

Greenfield Chemical Holdings Limited

嘉輝化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)



GREENFIELD

Interim Report 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

		For the six months ended 30th June,	
		2004	2003
	<i>Notes</i>	HK\$'000 (Unaudited)	<i>HK\$'000</i> <i>(Unaudited)</i>
Turnover	3	157,440	127,358
Cost of sales		(117,096)	(91,305)
Gross profit		40,344	36,053
Other operating income		2,110	3,698
Distribution costs		(5,125)	(3,954)
Administrative expenses		(19,075)	(20,164)
Profit from operations	4	18,254	15,633
Interest on bank borrowings wholly repayable within five years		(1)	(3)
Share of results of associates		4,554	2,034
Profit before taxation		22,807	17,664
Income tax expense	5	(2,583)	(2,081)
Profit for the period		20,224	15,583
Dividends – interim dividend declared	6	8,750	7,500
Earnings per share, basic	7	HK 8.1 cents	HK 6.2 cents

GREENFIELD CHEMICAL HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

	Notes	At 30th June, 2004 HK\$'000 (Unaudited)	At 31st December, 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	51,501	43,061
Interests in associates		12,936	9,138
Advance to an associate		1,440	1,440
Investments in securities	9	10	10
Deferred taxation		161	161
		66,048	53,810
Current assets			
Inventories		45,724	36,167
Trade and other receivables	10	72,335	63,250
Investments in securities	9	27,735	9,945
Amount due from an associate		19,411	20,956
Bank balances and cash		49,980	71,666
		215,185	201,984
Current liabilities			
Trade and other payables	11	64,551	46,404
Amount due to a related company		167	126
Taxation payable		3,319	1,450
		68,037	47,980
Net current assets		147,148	154,004
		213,196	207,814
Capital and reserves			
Share capital	12	25,000	25,000
Reserves		188,196	182,814
		213,196	207,814

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital HK\$'000 (note 12)	Share premium HK\$'000	Special reserve HK\$'000 (note i)	Translation reserve HK\$'000	Non- distributable reserve HK\$'000 (note ii)	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2003	25,000	4,242	32,000	(4,438)	3,786	116,853	177,443
Exchange difference arising from translation of financial statements of PRC operations not recognised in the income statement	-	-	-	(8)	-	-	(8)
Profit for the period	-	-	-	-	-	15,583	15,583
Dividends paid	-	-	-	-	-	(12,500)	(12,500)
At 30th June, 2003	25,000	4,242	32,000	(4,446)	3,786	119,936	180,518
Exchange difference arising from translation of financial statements of PRC operations not recognised in the income statement	-	-	-	(201)	-	-	(201)
Transfer to non-distributable reserve	-	-	-	-	779	(779)	-
Profit for the period	-	-	-	-	-	34,997	34,997
Dividends paid	-	-	-	-	-	(7,500)	(7,500)
At 31st December, 2003	25,000	4,242	32,000	(4,647)	4,565	146,654	207,814
Exchange difference arising from translation of financial statements of PRC operations not recognised in the income statement	-	-	-	158	-	-	158
Profit for the period	-	-	-	-	-	20,224	20,224
Dividends paid	-	-	-	-	-	(15,000)	(15,000)
At 30th June, 2004	25,000	4,242	32,000	(4,489)	4,565	151,878	213,196
Attributable to:							
The Company and its subsidiaries	25,000	4,242	32,000	(4,427)	4,472	133,230	194,517
Associates	-	-	-	(62)	93	18,648	18,679
At 30th June, 2004	25,000	4,242	32,000	(4,489)	4,565	151,878	213,196
The Company and its subsidiaries	25,000	4,242	32,000	(4,627)	4,472	131,846	192,933
Associates	-	-	-	(20)	93	14,808	14,881
At 31st December, 2003	25,000	4,242	32,000	(4,647)	4,565	146,654	207,814
The Company and its subsidiaries	25,000	4,242	32,000	(4,429)	3,693	109,414	169,920
Associates	-	-	-	(17)	93	10,522	10,598
At 30th June, 2003	25,000	4,242	32,000	(4,446)	3,786	119,936	180,518

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Notes:

- (i) Special reserve
The special reserve of the Group represents the nominal value of 32,000,000 non-voting class A shares of HK\$1 each issued by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as set out in the prospectus issued by the Company dated 18th April, 2002.

