



葉氏化工集團有限公司  
YIP'S CHEMICAL HOLDINGS LIMITED  
*(Incorporated in the Cayman Islands with limited liability)*

Interim Report

2004-2005

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## HIGHLIGHTS

1. Unusual fluctuation in raw material prices: Times of crisis offer opportunities.
2. Turnover was HK\$1,356,133,000, increased by 52% when compared with the corresponding period last year.
3. Net profit for the period was HK\$76,018,000, increase of 26%.
4. Earnings per share was HK16.3 cents, increase of 25%.
5. Interim dividend was HK4.5 cents per share, increase of 13%.
6. Gearing ratio of 37% as at 30th September, 2004.

## BUSINESS REVIEW

During this first half period, raw materials prices for the six core businesses of the Group not only remained at a high level, but the trend has continued upwards. The frequency of price hikes for the raw materials has rarely been seen in recent years. This phenomenon has greatly affected the Group's cost of sales. Among the Group's core businesses, the raw solvents and the resins businesses have been able to pass on the increased costs to customers almost immediately. For the other four core businesses, including thinners and varnishes, paints, inks, and lubricants, due to the fact that customers are actually manufacturing end-users together with competitive pressures in the market, the cost increases could only be partially passed on, and increases in selling prices inevitably lagged increases in raw materials prices. These two diametrically opposite market conditions in response to the increase of raw material prices created an internal hedging effect for the Group's overall businesses, thus taking the businesses of the Group as a whole, operating margins have not suffered significantly. On the other hand, unfavourable operating conditions such as high raw materials prices and shortages in some raw materials, coupled with increasing funding demands have forced some of the weaker players to exit the market, further enhancing the competitive advantages of the Group. Consequently, sales turnover of many of the Group's core businesses has far out-performed expectations.

For the first half, turnover reached HK\$1,356,133,000, representing a significant growth of 52%. Although profit attributable to shareholders failed to grow in line with turnover, the record-breaking figure of HK\$76,018,000 nevertheless surpassed the same period last year by 26%.

#### **THINNERS AND VARNISHES (formerly known as HIGH MOLECULAR CHEMICAL PRODUCTS AND MIXED SOLVENTS)**

Exports of light industrial products like plastic toys, electronic goods, packaging and printing, furniture and so on have remained robust, creating an excellent operating environment for the sustained development of this business Division. Moreover, raw materials shortages and price increases have actually enhanced the competitive advantages for the Division, enabling us to successfully acquire significant clients in different industries. Consequently, this Division has attained above expectation results in turnover reaching level of HK\$272,675,000, representing increases of 43% from last year. Operating profit of HK\$26,359,000 reached same level as corresponding period of last year despite continuous high level of raw material cost.

The HK\$220 million new plant in Huiyang has come on-stream on 1st October in line with plan, increasing the capacity of the old plant to 250% and is forecast to be sufficient for the Division's sustained development during the coming five years. At the same time, the new plant is equipped with the latest automated production systems, precision instrumentation, and a comprehensive array of hardware for transport and customer service. We anticipate that the new plant will mark a significant milestone in enhancing the Division's competitiveness and level of customer satisfaction, and will be an important factor in the Division's continued strength.

#### **PAINTS**

With the continuing boom in exports of light industrial goods and the sustained steady growth in China, the growth in the Group's different areas of industrial paints and architectural paints businesses was gratifying. However, the unrelenting surges in raw material costs were only partially passed on. Together with the fact that product price

increases almost inevitably lagged cost increases, margins had suffered short-term setbacks. Turnover and profits from operations reached HK\$327,049,000 and HK\$25,618,000, representing increases of 30% and 26%, respectively.

The measures taken by the Chinese Government to curb over-loading of transport vehicles on expressways and the tighter control over lorries carrying chemical products have led to increases in transport costs throughout the paint industry. However, with five plants located in strategic provinces, each supporting businesses in its regional supply envelope, the Group's Paints Division has been able to utilize its logistic advantage to compete effectively and provide timely service to customers. During this first half year, the Group has also been able to develop products targeted at regional requirements which further enhances our competitive advantage. Currently, increasing turnover and market share are the Paints Division's main objective, as we believe that higher volumes are essential to enhancing brand values. It will also improve economy of scale and plant utilization, thus allowing improvements in operational efficiency.

