a total gross floor area of approximately 3,813.66 sq.m. (41,050 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.	Portion of the property with a total floor area of approximately 973.53 sq.m. is currently subject to various tenancies with latest one expiring in November 2008 at a total monthly rental of approximately RMB16,200. The remaining portion of the property is partly occupied as offices and activities rooms for the elderly and partly vacant.	RMB12,590,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 043 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 14 April 1997, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 0162097 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the commercial podium of Block B2 with a gross floor area of 3,813.66,sq.m. is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser which contains, inter alia, the following information:

    (i) the property is held by Chongqing Zhongyu;

    (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

    (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements has not been registered; and

    (iv) the property is not subject to any mortgages.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
19. Portion of Levels 1, 2 and 3 and Unit 1 on Level 24/25 Block B4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1, 2 and 3 of the commercial podium and a residential unit of a 25-storey residential tower erected upon a 5-level commercial podium completed in about 1997. The commercial and residential portions of the property have gross floor areas of approximately 6,994.17 sq.m. (75,285 sq.ft.) and 227.71 sq.m. (2,451 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing from 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.	Portion of the commercial portion of the property with a gross floor area of approximately 6,808.77 sq.m. is currently subject to various tenancies with the latest one expiring in December 2014 at a total monthly rental of approximately RMB203,600. The remaining portion of the property is currently vacant.	RMB25,852,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 043 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for commercial and residential uses.

2. According to the information provided by the Companies, the residential unit of the property with a gross floor area of approximately 227.71 sq.m. has been sold to an independent third party at a consideration of RMB341,565. The sales is to be completed on or before 31 December 2006. The said amount has been taken into account in our valuation.

3. Pursuant to the Building Ownership Certificates Nos. Fang Quan Zheng 201 Zi 0104644 and Fang Quan Zheng 201 Zi 033957 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

4. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered;

   (iv) the commercial portion of the property is mortgaged to Bank of Agriculture Long Xi Sub-branch; and

   (v) the sales contract as mentioned in note 2 is lawful and legally binding. The purchaser has paid part of the consideration. There is no legal impediment for the application of the transfer of ownership.

5. The breakdown of our valuation is as follows:

   Commercial : RMB25,510,000
   Residential : RMB342,000

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
20.	Portion of Levels 1 and 2 of Block C2, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1 and 2 of a 16-storey composite building completed in about 1997. The property has a total gross floor area of approximately 1,626.83 sq.m. (17,511 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.	Portion of Level 2 with a gross floor area of approximately 300 sq.m. is subject to a tenancy for a term expiring on 17 March 2007 at a monthly rental of RMB11,700. The remaining portion of the property is currently vacant.	RMB5,960,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 042 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 14 April 1997, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.

2. Pursuant to Building Ownership Certificate Nos. Fang Quan Zheng 201 Zi 0162095 and Fang Quan Zheng 201 Zi 0146890 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which will require the consent of the mortgagee;

   (iii) the tenancy agreement is lawful and legally binding on both the landlord and tenant but not liable to other third parties as the said tenancy agreement has not been registered; and

   (iv) Level 1 of the property is mortgaged to Chongqing Commercial Bank Jian Xin Bei Road Sub-branch.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
21.	Portion of Levels 1 and 2 and 11 residential units in Block C3, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1 and 2 of the commercial podium and 11 residential units of a 16-storey composite building completed in about 1997. The commercial and residential portions of the property have gross floor areas of approximately 271.43 sq.m. (2,922 sq.ft.) and 1,383.68 sq.m. (14,894 sq.ft) respectively. The land use rights of the property were granted for a term of 70 years commencing from 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.	A residential unit of the property is currently subject to a tenancy for a term expiring on 30 June 2008 at a monthly rental of about RMB800 whilst the remaining portion of the property is vacant.	RMB3,918,500

Notes:

1. According to the information provided, the residential portion of the property comprises the following units:

   Units 4 & 5 on Level 4, Unit 5 on Level 5, Unit 7 on Level 9, Unit 3 on Level 11, Units 5 & 6 on Level 12, Unit 5 on Level 15, Units 4 & 8 on Level 16 and Unit 8 on Level 17/18.

2. According to the information provided by the Companies, Unit 8 on Level 17/18 with a gross floor area of approximately 213.68 sq.m. has been sold to an independent third party at a consideration of RMB538,473.60. The sales is to be completed on or before 30 June 2007. The said amount has been taken into account in our valuation.

3. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 042 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 14 April 1997, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.

4. Pursuant to the three Building Ownership Certificates Nos. Fang Quan Zheng 201 Zi 0146887, Fang Quan Zheng 201 Zi 0146888 and Yu Bei Qu Zi 29897 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

5. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) The property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreement is lawful and legally binding on both the landlord and tenant but not liable to other third parties as the said tenancy agreement has not been registered;

   (iv) the property is not subject to any mortgages; and

   (v) Chongqing Zhongyu has entered into a sales contract with an independent third party to sell Unit 8 on Level 17/18. The sales contract is lawful and legally binding. The purchaser has not paid the consideration.

6. The breakdown of our valuation is as follows:

Commercial	:	RMB990,000
Residential	:	RMB2,928,500

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
22.	Units 1 and 4 on Level 4, Unit 1 on Level 5 ,Unit 4 on Level 6 and Unit 4 on Level 7, Block C4, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises five residential units of a 16-storey composite building completed in about 1997. The property has a total gross floor area of approximately 630.00 sq.m. (6,781 sq.ft.). The land use rights of the property were granted for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.	Three residential units of the property is currently subject to a tenancy for a term expiring on 31 December 2006 at a monthly rental of about RMB3,000 whilst the remaining unit of the property is vacant.	RMB1,200,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (1997) Zi 042 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 14 April 1997, the land use rights of a parcel of land with a site area of approximately 9,721.90 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term of 70 years commencing on 30 June 1992 and expiring on 29 June 2062 for residential and commercial uses.

2. According to the information provided by the Companies, Unit 4 on Level 7 with a gross floor area of approximately 126 sq.m. has been sold to an independent third party at a consideration of RMB151,200 and the sales is to be completed on or before 31 December 2006. The said amount has been taken into account in our valuation.

3. Pursuant to Building Ownership Certificate No. Yu Bei Qu Zi 29898 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

4. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreement is lawful and legally binding on both the landlord and tenant but not liable to other third parties as the said tenancy agreement has not been registered;

   (iv) the property is not subject to any mortgages; and

   (v) Chongqing Zhongyu has entered into a sales contract with an independent third party to sell Unit 4 on Level 7. The purchase price has been fully paid. The transfer procedures is in process and there is no legal impediment for this process.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
23. A market located at Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of land with a site area of approximately 8,216.03 sq.m. (88,437 sq.ft.) on which a single-storey commercial building is constructed. The building was completed in 2004. The property has a gross floor area of approximately 2,794.38 sq.m. (30,068 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2063 for composite uses.	The property is currently subject to various tenancies for respective terms at a total monthly rental of about RMB48,000.	RMB3,950,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Wai Guo Yong (2004) Zi 009 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 7 June 2004, the land use rights of a parcel of land with a site area of approximately 8,216.03 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2063 for composite uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 0135755 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property with a gross floor area of approximately 2,794.38 sq.m. is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered; and

   (iv) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
24.	A two-level basement car park of Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a two-level basement car park completed in about 1997. The property has a gross floor area of approximately 15,645.73 sq.m. (168,411 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for composite uses.	The property is currently subject to various licence agreements at a total monthly licence fee of about RMB117,700.	RMB17,670,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Wai Guo Yong (2004) Zi 009 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 26 February 2001, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2062 for composites uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 100 Zi 100002 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee; and

   (iii) the property is mortgaged to Chongqing Commercial Bank Jian Xin Bei Road Sub-branch.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
25.	Education Building, Jiazhou Primary School, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of land with a site area of approximately 1,644.32 sq.m. (17,699 sq.ft.) on which an 8-storey (including a basement) educational building is erected. The building was completed in 1997. The building has a gross floor area of approximately 6,699.37 sq.m. (72,112 sq.ft.). The land use rights of the property were granted for a term expiring on 29 June 2062 for education uses.	The property is granted to Chongqing Jiazhou Pilot Primary School (重慶加州實驗小學) to operate a primary school for a term expiring on 31 August 2010 at no rental.	RMB9,460,000

Notes:

1. Pursuant to a Certificate for State-owned Land No. Yu Wai Guo Yong (2003) Zi 021 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 7 March 2003, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 29 June 2062 for education uses.

