



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants ("HKSA").

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st March, 2002.

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2002, except for those changes as a result of adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. Prior to the adoption of SSAP 34, the Group did not accrue for the liability in respect of its staff's leave entitlements. SSAP 34 requires that obligations in respect of staff's leave entitlements should be accrued as soon as services are rendered. This SSAP has no material impact on the financial results of the Group.

The revised SSAPs do not have any material impact to the accounting policies and financial results of the Group, except that certain comparative figures presented have been reclassified to conform to the new disclosure requirements.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group is organised into six operating divisions, namely high molecular chemical products and mixed solvents, paints, raw solvents, lubricants, inks and storage. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

High molecular chemical products and mixed solvents	— manufacture of and trading in high molecular chemical products and mixed solvents
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
Storage	— sub-leasing of storage facilities in Mainland China



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

	High molecular chemical products and mixed solvents HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Storage HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Six months ended 30th September, 2002								
Segment revenue								
External sales	174,071	235,426	192,263	51,998	73,073	8,169	—	735,000
Inter-segment sales	2,275	4,511	9,764	39	42	1,334	(17,965)	—
Total	176,346	239,937	202,027	52,037	73,115	9,503	(17,965)	735,000
Results								
Segment result	27,112	22,501	15,172	1,914	8,589	1,298	—	76,586
Interest income								400
Unallocated corporate expenses								(1,839)
Profit from operations								75,147
Interest expense								(1,151)
Profit before taxation								73,996
Taxation								(5,365)
Profit before minority interests								68,631
Minority interests								(6,221)
Net profit for the period								62,410
Six months ended 30th September, 2001								
Segment revenue								
External sales	163,530	201,379	142,747	41,940	42,394	6,965	—	598,955
Inter-segment sales	445	1,118	9,801	36	1,353	1,064	(13,817)	—
Total	163,975	202,497	152,548	41,976	43,747	8,029	(13,817)	598,955
Results								
Segment result	23,699	5,339	6,573	953	4,205	(2,176)	50	38,643
Interest income								228
Unallocated corporate expenses								(1,591)
Profit from operations								37,280
Interest expense								(1,748)
Profit before taxation								35,532
Taxation								(2,674)
Profit before minority interests								32,858
Minority interests								(1,127)
Net profit for the period								31,731

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



(ii) Other information

	High molecular chemical products and mixed solvents HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Storage HK\$'000	Corporate level HK\$'000	Consolidated HK\$'000
Six months ended 30th September, 2002								
Capital additions	4,343	6,085	1,799	1,740	3,688	4	2,777	20,436
Depreciation and amortisation of property, plant and equipment	3,341	6,912	964	1,201	1,594	2	1,429	15,443
Amortisation of deferred expenditure	—	—	—	—	—	—	—	—
Six months ended 30th September, 2001								
Capital additions	2,311	4,200	2,452	385	2,841	—	187	12,376
Depreciation and amortisation of property, plant and equipment	3,788	6,134	681	1,059	862	5	1,130	13,659
Amortisation of deferred expenditure	—	—	—	—	—	7,558	—	7,558

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

	High molecular chemical products and mixed solvents HK\$'000	Paints HK\$'000	Raw solvents HK\$'000	Lubricants HK\$'000	Inks HK\$'000	Storage HK\$'000	Consolidated HK\$'000
At 30th September, 2002							
Assets							
Segment assets	161,059	288,173	107,579	101,693	91,642	2,266	752,412
Taxation recoverable							20
Unallocated corporate assets							176,832
Consolidated total assets							<u>929,264</u>
Liabilities							
Segment liabilities	34,909	57,764	67,427	12,585	22,094	1,698	196,477
Taxation payable							8,967
Unallocated corporate liabilities							69,846
Consolidated total liabilities							<u>275,290</u>
At 31st March, 2002							
Assets							
Segment assets	135,088	226,704	81,096	81,892	70,345	1,931	597,056
Taxation recoverable							76
Unallocated corporate assets							163,928
Consolidated total assets							<u>761,060</u>
Liabilities							
Segment liabilities	17,019	29,062	25,318	7,671	13,869	1,470	94,409
Taxation payable							4,975
Unallocated corporate liabilities							55,988
Consolidated total liabilities							<u>155,372</u>



(b) Geographical segments

- (i) The Group's turnover and contribution to profit (loss) from operations analysed by geographical segments are as follows:

	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 30th September,		Six months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The People's Republic of China				
– Mainland China	720,984	579,684	76,031	40,322
– Hong Kong	11,133	15,928	441	(1,388)
Others	2,883	3,343	114	(291)
	<u>735,000</u>	<u>598,955</u>	<u>76,586</u>	<u>38,643</u>
Interest income			400	228
Unallocated corporate expenses			(1,839)	(1,591)
Profit from operations			<u>75,147</u>	<u>37,280</u>

- (ii) The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Segment assets		Additions to property, plant and equipment	
	At 30th September,	At 31st March,	Six months ended 30th September,	
	2002 HK\$'000	2002 HK\$'000	2002 HK\$'000	2001 HK\$'000
The People's Republic of China				
– Mainland China	810,140	631,995	16,774	10,800
– Hong Kong	112,185	119,166	3,643	1,572
Others	6,939	9,899	19	4
	<u>929,264</u>	<u>761,060</u>	<u>20,436</u>	<u>12,376</u>



3. PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	15,443	13,659
Amortisation of deferred expenditure	—	7,558
and after crediting:		
Interest income	<u>400</u>	<u>228</u>

4. TAXATION

	Six months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period	3,430	2,350
Under/(Over) provision in previous years	<u>5</u>	<u>(1)</u>
	3,435	2,349
Enterprise Income Tax in Mainland China calculated at the rates prevailing in the respective jurisdictions	<u>1,930</u>	<u>325</u>
	<u><u>5,365</u></u>	<u><u>2,674</u></u>

Deferred taxation has not been provided for in the financial statements as the amounts involved are not significant.