#### **RAW SOLVENTS**

This Division has successfully completed the planned capacity expansion and technology upgrading projects with notable results. Currently, the Division's annual manufacturing capacity has reached 180,000 tonnes, making it a world-class manufacturing facility for acetate solvents, while technology improvements have reduced production costs by nearly HK\$50 per tonne. Coupled with the unusually favourable operation environment in this reporting period, with strong prices and even shortages of chemicals raw materials, the Division recorded turnover and profits of HK\$560,479,000 and HK\$67,492,000 respectively, representing growths of 92% and 326% respectively.

Volatile prices and imbalances in supply and demand for chemicals raw materials are expected to continue in the second half. Whilst the Division will marshal its resources to meet the challenges of a rapidly changing market, it will also continue its technology upgrade programme with a view to further reduce costs and enhance its competitiveness.

Rapid growths in the raw solvents business during the past five years have led to corresponding increases in the Division's funding requirements. Consequently, the Group has increased its capital investment in the Division, with a corresponding increase in our equity share in this business from 60% to 75%.

## LUBRICANTS

With the economy growing strongly and the people's living conditions improving, the purchasing power of an emerging middle class in China has led to strong growth in car sales. Concurrently, there has been a significant change in the automotive lubricants market in China in recent years, both in terms of quantity and quality requirements. Unfortunately, the Division has not been able to grasp the opportunities provided by the rapidly changing market. Whilst new products have been slow in capturing targeted segments, the embattled old products have been locked in price wars at a time of rising raw materials prices, making it impossible to pass on the cost increases to the customers. During the same period, the Division has made significant one-time write-off of obsolete stock and packaging materials. In view of these adverse factors, the Division has only recorded a turnover of HK\$50,806,000, showing an increase of 10% from the same period last year, while operating loss was HK\$13,622,000, compared to a small loss of HK\$159,000 in the previous year.

The second half appears to offer little grounds for optimism. However, through a revamp of the management as well as the product structure, it is expected that a reduction in operating losses can be achievable, and the target is to start the journey to restore the business to health next year.

## INKS

The Division's turnover benefited from growths in the plastics printing and packaging industries, coupled with strong domestic demand in China during the reporting period. Accordingly, sales from both the Zhongshan and Shanghai plants recorded healthy growth. Turnover reached HK\$143,492,000, which was 34% higher than first half last year.

On the other hand, profit from operations were affected by fierce competition. In view of the Division's decision to adopt the tactic of pursuing market share at the expense of short-term profits, profit from operations only reached HK\$6,323,000, representing a decline of 36%.

However, selling prices have been raised in August and again in September, effectively passing much of the significant rises in raw materials costs to customers. At the same time, the Division is devoting efforts to restructure its product lines and to develop more high value-added products. Consequently, improvements in the operating results in the second half can be expected.

## **RESINS**

This new Division manufactures a range of resins to supply the paint industry. During the first half of this year, as a result of increases in demand from within the Group, as well as increasing efforts to expand sales to external customers, the Division's growth targets has been attained. Turnover and operating profit reached HK\$42,540,000 and HK\$913,000 respectively, representing a growth of 40% and 128% respectively.

During September this year, a 20-tonne reactor was installed during the planned two-week shut-down period. This new facility is expected to increase the current 10,000-ton annual capacity to 17,000 tonnes, bringing the total value of the Division's output to HK\$200 million per annum.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continued to implement prudent financial management strategy. Funding requirement increased this first half year as turnover was substantially higher than that of last year and the Group continued to invest in constructing production facilities in PRC. As at 30th September, 2004, gearing ratio of the Group, calculated on the basis of net bank borrowings over shareholders' funds, was 37% (At 31st March, 2004: 13%). During the current period, the Group arranged floating rate medium-term loans totaling

HK\$170,000,000 with 4 banks in Hong Kong. HK\$40,000,000 of these medium-term loans was revolving in nature and the remaining balance is repayable by quarterly installments within 3 years. As at 30th September, 2004, the outstanding medium-term loans amounted to HK\$301,250,000 (At 31st March, 2004: HK\$143,750,000), HK\$40,000,000 of which can be rolled-over until August 2008, and HK\$139,333,000 (At 31st March, 2004: HK\$100,000,000) was repayable within one year. Other short-term loans outstanding as at 30th September, 2004 was HK\$181,406,000 (At 31st March, 2004: HK\$ 45,498,000). These loans are repayable within one year or on demand and carry interests at floating rates.

