

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Turnover for the year ended 31 December 2003 was HK\$633.59 million, representing a decrease of 6.09% from that of HK\$674.70 million in the preceding year. Profit attributable to shareholders decreased from HK\$145.41 million* in 2002 to HK\$92.24 million in 2003.

Revenue generated from the sales of home and personal care products decreased by 14.06% to HK\$276.73 million. Revenue generated from the sales of industrial surfactants decreased by 4.74% to HK\$192.92 million. Revenue generated from the sales of cosmetics and skin care products was slightly decreased by 5.21% to HK\$100.99 million. The sales of biotechnology products with medical and cosmetic applications contributed HK\$53.58 million to the total revenues for the year, representing an increase of 22.85% as compared to that of HK\$43.62 million in the preceding year.

As production capacity of industrial surfactants and home and personal care products had reached its maximum limit and this, together with subsisting wear and tear of production equipments due to prolonged usage, limited its supply in year 2003, and hence turnover. In addition, due to the outbreak of SARS in March 2003, the sales of cosmetics and skin care products were seriously hurt. Monthly turnover of cosmetics and skin care products dropped significantly by over 70% on average for the period from March 2003 to August 2003 as compared with the period from January 2003 to February 2003.

Gross profit for the year ended 31 December 2003 decreased by 24.12% to HK\$248.36 million from that of HK\$327.29 million for the previous year. Gross profit margin of the Group for the year ended 31 December 2003 decreased to 39.20% from that of 48.51% for last year. The gross profit margin of home and personal care products decreased from 48.33% to 33.73% owing to the increase in cost of raw materials while that of industrial surfactants declined from 33.02% to 23.61% owing to the increase in cost of petroleum-base raw materials. In addition to the increase in costs, for the year ended 31 December 2003, general provision for slow moving raw materials amounting to HK\$6.00 million was provided for due to outbreak of SARS which brought the production of cosmetics and skin care products into standstill.

Selling and distribution expenses for the year ended 31 December 2003 amounted to HK\$72.57 million representing 11.45% of turnover compared with that of HK\$66.40 million or 9.84% of turnover for last year. Approximately HK\$39.86 million or 6.29% of turnover represented the expenditures associated with advertising and promotion expenses for strengthening of the Group's corporate image and promotion of the Group's products in the Great China region including Hong Kong as compared with that of HK\$34.94 million or 5.18% of turnover in last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(cont'd)*

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Administrative expenses was HK\$48.43 million or 7.64% of turnover for the year ended 31 December 2003 compared to that of HK\$35.38 million or 5.24% of turnover for the preceding year. Staff salaries and allowances increased to HK\$7.52 million from those of HK\$5.96 million for the same period of last year, noting an increase in the number of management and administrative employees from 153 to 183. For sake of prudence, general provision for bad debts amounting to HK\$3.80 million was provided for the year ended 31 December 2003. Owing to prolonged usage of production plant and machinery, the frequency of machinery breakdown was quite high in this year. Accordingly, repair and maintenance charges spending in this area for the year ended 31 December 2003 was HK\$2.38 million, representing a significant increase of HK\$2.11 million from that of HK\$0.27 million for last year. Depreciation charges and other general expenses accounted for the remaining increase in administrative expenses.

Other operating expenses, including research and development expenses, amounted to HK\$9.22 million or 1.46% of turnover for the year ended 31 December 2003 had been incurred for continuous development of new and improved products.

Total depreciation charges for fixed assets for the year ended 31 December 2003 amounted to HK\$17.57 million (*2002: HK\$10.55 million*), as a result of the significant additions to fixed assets during the year.

Amortisation for intangible assets for the year ended 31 December 2003 amounted to HK\$11.27 million (*2002: HK\$8.67 million*) representing the amortisation of license rights for production of biotechnology products with cosmetic applications.

Finance costs for the year ended 31 December 2003 decreased slightly to HK\$2.30 million or 0.36% of turnover from that of HK\$2.69 million or 0.40% of turnover for the last year.

USE OF PROCEEDS FROM ISSUE OF SHARES AND CONVERTIBLE BONDS

During the year, the Company's substantial shareholders, Motivated Workforce Consultants Limited ("MWC") and Inviting Finance Limited ("IFL") agreed to place through a placing agent, UOB Asia (Hong Kong) Limited, in aggregate 100,000,000 existing shares to more than six independent investors at a price of HK\$1.28 per share. MWC and IFL then subscribed for an aggregate of 100,000,000 new shares of the Company, ranking equally with existing shares of the Company, at the price of HK\$1.28 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 were approximately HK\$124 million after deducting the professional fees and all related expenses. Up to 31 December 2003, the net proceeds are fully utilized in fixed assets addition, deposits for purchases of fixed assets and funding general working capital.

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During the year, 133,275,500 share options were exercised at an average exercise price of HK\$1.22 per ordinary share with cash proceeds of approximately HK\$162.74 million, before any related expenses. The net proceeds from exercise of share options were used to finance general working capital requirement. The exercise of 133,275,500 share options resulted in the issue of 133,275,500 additional ordinary shares of the Company.

During the year, all the outstanding Tranche 2 Bonds of US\$440,000 (equivalent to HK\$3.43 million) brought forward from last year were converted into ordinary shares of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and cash equivalent of approximately HK\$420.28 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 and therefore exposure to exchange fluctuations was minimal. The Group also invested in other investments such as bonds and marketable securities to increase the financial returns. Shareholders' fund as at 31 December 2003 was HK\$1,063.44 million compared with that of HK\$712.61 million* as at 31 December 2002, representing an increase of HK\$350.83 million or 49.23%.

The Group's capital expenditure for the year ended 31 December 2003 amounted to HK\$122.15 million were funded from cash generated from operations, bank loans and finance leases and issue of shares and convertible bonds.

The indebtedness of the Group mainly comprises of trust receipt loans, bank loans and finance leases which are largely denominated in Hong Kong Dollar 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 2003, the Group had aggregate banking facilities of HK\$237 million of which about HK\$29.25 million had been drawn down.

The Group's inventory turnover period was increased to 60 days from that of 50 days for the same period of last year, due to the outbreak of SARS which slowed down the usage of raw materials for cosmetics and skin care products. Debtor's and creditor's turnover periods were increased to 84 days and 28 days from that of 70 days and 17 days respectively for the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(cont'd)*

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Debt to equity ratio (total debts over shareholders' funds) and gearing ratio (total debts over total assets) were improved to 1.79% and 1.62% respectively as compared with that of 7.56%* and 6.48%* for the previous year. Current ratio and Quick ratio were improved to 5.91 and 3.81 respectively whilst interest cover was 54.05 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 2003, the Group had 518 salaried employees of which 477 and 41 were stationed respectively in the PRC and in Hong Kong. Total staff costs paid during the year was approximately HK\$28.55 million.

CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2003.

As at 31 December 2003, 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.

As at 31 December 2003, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.

** Last year's comparative figures have been restated to conform to the changed accounting policy as detailed in note 1(n) to the accounts.*