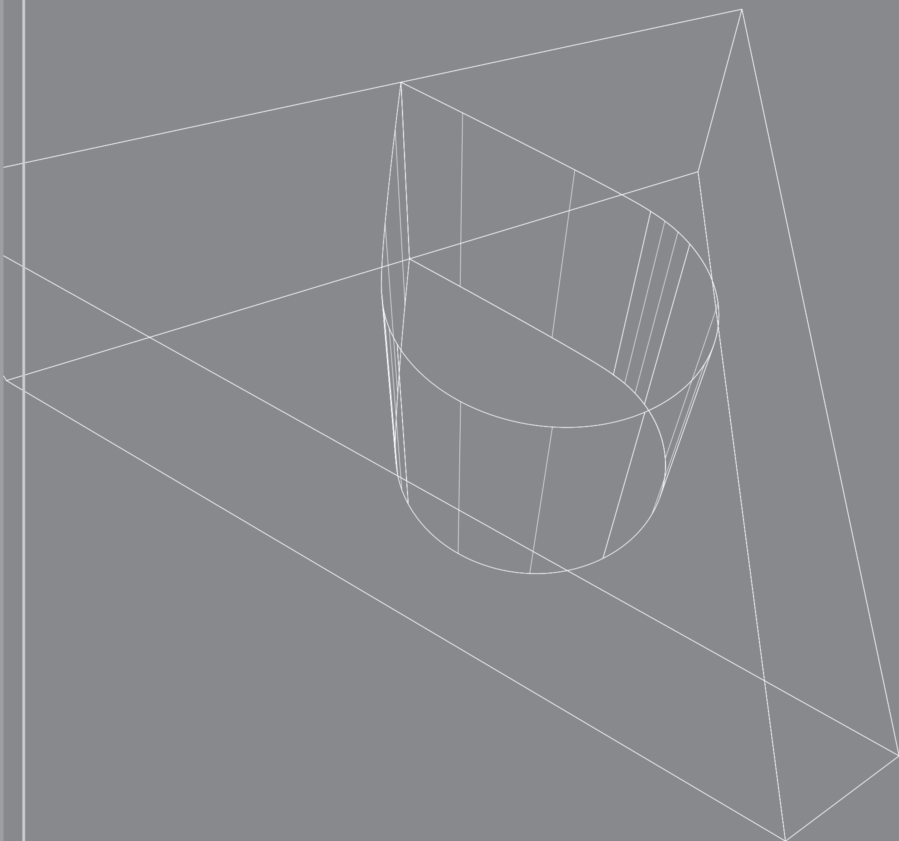
葉氏化工集團有限公司

YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2005-2006 INTERIM REPORT



Yip's Chemical Holdings Limited was selected as One of the TOP 200 listed companies* in the Asia-Pacific Region

* Companies with annual turnover of less than US$1,000,000,000

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HIGHLIGHTS

1. Record results were achieved in the face of formidable external operating environment.

2. Turnover was HK$1,760,950,000, increased by 30% when compared with the corresponding period last year.

3. Net profit attributable to equity holders was HK$93,917,000, an increase of 24%.

4. Earnings per share was HK19.8 cents, an increase of 21%.

5. Interim dividend was HK5.0 cents per share, an increase of 11%.

6. Gearing ratio as at 30th September, 2005 was 45%.

BUSINESS REVIEW

In the past two years, escalating and sustained high oil prices have adversely affected the global economy and the adverse impact has continued to intensify. Significant increases in raw material prices have weakened Hong Kong's exports to an extent rarely seen in recent years, as evidenced by the much weaker traditional peak season between May and September. In addition, the 2% appreciation of the Renminbi and rising operating costs have exacerbated the difficulties faced by companies in the industrial sector. At the same time, Sino-American and Sino-European trade disputes, coupled with the residual effect of the macro-economic tightening measures, have added uncertainties to the continued growth of the Chinese economy. In short, the external operating environment in this period has offered an even more formidable challenge to the Group than the past year. However, encouragingly, while the Group has continued to reap rewards from its efforts to improve competitive advantage, it has also seen early signs of success from the series of measures designed to enhance earnings quality. In the first half year, the Group's turnover and profits attributable to equity holders reached record levels of HK$1,760,950,000 and HK$93,917,000 respectively, representing significant increases of 30% and 24% as compared to the same period last year. In order to simplify and to make it easier for shareholders and investors to comprehend the Group's business profile, I have regrouped the Group's six core businesses into 3, namely: "Solvents", "Coatings", and "Lubricants". Comparative figures in the corresponding period last year have been reclassified accordingly.