As at 30th September, 2004, a total of 12 banks in Hong Kong and PRC granted medium-term and short-term banking facilities totaling HK\$865,810,000 to the Group, 78% of these facilities were denominated in Hong Kong Dollars and the rest in Renminbi. As at 30th September, 2004, letters of credit issued and other banking facilities utilized amounted to HK\$707,816,000. The Group's available banking facilities and its future cash flow from operations will provide sufficient funds to the Group to meet its present operation requirements and for the further development of its business in the foreseeable future. To take advantage of the current low interest level in Hong Kong, the Group will continue to fund its investments by Hong Kong dollars bank loans.

The Group generates the majority of its income in RMB and the majority of its assets are located in the PRC. As the exchange rate between RMB and Hong Kong Dollar has remained stable in the past few years and it is generally expected that it will remain so in the short term future, management considers that no hedging measures are necessary at this stage.

## **EMPLOYEES**

As at 30th September, 2004, there were a total of 3,133 employees of which 156 were based in Hong Kong and 2,977 were based in other provinces in the PRC. Employees receive competitive remuneration packages including salary, variable bonus linked to group and individual performance as well as share options, which are reviewed from



time to time and at least annually. The group pledges to enable our employees to achieve continuous self-improvement as a core mission. Employees are continuously trained to enrich their job skills through internal training conducted by full time training staff and external training courses, with an educational subsidy scheme to encourage employees to upgrade themselves. The group also has an Executive Management Trainee Programme that assures a consistent flow of high quality executive employees.

## PROSPECTS

The measures taken by China's Central Government at the beginning of the year to cool off the economy has shown early signs of success. Sustained and steady economic growth in China can therefore be expected. At the same time, rises in interest rates appear to be milder than expected. Accordingly, concern over these twin factors which could adversely affect the Group's performance seemed to have been set aside. We expect that during this financial year, crude oil prices will remain high, which will lead to continued price volatilities and shortages. However, since volatile raw materials prices impact on each of the individual core businesses of the Group differently, we expect that the different effects on business performance will create a natural internal hedging effect, hence the overall impact is unlikely to be significant. It is also evident from our experience over the past two years that the overall effect of volatile raw materials prices have tended to present more opportunities than problems for the Group. The Group is therefore confident that we would be able to continue to achieve excellent results during this challenging year.

On behalf of the Board, I would like to extend my sincere gratitude to all the staff, the shareholders, and partners in the banking and investment community for your continued support.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 13th December, 2004 to 15th December, 2004 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Secretaries Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Hong Kong not later than 4:30p.m. on 10th December, 2004.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES**

The Company had not issued any debenture since its incorporation. As at 30th September, 2004, the interests of the directors and their respective associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register to be kept pursuant to Section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed companies to be notified to the Company and the Stock Exchange were as follows:-

## Long positions

Name of Director	Number of Ordinary Shares				Approximate % of Shareholding
	Personal Interests	Family Interests	Other Interests	Total	
Mr. Ip Chi Shing, Tony	400,000	–	189,423,932 (a)	189,823,932	40.56%
Ms. Ip Fung Kuen	–	–	60,000,000 (b)	60,000,000	12.82%
Mr. Yip Tsz Hin, Stephen	36,500,000	20,000,000 (c)	–	56,500,000	12.07%
Mr. Ng Siu Ping, George	1,632,000	50,000 (d)	–	1,682,000	0.36%
Mr. Ting Hon Yam	–	–	–	–	–
Mr. Wong Kam Yim, Kenny	708,000	–	–	708,000	0.15%
Mr. Young Man Kim, Robert	842,000	–	–	842,000	0.18%
Mr. Tong Wui Tung, Ronald	–	500,000 (e)	–	500,000	0.11%
Mr. Wong Kong Chi	–	100,000 (f)	–	100,000	0.02%
Mr. Au-Yeung Tsan Pong, Davie	–	–	–	–	–
Mr. Li Chak Man, Chuck	–	–	–	–	–

## Notes:

- (a) The interests of Mr. Ip Chi Shing, Tony in shares of the Company are held by Ablewood Holdings Limited as trustee of a family discretionary trust, the objects of which include Mr. Ip Chi Shing, Tony and his family.
- (b) The interests of Ms. Ip Fung Kuen in shares of the Company are held by Calisan Holdings Limited as trustee of a family discretionary trust, the objects of which include Ms. Ip Fung Kuen and her family.
- (c) These shares are held by Madam Tso Ka Lai, the wife of Mr. Yip Tsz Hin, Stephen.
- (d) These shares are held by Madam Siu Oi Li, Maicy, the wife of Mr. Ng Siu Ping, George.
- (e) These shares are held by Madam Lau Mui Sum, the wife of Mr. Tong Wui Tung, Ronald.
- (f) These shares are held by Madam Jim Siu Wai, the wife of Mr. Wong Kong Chi.