2. Pursuant to a Building Ownership Certificate No. Fang Quan Zheng 201 Zi 078393 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
26.	Composite Building of Jiazhou Primary School, Jiazhou Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of land with a site area of approximately 851.49 sq.m. (9,165 sq.ft.) on which a 7-storey school is erected. The building was completed in 1997. The building has a gross floor area of approximately 4,578.12 sq.m. (49,279 sq.ft.). The land use rights of the property were granted for a term expiring on 29 June 2062 for education uses.	The property is granted to Chongqing Jiazhou Pilot Primary School (重慶加州實驗小學) to operate a primary school for a term expiring on 31 August 2010 at no rental.	RMB6,460,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Wai Guo Yong (2003) Zi 022 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 7 March 2003, the land use rights of a parcel of land with a site area of approximately 851.49 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 29 June 2062 for education uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 078392 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property with a gross floor area of approximately 4,578.12 sq.m. is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
27.	The car park basement of connective level between Blocks 4 and 5, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises the whole connective floor between Blocks 4 and 5 completed in about 2004. The property has a gross floor area of approximately 415.08 sq.m. (4,468 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for commercial uses.	The property is currently subject to various licence agreements at a total monthly rental of about RMB5,250.	RMB470,000

Notes:

1. Pursuant to Real Estate Title Certificate No. 201 Fang Di Zheng 2005 Zi 22311 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 29 August 2005, the land use rights and the building ownership of the property are held by Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company).

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
28.	Block 7, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a 5-storey office building completed in about 2004. The property has a gross floor area of approximately 9,127.73 sq.m. (98,251 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for office uses.	Portion of the property with a gross floor area of approximately 1,737.45 sq.m. is currently subject to various tenancies with the latest one expiring in March 2016 at a total monthly rental of about RMB84,500 whilst the remaining portion of the property is vacant.	RMB40,920,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (2004) Zi 1551 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 29 December 2004, the land use rights of a parcel of land with a site area of approximately 3,113.60 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2062 for office uses.

2. Pursuant to Building Ownership Certificate No. Fang Quan Zheng 201 Zi 0169231 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property with a gross floor area of approximately 9,127.73 sq.m. is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered; and

   (iv) the property is mortgaged to Hua Xia Bank Chongqing Branch Shang Qing Si Sub-branch.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
29.	Portion of Levels 1 to 3, Blocks 8 and 9, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises portion of Levels 1 to 3 of the commercial podium of a 27-storey composite building completed in about 2004. The property has a total gross floor area of approximately 9,066.39 sq.m. (97,591 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for commercial uses.	Portion of the property with a gross floor area of approximately 3,493.81 sq.m. is currently subject to various tenancies at a total monthly rental of about RMB74,500 whilst the remaining portion of the property is vacant.	RMB22,570,000

Notes:

1. Pursuant to Real Estate Title Certificate No. 201 Fang Di Zheng 2005 Zi 10931 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 31 May 2005, the land use rights and the building ownership of the property are held by Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company).

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered; and

   (iv) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
30.	The basement carpark of the connective floor between Blocks 9 and 10, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises the basement of the connective floor between Blocks 9 and 10 completed in about 2004. The property has a gross floor area of approximately 527.84 sq.m. (5,682 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for commercial uses.	The property is currently subject to various licence agreements at a total monthly licence fee of about RMB5,950.	RMB600,000

Notes:

1. Pursuant to Real Estate Title Certificate No. 201 Fang Di Zheng 2005 Zi 22310 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 1 September 2005, the land use rights and the building ownership of the property are held by Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company).

2. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
31. The car park in basement, Levels 1 to 3, Units 5 on Levels 15, 16, 17 and 24 of Block 13, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises the car park in the basement, Levels 1 to 3 of the commercial podium and four residential units of a 23-storey composite building completed in 2004. The property has a total gross floor area of approximately 6,002.55 sq.m. (64,611 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for commercial uses.	Portion of the property with a gross floor area of approximately 1,920.74 sq.m. is subject to various tenancies at a total monthly rental of about RMB34,468 whilst the remaining portion of the property is partly occupied as an office and partly vacant.	RMB14,400,000

Notes:

1. Pursuant to Certificate for Use of State-owned Land No. Yu Bei Guo Yong (2004) Zi 16638 issued by Chongqing State-owned Land Resources and Housing Administration Bureau on 14 July 2004, the land use rights of the property is held by Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2062 for commercial uses.

