



BUSINESS REVIEW

The global slowdown in economy following the arrival of the new millennium had little impact on the Group's relevant core businesses. By improving the quality of products and services, the Group's result remains encouraging. Apart from the paints business falling behind our expectation, the other four businesses focusing on the PRC market recorded satisfactory growth. The Group's turnover for the first half year increased by 4.2% over that of last year to HK\$598,955,000 while profit attributable to shareholders decreased by 9.2% from last year to HK\$31,731,000.

High molecular chemical products and mixed solvents

Profit margin of the Division returned to a reasonable level as the raw material cost became lower gradually during the period. As new products were developed by this Division to meet market demand, turnover and profit from operations of this division performed better than our expectation and recorded HK\$163,530,000 and HK\$23,701,000 respectively, representing mild adjustments of 8.9% and 7.0% as compared with the corresponding period of last year.

To prepare for challenges in the future, the Group has recently invested five million Hong Kong dollars in implementing an "Enterprise Resources Planning" system to strengthen its service quality and better control its production cost.

Paints

The reorganization of management structure and the related reformulation of sales strategies temporarily hampered the development of the paints business in the Greater China Region. In the process of restructuring the sales network, profile of customers were carefully scrutinized. As a result, sales volume dropped while bad debts and stocks provisions increased. As compared with the corresponding period of last year, turnover and profit from operations dropped by 9.7% and 50% to HK\$201,379,000 and HK\$5,339,000 respectively. The Group believes that the results of the paints business is unlikely to achieve a significant breakthrough this year. However, the Group is confident that the performance of this business will gradually improve in the second half-year which provide a solid base for a better result next year.

Raw solvents

In order to meet increasing market demand and improve the Division's competitiveness, it had expanded its production capacity a number of times in the past three years and is now the largest manufacturer of its kind in the region in terms of production capacity. Production of this Division met market demand well in the first half year. Turnover and profit from operations reached their historical highs to HK\$142,747,000 and HK\$6,621,000 respectively, representing increases of 34% and 31% over the corresponding period of last year. The Group expects that with a solid footing and sound financial position, there will be ample rooms for expansion of its market share. The Division is proactively studying all possible means of improving its operating efficiency.



Lubricants

Turnover for the period recorded prominent growth continuously to HK\$41,940,000, an increase of 30% over the corresponding period of last year. However, cost of raw material did not follow the sliding oil price and remained at a high level, resulting in a modest profit from operations of HK\$953,000. Nevertheless, the result was encouraging as compared with the loss recorded in the corresponding period of last year. The Division has finalized the cooperation with SINOPEC Great Wall Lube Oil Group Company Limited, Tianjin Branch for an initial term of ten years. The existing production facility of this factory is being renovated and will be ready for operation in January next year. The cooperation will supplement the shortage in production capacity of the Division's Zhanjiang factory in the south and help reduce its operating costs, and represents a monument in the development of the Division.

Inks

As the product quality became widely recognised by the market, this business began to expand from the Pearl River Delta Region into other major cities of China. The Division provided timely and customer-oriented services according to the specific requirements of its large customers and these led to a higher-than-expected result. During the period, turnover and profit from operations recorded substantial growth of 64% and 259% over the corresponding period of last year to HK\$42,394,000 and HK\$4,205,000 respectively. In order to cope with its future development, the Division invested five million Hong Kong dollars in its existing factory to increase its production capacity by 60%. Construction will be completed by the end of this fiscal year.