



BUSINESS REVIEW

During the past six months, the five core businesses of the Group achieved better than expected results in market penetration and business expansion. Total turnover amounted to HK\$574,684,000, representing a growth of 17% over the corresponding period of the previous year.

However, the prolonged escalation of oil price, which was rare during the past twenty years, has driven up the cost of various chemical raw materials used in our core businesses. We even suffered from shortage in supply of certain raw materials. Accordingly, the overall gross profit margin of the Group dropped by 8% while the net profit for the period was only HK\$34,934,000, representing a decrease of 31% from the previous year.

High Molecular Chemical Products and Mixed Solvents

The operation was severely affected by the prolonged escalating cost of raw material and as a result, gross profit margin plunged by approximately 9% from that of the previous year. Although turnover increased 12% to HK\$179,491,000, it could not offset the adverse impact mentioned earlier and profit from operations was only HK\$25,375,000, representing a decrease of 15%.

The "Hang Cheung Petrochemical Factory" in Buji, Shenzhen is currently operating close to its maximum production capacity. The Group is now actively looking for a suitable location for expansion and expects that a large scale chemical factory will be established in the region within two to three years.

Paints

In order to pave way for unified sales all over the country, the Group has acquired 20% equity interests held by the PRC joint venture partner of Shantou Bauhinia Paints Manufacturing Co., Ltd. after taking over its daily management in February this year. Upon completion of this acquisition plan Bauhinia Paints Manufacturing (Greater China) Company Limited ("Bauhinia Greater China") will consolidate its management on all five paint factories and control the manufacture and sales of "Bauhinia" brand products. For strengthening its management, the headquarters of Bauhinia Greater China was relocated to Shenzhen in July this year. The Group strongly believes that the profitability of the paints business will be gradually and fully realized upon completion of the reorganization of its management structure. Owing to the sale of 70% equity interest in Hainan Dachong Paints (Hong Kong) Manufacturing Limited, the turnover and profit from operations for the past six months were HK\$223,121,000 and HK\$9,995,000 respectively, representing decreases of 4% and 58% respectively from the corresponding period of last year.



Lubricants

After a return to profits last year, the upsurge in raw material price and the increase in marketing expenses for Hercules Products in the PRC has led to a small loss of HK\$1,936,000. Turnover reached HK\$32,205,000, representing a significant growth of 35% over the corresponding period of last year. The Group is confident that this business will achieve profit for the whole year despite this temporary loss situation.

The Group is now actively evaluating the feasibility of establishing a new production facility in the northern region of the PRC. This will lower transportation cost and will release the pressure of tight production schedule in our Zhanjiang factory which is operating close to its maximum production capacity.

Inks

The newly developed lamination inks were well received by customers and have made material contribution to our business growth. Turnover for the period was HK\$25,826,000, representing a significant increase of 48% over that of last year. However, the upsurge of raw material cost has dampened the profit from operations to HK\$1,182,000, representing a mild decrease of 8% over that of last year.

The Group will actively reinforce its market positions of both new and existing products, reduce production cost and improve profit margin. In order to cope with future development, the factory will be expanded at the end of this year and should be completed by April next year.

Raw Solvents

In view of the growing regional demand for acetate solvents, numerous industry players were attracted to expand their production facilities. This resulted in over supply and severe competition during the first half year. Nevertheless, the Group has made steady progress against competition on the basis of its reliable products, reputable service and lowered cost after expanding its production facilities. Turnover was nearly doubled to HK\$106,600,000 while profit from operations was HK\$5,357,000, nearly the same as that of last year.

In the near future, the Group will actively explore the possibilities for improving and enhancing its product mix.