SOLVENTS

This division includes raw solvents (also known as butyl acetate and ethyl acetate) and mixed solvents (also known as thinners). The former are widely used in areas such as coatings, tannery, medicine, and adhesives, and are important raw materials for the above industries. The latter are mostly used by the toy, electronic, printing, and furniture industries, and serve as a supplementary raw material. Several subsidiaries of the Group produce and sell solvents concomitantly.

In the 1980s, the Chinese government adopted an open policy of reform which attracted a majority of Hong Kong's industrialists to move northward. Expansions in production capacity by these companies, together with sustained rapid growth of the Chinese economy, have fuelled drastic increases in the demand for solvents in China, thus providing an excellent opportunity for sustained growth of this division. Meanwhile, on the basis of the Group's strengths, production capacity has continued to grow and economy of scale was further enhanced. Today, with our acknowledged fine product quality and services, the Group has become one of the largest solvents producer and supplier in China. In the first half year, the division attained gratifying results: turnover reached HK$1,068,276,000, a substantial increase of 41% compared to the same period last year, while operating profits were HK$80,054,000, a slight decline of 7% as compared to the exceptionally favourable operating environment of the corresponding period last year.

In order to increase competitiveness and sustain steady growth for this division, the Group is striving to make breakthroughs and improvements in a number of areas, such as in the selection and usage of new raw materials, formulation improvements, innovation in production process and enhancements in storage and delivery capacity. It is anticipated that this division will continue to yield significant returns to the Group.

COATINGS

The coatings division is closely related to solvents: apart from water-based emulsion paints, most coatings use solvents as a key component, and the application of paints also require solvents. Indeed, the Group's coatings division was initially started after having secured a solid foundation in the solvents business, growing and diversifying as time went on. Currently, the coatings division operates under four brands: "Bauhinia" for paints, "Bauhinia Variegata" for inks, "Galaxxo" for varnishes and "Da Chang" for resins.

The coatings division covers a more extensive range of industries; they are often applied at the last phase of production or works in construction & renovation projects, in food & gift packaging, toys, electronics, furniture, and in paper products & printing industries. Presently, the consumption level of coatings in China is approximately HK$60 billion, still within the consumption level of developing countries. Based on the expectation that China's role as the "world's factory" will continue in the foreseeable future, that the policy of open reform will continue to be pursued and the rapid pace of economic development will be sustained, it is inevitable that an enormous domestic market will develop. The booming coatings business in China will create huge business opportunities to the Group and the Group firmly believes that the growth potential of this division will be the highest among its core businesses.

The coatings industry market in China is so competitive that it competes not only on branding but also on quality, service, and pricing. The Group's coatings business was established in 1982 and has been a player in the China market for 18 years, as such its product has already built up a good reputation in the market. In recent years, the Group has invested significant resources in branding and marketing, to elevate quality and services, and to improve other ancillary facilities to further enhance its competitive advantage. The Group is therefore optimistic and confident in gaining market share in this competitive environment.

During the first half year, the coatings division recorded HK$634,876,000 and HK$45,172,000 in turnover and operating profits respectively, representing growth of 8% and 11% compared to the same period last year.

Bauhinia Paints Acknowledged As "China Top Brand"

On September 1st this year, the Bauhinia brand received the "China Top Brand (中國名牌)" award in the architectural paints (in-doors and out-doors) category. The award was organized and presented by the China Quality and Technology Monitoring Bureau (中國質量技術監督總局) and the China Brand Name Promotion Committee (中國名牌推進委員會). As this was the first time that the "China Top Brand" award has been extended to the category of paints, the judging panel, which consisted of experts in the field, finally selected 8 outstanding coatings enterprises out of more than 8,000 coatings manufacturers after numerous rounds of strict selection and evaluation. The Group considers this hard-won honour to be a recognition of 20 years' effort in building the Bauhinia brand, and believes it will undoubtedly heighten the reputation of Bauhinia Paints and increase the confidence of the market and consumers in Bauhinia branded products, which will benefit the Group's efforts on developing China's enormous architectural coatings market.