Details of the share options granted to and held by the directors under the Company's share option schemes are shown in the next section "Share options".

Mr. Ip Chi Shing, Tony, Ms. Ip Fung Kuen, Mr. Yip Tsz Hin, Stephen and Madam Liang Bih Yu, the wife of Mr. Ip Chi Shing, Tony, each holds one non-voting deferred share of Yip's H.C. (Holding) Limited, a subsidiary of the Company.

Other than as disclosed above and certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, at 30th September, 2004, none of the directors or their associates held any interest or short positions in the securities of the Company or any of its associated corporations as defined in the SFO.

## SHARE OPTIONS

During the six months ended 30th September, 2004, movements in the number of share options to subscribe for shares of the Company which had been granted to certain directors and employees under the Company's old share option scheme adopted on 18th July, 1991 were as follows:—

	Date of Grant	Exercise Price HK\$	Number of share options			
			Outstanding at 1.4.2004	Exercised during the period	Cancelled during the period	Outstanding at 30.9.2004
<b>Director</b>						
Mr. Ng Siu Ping, George	16th July, 2001	0.395	700,000	700,000	-	-
			700,000	700,000	-	-

During the six months ended 30th September, 2004, movements in the number of share options to subscribe for shares of the Company which had been granted to certain directors and employees under the Company's new share option scheme adopted on 3rd September, 2002 were as follows:–

	Date of Grant	Exercise Price HK\$	Number of share options				
			Outstanding at 1.4.2004	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30.9.2004
<b>Directors</b>							
Ms. Ip Fung Kuen	17th May, 2004	1.590	–	150,000	–	–	150,000
Mr. Yip Tsz Hin, Stephen	17th May, 2004	1.590	–	300,000	–	–	300,000
Mr. Ng Siu Ping, George	14th November, 2002	1.190	500,000	–	–	–	500,000
	17th May, 2004	1.590	–	300,000	–	–	300,000
Mr. Ting Hon Yam	14th November, 2002	1.190	500,000	–	–	–	500,000
	17th May, 2004	1.590	–	150,000	–	–	150,000
Mr. Wong Kam Yim, Kenny	14th November, 2002	1.190	500,000	–	–	–	500,000
	17th May, 2004	1.590	–	300,000	–	–	300,000
Mr. Young Man Kim, Robert	14th November, 2002	1.190	500,000	–	–	–	500,000
	17th May, 2004	1.590	–	300,000	–	–	300,000
			2,000,000	1,500,000	–	–	3,500,000
<b>Employees</b>							
	14th November, 2002	1.190	3,220,000	–	320,000	–	2,900,000
	17th May, 2004	1.590	–	6,410,000	100,000	100,000	6,210,000
			3,220,000	6,410,000	420,000	100,000	9,110,000
			5,220,000	7,910,000	420,000	100,000	12,610,000

On 17th May, 2004, 7,910,000 share options were granted to certain directors and employees at an exercise price of HK\$1.590 per share under the Company's new share option scheme which was adopted on 3rd September, 2002. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$1.534.

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Other than as disclosed above, none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th September, 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the Company has not been notified of any interests represent 5% or more of the Company's issued share capital as at 30th September, 2004.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30th September, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by this interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the model code for securities transactions by directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions in relation to the accounting period covered by this interim report. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings as set out therein.

## **AUDIT COMMITTEE**

The Audit Committee consists of three independent non-executive directors, Mr. Wong Kong Chi who is acting as the chairman, Mr. Davie T.P. Au-yeung, Mr. Chuck C.M. Li and another non-executive director, Mr. Ronald W.T. Tong. The Audit Committee reviews matters within the purview of audit, such as financial statements and internal control, to protect the interests of the Company's shareholders. This interim report was reviewed by the Audit Committee before it was tabled for the approval by the Board of Directors.

