

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

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.

For the six months ended 30 June 2006, the Group's turnover increased by 7.39% to HK\$402.33 million from HK\$374.63 million for the same period in 2005. Due to the selectively increase in price of certain home and personal care products and industrial surfactants together with exemption from consumption tax in PRC for skincare products, the Group's overall gross profit margin increased to 43.72% from that of 40.97% in the last period. Net profit for the Period was increased by 27.38% to HK\$105.57 million from that of HK\$82.88 million (i.e. being HK\$127.54 million minus HK\$44.66 million) in the last period which was before taking into account the one-off profit on disposal of available-for-sales securities.

OPERATIONAL REVIEW

I. Home and Personal Care Products

During the Period, turnover of the business contributed 24.17% to the total turnover of the Group, while the operating profit increased 11.46% to around HK\$20.5 million against the same period last year. Despite the increase in cost of major raw materials and the price competition within the market, the Group strategically increased the prices of products with strong demand so as to transfer part of the cost to customer. The Group believes that with its strong research and development team together with its pricing and marketing strategy, it can be able to enjoy the fruitful returns in this market. The Group also believes that home and personal care products will continue to become a stable growth and ongoing momentum of the Group.

II. Industrial Surfactants

Turnover of industrial products contributed 26.99% of the Group's turnover during the Period. Even though the Group experienced the rise in price of crude oil during the Period, it can still maintained the growth in sales by 31.14% as compared with that of last period. The Group had applied an array of stringent cost control measures 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.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)**OPERATIONAL REVIEW (cont'd)****III. Cosmetics and Skincare**

During the period under review, cosmetics and skincare products recorded a turnover of HK\$179 million whereas its operating profit rose by 25.59% to HK\$101.4 million. The segment contributed 44.49% to the total turnover of the Group.

The satisfactory results were attributable to the Group's effective branding strategy and exemption from consumption tax in PRC for skincare products during the period. With Ms Rosamund 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 advertisement on television, complemented by printed and billboard advertising. In addition, through its widespread retail network with a total of 150 outlets in Mainland China and 20 counters in Hong Kong and Macau, the Group expects to capture more market share in the second half year.

IV. Biotechnology Products

During the period under review, the business recorded turnover of HK\$7.44 million. In order to boost up cosmetics and skincare business, the Group's capacity was used to produce "hEGF" to meet the strong internally consumption.

Construction of the new factory for producing replacement materials will be completed in the third quarter of 2006 and trial run is schedule in the fourth quarter of 2006. The Group expects 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 costs.

V. OEM and Premium

With completion of a 4-storey production complex designated to the production of OEM and premium products in the third quarter of 2006, the Group believes that the OEM and premium business will be able to generate promising return to the Group.