MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Turnover for the year ended 31 December 2002 was HK$674.70 million, representing a significant increase of HK$333.66 million or 97.84% as compared to that of HK$341.04 million in the preceding year. Profit attributable to shareholders increased by 73.88% from HK$83.18 million in 2001 to HK$144.63 million in 2002.

Revenue generated from the sales of home and personal care products increased by HK$83.48 million or 35.00% to HK$322.01 million. Revenue generated from the sales of industrial surfactants increased by HK$100.02 million or 97.57% to HK$202.53 million. Revenues generated from the sales of cosmetics and skin care products and the sales of biotechnology products were HK$106.55 million and HK$43.62 million for the year respectively. The increase in the Group's turnover was mainly attributable to the growing demand for the Group's existing products, the introduction of a variety of new and improved products and the launches of new product lines including cosmetics and skin care products under the brand name of Marjorie Bertagne ("MB") and biotechnology products with medical and cosmetic applications.

Gross profit for the year ended 31 December 2002 increased by HK$172.44 million or 111.36% to HK$327.29 million from that of HK$154.85 million for the preceding year. Gross profit margin also increased from 45.41% to 48.51%, which was mainly attributable to the sales of cosmetics and skin care products and biotechnology products which achieved higher gross profit margin of 75.55% and 55.68% respectively than traditional products of the Group. The gross profit margin of home and personal care products increased slightly from 45.56% to 48.33% while industrial surfactants declined from 45.06% to 33.02% as compared to last year owing to competition from new market entrants and a rising price of stearic acid, which is a primary raw material of industrial surfactants. The Group has been able to maintain a relatively high gross profit margin for its products due to the Group's vertical integrated production effort and the increase in product varieties that suited for specific marketing niches in the People's Republic of China (the "PRC") market and therefore led to a strong demand for the Group's products.

Selling and distribution expenses for the year ended 31 December 2002 amounted to HK$66.40 million representing 9.84% of turnover compared with that of HK$29.04 million or 8.52% of turnover for last year. Approximately HK$34.94 million or 5.18% of turnover was due to expenditure associated with advertising and promotion expenses for strengthening of the Group's corporate image and promotion of the Group's MB cosmetics and skin care products line, in the Greater China region including Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS *(cont'd)*

Administrative expenses was HK$35.38 million or 5.24% of turnover for the year ended 31 December 2002 as compared to that of HK$16.92 million or 4.96% of turnover for the preceding year. Depreciation charges for leasehold improvement on MB stores and office fixtures for the year ended 31 December 2002 was HK$2.98 million as compared with that of HK$0.66 million in the same period last year. Rent, rates and building management fee increased to HK$3.53 million from that of HK$0.62 million for the preceding year, which was mainly due to rental expenses for the warehouse, staff quarters and office under new operating leases entered into by the Group during the year. Staff salaries and allowances increased to HK$5.96 million from those of HK$4.05 million last year, noting an increase in the number of management and administrative employees from 73 to 153. Legal and professional fees for the year ended 31 December 2002 increased to HK$6.76 million from that of HK$1.51 million for last year, which was mainly due to the services engaged in corporate and financing matters of the Group. Entertainment, travelling and other general expenses accounted for the remaining increase in administrative expenses.

Other operating expenses which included mainly research and development expenses was HK$15.93 million or 2.36% of turnover for the year ended 31 December 2002. About HK$5.34 million has been incurred for continuous development of new and improved products. About HK$3.85 million and HK$4.46 million relating respectively to research and development of industrial enzymes and biotechnology products have also been charged to this account. As compared with last year, some one-off expenses like loss on disposal of fixed assets, initial setup fee for representative offices and issuance expenses of warrants, etc. were remarkably decreased by approximately HK$7.06 million this year.

Total depreciation charges for fixed assets for the year ended 31 December 2002 increased to HK$10.55 million *(2001: HK$6.22 million)*, as a result of the additions to plant and equipment of approximately HK$59.73 million, land and building of approximately HK$15.43 million, leasehold improvement of approximately HK$4.20 million, office equipment and motor vehicles of approximately HK$9.86 million.

