

# 2002 Interim Report



**Greenfield Chemical Holdings Limited**  
**嘉輝化工控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

		<b>For the six months ended 30th June,</b>	
		<b>2002</b>	2001
		<b>(Unaudited)</b>	(Unaudited)
	Notes	<b>HK\$'000</b>	HK\$'000
			(Note 1)
Turnover	3	<b>102,865</b>	92,352
Cost of sales		<b>(66,781)</b>	(62,021)
Gross profit		<b>36,084</b>	30,331
Other revenue		<b>1,766</b>	1,756
Distribution costs		<b>(4,557)</b>	(5,322)
Administrative expenses		<b>(20,385)</b>	(16,023)
Profit from operations	4	<b>12,908</b>	10,742
Finance costs		<b>(8)</b>	(6)
Share of results of associates		<b>238</b>	1,276
Gain on disposal of a subsidiary		<b>-</b>	2,722
Profit before taxation		<b>13,138</b>	14,734
Taxation	5	<b>(1,268)</b>	(1,273)
Profit before minority shareholders		<b>11,870</b>	13,461
Minority interests		<b>1</b>	4
Profit for the period		<b>11,871</b>	13,465
Dividends	6	<b>40,000</b>	-
Earnings per share – Basic	7	<b>5.4 HK cents</b>	6.5 HK cents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2002

	Notes	At 30th June, 2002 (Unaudited) HK\$'000	At 31st December, 2001 (Audited) HK\$'000 (Note 1)
Non-current assets			
Property, plant and equipment	8	<b>34,599</b>	33,868
Interests in associates		<b>2,827</b>	2,734
Advance to an associate		<b>1,640</b>	1,640
Investments in securities		<b>10</b>	5,019
		<b>39,076</b>	43,261
Current assets			
Inventories		<b>26,939</b>	27,772
Trade receivables	9	<b>53,804</b>	48,900
Other receivables		<b>1,823</b>	4,999
Other investments		<b>4,670</b>	–
Amount due from an associate		<b>2,131</b>	2,368
Bank balances and cash		<b>65,576</b>	56,018
		<b>154,943</b>	140,057
Current liabilities			
Trade payables	10	<b>31,236</b>	22,270
Other payables		<b>3,865</b>	3,413
Amount due to a related company		–	147
Taxation payable		<b>1,159</b>	836
		<b>36,260</b>	26,666
Net current assets		<b>118,683</b>	113,391
Total assets less current liabilities		<b>157,759</b>	156,652
Minority interests		<b>85</b>	86
		<b>157,674</b>	156,566
Capital and reserves			
Share capital	11	<b>25,000</b>	32,000
Reserves		<b>132,674</b>	124,566
		<b>157,674</b>	156,566

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Share capital HK\$'000 (Note 11)	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Non- distributable reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1st January, 2001	32,000	-	(2,495)	-	(7,981)	2,928	118,405	142,857
Realised on disposal of a subsidiary	-	-	(4,051)	-	1,420	-	-	(2,631)
Transfer to non-distributable reserves	-	-	-	-	-	-	-	-
Exchange differences arising from translation of financial statements of PRC operations (Note)	-	-	-	-	20	-	-	20
Profit for the period	-	-	-	-	-	-	13,465	13,465
Balance at 30th June, 2001	32,000	-	(6,546)	-	(6,541)	2,928	131,870	153,711
Realised on disposal of a subsidiary	-	-	6,546	-	2,114	-	-	8,660
Transfer to non-distributable reserves	-	-	-	-	-	104	(104)	-
Exchange differences arising from translation of financial statements of PRC operations (Note)	-	-	-	-	(6)	-	-	(6)
Profit for the period	-	-	-	-	-	-	21,201	21,201
Dividends	-	-	-	-	-	-	(27,000)	(27,000)
Balance at 31st December, 2001	32,000	-	-	-	(4,433)	3,032	125,967	156,566
Transfer upon conversion into non-voting deferred shares	(32,000)	-	-	32,000	-	-	-	-
Exchange difference arising from translation of financial statements of PRC operations (Note)	-	-	-	-	(5)	-	-	(5)
Issue of shares to the public	4,375	-	-	-	-	-	-	4,375
Premium arising on issue of shares to the public	-	30,625	-	-	-	-	-	30,625
Expenses incurred in connection with the issue of the shares	-	(5,758)	-	-	-	-	-	(5,758)
Transfer upon capitalisation issue	20,625	(20,625)	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	11,871	11,871
Dividends	-	-	-	-	-	-	(40,000)	(40,000)
Balance at 30th June, 2002	25,000	4,242	-	32,000	(4,438)	3,032	97,838	157,674