**UNAUDITED INTERIM RESULTS**

The Board of Directors of Yip's Chemical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2004, together with comparative figures for the corresponding period of last year. The interim financial report has not been audited, but has been reviewed by the Company's audit committee.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

		<b>Six months ended</b>	
		<b>30th September,</b>	
		<b>2004</b>	2003
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>1,356,133</b>	891,626
Cost of sales		<b>(1,058,581)</b>	(680,147)
Gross profit		<b>297,552</b>	211,479
Other operating income		<b>3,048</b>	3,345
Selling expenses		<b>(42,705)</b>	(32,671)
Administrative expenses		<b>(145,748)</b>	(108,656)
Profit from operations	3&4	<b>112,147</b>	73,497
Interest expenses		<b>(1,528)</b>	(1,801)
Profit before taxation		<b>110,619</b>	71,696
Taxation	5	<b>(7,754)</b>	(5,747)
Profit before minority interests		<b>102,865</b>	65,949
Minority interests		<b>(26,847)</b>	(5,735)
Net profit for the period		<b>76,018</b>	60,214
Interim dividend	6	<b>21,076</b>	18,653
Earnings per share	7		
– Basic		<b>16.3 cents</b>	13.0 cents
– Diluted		<b>16.2 cents</b>	12.9 cents



**CONDENSED CONSOLIDATED BALANCE SHEET**

	<i>Notes</i>	<b>At 30th September, 2004 (Unaudited) HK\$'000</b>	<b>At 31st March, 2004 (Audited) HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>448,990</b>	392,647
Intangible asset		<b>3,500</b>	4,000
Other non-current assets		<b>4,600</b>	4,600
		<b>457,090</b>	401,247
<b>Current assets</b>			
Inventories		<b>294,596</b>	222,083
Trade debtors	9	<b>621,561</b>	393,478
Other debtors and prepayments		<b>66,089</b>	58,730
Taxation recoverable		<b>669</b>	2,231
Short term bank deposits	13	<b>41,673</b>	4,881
Bank balances and cash		<b>169,699</b>	98,531
		<b>1,194,287</b>	779,934
<b>Current liabilities</b>			
Creditors and accrued charges	10	<b>378,075</b>	264,418
Taxation payable		<b>11,889</b>	10,257
Dividends payable to minority interests		<b>20,082</b>	–
Bank borrowings-amount due within one year		<b>359,334</b>	143,682
Bank overdrafts		<b>1,405</b>	1,816
		<b>770,785</b>	420,173
<b>Net current assets</b>		<b>423,502</b>	359,761
<b>Total assets less current liabilities</b>		<b>880,592</b>	761,008
<b>Non-current liabilities</b>			
Bank borrowings-amount due after one year		<b>121,917</b>	43,750
Deferred tax liabilities		<b>1,897</b>	1,869
		<b>123,814</b>	45,619
<b>Minority interests</b>		<b>29,844</b>	38,933
<b>Net assets</b>		<b>726,934</b>	676,456
<b>Capital and reserves</b>			
Share capital	11	<b>46,804</b>	46,693
Reserves	12	<b>680,130</b>	629,763
<b>Shareholders' funds</b>		<b>726,934</b>	676,456

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>Total equity (Unaudited)</b> <i>HK\$'000</i>
At 1st April, 2003	612,116
Net gains not recognised in the consolidated income statement in respect of exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	338
Shares issued upon exercise of options	10,133
Net profit for the period	60,214
Dividends paid	(23,300)
At 30th September, 2003	659,501
At 1st April, 2004	<b>676,456</b>
Net gains not recognised in the consolidated income statement in respect of exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	<b>1,685</b>
Shares issued upon exercise of options	<b>816</b>
Net profit for the period	<b>76,018</b>
Dividends paid	<b>(28,041)</b>
At 30th September, 2004	<b>726,934</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net cash (used in) from operating activities	<b>(67,884)</b>	978
Net cash used in investing activities	<b>(74,617)</b>	(74,294)
Net cash from financing activities	<b>250,609</b>	60,028
Net increase (decrease) in cash and cash equivalents	<b>108,108</b>	(13,288)
Cash and cash equivalents at beginning of the period	<b>101,596</b>	121,045
Effect of foreign exchange rate changes	<b>263</b>	161
Cash and cash equivalents at end of the period	<b>209,967</b>	107,918

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institution of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31st March, 2004.