Bauhinia Variegata Obtained Achievement For A Second Time

Following the award of the "Famous Brand of Guangdong Province (廣東省著名商標)" title earlier, Bauhinia Variegata achieved the distinction of being granted "Consumer Satisfaction Product of Guangdong Province (廣東省用戶滿意產品)" in September 2005. The government of Guangdong province initiated this campaign with the aim of fostering growth by deploying branding strategy and encouraging corporations to develop business management systems centered on consumer satisfaction as the key objective. The Quality Council of Guangdong Province (廣東省質量協會) developed the assessment criteria basing on the requirements under the Product Quality Law (產品質量法), and the brands were evaluated by using consumer surveys, so this is actually an award granted by the consumers in the market to the corporation. This recognition laid a solid foundation for Bauhinia Variegata's application for "Famous Brand of China (中國著名商標)" status as it serves as acknowledgment by the market.

LUBRICANTS

In view of sustained high oil prices during the period coupled with a shortage in worldwide refining capacity, base oils, which is a main component of lubricants, came into acute supply shortage with resulting dramatic escalations in supply prices rarely seen in the past several decades. The increase in cost can only be partially passed on to customers as a result of the extremely competitive environment in the industry. In the face of such adverse operating conditions, the Group is pleased that the division has begun to show early signs of a successful turnaround. Measures implemented under the supervision of a cross-departmental "performance improvement team" have led to substantially reduced operating losses.

The Group and the original shareholders of Pacific Oil and Chemical Company Limited jointly set up "Yip's Pacific Limited" in Hong Kong in February this year, with the Group holding 60% of Yip's Pacific. This new business specializes in specialty lubricants, and in the first half year, Yip's Pacific generated profits in line with expectations, which helped offset losses in the Group's original lubricants business. Taking the Group's own lubricants business together with Yip's Pacific, lubricants as a core business recorded turnover and profit of HK$113,712,000, and HK$550,000 respectively.

Historically, base oil prices have tended to lag crude oil prices by several months. Accordingly, the recent trend of rising base oil prices is expected to continue. Thus, the division expects the challenging operating conditions to remain unabated in the second half year. The reform and improvement of the lubricants division is ongoing and will take some more time to complete. In addition, the Group looks forward to reaping the benefits of synergy between Yip's Pacific and the original lubricants business to develop lubricants into a profitable long-term core business.

STRATEGIC INVESTMENT IN THE LOMON TITANIUM LIMITED

Sichuan Lomon Titanium Limited is a subsidiary of "Lomon Holdings", a well-known private company located in Sichuan, China. Established in 2001, the company specializes in the production and sale of titanium dioxide. Since its establishment, the business has experienced rapid growth, with large increases in production capacity. With another 40,000-ton production line coming on stream, production capacity is forecast to expand to 80,000 tons per year in October of 2006, equivalent to an output value of RMB1.2 billion, making it one of the largest titanium dioxide producers in China.

Titanium dioxide is one of the main ingredients in the production of coatings. In July this year, the Group invested RMB17,600,000 to take up 8% shareholding in Lomon Titanium Limited. While business with Lomon Titanium Limited will continue to be conducted on an arms-length basis, it is expected that the Group will strengthen its business relationship with Lomon and ultimately become its strategic partner. The Group considers this to be a sound, long-term investment.