The non-distributable reserve represents statutory reserves appropriated from the profit after taxation of the Company's People's Republic of China (the "PRC") subsidiary under the PRC laws and regulations.

The special reserve of the Group represents the nominal values of 32,000,000 non-voting deferred shares of HK\$1 each issued by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation (as defined in Note 1).

*Note:* Gains and losses not recognised in condensed consolidated income statement.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
 FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	<b>Six months ended 30th June,</b>	
	<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000
Net cash from operating activities	<b>22,838</b>	6,280
Net cash from investing activities	<b>(2,522)</b>	(10,076)
Net cash from financing	<b>(10,758)</b>	(9,990)
Net increase (decrease) in cash and cash equivalents	<b>9,558</b>	(13,786)
Cash and cash equivalents at 1st January	<b>56,018</b>	54,180
Cash and cash equivalents at 30th June	<b>65,576</b>	40,394

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 15th January, 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board") on 30th April, 2002, the Company became the holding company of the Group on 9th April, 2002. Details of the Group Reorganisation had been set out in the prospectus issued by the Company dated 18th April, 2002 (the "Prospectus"). The shares of the Company were listed on the Main Board on 30th April, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed financial statements for the six months ended 30th June, 2002 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP(s)") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") and SSAP No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention and the accounting policies adopted, which are consistent with those followed in the preparation of the accountants' report set out in the Prospectus, except land and buildings are stated at revalued amount. The Group has adopted the following accounting policies in accordance with a number of revised SSAPs as described below.

In the current period, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice 1 "Presentation of Financial Statements" and the revised Statement of Standard Accounting Practice 15 "Cash Flow Statements" ("SSAP 15 (Revised)") which were issued by the Hong Kong Society of Accountants. The revised Standards have introduced revised disclosure requirements which have been adopted in these condensed financial statements.

The adoption of the Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

In the current period, the Group has adopted SSAP 15 (Revised). Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as “cash flows from operating activities”, “cash flows from investing activities”, and “cash flows from financing activities”. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes/short-term loans that are financing in nature.

### 3. SEGMENTAL INFORMATION

An analysis of the Group’s turnover and contribution to profit from operations by business and geographical segment is as follows:

#### Business Segments

*For the six months ended 30th June, 2002*

	<b>Liquid coatings HK\$'000</b>	<b>Powder coatings HK\$'000</b>	<b>Solvents HK\$'000</b>	<b>Elimination HK\$'000</b>	<b>Total HK\$'000</b>
Revenue					
External revenue	<b>75,300</b>	<b>12,979</b>	<b>14,586</b>	–	<b>102,865</b>
Inter segment revenue	<b>38,666</b>	<b>6,744</b>	<b>7,629</b>	<b>(53,039)</b>	–
Total revenue	<b><u>113,966</u></b>	<b><u>19,723</u></b>	<b><u>22,215</u></b>	<b><u>(53,039)</u></b>	<b><u>102,865</u></b>
Profit from operations	<b><u>9,497</u></b>	<b><u>1,428</u></b>	<b><u>1,983</u></b>	–	<b><u>12,908</u></b>

