# Management Discussion and Analysis

## RESULTS

Turnover for the year ended 31 December 2005 was HK$769.87 million, representing a increase of 23.2% from that of HK$624.89 million in the preceding year. Profit attributable to shareholders increased from HK$105.1 million in 2004 to HK$223.31 million in 2005.

Revenue generated from the sales of home and personal care products decreased by 20.79% to HK$167.05 million. Revenue generated from the sales of industrial surfactants increased by 9.57% to HK$224.21 million. Revenue generated from the sales of cosmetics and skincare products was increased by 91.82% to HK$351.97 million. The sale of biotechnology products with medical and cosmetic applications contributed HK$18.15 million to the total revenues for the year.

Gross profit of the Group for the year ended 31 December 2005 increased to HK$300.41 million from that of HK$231.21 million for the previous year whereas gross profit margin of the Group for the year ended 31 December 2005 increased to 39.02% from that of 37% for last year.

Selling and distribution expenses for the year ended 31 December 2005 amounted to HK$61.58 million representing 8% of turnover compared with that of HK$44.16 million or 7.07% of turnover for last year. As compared with last year, there were additional HK$17 million spending on advertising and promotion of corporate image and cosmetics and skincare products in the Great China region including Hong Kong in this year.

General and administrative expenses was HK$98.77 million or 12.83% of turnover for the year ended 31 December 2005 compared to that of HK$79.93 million or 12.79% of turnover for the preceding year. In order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. As a result, an additional amount of HK$17.09 million were charged to profit and loss account for the year ended 31 December 2005.

Total depreciation charges for fixed assets for the year ended 31 December 2005 amounted to HK$41.81 million (2004: HK$42.85 million), as a result of completion of the new production complex for industrial products and installation of new machineries and equipments last year.

# Management Discussion and Analysis

Amortisation for intangible assets for the year ended 31 December 2005 amounted to HK$11.79 million (2004: HK$11.33 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 2005 amounted to HK$7.54 million, due to interest expenses on the syndicated loan.

During the year, the Group the remaining interest on investment in Bio-Treat Technology Limited ("Bio-Treat") in the Stock Exchange of Singapore. The gain on disposal of such investment amounting to HK$92.44 million was recognized in profit and loss account for the year ended 31 December 2005. As at 31 December 2005, the Group did not have shareholdings in Bio-Treat.

## USE OF PROCEEDS FROM ISSUE OF SHARES

During the year, 36,320,000 share options were exercised at an average exercise 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 exercise of share options were used to finance general working capital requirement. The exercise of 36,320,000 share options resulted in the issue of 36,320,000 additional ordinary shares of the Company.

During the year, the Company repurchased a total of 6,204,000 of its ordinary shares on the Stock Exchange at average purchase price of $0.64 per share. The total amount incurred was approximately HK$3.99 million.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash or cash equivalent of approximately HK$514.07 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 2005 was HK$1,439.45 million compared with that of HK$1,196 million (restated) as at 31 December 2004, representing an increase of HK$243.45 million or 20.36%.

# Management Discussion and Analysis

The Group's capital expenditure for the year ended 31 December 2005 amounted to HK$494.82 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 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 2005, the Group's banking facilities had been utilized to the extent of approximately HK$179.07 million.

The Group's inventory turnover period was reduced to 29 days from that of 45 days for the same period of last year, representing significant improvement on the inventory control. Debtor's and creditor's turnover periods were 111 days and 41 days respectively.

Debt to equity ratio (total debts over shareholders' funds) and gearing ratio (total debts over total assets) were 12.44% and 10.2% respectively as compared with that of 19.43% and 15.07% for the previous year, reflecting the effect of raising the syndication loan. Current ratio and Quick ratio were improved to 3.42 and 2.3 respectively whilst interest cover was 24.57 times.

# Management Discussion and Analysis

## 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 2005, the Group had 639 salaried employees of which 580 and 59 were stationed respectively in the PRC and in Hong Kong. Total staff costs paid during the year was approximately HK$30.57 million.

## CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2005.

As at 31 December 2005, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.