2. Pursuant to two Real Estate Title Certificates Nos. Fang Di Zheng 201 Zi 0143472 and Fang Di Zheng 201 Zi 0134172 both issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property (except for a portion of 246 sq.m.) is held by Chongqing Zhongyu.

3. Chongqing Zhongyu has entered into a sales contract with an independent third party to sell Unit 5 on Level 16 at a consideration of RMB273,546 and the sales is to be completed on or before 31 December 2006. The said amount has been taken into account in our valuation.

4. Chongqing Zhongyu has entered into a sales contract with an independent third party to sell Unit 5 on Level 24 at a consideration of RMB367,210.20 and the sales is to be completed on or before 31 December 2006. The said amount has been taken into account in our valuation.

5. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) except for a portion of 246 sq.m., Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee;

   (iii) the tenancy agreements are lawful and legally binding on both the landlord and tenants but not liable to other third parties as the said tenancy agreements have not been registered;

   (iv) the property is mortgaged to Sales Department of Bank of Huaxia-Chongqing Sub-branch; and

   (v) the purchaser of Unit 5 on Level 16 has paid the consideration in full and the transfer of ownership is in process. The purchaser of Unit 5 on Level 24 has paid part of the consideration and the transfer of ownership is also in process.

6. As Chongqing Zhongyu has not obtained the Real Estate Title Certificate for the said portion with a floor area of 246 sq.m., we have assigned no commercial value to this portion.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
32.	Jiazhou City Garden Kindergarten, Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises a parcel of land with a site area of approximately 1,617.50 sq.m. (17,411 sq.ft.) on which a 2-storey kindergarten is erected. The property was completed in 2005. The property has a gross floor area of approximately 2,564.74 sq.m. (27,607 sq.ft.). The land use rights of the property were granted for a term expiring on 25 May 2062 for commercial uses.	The property is granted to Chongqing Jiazhou Pilot Primary School (Kindergarten) (重慶加州實驗小學 (幼兒園)) to operate a kindergarten for a term expiring on 31 August 2010 at no rental.	RMB3,620,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Guo Yong (2004) Zi 1550 issued by Chongqing State-owned Land Resources and Housing Administration Bureau dated on 29 November 2004, the land use rights of a parcel of land with a site area of approximately 1,617.50 sq.m. were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2062 for commercial uses.

2. Pursuant to a Building Ownership Certificate No. Fang Quan Zheng 201 Zi 0168822 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property; and

   (iii) the property is not subject to any mortgages.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
33.	Car Ports A and B located at Jiazhou City Garden, Longxi Town, Yubei District, Chongqing, PRC	The property comprises two parcels of land with a total site area of approximately 7,729.50 sq.m. (83,200 sq.ft.) on which two single-storey car ports are erected. The property was completed in 2004. The property has a total gross floor area of approximately 7,972.11 sq.m. (85,812 sq.ft.). The land use rights of the property were granted for respective terms expiring on 25 May 2062 for car parking uses.	The property is currently subject to various licence agreements at a total monthly licence fee of about RMB93,500.	RMB9,000,000

Notes:

1. Pursuant to two Certificates for State-owned Land Nos. Yu Wai Guo Yong (2003) Zi 057 and Yu Wai Guo Yong (2003) Zi 058 issued by Chongqing State-owned Land Resources and Housing Administration Bureau both dated 29 September 2003, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 25 May 2062 for car parking uses.

2. Pursuant to two Building Ownership Certificates Nos. Fang Quan Zheng 201 Zi 0121104 and Fang Quan Zheng 201 Zi 0121105 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee; and

   (iii) the property is mortgaged to Bank of Agriculture Long Xi Sub-branch.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2006
34. Basement Levels 1 to 2, Kechuang Building, Longxi Town, Yubei District, Chongqing, PRC	The property comprises the 2-level car park basement of a 13-storey residential building completed in 2004. The property has a total gross floor area of approximately 3,691.15 sq.m. (39,732 sq.ft.). The land use rights of the property were granted for a term of expiring on 29 May 2062 for residential uses.	The property is currently subject to various licence agreements at a total monthly licence fee of about RMB31,100.	RMB4,240,000

Notes:

1. Pursuant to Certificate for State-owned Land No. Yu Wai Guo Yong (2003) Zi 068 issued by Chongqing State-owned Land Resources and Housing Administration Bureau dated on 11 November 2003, the land use rights of the property were granted to Chongqing Zhongyu (an indirect wholly-owned subsidiary of the Subject Company) for a term expiring on 29 May 2062 for residential uses.