*For the six months ended 30th June, 2001*

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External revenue	64,806	14,481	13,065	–	92,352
Inter segment revenue	35,956	8,785	7,317	(52,058)	–
Total revenue	<b><u>100,762</u></b>	<b><u>23,266</u></b>	<b><u>20,382</u></b>	<b><u>(52,058)</u></b>	<b><u>92,352</u></b>
Profit from operations	<b><u>7,630</u></b>	<b><u>1,922</u></b>	<b><u>1,190</u></b>	–	<b><u>10,742</u></b>

### Geographical Segments

For the six months ended 30th June, 2002

	Hong Kong HK\$'000	The PRC, other than Hong Kong HK\$'000	Total HK\$'000
Revenue	<u>85,883</u>	<u>16,982</u>	<u>102,865</u>
Profit from operations	<u>10,374</u>	<u>2,534</u>	<u>12,908</u>

For the six months ended 30th June, 2001

	Hong Kong HK\$'000	The PRC, other than Hong Kong HK\$'000	Total HK\$'000
Revenue	<u>81,644</u>	<u>10,708</u>	<u>92,352</u>
Profit from operations	<u>9,253</u>	<u>1,489</u>	<u>10,742</u>

#### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Depreciation of property, plant and equipment	<u>1,792</u>	<u>1,617</u>



## 5. TAXATION

For the six months ended  
 30th June,

2002                      2001  
**HK\$'000**                      HK\$'000

The charge comprises:

Hong Kong Profits Tax calculated at 16% on the estimated assessable profit	<b>938</b>	1,069
Income tax calculated at the rates prevailing in the PRC	<b>185</b>	–
Share of taxation of an associate	<b>145</b>	204
	<b><u>1,268</u></b>	<b><u>1,273</u></b>

In the opinion of the Directors, a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and accordingly is not subject to Hong Kong Profits Tax.

Deferred taxation has not been provided for in the condensed consolidated financial statements as the amount involved is not significant.

## 6. DIVIDENDS

At a board meeting held on 10th September, 2002, the directors of the Company declared an interim dividend of HK\$0.02 (2001: Nil) per share for the six months ended 30th June, 2002. The interim dividend will be payable on 18th October, 2002 to shareholders whose name appear on the Register of members of the Company on 18th October, 2002. This interim dividend is not reflected as a dividend payable in these condensed consolidated financial statements, but will be reflected as an appropriation of the accumulated profits for the year ending 31st December, 2002. In addition, during the period, a subsidiary of the Company paid a dividend of HK\$40,000,000 (2001: Nil) to its then shareholders prior to the Group Reorganisation.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2002 is based on the profit for the period of HK\$11,871,000 (2001: HK\$13,465,000) and on the weighted average of 220,994,000 (2001: 206,250,000) shares that would have been in issue during the period on the assumption that the Group Reorganisation and the capitalisation issue of 206,249,800 shares of the Company had been completed on 1st January, 2001.

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares in issue.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings are stated at valuation made by an independent valuer on 31st January, 2002. The Directors are of the opinion that the market value of the Group's land and buildings as at 30th June, 2002 is not materially different from the carrying value of the land and buildings.

During the period, the Group spent approximately HK\$3,522,000 on acquisition of property, plant and equipment.

## 9. TRADE RECEIVABLES

The credit terms granted by the Group to its customers generally range from 30 to 90 days. The following is an aged analysis of trade receivables at the respective balance sheet dates:

	<b>At 30th June, 2002 HK\$'000</b>	At 31st December, 2001 HK\$'000
Aged:		
0 – 30 days	<b>20,137</b>	12,720
31 – 60 days	<b>16,281</b>	13,219
61 – 90 days	<b>8,501</b>	9,398
91 – 120 days	<b>8,885</b>	13,563
	<b><u>53,804</u></b>	<u>48,900</u>