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (a) Business segments

The Group is organised into six operating divisions, namely thinners and varnishes (formerly known as high molecular chemical products and mixed solvents), paints, raw solvents, lubricants, inks and resins. Following a business reassessment, the Group concluded that both the market environment and our competitiveness in the resins business were favourable, and considered these activities as the Group's sixth core business in the current year. Such activities were grouped under the paints' segment in the previous period. Comparative figures have been restated to conform with the current period's presentation. Principal activities are as follows:

Thinners and varnishes	– manufacture of and trading in thinners and varnishes
Paints	– manufacture of and trading in paints
Raw solvents	– manufacture of and trading in raw solvents and related products
Lubricants	– manufacture of and trading in lubricants products
Inks	– manufacture of and trading in inks and related products
Resins	– manufacture of and trading in resins

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

#### (a) Business segments (Cont'd)

(i) An analysis of the Group's turnover and results by business segments is as follows:

	Thinners and varnishes HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Resins HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Six months ended 30th September, 2004</b>									
Segment revenue									
External sales	265,053	322,368	540,931	50,778	138,223	28,780	10,000	-	1,356,133
Inter-segment sales	7,622	4,681	19,548	28	5,269	13,760	2,240	(53,148)	-
Total	272,675	327,049	560,479	50,806	143,492	42,540	12,240	(53,148)	1,356,133
Results									
Segment result	26,359	25,618	67,492	(13,622)	6,323	913	491	(125)	113,449
Interest income									352
Unallocated corporate expenses									(1,654)
Profit from operations									112,147
Interest expenses									(1,528)
Profit before taxation									110,619
Taxation									(7,754)
Profit before minority interests									102,865
Minority interests									(26,847)
Net profit for the period									76,018
<b>Six months ended 30th September, 2003</b>									
	(Restated)				(Restated)			(Restated)	
Segment revenue									
External sales	189,413	246,785	279,378	46,157	103,270	18,290	8,333	-	891,626
Inter-segment sales	1,852	3,924	12,682	27	3,599	12,039	2,178	(36,301)	-
Total	191,265	250,709	292,060	46,184	106,869	30,329	10,511	(36,301)	891,626
Results									
Segment result	26,402	20,303	15,825	(159)	9,816	401	2,671	(58)	75,201
Interest income									277
Unallocated corporate expenses									(1,981)
Profit from operations									73,497
Interest expenses									(1,801)
Profit before taxation									71,696
Taxation									(5,747)
Profit before minority interests									65,949
Minority interests									(5,735)
Net profit for the period									60,214

Inter-segment sales are charged at the similar terms as outsiders.

**3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)****(a) Business segments (Cont'd)**

## (ii) Other information

	Thinners and varnishes HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Resins HK\$'000	Others HK\$'000	Corporate level HK\$'000	Consolidated HK\$'000
<b>Six months ended 30th September, 2004</b>									
Capital additions	26,094	32,546	5,749	452	9,501	1,236	19	437	76,034
Depreciation and amortisation of property, plant and equipment	3,702	6,534	1,858	1,497	2,618	734	52	1,286	18,281
Amortisation of intangible asset	-	500	-	-	-	-	-	-	500
<b>Six months ended 30th September, 2003</b>		(Restated)				(Restated)			
Capital additions	25,943	33,840	7,704	1,298	5,620	197	6	1,523	76,131
Depreciation and amortisation of property, plant and equipment	3,386	6,171	1,588	1,433	2,242	813	51	1,386	17,070
Amortisation of intangible asset	-	513	-	-	-	-	-	-	513

## (iii) An analysis of the Group's balance sheet by business segments is as follows:

	Thinners and varnishes HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Resins HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>At 30th September, 2004</b>								
<b>Assets</b>								
Segment assets	317,994	456,469	342,214	83,365	166,025	32,643	2,475	1,401,185
Taxation recoverable								669
Unallocated corporate assets								249,523
Consolidated total assets								1,651,377
<b>Liabilities</b>								
Segment liabilities	50,713	89,830	182,796	16,598	47,155	4,180	983	392,255
Taxation payable								11,889
Deferred tax liabilities								1,897
Unallocated corporate liabilities								488,558
Consolidated total liabilities								894,599
<b>At 31st March, 2004</b>		(Restated)				(Restated)		
<b>Assets</b>								
Segment assets	210,738	344,029	217,806	88,342	139,186	33,396	3,048	1,036,545
Taxation recoverable								2,231
Unallocated corporate assets								142,405
Consolidated total assets								1,181,181
<b>Liabilities</b>								
Segment liabilities	28,324	52,586	126,030	16,548	28,283	5,683	2,006	259,460
Taxation payable								10,257
Deferred tax liabilities								1,869
Unallocated corporate liabilities								194,206
Consolidated total liabilities								465,792