2. Pursuant to a Building Ownership Certificate No. Fang Quan Zheng 201 Zi 0149617 issued by Chongqing State-owned Land Resources and Housing Administration Bureau, the building ownership of the property is held by Chongqing Zhongyu.

3. We have been provided with a legal opinion on the title to the property issued by the Companies' PRC legal adviser, which contains, inter alia, the following information:

   (i) the property is held by Chongqing Zhongyu;

   (ii) Chongqing Zhongyu is entitled to transfer, lease, mortgage or dispose of the property except for the mortgaged portion which require the consent from the mortgagee; and

   (iii) portion of the property is mortgaged to Commercial Bank of Chongqing City, Jianxin Bei Road Sub-branch.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

Authorised:		*HK$*
10,000,000,000	Shares as at the Latest Practicable Date	100,000,000
40,000,000,000	Shares authorised to be issued after the Capital Increase	400,000,000
50,000,000,000	Shares after the Capital Increase	500,000,000
Issued and fully paid:		*HK$*
3,939,536,870	Shares as at the Latest Practicable Date	39,395,369
Proposed to be issued:		
1,600,000,000	Consideration Qualipak Shares to be issued pursuant to the Acquisition Agreement	16,000,000
3,400,000,000	Placing Shares to be issued pursuant to the Placing Agreement (assuming all the Placing Shares are successfully placed)	34,000,000
9,114,285,714	Conversion Shares to be issued (assuming full conversion of the Convertible Note at the conversion price of HK$0.28 per Conversion Share)	91,142,857
18,053,822,584	Shares	180,538,226

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, 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 corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

The Company

(i) Long positions in the Shares:

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of issued share capital as at the Latest Practicable Date
Dr. Lam How Mun Peter	Personal	110,000	0.00%
Mr. Cheung	Corporate *(Notes 1 & 3)*	4,142,396,360	105.15%
Mr. Leung Chun Cheong	Personal	7,410,000	0.19%
Ms. Poon Ho Yee Agnes	Personal	1,040,000	0.03%

(ii) Long positions in the Convertible Note:

Name of Director	Nature of interest	Number of underlying Shares held	Approximate percentage of issued share capital as at the Latest Practicable Date
Mr. Cheung	Corporate *(Note 4)*	9,114,285,714	231.35%

Associated Corporation

(i) Long positions in Yugang's shares:

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital as at the Latest Practicable Date
Mr. Cheung	Corporate *(Notes 2 & 3)*	3,755,434,684	41.66%
	Personal	53,320,000	0.59%
	Total	3,808,754,684	42.25%
Mr. Lam Hiu Lo	Personal	41,800,000	0.46%

(ii) Long positions in Yugang's convertible note:

Name of director	Nature of interest	Number of underlying shares held	Approximate percentage of issued share capital as at the Latest Practicable Date
Mr. Cheung	Corporate	290,955,056 *(Note 5)*	3.23%

Notes:

1. *2,542,396,360 of such Shares were held through Regulator Holdings Limited ("Regulator"), an indirect wholly-owned subsidiary of Yugang, which was, in turn, owned by Chongqing Industrial Limited ("Chongqing") and Timmex Investment Limited ("Timmex") in aggregate as to 41.66%. Mr. Cheung was 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 had 100% beneficial interest in Timmex, he was also deemed to be interested in the same number of Shares held by Timmex through Regulator. 1,600,000,000 of such Shares formed part of the consideration under the Acquisition Agreement to be satisfied by the Company by issuing to Thrivetrade Limited ("Thrivetrade") 1,600,000,000 Shares at HK$0.28 each. As Mr. Cheung had 100% beneficial interest in Thrivetrade, he was deemed to be interested in the same number of Shares in which Thrivetrade was interested.*

2. *Such shares were held by Chongqing as to 3,194,434,684 shares and Timmex as to 561,000,000 shares. Mr. Cheung was deemed to be interested in these shares by virtue of his shareholding interests in Chongqing and Timmex.*

3. *Mr. Cheung, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited had 35%, 30%, 5% and 30% equity interests in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited were beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which included Mr. Cheung and his family. Prize Winner Limited was beneficially owned by Mr. Cheung and his associates. Mr. Cheung had 100% beneficial interest in Timmex.*

4. *Pursuant to the Acquisition Agreement, subject to certain conditions, the Company agreed to issue and Thrivetrade agreed to subscribe for the Convertible Note in the sum of HK$2,552,000,000, the principal terms of which are set out in the letter from the Board in this circular. Assuming*

that the Convertible Note was converted at the initial conversion price of HK$0.28 per Share, a total of 9,114,285,714 Shares would be issued. As Mr. Cheung had 100% beneficial interest in Thrivetrade, he was deemed to be interested in the same number of Shares in which Thrivetrade was interested.