## 10. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>At 30th June, 2002 HK\$'000</b>	At 31st December, 2001 HK\$'000
0 – 30 days	<b>21,385</b>	8,768
31 – 60 days	<b>7,544</b>	6,576
61 – 90 days	<b>742</b>	6,117
Over 90 days	<b>1,565</b>	809
	<b><u>31,236</u></b>	<b><u>22,270</u></b>

## 11. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$</b>
Ordinary shares of HK\$0.1 each		
<i>Authorised:</i>		
On date of incorporation	3,900,000	390,000
Increase in authorised share capital	996,100,000	99,610,000
<b>At 30th June, 2002</b>	<b><u>1,000,000,000</u></b>	<b><u>100,000,000</u></b>
<i>Issued and fully paid:</i>		
Allotted and issued to initial subscriber on the date of incorporation	1	0.1
Issue of shares before Group Reorganisation	99	9.9
Issue of shares on Group Reorganisation	100	10
Issue of shares to the public	43,750,000	4,375,000
Issue of shares by capitalisation of share premium account	206,249,800	20,624,980
<b>At 30th June, 2002</b>	<b><u>250,000,000</u></b>	<b><u>25,000,000</u></b>

For the purpose of the preparation of the consolidated financial statements, the balance of the share capital shown in the condensed consolidated balance sheet at 31st December, 2001 represented the issued capital of Manfield Coatings Company Limited, which was a holding company of members of the Group prior to the Group Reorganisation.

The Company was incorporated on 15th January, 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each, of which 1 share was allotted, for cash at par, to the subscriber. On 22nd October, 2001, the one issued share was transferred to Pacific Orchid Investments Limited ("Pacific Orchid").

Pursuant to the written resolutions passed by the sole shareholder of the Company on 22nd October, 2001:

- (a) the authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 996,100,000 shares to rank *pari passu* with the then existing shares in all respects; and
- (b) the Directors of the Company were authorised to allot and issue to Pacific Orchid 99 shares of HK\$0.1 each for cash at par.

Pursuant to the Group Reorganisation, the Company acquired a then subsidiary of Pacific Orchid by issuance of 100 shares of HK\$0.1 each, credited as fully paid at par, to Pacific Orchid as consideration. As a result, the Company became the holding company of the Group.

Pursuant to the written resolutions of the sole shareholder of the Company on 9th April, 2002, conditional on the share premium account of the Company being credited as a result of the issue of shares to the public, the directors were authorized to capitalize a sum of HK\$20,624,980 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 206,249,800 shares for allotment and issue to shareholders whose names appeared on the Register of members of the Company at the close of business on 18th April, 2002 in proportion to their then existing shareholdings in the Company.

On 30th April, 2002, by means of new issue of shares to the public, the Company issued a total of 43,750,000 shares of HK\$0.1 each at a price of HK\$0.8 per share. At the same time, the Company credited as fully paid at par of 206,249,800 shares of HK\$0.1 each, capitalised pursuant to a resolution in writing passed by the sole shareholder of the Company on 9th April, 2002.

All the shares which were issued during the period rank *pari passu* with the then existing shares in all respects.

## 12. OPERATING LEASE COMMITMENTS

At the respective balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	<b>At 30th June, 2002 HK\$'000</b>	At 31st December, 2001 HK\$'000
Within one year	<b>90</b>	60
In the second to fifth year inclusive	<b>90</b>	–
	<b><u>180</u></b>	<b><u>60</u></b>

Operating lease payments represent rental payable by the Group for certain of its office properties and factory premises. Significant leases in respect of office properties and factory premises are negotiated for an average term of two years and rental are fixed for a term of 2 years.

## 13. CAPITAL COMMITMENTS

	<b>At 30th June, 2002 HK\$'000</b>	At 31st December, 2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b><u>1,187</u></b>	<b><u>3,210</u></b>

## 14. PLEDGE OF ASSETS

At 30th June, 2002, the Group had pledged certain land and buildings with a net book value of approximately HK\$2,768,000 (At 31st December, 2001: HK\$2,806,000) to secure credit facilities granted to the Group.

