Management Discussion and Analysis

Summary

For the year ended 31 December 2006, the Group's turnover was up 4.0% to HK$100,090,000 (2005: HK$96,208,000) as increased contributions from sales of Hoe Hin brand of products and rental income, slightly offset by the decrease in income derived from treasury investment.

Revaluation surplus of the Group's investment properties was HK$15,694,000 (2005: HK$13,530,000), of which HK$11,384,000 (2005: HK$10,565,000) was related to the Group's investment properties in the United Kingdom.

The revaluation of other properties has resulted in a net change of revaluation gain in this year of HK$675,000 (2005: HK$1,684,000).

As a result of adoption of the amended accounting standard, an exchange loss of HK$7,141,000 (2005: an exchange gain of HK$5,570,000) arising on balances between two subsidiaries has been recognised in exchange reserve and the Group's profit for the year has been increased by HK$7,141,000 accordingly. Prior period adjustments have been made to reflect a decrease in profit of HK$5,570,000 for the last year.

Profit for the year ended 31 December 2006 was approximately HK$42,097,000 (2005: HK$28,065,000 as restated).

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 5.0% to HK$87,532,000 (2005: HK$83,344,000).

Hong Kong remained the major market of our Hoe Hin brand of products which accounts for about 54% of the segment revenue. Mainland China accounts for about 26%. Other than Philippines, Singapore and US markets, which have in total contributed approximately 20% of the segment revenue, growth in other foreign countries has been static during the year. 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. We also commenced a new sole distributorship in Singapore in September 2006, which would help improve efficiency in distributing our products.

Segment profit increased by 80.3% to HK$36,067,000 (2005: HK$20,003,000), 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 planned for the year 2006 have been rescheduled to be held in 2007 for celebration of our 80th anniversary. 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 increased by 2.5% to HK$9,129,000 (2005: HK$8,910,000). This change mainly represents increased rental income in Hong Kong and foreign exchange difference as a result of an increase in average exchange rate in translating foreign rental income, partly offset by overprovision of rent uplift in United Kingdom in previous year.

The segment profit was also positively affected by an increase in revaluation surplus arising from investment properties.

As a result, the segment profit increased by 11.7% to HK$23,757,000 (2005: HK$21,270,000).

The Group owns several investment properties in United Kingdom, Singapore, Hong Kong and other regions in the 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 decreased by 13.3% to HK$3,428,000 (2005: HK$3,952,000), primarily due to less fund invested for foreign exchange transactions in the second-half of 2006. The segment results increased to a profit of HK$6,826,000 (2005: HK$1,174,000) mainly attributable to improved results on foreign exchange transactions, and improved net 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$699,000 (18.2%) to HK$4,538,000 was mainly due to higher market interest rate 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$2,554,000 to HK$5,403,000 for the year, principally due to an increase in taxable operating profit of subsidiaries in Hong Kong.

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 31 December 2006 was 31.3% (2005: 29.8%). Total bank borrowings of the Group amounted to HK$86,123,000 (2005: HK$80,731,000), mainly denominated in British pound 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 1.7 as at 31 December 2006 (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 year, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 31 December 2006 were approximately HK$50.2 million in total, or about 12.7% 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 31 December 2006, certain of the Group's leasehold properties, leasehold land interests, investment properties, bank deposits and securities with carrying value of approximately HK$231.4 million (2005: HK$240.4 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK$150.8 million (2005: HK$166.6 million), of which approximately HK$86.1 million (2005: HK$80.7 million) were utilised as at 31 December 2006.

Employees and Remuneration Policies

As at 31 December 2006, the Group had a total of 103 employees. Remuneration packages of employees and directors are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits including medical allowance and educational subsidies to eligible employees. The Company also 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.