5. *Such interest was derived from a convertible note in the principal sum of HK$70,000,000 issued by Yugang (the "Yugang Convertible Note") to Timmex in which Mr. Cheung had 100% beneficial interest. The Yugang Convertible Note had a maturity date on 31 July 2007, and could 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 the Latest Practicable Date, Timmex had exercised the conversion right attached to the Yugang Convertible Note in respect of the amount of HK$44,105,000 and a total number of 561,000,000 shares in Yugang were issued to Timmex. Such shares were part of the shares interested by Mr. Cheung as disclosed under paragraph (i) "Long positions in Yugang's shares" above.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors and chief executive of the Company, the following parties (other than the Directors or chief executive of the Company) had an interest or short position in the Shares or 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:

Name of Shareholders	Capacity	Number of Shares held (long position)	Number of underlying Shares held (long position)	Approximate percentage of issued share capital as at the Latest Practicable Date
Regulator	Beneficial interest	2,542,396,360 *(Note 1)*		64.54%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	Interest of controlled corporations	2,542,396,360 *(Note 1)*		64.54%

Name of Shareholders	Capacity	Number of Shares held (long position)	Number of underlying Shares held (long position)	Approximate percentage of issued share capital as at the Latest Practicable Date
Yugang	Interest of controlled corporations	2,542,396,360 *(Note 1)*		64.54%
Chongqing	Interest of controlled corporations	2,542,396,360 *(Note 1)*		64.54%
Palin Holdings Limited ("Palin")	Interest of controlled corporations	2,542,396,360 *(Note 1)*		64.54%
Thrivetrade	Beneficial interest	1,600,000,000 *(Note 2)*	9,114,285,714 *(Note 3)*	271.97%

Notes:

1. *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 was a direct wholly-owned subsidiary of Yugang-BVI, and Yugang-BVI was in turn a direct wholly-owned subsidiary of Yugang. Yugang was owned by Chongqing as to 35.44% and Timmex as to 6.22%. Chongqing, Timmex and Palin were controlled by Mr. Cheung. The said interests were also duplicated with the interest in the Shares of Mr. Cheung as disclosed under paragraph (i) "Long positions in the Shares" above.*

   Mr. Cheung, Mr. Lam Hiu Lo, Mr. Wong Wai Kwong David and Mr. Wong Yat Fai are directors of Yugang.

   Mr. Cheung is also a director of each of Regulator, Yugang-BVI, Chongqing, Palin and Thrivetrade.

2. *These represents the same block of 1,600,000,000 Shares referred to in Note 1 to paragraph (a) "Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations" above.*

3. *These represents the same block of 9,114,285,714 underlying Shares referred to in Note 4 to paragraph (a) "Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations" above.*

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following parties (other than the Directors or chief executive of the Company) were, directly or indirectly, interested in 10% 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 of the member of the Group	Name of the shareholder	Approximate percentage of issued share capital as at the Latest Practicable Date
Hoi Tin Universal Limited	Ms. Chau Tin Ping	12.80%
Hoi Tin Universal Limited	Mr. Wong Kong	10.00%

Save as disclosed above, as at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors and chief executive of the Company, no other person (other than the Directors or chief executive of the Company) had any interest or short position in the Shares or 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, or, who were, directly or indirectly, interested in 10% 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.

(c) Other interests

Save for the interest of Mr. Cheung in the Transaction, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Group taken as a whole.

Save for the interest of Mr. Cheung in the Transaction, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up.

4. LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

5. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group nor were there any other service agreements proposed which would not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

7. PROCEDURES FOR DEMANDING A POLL

According to the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded. A poll may be demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. On a poll votes may be given either personally or by proxy. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to a second or casting vote in addition to any other vote he may have.

8. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Enlarged Group, within the two years preceding the date of this circular and is or may be material:

(a) the agreement dated 23 March 2005 entered into by Messrs. Chau Tin Ping, Tse On Kuen, Wong Kam Hoi and Wong Kong as vendors and Ensure Success Holdings Limited (a wholly-owned subsidiary of the Company) as purchaser in respect of the acquisition of 60% of the issued share capital of Hoi Tin Universal Limited at a consideration of HK$36,000,000;

(b) the sale and purchase agreement dated 12 May 2005 entered into between Great Gains International Limited as vendor and Empire New Assets Limited (a wholly-owned subsidiary of the Company) as purchaser in relation to the sale and purchase of the whole of the 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at a consideration of HK$35,000,000;

(c) the sale and purchase agreement dated 12 May 2005 entered into between Pacific Kingdom Investments Limited as vendor and Wiseteam Assets Limited (a wholly-owned subsidiary of the Company) as purchaser in relation to the sale and purchase of the whole of the 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at a consideration of HK$43,000,000;

(d) the agreement dated 3 June 2005 entered into by Technical Group Holdings Limited (which is owned as to 90% by Mr. Brian Sun and 10% by Ms. Chan Pui Ling Stella) as vendor, Mr. Brian Sun and Ms. Chan Pui Ling Stella as guarantors and One Step Enterprises Limited (a wholly-owned subsidiary of the Company) as purchaser in respect of the acquisition of 30% of the issued share capital of Technical International Holdings Limited at a consideration of HK$33,000,000;

(e) the mortgage deed dated 23 November 2005 entered into between the PRC Company as mortgagor and Chongqing Commercial Bank Jianxin North Road sub-branch as mortgagee in respect of the mortgage of a site of 4,241.53 sq.m. (Lot No. 19-1) for the loan facility up to RMB8 million granted to 重慶太平洋屋業發展有限公司 (Chongqing Pacific Housing Development Company Limited), a former associated company of the PRC Company;

(f) the sale and purchase agreement dated 30 March 2006 entered into between Qualipak Development Limited (a wholly-owned subsidiary of the Company) as vendor and Glamorous Investments Limited as purchaser in relation to the sale and purchase of the entire issued share capital of and the interest free shareholder's loans to Wiseteam Assets Limited (a wholly-owned subsidiary of the Company) at a consideration of HK$49,000,000;

(g) the share transfer agreement dated 18 April 2006 entered into between the PRC Company as transferor and 重慶天網高新技術有限公司as transferee in respect of the transfer of 40% equity interest in 重慶太平洋屋業發展有限公司 (Chongqing Pacific Housing Development Company Limited) at a consideration of US$3,800,000;

(h) the sale and purchase agreement dated 15 August 2006 entered into between Get Rich Enterprises Limited as vendor and King Place Investments Limited (a wholly-owned subsidiary of the Company) as purchaser in relation to the sale and purchase of the whole of the 15th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at a consideration of HK$33,985,300;

(i) the Acquisition Agreement; and

(j) the Placing Agreement.

9. EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advices which are contained in this circular:

Names	Qualifications
Ernst & Young	Certified Public Accountants
Goldbond Capital (Asia) Limited	Corporation licensed by the Securities and Futures Commission of Hong Kong for carrying out Types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO
Savills Valuation and Professional Services Limited	Professional property valuers
Vigers Appraisal & Consulting Limited	Professional property valuers

Each of Ernst & Young, Goldbond, Savills and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or letter, and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Ernst & Young, Goldbond, Savills and Vigers:

(a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to the Company since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. MISCELLANEOUS

(a) The secretary of the Company is Ms. Cheung Fung Yee, being an associate of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

The qualified accountant of the Company is Mr. Leung Chun Cheong, being a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo, Kwan, Lee & Lo, at 27th Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the SGM and at the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to under the paragraph headed "Material contracts" in this appendix;

(c) the letters of consent referred to in paragraph headed "Experts" in this appendix;

(d) the letter of advice from Goldbond to the Independent Board Committee and the Independent Shareholders dated 20 October 2006, the text of which is set out on pages 33 to 62 of this circular;

(e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders dated 20 October 2006, the text of which is set out on page 32 of this circular;

(f) the annual report of the Company for each of the two years ended 31 December 2005;

(g) the interim report of the Company for the six months ended 30 June 2006;

(h) the circulars dated 17 March 2006 and 19 April 2006 issued by the Company;

(i) the accountants' report from Ernst & Young on the Subject Company dated 20 October 2006, the text of which is set out in Appendix III to this circular;

(j) the letter from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group dated 20 October 2006, the text of which is set out in Appendix V to this circular;

(k) the letter, summary of valuations and valuation certificates from Vigers on the property interests of the Group, the texts of which are set out in Appendix VI to this circular; and

(l) the letter, summary of values and valuation certificates from Savills on the property interests of the Subject Group, the texts of which are set out in Appendix VII to this circular.

