

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2006, the Group's turnover was approximately HK\$167.4 million, representing an increase of 44.6% over last year. The substantial increase in turnover during the year was mainly attributable to the contributions from the dairy company acquired in late 2005 and the recovery of the handbags and other accessories segment. Gross profit was approximately HK\$7.3 million as opposed to gross loss of approximately HK\$0.6 million last year. Loss attributable to equity holders of the Company was approximately HK\$25.8 million, representing a decrease of 4.9% over last year. Loss per share for the year was HK\$8.0 cents (2005: HK\$11.2 cents).

The performance of the handbags and other accessories segment and dairy products segment during the year is set out below.

During the year, handbags and other accessories segment continued its recovery and remained the core business of the Group. Handbags and other accessories segment recorded a turnover of approximately HK\$142.5 million, up 23.2% over last year and accounted for 85.1% of the total turnover. Gross profit was approximately HK\$13.4 million as opposed to gross loss of approximately HK\$0.4 million last year. The increase in the turnover and the turnaround to gross profit was mainly due to the increase in PRC sales which have relatively higher gross margin than overseas sales, and the stringent control over the cost of sales. The Group will continue to tighten controls on operating costs, aiming to enhance operational efficiency and competitiveness and thus further improve business performance.

The Group completed the acquisition of a dairy company in mid December 2005. The operation of the dairy company was ceased before the acquisition and has been restarted in late December 2005. In 2006, the first year of operation, dairy products segment recorded a turnover of approximately HK\$24.9 million, representing a significant increase of 236% as compared to the turnover of approximately HK\$7.4 million in the first six months of 2006, and accounted for 14.9% of the total turnover. At present, the main product of this segment is yogurt. As the Group was still in a preliminary investment stage in dairy market, it had yet to enjoy the benefits from scale of operation and market experience and hence, a gross loss of approximately HK\$6.1 million was recorded. The Group will continue to strengthen its market promotion and invest in packaging facilities so as to expand the output and lower product wastage.

Prospects

In order to broaden the earnings base, the management will actively explore potential investment opportunities in the PRC that can benefit the Group in the long term. The Group will also place emphasis on the improvement of operational efficiency and cost control in order to improve its financial performance and position.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the issued share capital of the Company increased by 32,000,000 shares to 332,000,000 shares as a result of two top-up placings. On 21 April 2006, the Company raised net proceeds of approximately HK\$10.4 million by way of a top-up placing of 20,000,000 shares at HK\$0.54 each. On 12 June 2006, the Company raised net proceeds of approximately HK\$6.3 million by way of a top-up placing of 12,000,000 shares at HK\$0.54 each. The total net proceeds of approximately HK\$16.7 million have been and will be used for the Group's general working capital purposes.

As at 31 December 2006, the Group has net current assets of approximately HK\$24.7 million (2005: HK\$26.0 million) and shareholders' equity of approximately HK\$0.7 million (2005: HK\$9.3 million). Bank and cash balances amounted to approximately HK\$8.6 million as at 31 December 2006 (2005: HK\$27.5 million).

Except for an amount due to the immediate holding company of approximately HK\$76.2 million, the Group had no other borrowings as at 31 December 2006. The gearing ratio of the Group, calculated as total debts divided by total assets, was approximately 54.4% as at 31 December 2006. The amount due to the immediate holding company bears interest at 1% above the Hong Kong dollar prime rate per annum and is not repayable within one year.

As the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate risk is limited. It is the Group's treasury policy to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

CHARGE ON ASSETS

As at 31 December 2006, there was no charge on the Group's assets (2005: Nil).

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities (2005: Nil).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2006, the Group had approximately 2,088 (2005: 2,493) employees with total staff costs amounted to approximately HK\$39.7 million (2005: HK\$33.3 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.