GROUP JOINED FORBES ASIA'S LIST OF TOP COMPANIES IN ASIA

Forbes Magazine is one of the world's most authoritative and leading finance magazines. Every year, Forbes Asia presents a listing of Asia's 200 best enterprises selected from over 20,000 listed companies in Asia with annual revenue under US$1 billion. The list is then featured in Forbes Asia's "Best Under a Billion" issue. As the selection process adheres to very strict requirements, the financial community places great attention on the list of top companies. In recognition of the Group's consistent profit growth in the past five years, we are proud and honoured to be included in this elite list in 2005. We consider this inclusion to be a recognition of the tireless efforts of our Group by the international financial community. Riding on our existing solid foundation, the Group's management pledges our continued efforts to achieve yet higher returns for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to implement prudent financial management strategy, control gearing ratio and borrowing costs. As at 30th September 2005, gearing ratio of the Group, calculated on the basis of net bank borrowings over equity attributable to equity holders, was 45% (at 31st March 2005: 31%). Working capital increased along with the 30% increase in turnover in the current first half year, and the corresponding increase in funding requirement pushed up the gearing ratio, however, funding need is expected to drop in the second half of the year after the peak season is over. In addition, the restriction on Renminbi ("RMB") loans and credit facilities guaranteed by foreign entities or banks promulgated by the State Administration of Foreign Exchange ("SAFE") became effective on 1st April 2005. Under that rule, the RMB loans and credit facilities obtained by foreign investment enterprises guaranteed by foreign entities or banks cannot exceed the gap between its total investment and its share capital. This made it difficult for foreign investment enterprises to use bank credit to finance its operations. As a result, the Group had to borrow loans from banks in Hong Kong, inject it into its subsidiaries as share capital, and then convert it into RMB to meet its working capital requirement. While this caused the Group to increase its bank borrowing, condition should improve from early December 2005 when the restriction is relaxed.

In the period under review, the Group obtained a HK$80,000,000 floating rate term loan from a bank, which is repayable by quarterly repayments within three years. As at 30th September 2005, the total gross bank borrowing of the Group was HK$587,241,000 (at 31st March 2005: HK$409,004,000), of which HK$432,191,000 was repayable within one year (at 31st March 2005: HK$282,721,000). Included in this sum of HK$432,191,000 was short-term cash loans of HK$168,703,000 (at 31st March 2005: HK$65,170,000), revolving loans of HK$40,000,000 (at 31st March 2005: HK$115,000,000) and trade loans of HK$116,473,000 (at 31st March 2005: Nil). Loans repayable after one year at 30th September 2005 were HKD155,050,000 (at 31st March 2005: HK$126,283,000). All these loans carried interest at floating rates.

As at 30th September 2005, a total of 15 banks in Hong Kong and PRC granted banking facilities totaling HK$1,078,318,000 to the Group (at 31st March 2005: HK$1,048,697,000), 77% of these facilities were denominated in Hong Kong Dollars and the rest in RMB. As at 30th September 2005, letters of credit issued and other short and medium term banking facilities utilized amounted to HK$847,793,000 (at 31st March 2005: HK$778,735,000). The Group's available banking facilities and its future cash flow from operations will provide sufficient funds to the Group to meet its present operation requirements and for the further development of its business in the foreseeable future. In view of the fact that Hong Kong dollars interest rate had risen in the past six months to levels similar to those of RMB, the Group will increase its RMB borrowings to an appropriate level in line with our actual need and use this as an alternative source of borrowing in order to reduce interest burden. Besides, new investments will be selected with caution.

The Group generates the majority of its income in RMB and the majority of its assets are located in the PRC. The appreciation of RMB in July this year had positive impact on the Group and as it expected that the exchange rate of RMB against Hong Kong Dollar is unlikely to depreciate in the near future, management therefore considers that no hedging measures are necessary at this stage.

EMPLOYEES

As at 30th September 2005, there was a total of 3420 employees, of which 157 were based in Hong Kong and 3263 were based in other provinces in China. Employees receive competitive remuneration packages including salary, variable bonuses linked to their individual performance as well as to the profit of either the Group or the subsidiary company they work for and also share options. Remuneration packages are reviewed from time to time and at least annually. The group pledges to enable our employees to achieve continuous self-improvement as a core mission. Employees are continuously trained to enrich their job skills through internal training conducted by full time training staff and external training courses, with an educational subsidy scheme to encourage employees to upgrade themselves. The group also has an Executive Management Trainee Programme that ensures a consistent flow of high quality executive employees.