- (ii) Non-distributable reserve
The non-distributable reserve of the Group represents statutory reserves appropriated from the profit after taxation of a subsidiary of the Company registered in the People's Republic of China, other than Hong Kong (the "PRC ") under the PRC laws and regulations.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	For the six months ended 30th June, 2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	23,255	7,318
Net cash used in investing activities		
Purchase of investments in securities	(29,442)	(10,925)
Purchase of property, plant and equipment	(11,808)	(6,107)
Proceeds from disposal of other investments	11,035	497
Other investing cash flows	219	(1,740)
	(29,996)	(18,275)
Net cash used in financing activities		
Dividends paid	(15,000)	(12,500)
Net decrease in cash and cash equivalents	(21,741)	(23,457)
Cash and cash equivalents brought forward	71,666	67,992
Effect of foreign exchange rates changes	55	–
Cash and cash equivalents carried forward	49,980	44,535

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

3. SEGMENTAL INFORMATION

The Group's primary format for reporting segmental information is business segments. An analysis of the Group's turnover and segment result by business segments is as follows:

For the six months ended 30th June, 2004

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER					
External sales	119,916	13,236	24,288	-	157,440
Inter-segment sales*	46,390	6,512	4,436	(57,338)	-
Total	<u>166,306</u>	<u>19,748</u>	<u>28,724</u>	<u>(57,338)</u>	<u>157,440</u>
SEGMENT RESULT					
	<u>15,817</u>	<u>286</u>	<u>2,768</u>	<u>-</u>	<u>18,871</u>
Unrealised holding loss on investments in securities					(696)
Gain on disposal of investments in securities					<u>79</u>
Profit from operations					18,254
Finance costs					(1)
Share of results of associates					<u>4,554</u>
Profit before taxation					22,807
Income tax expense					<u>(2,583)</u>
Profit for the period					<u>20,224</u>

* Inter-segment sales are charged at prevailing market rates.

GREENFIELD CHEMICAL HOLDINGS LIMITED

3. SEGMENTAL INFORMATION *(continued)*

For the six months ended 30th June, 2003

	Liquid coatings <i>HK\$'000</i>	Powder coatings <i>HK\$'000</i>	Solvents <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER					
External sales	93,466	13,747	20,145	–	127,358
Inter-segment sales*	45,965	7,391	6,624	(59,980)	–
Total	<u>139,431</u>	<u>21,138</u>	<u>26,769</u>	<u>(59,980)</u>	<u>127,358</u>
SEGMENT RESULT	<u>10,232</u>	<u>561</u>	<u>3,449</u>	–	14,242
Unrealised holding gain on investments in securities					895
Gain on disposal of investments in securities					<u>496</u>
Profit from operations					15,633
Finance costs					(3)
Share of results of associates					<u>2,034</u>
Profit before taxation					17,664
Income tax expense					<u>(2,081)</u>
Profit for the period					<u>15,583</u>

* *Inter-segment sales are charged at prevailing market rates.*

The Group's activities and operations are based in the PRC including Hong Kong. Accordingly, a geographical analysis is not presented.

4. PROFIT FROM OPERATIONS

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	2,880	2,192
Unrealised holding loss (gain) on investments in securities	696	(895)
Gain on disposal of investments in securities	(79)	(496)
Gain on disposal of property, plant and equipment	(216)	(38)
Dividend income from investments in securities, listed	(219)	(258)
Interest income from unlisted bonds	(362)	(167)
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5. INCOME TAX EXPENSE

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) on the estimated assessable profit	1,593	193
Income tax calculated at the rates prevailing in the PRC	276	295
	<hr/>	<hr/>
	1,869	488
Share of taxation of an associate	714	583
Deferred taxation	-	1,010
	<hr/>	<hr/>
	2,583	2,081
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In the opinion of the Directors, a substantial portion of the Group's profit neither arose in, nor was derived from, Hong Kong and accordingly is not subject to Hong Kong Profits Tax.

The Group had no significant unprovided deferred taxation for the period.

6. DIVIDENDS

At a meeting held on 15th September, 2004, the Directors of the Company declared an interim dividend of HK 3.5 cents per share for the six months ended 30th June, 2004 (2003 interim dividend: HK 3 cents per share). The interim dividend will be payable on 6th October, 2004 to shareholders whose names appear on the register of members of the Company on 5th October, 2004.

During the period, final dividend of HK 3 cents per share and special dividend of HK 3 cents per share, amounting to a total of HK\$7,500,000 and HK\$7,500,000, respectively, were paid to shareholders for the year ended 31st December, 2003.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2004 is based on the profit for the period of HK\$20,224,000 (for the six months ended 30th June, 2003: HK\$15,583,000) and on 250,000,000 shares (for the six months ended 30th June, 2003: 250,000,000 shares) in issue throughout the period.

