



## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

For the six months ended 30 June 2005, the Group's turnover increased by 31.07% to HK\$374.63 million from HK\$285.83 million in the same period in 2004. Profit attributable to shareholders amounted to HK\$107.65 million, surging 152.94%, over the HK\$42.56 million recorded in the last corresponding period.

The Group's encouraging performance was the combined result of its effective strategic moves to combat the rising crude oil price and the excellent contribution from its cosmetics and skincare products business. During the period under review, the Group maintained stringent cost control in all businesses to alleviate pressure from high raw material prices. In addition, the Group strategically raised prices of various products and succeeded in transferring part of the cost to customers. Among the Group's different products, industrial surfactants enjoyed the greatest profit margin improvement. As for the cosmetics and skincare products business, sales of Marjorie Bertagne ("MB") was boosted by increased market share and the support of an expanded sales network. The above achievements proved that the Group is heading in the right direction.

### OPERATIONAL REVIEW

#### *I. Home and Personal Care Products*

For the period ended 30 June 2005, turnover of the business was maintained at approximately HK\$104.54 million, while the operating profit increased 7.86% to around HK\$18.39 million against the same period last year. Currently the business contributes 27.9% to the total turnover of the Group.

Despite the increase in cost of major raw materials and the keen competition within the market reviving along with the economy, the Group strategically increased the prices of products with strong demand. As a result, the Group was able to transfer some cost to customer and improved overall profit margin.

The Group is committed to expanding its market by diversifying into OEM and premium business targeting at overseas market. The management expected the business to generate notable income and report favorable profit in the second half of the year.



## MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

### OPERATIONAL REVIEW (cont'd)

#### II. *Industrial Surfactants*

Turnover of industrial products was maintained at HK\$82.79 million in the review period, contributing nearly 22.1% of the Group's turnover. During the period under review, operating profit grew to HK\$6.56 million, an impressive 200.92% when compared with that of last year.

Thanks to its quality products which have strong foothold in the market, the Group succeeded in transferring some cost to customers to alleviate raw material price pressure and greatly boosted profit margin. In addition, the Group applied an array of stringent cost control measures such as lowered the expenses for research and development, which resulted great cost savings during the period. With the market improving plus the Chinese government introducing policies to phase out phosphorus surfactants, the Group is confident of benefiting from its continuous development of environmental-friendly industrial surfactants. The Group believes that industrial surfactants will continue to drive its stable growth.

#### III. *Cosmetics and Skincare – Marjorie Bertagne ("MB")*

During the period under review, MB recorded a turnover of HK\$176.97 million, a three-fold growth against the same period last year. Its operating profit rose 209.23% to HK\$80.74 million. The segment contributed more than 47.24% to the total turnover of the Group.

The satisfactory results were attributable to the Group's effective branding strategy for MB. With Ms Rosmund Kwan as its spokesperson, the brand has taken on a premium image. To reinforce customer loyalty to the brand, the Group launched a series of commercials on television, complemented by printed and billboard advertising in the first half of the year. In addition, through its widespread retail network with a total of 125 outlets in Mainland China and 18 counters in Hong Kong and Macau, the Group expects to capture more market share in the second half year.



## MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

### OPERATIONAL REVIEW (cont'd)

#### IV. *Biotechnology Products*

During the period under review, the business recorded turnover of HK\$10.33 million. The contribution of this business to the Group's total turnover lowered to 2.76%. It was mainly due to the boosting of MB business. In the review period, most of the Group's capacity was used to produce "hEGF", an important ingredient for MB products, to meet the strong internal consumption and leaving a small room of capacity to produce other biotech products for sales.

The Group believes that its patented biotech raw materials have bright prospects in the market and can at the same time boost the cost competitiveness of the Group's products. As a result, the Group has been proactively expanding its production capacity. Construction of the new factory for producing solvent-based raw materials ("replacement materials") replacement materials such as industrial enzymes and L-Lactic acid, which are essential to the Group's production, has been on schedule. The Group expected to benefit from own production of Replacement Materials, which will help to minimise the Group's exposure to risks from further increase and fluctuation of production cost. The Group regards its solidly-founded biotechnology business as one of the major business growth drivers.

### USE OF PROCEEDS FROM BORROWING AND ISSUE OF SHARES

During the period, 36,320,000 share options were exercised at an average price of HK\$0.63 per ordinary share with cash proceeds of approximately HK\$22.88 million, before any related expenses. The net proceeds from the exercise of share options were used to finance general working capital requirement of the Group. The exercise of 36,320,000 share options resulted in the issue of 36,320,000 additional shares of the Company.

During the period, the Company repurchased a total of 6,204,000 of its ordinary shares on the Stock Exchange at an average purchase price of HK\$0.65 per share. The total amount incurred for this purpose was approximately HK\$4.03 million.