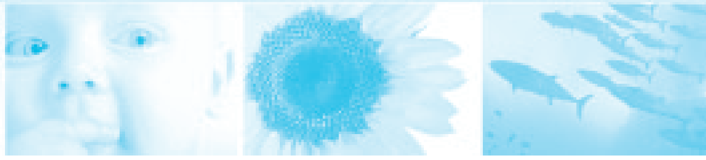
Management Discussion and Analysis



RESULTS

Turnover for the year ended 31 December 2004 was HK$624.89 million (2003: HK$633.59 million). Profit attributable to shareholders increased from HK$92.24 million in 2003 to HK$105.10 million in 2004.

Revenue generated from the sales of home and personal care products decreased by 23.78% to HK$210.91 million. Revenue generated from the sales of industrial surfactants increased by 6.07% to HK$204.62 million. Revenue generated from the sales of cosmetics and skin care products was increased by 81.69% to HK$183.49 million. The sale of biotechnology products with medical and cosmetic applications contributed HK$25.87 million to the total revenues for the year, representing a decrease of 51.72% as compared to that of HK$53.58 million in the preceding year.

Gross profit of the Group for the year ended 31 December 2004 decreased slightly to HK$231.21 million from that of HK$248.36 million for the last year whereas gross profit margin of the Group for the year ended 31 December 2004 also decreased slightly to 37% from that of 39.2% for last year. For individual segment, the gross profit margin of home and personal care products decreased from 33.73% to 27.02% owing to the increase in cost of raw materials. For the same reason, the gross profit margin of industrial surfactants declined from 23.61% to 12.87% owing to substantial price increase of petroleum-base raw materials. With gradual recovery of the retail market as a whole after SARS, cosmetics and skin care products showed a remarkably increase in sales in year 2004. As a result, the overall gross profit margin could be maintained.

Selling and distribution expenses for the year ended 31 December 2004 amounted to HK$44.16 million representing 7.07% of turnover compared with that of HK$72.57 million or 11.45% of turnover for last year. HK$20.28 million or 3.25% of turnover was spent on advertising and promotion for promotion of the Group's household products and cosmetics and skin care products in the Great China region including Hong Kong as compared with that of HK$39.86 million or 6.29% of turnover in last year. With resulting effort of cost control, the commission and rebate paid or payable to sales staff and customers were decreased by HK$6.39 million as compared with last year.

Administrative expenses was HK$57.06 million or 9.13% of turnover for the year ended 31 December 2004 compared to that of HK$48.43 million or 7.64% of turnover for the preceding year. Staff salaries and allowances increased to HK$9.68 million from those of HK$7.52 million for the last year, due to the increase in the number of employees from 518 to 669. Concerning the importance of living standard and working environment to the employees, approximately HK$2.47 million was incurred to improve facilities of staff quarters and working environment for the employees. Professional fees for the year ended 31 December 2004 amounted to HK$10.20 million, as HK$4.92 million relating to fund raising activities, such as raising finance and issuing share options and as HK$5.31 million relating to professional consultancy services rendered for the Group. Due to completion of new production complex for industrial products, HK$5.33 million was spent on relocation, installation and tuning of machineries and equipments as compared with HK$2.38 million for the last year.

Other operating expenses amounted to HK$22.87 million or 3.66% of turnover for the year ended 31 December 2004 as compared with HK$9.22 million or 1.46% of turnover for the year ended 31 December 2003. Research and development expenses spending products development and products improvement amounting to HK$18.39 million as compared with HK$6.98 million for the last year. Goodwill arising on acquisition of a subsidiary amounting to HK$0.99 million was fully written off to profit and loss account in the year it incurred.

Total depreciation charges for fixed assets for the year ended 31 December 2004 amounted to HK$43.1 million (2003: HK$17.57 million), as a result of completion of the new production complex for industrial products and installation of new machineries and equipment during the year.