**15. DISPOSAL OF SUBSIDIARIES**

Six months ended  
 30th June, 2001  
*HK\$'000*

Net assets disposed:

Property, plant and equipment	2,004
Inventories	198
Trade and other receivables	1,669
Bank balances and cash	822
Trade and other payables	(283)
Loan from immediate holding company	(1,768)
Amount due to group company	(1,026)
Loans from shareholders	(80)
	<hr/>
	1,536
Minority interests	(78)
	<hr/>
	1,458
Goodwill realised on disposal	(4,051)
Translation reserve realised on disposal	1,420
Gain on disposal of a subsidiary	2,722
	<hr/>
	1,549
	<hr/>
Cash consideration receivable	1,549
	<hr/>

The subsidiary disposed during the six months ended 30th June, 2001 did not have any significant impacts on the operating results and cash flows of the Group.

## INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of 2 HK cents (2001: Nil) per share for the six months ended 30th June, 2002, amounting a total of HK\$5,000,000 (2001: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 15th October, 2002 to 18th October, 2002, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 11th October, 2002. Dividend warrants will be despatched on 18th October, 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30th June, 2002, the Group's turnover was HK\$102,865,000, an increase of 11% as compared to the corresponding period last year. The operating profit markedly increased by 20%. In fact, because of the additional expatriate costs incurred during the period in relation to the associate, the operating profit of the associate decreased significantly. In addition, as there was an extra gain through disposal of a subsidiary in year 2001, the total profit of HK\$11,871,000 attributable to shareholders showed a decrease of 12% compared to year 2001.

The turnover from the sales amount of the products segment of the liquid coatings and solvents was higher than the corresponding period last year. The operating profit generated by these two products was increased by approximately 30%, while powder coatings recorded a decrease of 10% in sales and 26% in operating profit.

The pleasing 20% increase of operating profit of the Group despite an ever competitive market and shrinking margin underscored the progress of our continuous performance improvement through on-going Quality Management Program and Continuous Improvement Program. To further enhance the achievements and awards gained, namely ISO 9001:1994, Hong Kong Q-Mark logo award, HOKLAS Accredited Laboratory, Certificate of Merit in Quality and HKPC Productivity Award, the Group continues to put effort in enhancing the quality of management and products. In this connection, the Group is applying for the new 2000 version of ISO 9001 and instituting the ISO 9004 performance improvement program. Moreover, environmental protection is one of the areas that the Group regards as important. The Group has appointed a consultant firm to conduct relevant research in order to obtain the award of ISO 14000.

Through the programs the management has endeavored to strengthen the Group's existing competitive advantages to further improve the quality of the products and production capacity in terms of securing relevant technical expertise, application of appropriate work experience, wide product range, competitive price, reliable delivery and sound technical customer support. For the six months ended 30th June, 2002, in addition to the Group's existing research and development team and quality control laboratories, the group continued to recruit experienced chemists and acquire new equipment in order to achieve such improvement.

In April 2002, the Group set up a representative office in Pudong, Shanghai to further expand the geographic spread of the Group's products.

The aftermath of last year's economic set back in the United States in addition to subsequent terror attacking incidents have seriously affected the economic development scene worldwide including Hong Kong. The Group also faced serious challenging market condition during the period under review. By adoption of prudent approach in the operating control and financial policy, the Group maintains not only a strong and stable financial position and attains steady profitability, but also makes use of opportunities which may arise in such changing economical climate.

### **Business Prospects**

In the first half of 2002, the PRC economy has continued to maintain rapid growth. In turn, this led to an increasing demand for industrial coatings due to improving living standards in the PRC, which creates opportunities for the Group's products. With its experienced management team and the adoption of proactive strategic policies, the Directors believe that the Group is able to capitalize on the emerging PRC economy and will become one of the largest manufacturers of industrial coatings within the Greater China Region. The Directors consider that the Group is well positioned to benefit from this promising future in the PRC.