No diluted earnings per share is presented as there was no potential ordinary shares in issue.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$11,808,000 on acquisition of property, plant and equipment.

9. INVESTMENTS IN SECURITIES

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
Other investments:		
Unlisted equity securities	10	10
Unlisted bonds	11,473	9,945
Listed equity securities	16,262	–
	27,745	9,955
Carrying amount analysed for reporting purposes as:		
Non-current	10	10
Current	27,735	9,945
	27,745	9,955
Market value of listed equity securities	16,262	–

10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$67,156,000 (31st December, 2003: HK\$59,158,000), an aged analysis of which is as follows:

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
0 - 30 days	22,783	18,067
31 - 60 days	20,538	18,022
61 - 90 days	13,033	9,903
Over 90 days	10,802	13,166
	67,156	59,158

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$59,224,000 (31st December, 2003: HK\$40,421,000), an aged analysis of which is as follows:

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
0 - 30 days	30,808	17,190
31 - 60 days	19,780	13,476
61 - 90 days	5,174	8,935
Over 90 days	3,462	820
	59,224	40,421

12. SHARE CAPITAL

	Authorised HK\$'000	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.1 each		
– balance at 31st December, 2003 and 30th June, 2004	100,000	25,000

13. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
Within one year	74	123
In the second to fifth year inclusive	30	60
	104	183

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rental are fixed for a term of 2 years.

14. CAPITAL COMMITMENTS

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the financial statements	6,625	4,622

15. PLEDGE OF ASSETS

At 30th June, 2004, the Group had pledged certain of its land and buildings with a net book value of approximately HK\$2,600,000 (31st December, 2003: HK\$2,700,000) to a bank to secure credit facilities granted to the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October, 2004 to 5th October, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend of HK 3.5 cents per share, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 30th September, 2004. Dividend warrants will be dispatched on 6th October, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS RESULTS

For the six months ended 30th June, 2004, the Group recorded a turnover of HK\$157,440,000, representing an increase of 24% from the corresponding period of last year. Profit for the period was HK\$20,224,000, a growth of 30% from HK\$15,583,000. Earnings per share increased by 31% from HK 6.2 cents to HK 8.1 cents.

REVIEW OF OPERATIONS

During the period, the raw material prices soared to new heights. Keen competition in paint industry depressed selling prices and adversely affected the profit margin. Despite the challenging operating environment, the Group's business, especially the domestic sales in China, achieved a remarkable growth. This was the result of the outstanding performance of the Group's core business. Among the three major segments, performance of liquid coatings continued to be gratifying. Its turnover increased by 19%, with a significant growth of 55% in profit. This was mainly attributed by the surge of demand for toys paints. Operating environment for powder coatings was difficult due to the low selling price strategies adopted by competitors in China. Hence, its turnover and profit recorded a decline of 7% and 49% respectively. Given the volatility of raw material prices, although the turnover of solvents grew by 7%, its profit recorded a decrease of 20%.

During the period, aiming at providing promising and reliable delivery service, satisfying the needs of a broader customer base and greater variety of products, we acquired two factory units to enlarge the capacity of our warehouse in Hong Kong.

The factory established in Guangzhou last year has come into full operation. Products manufactured are mainly for domestic sales in China. In addition, we planned to establish another factory with a gross floor area of approximately 11,000 sq. m. adjacent to our Shenzhen factory. Upon completion of its construction in 2005, we believe that the enhanced production capacity will enable us to meet the surging demand in China.

REVIEW OF OPERATIONS *(continued)*

To cope with the challenges, the Group responded with certain adaptive measures and strategies. We continued to work closely with customers to ensure that the product quality met their utmost standards and requirements. Apart from focusing on continuous improvement in product quality, in view of the intense competition prevailing in different industries, we adopted unique and flexible logistics to secure timely delivery to meet customers' tight schedules. Better customer service and comprehensive technical support provided by us enabled our customers to enhance their competitive edge.

OUTLOOK

The increasing crude oil price exerted pressures on prices of petroleum-based raw materials. This is particularly evidenced by incessant increases in the price of solvent. If the crude oil price continues to hover at a high level, the raw material prices of liquid coatings and other products will inevitably be affected as well. Despite of the challenges presented to the industry by high raw material prices, we strived to achieve a satisfactory growth in the results for the first half of the year.

