



GREENFIELD CHEMICAL HOLDINGS LIMITED

嘉輝化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report
2003



CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30th June, 2003*

		For the six months ended 30th June,	
		2003	2002
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) <i>HK\$'000</i>
Turnover	3	127,358	102,865
Cost of sales		(91,305)	(66,781)
		<hr/>	<hr/>
Gross profit		36,053	36,084
Other operating income		3,698	1,766
Distribution costs		(3,954)	(4,557)
Administrative expenses		(20,164)	(20,385)
		<hr/>	<hr/>
Profit from operations	4	15,633	12,908
Interest on bank borrowings wholly repayable within five years		(3)	(8)
Share of results of associates		2,034	238
		<hr/>	<hr/>
Profit before taxation		17,664	13,138
Income tax expense	5	(2,081)	(1,268)
		<hr/>	<hr/>
Profit before minority interests		15,583	11,870
Minority interests		—	1
		<hr/>	<hr/>
Profit for the period		15,583	11,871
		<hr/> <hr/>	<hr/> <hr/>
Dividends	6		
Interim dividend declared		7,500	5,000
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share — basic	7	HK 6.2 cents	HK 5.4 cents
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CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2003

		At 30th June, 2003 (Unaudited) HK\$'000	At 31st December, 2002 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	40,060	36,209
Interests in associates		7,105	7,904
Advance to an associate		1,640	1,640
Investments in securities	9	10	10
		<u>48,815</u>	<u>45,763</u>
Current assets			
Inventories		38,851	36,480
Trade and other receivables	10	70,014	67,537
Investments in securities	9	22,104	10,284
Dividend receivable		1,350	—
Taxation recoverable		—	191
Deposits placed with a securities company		3,000	—
Bank balances and cash		44,535	67,992
		<u>179,854</u>	<u>182,484</u>
Current liabilities			
Trade and other payables	11	34,534	41,443
Amount due to an associate		12,149	9,121
Amount due to a related company		216	155
Taxation payable		157	—
		<u>47,056</u>	<u>50,719</u>
Net current assets		<u>132,798</u>	<u>131,765</u>
Total assets less current liabilities		181,613	177,528
Minority interests		85	85
Non-current liabilities			
Deferred taxation		1,010	—
		<u>180,518</u>	<u>177,443</u>
Capital and reserves			
Share capital	12	25,000	25,000
Reserves		155,518	152,443
		<u>180,518</u>	<u>177,443</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	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, 2002	32,000	—	—	(4,433)	3,032	125,967	156,566
Transfer upon conversion into non-voting class A shares	(32,000)	—	32,000	—	—	—	—
Exchange differences arising from translation of financial statements of PRC operations not recognised in the income statement	—	—	—	(5)	—	—	(5)
Share issued at premium to the public	4,375	30,625	—	—	—	—	35,000
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 paid	—	—	—	—	—	(40,000)	(40,000)
At 30th June, 2002	25,000	4,242	32,000	(4,438)	3,032	97,838	157,674
Transfer to non-distributable reserve	—	—	—	—	754	(754)	—
Profit for the period	—	—	—	—	—	24,769	24,769
Dividends paid	—	—	—	—	—	(5,000)	(5,000)
At 31st December, 2002	25,000	4,242	32,000	(4,438)	3,786	116,853	177,443
Exchange differences 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
Attributable to:							
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
The Company and its subsidiaries	25,000	4,242	32,000	(4,421)	3,693	107,782	168,296
Associates	—	—	—	(17)	93	9,071	9,147
At 31st December, 2002	25,000	4,242	32,000	(4,438)	3,786	116,853	177,443
The Company and its subsidiaries	25,000	4,242	32,000	(4,421)	2,939	93,845	153,605
Associates	—	—	—	(17)	93	3,993	4,069
At 30th June, 2002	25,000	4,242	32,000	(4,438)	3,032	97,838	157,674

Notes:

(i) Special reserve

The special reserve of the Group represents the nominal values 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 the 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, 2003

	For the six months ended 30th June,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Net cash from operating activities	7,470	23,626
Hong Kong Profits Tax paid	—	(616)
PRC Income Tax paid	(152)	(172)
Net cash used in investing activities	(18,275)	(2,522)
Net cash used in financing activities	(12,500)	(10,758)
Net (decrease) increase in cash and cash equivalents	(23,457)	9,558
Cash and cash equivalents brought forward	67,992	56,018
Cash and cash equivalents carried forward	44,535	65,576

NOTES TO THE INTERIM REPORT

1. BASIS OF PREPARATION

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

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 (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 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 income statement and the condensed cash flow statement for the six months ended 30th June, 2002 have been prepared on the merger accounting basis in accordance with SSAP 27.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements for the year ended 31st December, 2002, except as described below.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statements liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions.

In adopting SSAP 12 (Revised), the Group has recorded a deferred tax charge of HK\$1,010,000 for the six months ended 30th June, 2003. The deferred tax liability represents the tax effect of timing differences arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements. The amount of deferred tax at 1st January, 2003 was not material and therefore no prior period adjustment is considered necessary.

3. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit before minority interests by business and geographical segment is as follows:

Business Segments

For the six months ended 30th June, 2003

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover					
External sales	93,466	13,747	20,145	—	127,358
Inter segment sales	<u>45,965</u>	<u>7,391</u>	<u>6,624</u>	<u>(59,980)</u>	<u>—</u>
Total sales	<u>139,431</u>	<u>21,138</u>	<u>26,769</u>	<u>(59,980)</u>	<u>127,358</u>

Inter-segment sales are charged at prevailing market rates.

Contribution to profit from operations	<u>10,232</u>	<u>561</u>	<u>3,449</u>	<u>—</u>	14,242
Finance costs					(3)
Share of results of associates					2,034
Unrealised holding gain on investment in securities					895
Gain on disposal of investment in securities					<u>496</u>
Profit before taxation					17,664
Income tax expense					<u>(2,081)</u>
Profit before minority interests					<u>15,583</u>

3. **SEGMENTAL INFORMATION** (continued)

Business Segments (continued)

For the six months ended 30th June, 2002

	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	75,300	12,979	14,586	—	102,865
Inter segment sales	<u>38,666</u>	<u>6,744</u>	<u>7,629</u>	<u>(53,039)</u>	<u>—</u>
Total sales	<u>113,966</u>	<u>19,723</u>	<u>22,215</u>	<u>(53,039)</u>	<u>102,865</u>

Inter-segment sales are charged at prevailing market rates.

Contribution to profit from operations	<u>9,404</u>	<u>1,414</u>	<u>1,963</u>	<u>—</u>	12,781
Finance costs					(8)
Share of results of associates					238
Gain on disposal of investment in securities					<u>127</u>
Profit before taxation					13,138
Income tax expense					<u>(1,268)</u>
Profit before minority interests					<u>11,870</u>

Geographical Segments

For the six months ended 30th June, 2003

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>86,158</u>	<u>41,200</u>	<u>127,358</u>
Contribution to profit from operations	<u>9,490</u>	<u>4,752</u>	<u>14,242</u>

For the six months ended 30th June, 2002

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>85,883</u>	<u>16,982</u>	<u>102,865</u>
Contribution to profit from operations	<u>10,247</u>	<u>2,534</u>	<u>12,781</u>

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	<u>2,192</u>	<u>1,792</u>

5. INCOME TAX EXPENSE

	For the six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profit	193	938
Income tax calculated at the rates prevailing in the PRC	295	185
Share of taxation of an associate	583	145
Deferred taxation (<i>note 2</i>)	<u>1,010</u>	<u>—</u>
	<u>2,081</u>	<u>1,268</u>

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 22nd September, 2003, the Directors of the Company declared an interim dividend of HK3 cents per share for the six months ended 30th June, 2003 (2002 interim dividend : HK2 cents per share), amounting to HK\$7,500,000 (2002 interim dividend : HK\$5,000,000). The interim dividend will be payable on 10th October, 2003 to shareholders whose names appear on the register of members of the Company on 9th October, 2003.

During the current period, dividends of HK2 cents per share and HK3 cents per share, amounting to HK\$5,000,000 and HK\$7,500,000, were paid to shareholders as the final dividend and the special dividend for the year ended 31st December, 2002 respectively. In addition, for the six months ended 30th June, 2002, a subsidiary of the Company paid a dividend of HK\$40,000,000 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, 2003 is based on the profit for the period of HK\$15,583,000 (for the six months ended 30th June, 2002: HK\$11,871,000) and on the weighted average of 250,000,000 shares (30th June, 2002: 220,994,000 shares) in issue throughout the period. The weighted average of 220,994,000 shares that would have been in issue for the six months ended 30th June, 2002 is based 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. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$6,107,000 on acquisition of property, plant and equipment.

9. INVESTMENT IN SECURITIES

	At 30th June, 2003 HK\$'000	At 31st December, 2002 HK\$'000
Other investments:		
Unlisted equity securities	10	10
Unlisted bonds	13,827	10,284
Listed equity securities	8,277	—
	<u>22,114</u>	<u>10,294</u>
Carrying amount analysed for reporting purposes as:		
Non-current	10	10
Current	22,104	10,284
	<u>22,114</u>	<u>10,294</u>
Market value of listed equity securities	<u>8,277</u>	<u>—</u>

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\$67,105,000 (31st December, 2002: HK\$63,565,000), an aged analysis of which is as follows:

	At 30th June, 2003 HK\$'000	At 31st December, 2002 HK\$'000
0 - 30 days	23,244	18,748
31 - 60 days	22,561	21,740
61 - 90 days	12,814	13,646
Over 90 days	8,486	9,431
	<u>67,105</u>	<u>63,565</u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$30,659,000 (31st December, 2002: HK\$37,120,000), an aged analysis of which is as follows:

	At 30th June, 2003 HK\$'000	At 31st December, 2002 HK\$'000
0 - 30 days	19,102	12,931
31 - 60 days	10,401	11,775
61 - 90 days	424	10,075
Over 90 days	732	2,339
	<u>30,659</u>	<u>37,120</u>

12. SHARE CAPITAL

	Authorised <i>HK\$'000</i>	Issued and fully paid <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
— balance at 31st December, 2002 and 30th June, 2003	<u>100,000</u>	<u>25,000</u>

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, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Within one year	<u>90</u>	<u>90</u>
In the second to fifth year inclusive	<u>—</u>	<u>53</u>
	<u><u>90</u></u>	<u><u>143</u></u>

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, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>151</u>	<u>596</u>

15. PLEDGE OF ASSETS

At 30th June, 2003, the Group had pledged certain of its land and buildings with a net book value of approximately HK\$2.6 million (31st December, 2002: HK\$2.7 million) 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 8th October, 2003 to 9th October, 2003, 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 Share 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 7th October, 2003. Dividend warrants will be despatched on 10th October, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30th June, 2003, the Group's turnover was HK\$127,358,000, representing an increase of 24% as compared to the corresponding period last year of HK\$102,865,000. The net profit was substantially increased by 31% to HK\$15,583,000. The earnings per share was also increased by 15% from HK5.4 cents to HK6.2 cents.

REVIEW OF OPERATIONS

During the period, the economic environment remained challenging and the competition was strong. The business of powder coatings faced fierce competition and thus, pressure on selling prices affected operating margin and profit. As for the business of liquid coatings and solvents, the cost of raw materials rose sharply due to the oil price soared as a result of the war in Iraq. Therefore, the profit margin in these two segments were decreased.

In response to these unfavourable environments, the Group carried out various measures including effective control of production costs, constant review of pricing policy and sales strategy, continuous improvement in quality control and customer services. The Group also broadened the customer base so as to boost the sales volume. The remarkable results for the first half of the year proved the persistent efforts made by the management and its dedicated personnel.

The Group has been dedicated to providing customers with prompt and high quality products coupled with a multitude of special request. A series of awards recognizing the Group's efforts was received in the past decade. In July 2003, Manfield Coatings Company Limited, the Group's main operating subsidiary, was awarded a Certificate of Merit in the HKMA Quality Award by The Hong Kong Management Association. In addition, the Group successfully upgraded ISO9001:1994 certification to ISO9001:2000 standards. All these acknowledgements further testified the Group's achievement in management and quality. Nevertheless, the Group is still striving for continuous improvement.

OUTLOOK

Despite increasing competition, the management believes that the Group is well positioned and has the confidence in meeting challenges ahead.

Rising of average income level and living standards of the PRC citizens, emergence of more and more manufacturers in PRC following China's accession to the World Trade Organisation, rapid growth in China's economy, all these favourable factors enable the Group to project an encouraging growth of the Group's business. On the other hand, the Group will closely monitor the ever-changing market conditions and response with appropriate strategy. The management of the Group is optimistic of attaining promising results for its shareholders.

The Group will continue to work in line with its corporate goal of "prompt and reliable". The Group has always strived for providing high quality products and services with competitive price with a view to create value for customers.

FINANCIAL REVIEW

As at 30th June, 2003, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance its operations from internally generated cashflow. The Group maintains a satisfactory financial position derived from the steady growth of its business. As of 30th June, 2003, the Group had cash on hand of HK\$44.5 million (At 31st December, 2002: HK\$67.9 million)

SIGNIFICANT INVESTMENTS

During the period, the Group made further investments in listed and unlisted securities and contributed an unrealized gain of approximately HK\$895,000 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 had 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 contracts, the Group's exposure to foreign exchange risk is minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2003, the Group had over 850 employees, including the management and administrative staff and production workers. Most of them were stationed in the Mainland China while the remaining were in Hong Kong. The remuneration, promotion and salary increment of employees are assessed based on individual's performance, professional and working experience, and in accordance with prevailing industry practices.

DIRECTORS' INTERESTS

At 30th June, 2003, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO 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	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	Yuen Shu Wah	280,000 (Ordinary Shares)	28.00%

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2003, none of the Directors of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2003, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following persons (other than the Directors) had interests of 5% or more of the issued share capital of the Company:

Name	No. of ordinary shares	Percentage of issued share capital
Mulpha International Bhd. ("Mulpha International")	187,500,000	75%
King's Chemical Products Inc. ("King's Chemical")	187,500,000	75%
Pacific Orchid	187,500,000	75%

Note: These shares were held by Pacific Orchid, in which King's Chemical, an indirect wholly owned subsidiary of Mulpha International, holds 51% of equity interests. Therefore, each of Mulpha International and King's Chemical 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, 2003, the Company has not been notified of 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, 2003.

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, 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (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.

AUDIT COMMITTEE

In accordance with the Code of Best Practice, the Board of Directors established an audit committee on 9th April, 2002 comprising Messrs. Lau Siu Ki, Kevin and 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 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, 22nd September, 2003