During the year, the Group invested HK$64.49 million as deposits for purchases of cosmetic and biotechnology equipment which were not recognised as capital expenditure as of 31 December 2002.

Amortisation for intangible assets for the year ended 31 December 2002 amounted to HK$8.67 million *(2001: Nil)* representing the amortisation of license rights for production of biotechnology products with cosmetic and pharmaceutical applications. As at 31 December 2002, the Directors considered that based on existing market and economic condition, the estimated useful lives of biotechnology licences should be shortened to 10 years instead of 20 years as previously estimated. Such change in accounting estimates resulted in an additional amortisation of HK$3.04 million being charged to the profit and loss account for the year ended 31 December 2002.

Finance costs for the year ended 31 December 2002 increased to HK$2.69 million or 0.40% of turnover from that of HK$1.46 million or 0.43% of turnover for last year, representing a better use of the financial leverages to generate income.

Profit for the year increased by HK$61.46 million or approximately 73.90% from that of HK$83.17 million for the preceding year to HK$144.63 million or 21.44% of turnover for the year ended 31 December 2002.

USE OF PROCEEDS FROM ISSUE OF SHARES AND CONVERTIBLE BONDS

During the year, the Company's substantial shareholders, Motivated Worforce Consultants Limited ("MWC") and Inviting Finance Limited ("IFL") agreed to place through a placing agent, Pacific Foundation Securities Limited, in aggregate 54,000,000 existing shares to World Eagle International Limited ("World Eagle") and Billion China Limited ("Billion China"), independent investors at a price of HK$2.10 per share. MWC and IFL then subscribed for 54,000,000 new shares of the Company, ranking equally with existing shares of the Company, at the price of HK$2.10 per share. The Company borne all costs and expenses incurred in connection with the subscription and reimbursed MWC and IFL for all costs and expenses incurred by them in connection with the placement. Net proceeds of the subscription was approximately HK$110 million after deducting the professional fees and all related expenses.

The Directors confirmed that the sum of HK$4.37 million had been utilised as at 31 December 2002 as to HK$2.65 million for the acquisition of equipment for using in sewage treatment projects, as to HK$1.72 million for payments of other project costs. The remaining balance of approximately HK$105.63 million had not been utilized and were placed as short term deposits with major banks in the PRC and in Hong Kong.

During the year, 98,921,375 share options were exercised at an average exercise price of HK$1.45 per ordinary share with cash proceeds of approximately HK$143.47 million, before any related expenses. The net proceeds from exercise of share options were used to finance general working capital requirement. The exercise of 98,921,375 share options resulted in the issue of 98,921,375 additional ordinary shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(cont'd)*

The 2.5% convertible bonds in the aggregate principal amount of US$4,080,000 (equivalent to approximately HK$31.82 million) (the "Tranche 1 Bonds") issued to Credit Suisse First Boston (Hong Kong) Limited (the "CSFB"), which was outstanding as at 31 December 2001, were fully converted into ordinary shares of the Company in May 2002. The 2.5% convertible bonds, in the aggregate principal amount of US$3,840,000 (equivalent to approximately HK$29.95 million) (the "Tranche 2 Bonds") , was further issued to CSFB in July 2002. The net proceeds arising from the issue of the Tranche 2 Bonds were used for funding the Group's general working capital requirements. The Tranche 2 Bonds were partially converted into ordinary shares during the period from August 2002 to September 2002. As at 31 December 2002, there were outstanding Tranche 2 Bonds of US$440,000 (equivalent to approximately HK$3.43 million) which were converted into ordinary shares of the Company subsequent of the balance sheet date.