Amortisation for intangible assets for the year ended 31 December 2004 amounted to HK$11.33 million (2003: HK$11.27 million) representing the amortisation of license rights for production of biotechnology products with cosmetic and pharmaceutical applications.

Finance costs for the year ended 31 December 2004 increased to HK$7.66 million or 1.23% of turnover from that of HK$2.30 million or 0.36% of turnover for the last year, due to the interest and arrangement and handling fees incurred for the syndicated loan.

During the year, the Group disposed of 1.5% interest of an investment in Bio-Treat Technology Limited with sales proceeds amounting to HK$43.56 million. The gain on disposal of such investment amounting to HK$35.94 million was recognized in the profit and loss account for the year ended 31 December 2004.

USE OF PROCEEDS FROM ISSUE OF SHARES, CONVERTIBLE BOND AND SYDNICATED LOAN

On 30 January 2004, Credit Suisse First Boston (Hong Kong) Limited ("CSFB") exercised the Additional Option and new bonds of US$4,080,000 (equivalent to approximately HK$31,824,000) were issued (the "Additional Tranche 1 Bonds") with identical terms as the Original Tranche 1 Bonds according to the 2001 Subscription Agreement. The cash proceeds from issue of the Additional Tranche 1 Bonds, before related expenses, approximately HK$31,824,000 is used to finance general working capital requirement. As at 31 December 2004, all Additional Tranche 1 Bonds were converted into shares of the Company.

On 19 January 2004, a subsidiary of the Company, Global Chemicals (China) Company Limited ("Global Chemicals") had entered into a borrowing agreement with certain banks for provision a term loan facility of HK$235 million at an interest rate of HIBOR plus 1% per annum. Global Chemicals shall apply all amounts borrowed by it under the term loan facility towards financing the general corporate funding requirements of the Group. Details of the arrangement were disclosed in note 27(a) to the financial statements. As at 31 December 2004, HK$235 million has been drawn down and is placed into short term deposits with banks.

During the year, 46,478,200 share options were exercised at an average exercise price of HK$0.69 per ordinary share with cash proceeds of approximately HK$32.01 million, before any related expenses. The net proceeds from exercise of share options were used to finance general working capital requirement. The exercise of 46,478,200 share options resulted in the issue of 46,478,200 additional ordinary shares of the Company.

On 1 July 2004, the Group, through a subsidiary of the Company, used Renminbi 10,000,000 (equivalent to approximately HK$9,345,794) to acquire a company in mainland China which business mainly engaged in wholesaling of home and personal care products with well-established customers' database.

During the year, the Company repurchased a total of 20,120,000 of its ordinary shares on the Stock Exchange at an average purchase price of $0.63 per share. The total amount incurred for this purpose was approximately HK$12.7 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash or cash equivalent of approximately HK$630.91 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 2004 was HK$1,210.13 million compared with that of HK$1,063.44 million as at 31 December 2003, representing an increase of HK$146.69 million or 13.79%.

The Group's capital expenditure for the year ended 31 December 2004 amounted to HK$116.94 million were funded from cash generated from operations, bank loans and finance leases.

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 2004, the Group had aggregate banking facilities of HK$349 million of which about HK$245.75 million had been drawn down.

The Group's inventory turnover period was reduced to 45 days from that of 60 days for the last year, representing significant improvement in inventory control. Debtor's turnover period was increased to 115 days from that of 84 days for the last year due to increase in number of credit days granted to customers whereas creditor's turnover period was increased to 36 days from that of 28 days for the last year.

Debt to equity ratio (total debts over shareholders' funds) and gearing ratio (total debts over total assets) were 19.43% and 15.07% respectively as compared with that of 1.79% and 1.62% for the last year, reflecting the effect of financing by syndicated loan. Current ratio and Quick ratio were 5.96 times and 5.71 times respectively whilst interest cover was 32.51 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 2004, the Group had 669 salaried employees of which 631 and 38 were stationed respectively in mainland China and in Hong Kong. Total staff costs paid during the year was approximately HK$24.24 million.

CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2004.

As at 31 December 2004, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.