

Management Discussion and Analysis

RESULTS

Turnover for the year ended 31 December 2006 was HK\$846.92 million, representing a decrease of 6.11% from that of HK\$902.02 million (restated) in the preceding year. As compared the turnover for the year ended 31 December 2006 with that of preceding year, the disposal of marketable securities in year 2005 contributed HK\$132.15 million to the turnover, however, it had only contributed HK\$6.1 million to turnover in year 2006. Profit for the year increased from HK\$249.35 million in 2005, which included the profit on disposal of marketable securities amounting to HK\$92.44 million, to HK\$271.14 million in 2006.

Revenue generated from the sales of home and personal care products decreased slightly to HK\$166.18 million. Revenue generated from the sales of industrial surfactants increased by 15.08% to HK\$258.03 million. Revenue generated from the sales of cosmetics and skin care products was increased by 16.34% to HK\$409.48 million.

Gross profit of the Group for the year ended 31 December 2006 decreased to HK\$371.76 million from that of HK\$392.85 million (restated) for the previous year where overall gross margin increased to 43.89% from that of 43.55% for the pervious year due to improvement in the gross margin of industrial surfactants and cosmetics and skincare products.

Selling and distribution expenses for the year ended 31 December 2006 amounted to HK\$50.89 million representing 6.01% of turnover compared with that of HK\$61.58 million or 6.83% of turnover for last year. As compared with last year, the amount spending on advertising and promotion of cosmetics and skincare products decreased by HK\$10.54 million.

General and administrative expenses was HK\$89.41 million or 10.56% of turnover for the year ended 31 December 2006 compared to that of HK\$98.77 million or 10.95% of turnover for the preceding year, due to interest and handling charges amounting to HK\$6.23 million associated with the replacement of syndicated loan and increase in salaries payment amounting to HK\$6.7 million associated with increase in number of employees

Total depreciation charges for fixed assets for the year ended 31 December 2006 amounted to HK\$53.67 million (2005: HK\$41.81 million), as a result of completion of the new production complex for cosmetics and skin care products and installation of new machineries and equipments during the year.

Amortisation for intangible assets for the year ended 31 December 2006 amounted to HK\$9.46million (2005: HK\$11.79 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 2006 amounted to HK\$13.77 million, due to interest expenses on the syndicated loan.

Management Discussion and Analysis

USE OF PROCEEDS FROM ISSUE OF SHARES

During the year, 104,469,000 share options were exercised at an average exercise price of HK\$0.78 per ordinary share with cash proceeds of approximately HK\$81.54 million, before any related expenses. The net proceeds from exercise of share options were used to finance general working capital requirement. The exercise of 104,469,000 share options resulted in the issue of 104,469,000 additional ordinary shares of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash or cash equivalent of approximately HK\$405.18 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 a combination of portfolio investments such as marketable securities, bonds, funds, foreign currencies and fixed income assets in order to increase the financial returns. Shareholders' fund as at 31 December 2006 was HK\$1,733.91 million compared with that of HK\$1,439.45 million as at 31 December 2005, representing an increase of HK\$294.46 million or 20.46%.

The Group's capital expenditure for the year ended 31 December 2006 amounted to HK\$565.66 million were funded from cash generated from operations and bank loans.

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 2006, the Group's banking facilities had been utilized to the extent of approximately HK\$207.33 million, of which HK\$200 million representing syndicated loan.

The Group's inventory turnover period was reduced to 26 days from that of 29 days for the same period of last year. Debtor's and creditor's turnover periods were 80 days and 101 days respectively.

Debt to equity ratio (total interest bearing debts over shareholders' funds) and gearing ratio (total interest bearing debts over total assets) were 11.47% and 9.23% respectively as compared with that of 12.44% and 10.2% for the previous year, reflecting the effect of raising the syndication loan. Current ratio and Quick ratio were improved to 2.84 and 1.48 respectively whilst interest cover was 23.06 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 2006, the Group had 948 salaried employees of which 886 and 62 were stationed respectively in the PRC and in Hong Kong. Total staff costs paid during the year was approximately HK\$36.84 million.

CONTINGENT LIABILITY AND CHARGE ON GROUP ASSETS

The Group did not have any significant contingent liabilities as at 31 December 2006.

As at 31 December 2006, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.