PROSPECTS

The sustained high price of feedstock, the steady increase in interest rates, weak export performance, and lower predisposal to consumption have had a negative impact on the global economy, which in turn pose a formidable challenge to the Group in the second half year. However, the outlook is still optimistic in the mid- to long term. The Group is confident in forecasting:

(1) China's role as the "world's factory" will remain unchanged for an extensive period of time. From the Pearl River Delta region in the past, the Yangtze River Delta region today, and 9+2 Pan-Pearl River Delta region and the Bohai Sea Delta in the future, we see a steady progression to maturity, leading to their becoming important regions for exports.

(2) China's economy will continue to experience sustained growth, which will foster a vast internal consumption market. As the Group has long penetrated the China market, and has also developed a good reputation over the years, business opportunities will abound.

The Group strives to continue to reinforce and improve competitiveness to reach the long-term goal of stable development and sustainable growth. During this year, the Group aims to enhance its profit quality and lower the gearing ratio with relevant measures and execution in place to attain satisfactory results.

On behalf of the Board, I would like to extend my sincere gratitude to all the staff, the shareholders, and various business partners.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 21st December, 2005 to 23rd December, 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Secretaries Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Hong Kong not later than 4:00p.m. on 20th December, 2005.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

The Company had not issued any debenture since its incorporation. As at 30th September, 2005, the interests of the directors and their respective associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were (a) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:–

Long positions

	Number of Ordinary Shares				
Name of Director	Personal Interests	Family Interests	Other Interests	Total	Approximate % of Shareholding
Mr. Ip Chi Shing, Tony	400,000	–	189,173,932 (a)	189,573,932	39.93%
Ms. Ip Fung Kuen	60,000,000	–	–	60,000,000	12.64%
Mr. Yip Tsz Hin, Stephen	36,500,000	20,000,000 (b)	–	56,500,000	11.90%
Mr. Ng Siu Ping, George	1,632,000	50,000 (c)	–	1,682,000	0.35%
Mr. Ting Hon Yam	–	–	–	–	–
Mr. Wong Kam Yim, Kenny	208,000	–	–	208,000	0.04%
Mr. Young Man Kim, Robert	1,702,000	–	–	1,702,000	0.36%
Mr. Tong Wui Tung, Ronald	–	500,000 (d)	–	500,000	0.11%
Mr. Wong Kong Chi	–	100,000 (e)	–	100,000	0.02%
Mr. Au-Yeung Tsan Pong, Davie	–	–	–	–	–
Mr. Li Chak Man, Chuck	150,000(f)	– (f)	–	150,000	0.03%

Notes:

(a) The interests of Mr. Ip Chi Shing, Tony in shares of the Company are held by Ablewood Holdings Limited as trustee of a family discretionary trust, the objects of which include Mr. Ip Chi Shing, Tony and his family.

(b) These shares are held by Madam Tso Ka Lai, the wife of Mr. Yip Tsz Hin, Stephen.

(c) These shares are held by Madam Siu Oi Li, Maicy, the wife of Mr. Ng Siu Ping, George.

(d) These shares are held by Madam Lau Mui Sum, the wife of Mr. Tong Wui Tung, Ronald.

(e) These shares are held by Madam Jim Siu Wai, the wife of Mr. Wong Kong Chi.

(f) These shares are held jointly with Madam Cheng Yee Ha, the wife of Mr. Li Chak Man, Chuck.

Details of the share options held by the directors under the Company's share option scheme are shown in the next section "Share options".

Mr. Ip Chi Shing, Tony, Ms. Ip Fung Kuen, Mr. Yip Tsz Hin, Stephen and Madam Liang Bih Yu, the wife of Mr. Ip Chi Shing, Tony, each holds one non-voting deferred share of Yip's H.C. (Holding) Limited, a subsidiary of the Company.

Other than as disclosed above and certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, at 30th September, 2005, none of the directors or their associates held any interest or short positions in the securities of the Company or any of its associated corporations as defined in the SFO.