QUALIPAK INTERNATIONAL HOLDINGS LIMITED
確 利 達 國 際 控 股 有 限 公 司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1224)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Special General Meeting**") of the members of Qualipak International Holdings Limited (the "**Company**") will be held at Grand Rooms I & II, Lobby, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 6 November 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** Mr. Wong Yat Fai be and is hereby re-elected as a director of the Company with immediate effect and the fixing of his remuneration by the board of directors of the Company be and is hereby authorised, approved, confirmed and ratified."

2. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each in the capital of the Company (the "**Shares**") to HK$500,000,000 divided into 50,000,000,000 Shares by the creation of an additional 40,000,000,000 Shares."

3. "**THAT** conditional upon the passing of Ordinary Resolution No.2 set out in the notice convening the Special General Meeting at which this Resolution is proposed and the approval by the shareholders of the Company's holding company, Yugang International Limited ("**Yugang**"), of the Acquisition Agreement (as defined in the circular dated 20 October 2006 despatched to the shareholders of the Company (the "**Circular**", a copy of which has been produced to the meeting and marked "A", and initialled by the chairman of the meeting for the purpose of identification) and a copy of which has been produced to the meeting and marked "B", and initialled by the chairman of the meeting for the purpose of identification):

   (a) the Acquisition Agreement and the acquisition of the Sale Share (as defined in the Circular) pursuant thereto be and are hereby approved, confirmed and ratified;

* *For identification purposes only*

(b) the issue and allotment of the Consideration Qualipak Shares to the Vendor (or as it may direct) (both as defined in the Circular), and the issue of the Convertible Note (as defined in the Circular) to the Vendor (or as it may direct), in each case on the terms set out in the Acquisition Agreement, be and are hereby approved;

(c) the issue and allotment by the Company of Shares from time to time upon exercise of conversion rights under the Convertible Note be and are hereby approved;

(d) all other transactions contemplated under the Acquisition Agreement be and are hereby approved; and

(e) the taking of all steps and doing of all things by the Company and its subsidiaries as the directors of the Company may deem necessary, desirable or expedient to implement, give effect to and/or complete the Acquisition Agreement and the transactions contemplated thereunder, including without limitation the issue and allotment of the Consideration Qualipak Shares, the issue of the Convertible Note, the issue and allotment of new Shares from time to time upon exercise of the conversion rights under the Convertible Note, and the amendment of the terms of the Acquisition Agreement as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations, be and are hereby authorised, approved, confirmed and ratified."

4. "**THAT** conditional upon the passing of Ordinary Resolution No.3 set out in the notice convening the Special General Meeting at which this Resolution is proposed and the approval by the shareholders of Yugang of the Acquisition Agreement:

(a) the Placing Agreement (as defined in the Circular and a copy of which has been produced to the meeting and marked "C", and initialled by the chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified;

(b) the issue and allotment of the Placing Shares (as defined in the Circular) on the terms set out in the Placing Agreement be and is hereby approved;

(c) all other transactions contemplated under the Placing Agreement be and are hereby approved; and

(d) the taking of all steps and doing of all things by the Company and its subsidiaries as the directors of the Company may deem necessary, desirable or expedient to implement, give effect to and/or complete the Placing Agreement and the transactions contemplated thereunder, including without limitation the issue and allotment of the Placing Shares and the amendment of the terms of the Placing Agreement as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations, be and are hereby authorised, approved, confirmed and ratified."

By order of the Board of
Qualipak International Holdings Limited
Lam How Mun Peter
Chairman and Managing Director

Hong Kong, 20 October 2006

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
7th Floor
China United Centre
28 Marble Road
North Point
Hong Kong

Notes:

1. A proxy form for use at the meeting is enclosed.

2. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint one or more proxies to attend and vote instead of him.

3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the branch share registrar of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.

5. A proxy need not be a member. A member may appoint a proxy in respect of part of his holding of shares in the Company.

6. In the case of joint holders of a share in the Company if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.