The Group has implemented certain measures to cope with the unfavorable operating environment, for instance, launching appropriate pricing policies, effective cost-control measures, closely monitoring the market condition. The satisfactory results for the period demonstrated the effectiveness of these measures. Besides, product quality continued to be a matter of foremost interest of the Group.

Looking ahead, in view of the signs of recovery of the Hong Kong economy, and the rapid economic growth in China, we foresee that the operating environment will improve. However, competition within the industry will remain strong. We will continuously devote our resources to the improvement of product quality, customer service and technical support. Apart from the above, we will continue to increase capital investment to enhance production capacity and quality, and consolidate the existing competitive advantages. At the same time, we will vigorously seek opportunities and joint venture partners to expand the scope of our business.

LIQUIDITY AND FINANCIAL RESOURCES

At 30th June, 2004, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance operation from internally generated cashflow. The Group maintained a satisfactory financial position derived from the steady growth of its business. As at 30th June, 2004, the Group had cash on hand of HK\$49,980,000 (31st December, 2003: HK\$71,666,000).

SIGNIFICANT INVESTMENTS

During the period, the Group made further investments in listed and unlisted securities and contributed an unrealized loss of approximately HK\$696,000 to the Group. The Directors will regularly review the investment portfolio of the Group in order to achieve the Group's investment objectives.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group has no material acquisitions and disposal of subsidiaries and associates during the period.

EXPOSURE TO FOREIGN EXCHANGE RISK

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Though the Group does not engage in any hedging contract, the Group's exposure to foreign exchange risk is minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2004, the Group had a workforce of about 960 full-time employees, including management and administrative staff and production workers. Most of them were stationed in Mainland China, while the rest were in Hong Kong. The remuneration, promotion and salary increments of employees are assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

DIRECTORS' INTERESTS

At 30th June, 2004, the interests of the Directors and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

	Associated corporation	Name of Director	Personal interests	Percentage of issued share capital
(a)	Pacific Orchid Investments Limited ("Pacific Orchid ")	Yuen Shu Wah	2,865 (Ordinary Shares)	28.65%
		Ko Jack Lum	1,550 (Ordinary Shares)	15.50%
(b)	Manfield Coatings Company Limited ("Manfield Coatings")	Yuen Shu Wah	9,168,000 (Non-voting Class A Shares)	28.65%
		Ko Jack Lum	4,960,000 (Non-voting Class A Shares)	15.50%
(c)	Chemfield Trading Company Limited ("Chemfield")	Yuen Shu Wah	280,000 (Ordinary Shares)	28.00%

DIRECTORS ' INTERESTS *(continued)*

Note: Messrs. Yuen Shu Wah and Ko Jack Lum are directors of each of Pacific Orchid, Manfield Coatings and Chemfield. Pacific Orchid is the immediate holding company of the Company. Manfield Coatings is a wholly owned subsidiary of the Company, which holds 45% of issued share capital of Chemfield.

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2004, none of the Directors of the Company had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following persons (other than the Directors) had notified the Company of relevant interests in the issued share capital of the Company:

Name	Number of ordinary shares	Percentage of issued share capital
Mulpha International Bhd. ("Mulpha International")	187,500,000	75%
Mulpha Strategic Limited ("Mulpha Strategic") (formerly King 's Chemical Products Inc.)	187,500,000	75%
Pacific Orchid	187,500,000	75%

Note: These shares were held by Pacific Orchid, in which Mulpha Strategic, an indirect wholly owned subsidiary of Mulpha International, holds 51% of equity interests. Therefore, each of Mulpha International and Mulpha Strategic is deemed to be interested in the shares held by Pacific Orchid.

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2004, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company or any other interests representing 5% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the company is not, or was not for any part of the six months ended 30th June, 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the Independent Non-executive Directors of the Company are not appointed for specific terms but subject to retirement by rotation in accordance with the provisions of the Articles of Association of the Company.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung, the Independent Non-executive Directors of the Company. The Audit Committee reviews and supervises the Group's financial reporting and internal control systems.

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements.

By Order of the Board
Yuen Shu Wah
Managing Director

Hong Kong, 15th September, 2004

As at the date of this interim report, the Board comprises Mr. Yuen Shu Wah, Mr. Ko Jack Lum and Mr. Ng Kai On as Executive Directors; Mr. Chung Tze Hien, Mr. Ng Seng Nam and Mr. Tan Peng Koon as Non-executive Directors; and Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung as Independent Non-executive Directors.