

Management Discussion and Analysis**FINANCIAL REVIEW**

During the year ended 30th June, 2006, the Group's total turnover decreased by approximately 14.58% to HK\$47,388,000 Profit attributable to shareholders decreased by 96.0% to HK\$252,000.

As at year end date, the Group reported a net unrealised loss on revaluation of financial assets measured at fair value through profit or loss of HK\$20,920,000. It included mainly debt securities, which the Group held for generating interest income and expected to receive the whole principal amount upon their maturities.

The Group has recognised a gain from changes in fair value on investment properties of HK\$1,520,000 which has been credited to the income statement.

Basic earnings per share amounted to HK0.02 cents for the year. As at 30th June, 2006, net asset value per share amounted to HK49.73 cents.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal source of funds for the year ended 30th June, 2006 was derived from net investment income, including bank interest income, amounted to HK\$39,179,000.

As at 30th June, 2006, the Group had bank and cash balances of HK\$305,580,000 and financial assets measured at fair value through profit or loss of HK\$272,423,000, majority of which are debt securities. They were denominated in US dollars and EURO, with maturity period from 2 to 15 years or perpetual callable.

The Group's exposure to fluctuation in exchange rates was limited and no hedging activity was considered necessary.

USE OF PROCEEDS FROM NEW ISSUE

As reported in the Company's 2001 annual report, the Group had changed the proposed use of part of the proceeds from the new issue in 1995 which amounted to HK\$254,000,000 for the following purposes:

- (a) approximately HK\$15,000,000 for developing the Group's own brand "IXESSE" in Hong Kong and the PRC and to enhance the image and popularity of the brand;
- (b) approximately HK\$50,000,000 to acquire plant, machinery, office setup and equipment to expand and improve the Group's own manufacturing facilities in Guangzhou, the PRC for the production of clothing, leather goods, accessories or other related products; and
- (c) the remaining balances of approximately HK\$189,000,000 for herbal and health products, skin care and pharmaceutical products and other business ventures.

Management Discussion and Analysis**USE OF PROCEEDS FROM NEW ISSUE** – continued

An analysis of the use of proceeds up to 30th June, 2006 is as follows:

	Up to 30th June, 2005	Amounts incurred in the year under review	Accumulated spending
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Promotion of its own brand "IXESSE" in Hong Kong and the PRC	6,809	809	7,618
(b) Acquisition plant and machinery in Hong Kong and the PRC	20,952	214	21,166
(c) Development of health and herbal products	24,804	–	24,804
Total	52,565	1,023	53,588

CAPITAL STRUCTURE

As at 30th June, 2006, the Company had 1,216,090,400 shares in issue with total shareholders' funds of the Group amounting to HK\$604,731,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2006, the Group employed approximately 161 full time employees in Hong Kong and the PRC. The Group remunerates its Directors and employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include provident fund scheme, medical scheme, discretionary performance-related bonus and a share option scheme.