**3. BUSINESS AND GEOGRAPHICAL SEGMENTS** (Cont'd)**(b) Geographical segments**

The Group's turnover and contribution to profit from operations were derived principally from the Mainland China and the assets are substantially located in the Mainland China.

**4. PROFIT FROM OPERATIONS**

	<b>Six months ended 30th September,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	<b>18,281</b>	17,070
Amortisation of intangible asset (included in administrative expenses)	<b>500</b>	513
and after crediting:		
Interest income	<b>352</b>	277

**5. TAXATION**

	<b>Six months ended 30th September,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current tax		
Hong Kong	<b>2,294</b>	909
Mainland China	<b>5,431</b>	4,838
	<b>7,725</b>	5,747
Deferred tax		
Hong Kong	<b>29</b>	–
	<b>7,754</b>	5,747

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. Enterprise income tax in the Mainland China has been provided at the rates prevailing in the respective jurisdictions.

**6. INTERIM DIVIDEND**

During the period, a final dividend of HK 6.0 cents per share in respect of the year ended 31st March, 2004 was paid (six months ended 30th September, 2003: HK 5.0 cents per share was paid for the year ended 31st March, 2003).

The directors resolved to declare an interim dividend of HK4.5 cents per share for the six months ended 30th September, 2004 (six months ended 30th September, 2003: HK4.0 cents per share). The interim dividend is payable on 22nd December, 2004 to shareholders whose names appear on the Register of Members of the Company on 15th December, 2004.

**7. EARNINGS PER SHARE**

The amounts presented for basic and diluted earnings per share have been calculated as follows:–

	<b>Six months ended 30th September, 2004 HK\$'000</b>	2003 HK\$'000
Net profit for the period and earnings for the purposes of calculating basic and diluted earnings per share	<b>76,018</b>	60,214
	<b>Number of shares '000</b>	Number of shares '000
Weighted average number of shares for the purpose of calculating basic earnings per share	<b>467,331</b>	461,645
Effect of dilutive potential shares: Share options	<b>1,986</b>	3,597
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b>469,317</b>	465,242

**8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$76,034,000 (*six months ended 30th September, 2003: HK\$76,131,000*) on additions to manufacturing plant in the Mainland China to upgrade its manufacturing capacity.

**9. TRADE DEBTORS**

An aged analysis of trade debtors at the balance sheet date is as follows:

	<b>At 30th September, 2004 HK\$'000</b>	At 31st March, 2004 HK\$'000
0 – 3 months	<b>547,889</b>	313,883
4 – 6 months	<b>64,350</b>	71,528
Over 6 months	<b>9,322</b>	8,067
	<b>621,561</b>	393,478

The Group generally allows a credit period ranging from 30 to 90 days to its trade customers.



**10. CREDITORS AND ACCRUED CHARGES**

At the balance sheet date, the balance of creditors and accrued charges included trade creditors of HK\$292,318,000 (31st March, 2004: HK\$200,665,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	<b>At 30th September, 2004 HK\$'000</b>	At 31st March, 2004 HK\$'000
0 – 3 months	274,451	164,712
4 – 6 months	16,545	34,327
Over 6 months	1,322	1,626
	<b>292,318</b>	<b>200,665</b>

**11. SHARE CAPITAL**

	<b>Authorised At 30th September, 2004 &amp; 31st March, 2004 HK\$'000</b>	<b>Issued and fully paid At 30th September, 2004 HK\$'000</b>	At 31st March, 2004 HK\$'000
Shares of HK\$0.10 each	80,000	46,804	46,693

Movements in the issued share capital of the Company during the period are as follows:

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
At 1st April, 2004	466,925	46,693
Exercise of share options	1,120	111
<b>At 30th September, 2004</b>	<b>468,045</b>	<b>46,804</b>

During the six months ended 30th September, 2004, 1,120,000 option shares were exercised, resulting in the issue of 700,000 shares, 320,000 shares and 100,000 shares of HK\$0.10 each in the Company at a price of HK\$0.395, HK\$1.190 and HK\$1.590 per share respectively.

