MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Summary

For the six months ended 30 June 2006, the Group's turnover was up 16.0% to HK$50,105,000 (2005: HK$43,203,000) due to increased contributions from sales of Hoe Hin brand of products, slightly offset by the decrease in rental income. Income derived from treasury investment was, however, higher, in light of generally higher market interest rates.

Net profit for the six months ended 30 June 2006 increased by 125.6% to approximately HK$17,711,000 (2005: HK$7,850,000 as restated).

As a result of adoption of the amended accounting standard, an exchange loss of HK$3,170,000 (2005: an exchange gain of HK$3,201,000) arising on balances between two subsidiaries has been recognised in exchange reserve and the Group's profit for the period has been increased by HK$3,170,000 accordingly. Prior period adjustments have been made to reflect a decrease in profit of HK$3,201,000 for the same period of last year.

Manufacturing and sales of Hoe Hin Brand of products

Sales of Hoe Hin brand of products continued to be the major source of revenue for the Group. Sales increased by 19.7% to HK$43,805,000 (2005: HK$36,608,000).

Hong Kong remained the major market of our Hoe Hin brand of products which accounts for about 53% of the total revenue. Mainland China accounts for about 21%. Other than Philippines and US markets, which have in total contributed approximately 14.7% of the total revenue, growth in other foreign countries has been static during the period. The litigation in the US in respect of the "White Flower" trade mark infringement was settled in 2005 and the Group has regained its sales in the US after the settlement.

Segment profit increased by 176.9% to HK$21,552,000 (2005: HK$7,783,000), largely due to increased contribution in sales, and reduction in production costs and marketing expenses. The Group has taken a number of cost-saving measures to reduce its production costs, which has improved the profitability of the Group. In addition, certain promotional and advertising activities for the year 2006 have been rescheduled to be held in the second half of the year. Coupled with mild increase in the average selling price, this business segment has been able to achieve remarkable results even under a challenging operating environment.

Property investment

Revenue for this segment slightly decreased by 7.9% to HK$4,343,000 (2005: HK$4,718,000). This change mainly represents the foreign exchange difference as a result of a decrease in average exchange rate in translating foreign rental income, partly offset by increased rental income derived in Hong Kong.

The Group's investment properties were stated at fair value as at 30 June 2005, resulting in a valuation gain of HK$5,500,000 in last year. No material valuation gain was recorded for the six-month period this year in view of a relatively static property market during the period.

As a result, the segment profit decreased by 68.2% to HK$3,137,000 (2005: HK$9,877,000).

The Group owns several investment properties in United Kingdom, Singapore, Hong Kong and other regions in PRC. Rental income received from these properties will continue to provide a steady stream of turnover and profit for the Group.

Treasury investment

The Group continued the prudent management to its fund and continues to maintain a strong liquidity with sufficient cash.

Revenue derived from this segment increased to HK$1,957,000 (2005: HK$1,877,000), primarily due to higher interest income arising from increase in interest rate during the first half of 2006. The segment results increased to a profit of HK$3,698,000 (2005: loss of HK$639,000), mainly attributable to improved results on foreign exchange transactions, and a decrease in loss from the net unrealised fair value changes on listed investments as a result of appreciation of foreign currencies, in which most of our listed investments were denominated.

Finance costs

The increase of HK$354,000 to HK$2,155,000 was mainly due to higher market interest rates comparing to the same period in previous year, and an additional bank loan arranged for financing the purchase of the Group's office premise.

Taxation

There was an increase in tax provision from HK$2,283,000 to HK$3,090,000 for the period, principally due to an increase in taxable operating profit.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders funds) as at 30 June 2006 was 31.1% (31 December 2005: 29.8%). Total bank borrowings of the Group amounted to HK$82,597,000 (31 December 2005: HK$80,731,000), mainly denominated in Pound Sterling and Hong Kong dollars with floating interest rates. The increase in borrowings was mainly due to foreign exchange translation difference.

Current ratio (current assets divided by current liabilities) was 1.8 as at 30 June 2006 (31 December 2005: 2.1). The Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital demand.

EXCHANGE RATE EXPOSURES

Most of the Group's business transactions were conducted in Hong Kong dollars and United States dollars. The foreign exchange risk for bank borrowings was minimal as they were either denominated in Hong Kong dollars or the currency of the underlying assets. Other than United States dollars whose exchange rate remained relatively stable during the period, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 30 June 2006 were approximately HK$49.4 million in total, or about 12.6% of the Group's total assets.

The Group may use suitable financial instruments to protect the downside risks associated with the price movement due to the timing of anticipated expenditure.

PLEDGE OF ASSETS

As at 30 June 2006, certain of the Group's leasehold properties, lease premium for land, investment properties, bank deposits and securities with carrying value of approximately HK$232.6 million (31 December 2005: HK$240.4 million) were pledged to secure banking facilities granted to the Group to the extent of HK$146.6 million (31 December 2005: HK$166.6 million), of which HK$82.6 million (31 December 2005: HK$80.7 million) were utilised as at 30 June 2006.

HUMAN RESOURCES

As at 30 June 2006, the Group had a total of 99 employees. Fringe benefits such as tuition subsidies and medical allowance are offered to most employees. The Company has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the scheme since its adoption.

OUTLOOK

Building on a well-recognised brand reputation and solid business foundation, the Group will continue focusing on brand building and market development in other geographical markets. We have repacked one of our products, white flower ointment, into a 10-gram tube form which has been launched to market since July 2006. This change would make it available to capture different segments of customers.

An upgraded factory operated by our distributor in Philippines will be integrated and be ready in November to carry out production. We shall be able to have additional capacity to cover sales within the South East Asia.

APPRECIATION

I would like to take this opportunity to express our gratitude to our past and current directors, and our staff for their dedication and hard work and to the investors for their continuous support.

By Order of the Board
Gan Wee Sean
Chairman

Hong Kong, 25 September 2006