5. INTERIM DIVIDEND

	Six months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000
Interim dividend declared after balance sheet date: HK 4.0 cents per share (2001: HK 2.5 cents per share)	<u>20,115</u>	<u>12,311</u>



6. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	62,410	31,731
	Number of shares '000	Number of shares '000
Weighted average number of shares for the purpose of basic earnings per share	501,232	491,463
Effect of dilutive potential shares: Share options	2,880	2,567
Weighted average number of shares for the purpose of diluted earnings per share	504,112	494,030

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$20,436,000 (*HK\$12,376,000 for the six months ended 30th September, 2001*) on additions to manufacturing plant in the Mainland China to upgrade its manufacturing capacities.

8. TRADE DEBTORS

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

	At 30th September, 2002	At 31st March, 2002
	HK\$'000	HK\$'000
0 – 3 months	290,581	189,490
4 – 6 months	38,541	39,943
Over 6 months	23,741	23,516
	352,863	252,949
Less: Provision for bad and doubtful debts	(18,716)	(17,772)
	334,147	235,177

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



9. CREDITORS AND ACCRUED CHARGES

At the balance sheet date, the balance of creditors and accrued charges included trade creditors of HK\$134,877,000 (31st March, 2002: HK\$73,151,000). The aged analysis of trade creditors is as follows:

	At 30th September, 2002 HK\$'000	At 31st March, 2002 HK\$'000
0 – 3 months	114,882	69,074
4 – 6 months	18,218	2,882
Over 6 months	1,777	1,195
	<u>134,877</u>	<u>73,151</u>

10. BANK BORROWINGS

On 7th June, 2001, Handsome Chemical Services Limited ("HCSL"), a wholly owned subsidiary of the Company, renewed and obtained an unsecured banking facility of HK\$30,000,000. The facility is subject to review from time to time ("Facility A").

In addition, on 8th June, 2001, HCSL renewed another banking facility with an international bank and obtained a committed and unsecured banking facility of HK\$40,000,000 for a period of one year ("Facility B").

In negotiating the Facility A and Facility B, the borrowers undertook to procure that Mr. Ip Chi Shing, Tony, Ms. Ip Fung Kuen and Mr. Yip Tsz Hin, Stephen would maintain their aggregate beneficial interests in Yip's Chemical Holdings Limited at a level above 50% and 51% respectively. Any breach of the aforesaid obligation will cause defaults in respect of the facilities.

On 8th June, 2002, Facility B was matured and replaced by a new facility without such undertaking on the maintenance of beneficial interests.



11. SHARE CAPITAL

	Authorised	Issued and fully paid	
	At 30th September, 2002 & 31st March, 2002 HK\$'000	At 30th September, 2002 HK\$'000	At 31st March, 2002 HK\$'000
Shares of HK\$0.10 each	<u>80,000</u>	<u>50,288</u>	<u>49,933</u>

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

	Number of shares '000	Amount HK\$'000
At 1st October, 2001	492,439	49,244
Exercise of share options	<u>6,892</u>	<u>689</u>
At 31st March, 2002 and 1st April, 2002	499,331	49,933
Exercise of share options	<u>3,550</u>	<u>355</u>

At 30th September, 2002	<u>502,881</u>	<u>50,288</u>
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During the six months ended 30th September, 2002, 3,550,000 shares under share options were exercised, resulting in the issue of 1,600,000 shares, 1,400,000 shares and 550,000 shares of HK\$0.100 each in the Company at a price of HK\$0.395, HK\$0.314 and HK\$0.300 per share respectively.

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

12. CHARGES ON ASSETS

As at 30th September, 2002, certain assets of a subsidiary of the Group with aggregate carrying value of HK\$3,287,000 (31st March, 2002: HK\$9,070,000) were pledged to secure its own general banking facilities.

13. CONTINGENT LIABILITIES

Corporate guarantees given by the Company to the bankers for general banking facilities granted to the Company's subsidiaries amounted to HK\$344,000,000 as at 30th September, 2002 (31st March, 2002: HK\$304,000,000).

As at 30th September, 2002, the Company has provided guarantees to four (31st March, 2002: four) independent third parties to guarantee the payment of all indebtedness for the purchases of goods by four (31st March, 2002: four) subsidiaries from the third parties.

The Group did not have significant contingent liabilities at the balance sheet date.



14. CAPITAL COMMITMENTS

	At 30th September, 2002 HK\$'000	At 31st March, 2002 HK\$'000
Contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	<u>27,522</u>	<u>872</u>

In addition, certain subsidiaries are committed to contribute approximately HK\$62,000,000 (31st March, 2002: HK\$4,100,000) in respect of unpaid investment in their subsidiaries.

The Company did not have any capital commitments at the balance sheet date.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.