All shares issued rank pari passu with the then existing shares in issue in all respects.

## 12. RESERVES

	Share premium	Non-distributable reserve	Translation reserve	Legal reserve	Goodwill reserve	Capital redemption reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2003	211,646	1,524	11,456	525	(37,726)	5,038	373,920	566,383
Premium arising from shares issued upon exercise of share options	9,234	-	-	-	-	-	-	9,234
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	-	-	338	-	-	-	-	338
Net profit for the period	-	-	-	-	-	-	60,214	60,214
Final dividend paid for 2002/03	-	-	-	-	-	-	(23,300)	(23,300)
At 30th September, 2003 and 1st October, 2003	220,880	1,524	11,794	525	(37,726)	5,038	410,834	612,869
Premium arising from shares issued upon exercise of share options	639	-	-	-	-	-	-	639
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	-	-	(927)	-	-	-	-	(927)
Reserves realised on disposal of subsidiaries	-	-	233	-	(324)	-	-	(91)
Net profit for the period	-	-	-	-	-	-	35,947	35,947
Interim dividend paid for 2003/04	-	-	-	-	-	-	(18,674)	(18,674)
<b>At 31st March, 2004 and 1st April, 2004</b>	<b>221,519</b>	<b>1,524</b>	<b>11,100</b>	<b>525</b>	<b>(38,050)</b>	<b>5,038</b>	<b>428,107</b>	<b>629,763</b>
Premium arising from shares issued upon exercise of share options	705	-	-	-	-	-	-	705
Capitalisation of accumulated profits by a subsidiary	-	2,100	-	-	-	-	(2,100)	-
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	-	-	1,685	-	-	-	-	1,685
Net profit for the period	-	-	-	-	-	-	76,018	76,018
Final dividend paid for 2003/04	-	-	-	-	-	-	(28,041)	(28,041)
<b>At 30th September, 2004</b>	<b>222,224</b>	<b>3,624</b>	<b>12,785</b>	<b>525</b>	<b>(38,050)</b>	<b>5,038</b>	<b>473,984</b>	<b>680,130</b>

The non-distributable reserve of the Group arose as a result of capitalisation of accumulated profits of a subsidiary.

The legal reserve of the Group is non-distributable and represents the transfer of profit of a subsidiary outside Hong Kong pursuant to the legal requirements in the relevant place of registration.

**13. PLEDGED BANK DEPOSIT**

As at 30th September, 2004, deposit of HK\$3,451,000 was pledged to a bank in the Mainland China to secure banking facilities granted to the Group.

**14. CAPITAL COMMITMENTS**

	<b>At 30th September, 2004 HK\$'000</b>	At 31st March, 2004 HK\$'000
Contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	<b>25,475</b>	45,243

**15. RELATED PARTY TRANSACTIONS**

During the period, the Group paid rent of HK\$360,000 (*six months ended 30th September, 2003: HK\$246,000*), HK\$300,000 (*six months ended 30th September, 2003: HK\$250,000*) and HK\$108,000 (*six months ended 30th September, 2003: HK\$108,000*) to Goldex Investments Limited (*six months ended 30th September, 2003: Hang Cheung Investments Company Limited*), Galsheer Investments Limited and Microphase Technology Company Limited respectively in which Mr. Ip Chi Shing, Tony, Mr. Yip Tsz Hin, Stephen and Mr. Ng Siu Ping, George, the directors of the Company, has beneficial interests respectively. The rents were paid in accordance with the relevant rental agreements.

**16. POST BALANCE SHEET EVENT**

In September, 2004, Jiangmen Handsome Chemical Development Limited ("JHCDL") and Concord Chemical Storing Limited ("CCSL"), two indirect non-wholly owned subsidiaries of the Group, proposed to raise capital from their respective shareholders by way of rights issue. Accordingly, the Group agreed to inject capital of HK\$32,775,000 and HK\$36,600,000 into JHCDL and CCSL respectively. The Group also received dividends of HK\$21,000,000 from CCSL by way of scrip dividends. Consequently with effect from 1st October, 2004, the Group's interests in JHCDL and CCSL have been increased from 60% to 75%.

By Order of the Board  
**Ip Chi Shing, Tony**  
Chairman

Hong Kong, 25th November, 2004