### **Financial Review**

As stated above, the shares of the Company have been listed on the Main Board of the Exchange since 30th April, 2002, with net proceeds from the share offer of approximately HK\$29,242,000 for its business and product development. It is expected that such new proceeds will be applied to business expansion in the second half of this year according to the future plan of the Group set forth in the Prospectus.

As at 30th June, 2002, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance its operations with internal cash flow.

The Group maintains a satisfactory financial position derived from the steady growth of its business. As at 30th June, 2002, the Group had cash on hand of HK\$65,600,000 (As at 31st December, 2001: HK\$56,000,000).



## DIRECTORS' INTERESTS

At 30th June, 2002, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:-

	<b>Name of Director</b>	<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate Interests</b>	<b>Other Interests</b>	<b>Total</b>
(a)	<b>The Company</b>					
	Yuen Shu Wah	-	-	187,500,000 <i>(Note)</i>	-	187,500,000
	Ko Jack Lum	-	-	187,500,000 <i>(Note)</i>	-	187,500,000
	<b>Associated Corporation</b>					
(b)	Pacific Orchid Investments Limited ("Pacific Orchid")					
	Yuen Shu Wah	2,865	-	-	-	2,865
	Ko Jack Lum	1,550	-	-	-	1,550
(c)	Chemfield Trading Company Limited					
	Yuen Shu Wah	280,000	-	-	-	280,000

*Note:* The 187,500,000 shares were held by Pacific Orchid, in which Mr. Yuen Shu Wah ("Mr. Yuen") and Mr. Ko Jack Lum ("Mr. Ko") have 28.65% and 15.50% equity interests respectively and deemed to be interested in the shares.

Save as disclosed above, none of the Directors had any interests in the share capital of the Company or any associated corporations as at 30th June, 2002.

## SUBSTANTIAL SHAREHOLDERS

At 30th June, 2002, the interests of those persons (other than the Directors) in the share capital of the Company as recorded in the register kept under section 16(1) of the SDI Ordinance were as follows:

Name	Number of Ordinary Shares
Mulpha International Bhd. ("Mulpha International") (Note 1)	187,500,000
Mulpha Trading Sdn. Bhd. ("Mulpha Trading") (Note 1)	187,500,000
King's Chemical Products Inc. ("King's Chemical") (Note 1)	187,500,000
Pacific Orchid (Note 2)	187,500,000

Notes:

1. The 187,500,000 shares were held by Pacific Orchid. King's Chemical, a wholly owned subsidiary of Mulpha Trading, which in turn is a wholly owned subsidiary of Mulpha International, holds 51% equity interests in Pacific Orchid. Therefore, each of Mulpha International, Mulpha Trading and King's Chemical is deemed to be interested in the shares held by Pacific Orchid.
2. These shares were shown as the corporate interests of Mr. Yuen and Mr. Ko in the Company as disclosed under Directors' Interests.

## AUDIT COMMITTEE

In accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules ("Code of Best Practice"), the Board of Directors established an audit committee on 9th April, 2002 comprising Mr. Lau Siu Ki and Mr. Wu Wing Kit, the independent non-executive Directors of the Company, to review and supervise 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 discussing auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2002, the Group had around 700 full-time employees, including the management and administrative staff and production workers. Most of them station in the PRC while the remaining in Hong Kong. The employee's remuneration, promotion and salary increment are assessed based on individual's performance, professional and working experience and are referred to the prevailing industry practice.

### **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, 2002.

### **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, 2002 in compliance with the Code of Best Practice, 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.

By Order of the Board  
**Yuen Shu Wah**  
*Executive Director*

Hong Kong, 10th September, 2002