LIQUDITY AND FINANCIAL RESOURCES

The Group maintained cash or cash equivalent of approximately HK$163.44 million as at the balance sheet date. The Group adopts conservative treasury policies in cash and financial management. Most of the retained cash was placed as Renminbi and Hong Kong Dollar short-term deposits with major banks in the PRC and in Hong Kong, and therefore exposure to exchange fluctuations is minimal. Shareholders' funds as at 31 December 2002 were HK$708.82 million compared with that of HK$294.50 million as at 31 December 2001, representing an increase of HK$414.32 million or 140.69%.

The Group invested HK$63.10 million in two private companies engaging in providing wastewater treatment, waste management products and development and manufacturing of pharmaceutical products during the year. These companies have established a reputation as one of the pioneers in their respective industry and have successfully captured an initial foothold in the PRC market. The Directors believe that the Group is well positioned to make benefits from these strategic investments which would generate synergies with the Group's existing businesses and would contribute to the profitability of the Group.

The Group's capital expenditure for the year ended 31 December 2002 amounted to HK$89.55 million were funded from cash generated from operations, bank loans and finance lease. Of which, HK$19.64 million was used to expand the Group's production areas by 9,380 square meter. HK$20.28 million was used for purchase of production plant and machinery so as to double the Group's production capacity for home and personal care products and industrial surfactants. HK$39.45 million was used for purchase of cosmetic and biotechnology equipment. The remaining balance was used for additions to office equipment and motor vehicles.

A sum of approximately HK$42.06 million has been paid as deposit for the acquisition of a piece of land with a lease term of 50 years. New factory premises will be built on this piece of land for the accommodation of the Group's new production lines for industrial surfactants to cope with the growing demand due to the textile industry boom in the PRC market and of the new manufacturing facilities for L(+)-Lactic acid. It is expected that the transfer of ownership of the land will be completed in late 2003. Another sum of approximately HK$64.49 million has been paid as deposits for machineries and equipment for the production of L-lactate and enlarging the production capacity of current product lines. Delivery and installation of the machineries and equipment will be completed by mid-2003. The remaining balances in an aggregate of HK$16.83 million will be financed by internal resources of the Group.

The indebtedness of the Group mainly comprises of trust receipt loans, bank loans, finance leases and convertible bonds which are largely denominated in Hong Kong dollars and Renminbi. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

The banking facilities mainly comprised of trust receipt loans and invoice financing loan of tenor up to 120 days from the invoice date. The bank interest rates are mainly fixed by reference to either the Hong Kong Prime rate or the Hong Kong Interbank Offer Rate.

As at 31 December 2002, the Group had aggregate banking facilities of HK$168.80 million of which about HK$62.36 million had been drawn down.

The Group's inventory turnover period was increased to 50 days from that of 42 days for last year, due to the increase in this year's inventory level so as to cope with the growing market demand of the Group's products. The turnover periods of debtors and Creditors were reduced to 70 days and 17 days from that of 84 days and 24 days respectively last year, due to the tighter credit control policy imposed by the Group and early repayments to suppliers for discounts..

Debt to equity ratio (total debts over shareholders' equity) and gearing ratio (total debts over total assets) were improved to 7.60% and 6.51% respectively as compared with that of 20.40% and 14.94% for the previous year. Current ratio and quick ratio were 4.64 and 1.80 respectively whilst interest cover was 79.69 times.

EMPLOYEES AND REMUNERATION POLICIES

The Group's clear and effective management policies have enabled it to maintain good staff relations. It has not encountered any difficulties in recruiting experienced personnel and there has not been any interruption to its operations as a result of labour disputes. The Group provides social security benefits encompassing the mandatory provident fund and health insurance scheme to all its employees. It does not shoulder any material liability arising from the relevant statutory retirement scheme.

As at 31 December 2002, the Group had 325 salaried employees of which 280 and 45 were stationed respectively in the PRC and in Hong Kong. Total staff costs paid during the year was approximately HK$21.28 million.

CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2002.

As at 31 December 2002, certain of the Group's fixed assets and bank deposits were pledged to its bankers to secure general banking facilities granted to the Group in Hong Kong.

At 31 December 2002 and 2001, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.