SHARE OPTIONS

During the six months ended 30th September, 2005, movements in the number of options to subscribe for shares of the Company which had been granted to certain directors and employees under the Company's new share option scheme adopted on 3rd September, 2002 were as follows:–

	Date of Grant	Exercise Price HK$	Number of share options: Outstanding at 1.4.2005	Exercised during the period	Outstanding at 30.9.2005
Director					
Ms. Ip Fung Kuen	17th May, 2004	1.590	150,000	–	150,000
Mr. Yip Tsz Hin, Stephen	17th May, 2004	1.590	300,000	–	300,000
Mr. Ng Siu Ping, George	14th November, 2002	1.190	500,000	–	500,000
	17th May, 2004	1.590	300,000	–	300,000
Mr. Ting Hon Yam	14th November, 2002	1.190	500,000	–	500,000
	17th May, 2004	1.590	150,000	–	150,000
Mr. Wong Kam Yim, Kenny	14th November, 2002	1.190	500,000	–	500,000
	17th May, 2004	1.590	300,000	–	300,000
			2,700,000	–	2,700,000
Employees	14th November, 2002	1.190	1,200,000	500,000	700,000
	17th May, 2004	1.590	3,825,000	1,300,000	2,525,000
	8th October, 2004	1.690	3,000,000	–	3,000,000
			8,025,000	1,800,000	6,225,000
			10,725,000	1,800,000	8,925,000

No options were granted to directors or employees during the period. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$2.2.

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Other than as disclosed above, none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the Company has not been notified of any interests representing 5% or more of the Company's issued share capital as at 30th September, 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months period ended 30th September 2005 the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviations from Code provision A.2.1 as disclosed below.

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. In the opinion of the board of directors (the "Board"), the role of the chief executive officer is equivalent to that of the managing director in the Group and Mr. Ip Chi Shing, Tony is now acting both as the Chairman of the Board and the Managing Director of the Company. The Board also considers that the current role of the Chairman overlaps to a significant extent with that of the Managing Director. The Board believes that vesting the roles of both chairman and managing director in Mr. Ip provides the Company with strong and consistent leadership and allows for more efficient and effective planning and execution of long term business strategies. The Group's current mode of operations is characterized by a high degree of delegation of management responsibilities to the general managers of the Group's different business divisions. Accordingly, the Board believes that although the roles of Chairman and Managing Director is performed by the same individual, the power of board management and executive management is not unduly concentrated. In addition, the Board believes that it has put in place proper management structure to ensure a balance of power and authority. The structure includes:

1. Having an Audit Committee composed exclusively of Non-Executive Director and Independent Non-Executive Directors;

2. Having a Remuneration Committee composed exclusively of Non-Executive Director and Independent Non-Executive Directors;

3. Having established procedures in ensuring that Non-Executive Director and Independent Non-Executive Directors have free and direct access to both the Company's external and internal auditors and independent professional advice where considered necessary;

4. Adopting specific written terms of reference for the Group Management Committee and a list of matters reserved to the Board to deal clearly with the committee's authority and duties and give clear directions to management as to the matters that must be approved by the board respectively.

The Board believes that it is in the best interests of the shareholders of the Company that Mr. Ip Chi Shing, Tony will continue to assume the roles of the Chairman of the Board and the Managing Director of the Company. However, the Board will continually review the effectiveness of such structure to assess whether any changes, if considered appropriate and in the best interests of the shareholders of the Company, including the separation of the two roles to ensure compliance with the Code Provision A.2.1 is required.

COMMITTEES

The Board has set up three committees, namely, the Group Management Committee, the Audit Committee and the Remuneration Committee.

The Group Management Committee

With specific written terms of reference adopted by the Board on 30th September 2005, the Group Management Committee consists of six Executive Directors of the Board and three senior executives of the Group. The committee normally meets on a monthly basis and is responsible for the management and day-to-day operations of the Group. Members of the Group Management Committee are Mr. Ip Chi Shing, Tony, Mr. Yip Tsz Hin, Stephen, Mr. Ng Siu Ping, George, Mr. Ting Hon Yam, Mr. Wong Kam Yim, Kenny, Mr. Young Man Kim, Robert, Mr. Li Wai Man, Peter, Mr. Kwong Kwok Chiu and Mr. Zhao Chu Bang.

The Audit Committee

The Audit Committee, established in fiscal year 1998 with specific written terms of reference, consists of a Non-Executive Director and three Independent Non-Executive Directors of the Board, and is responsible for nominating and monitoring the external auditors and provide advice and comments to the Board, assists the Board in, among other matters, providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system as well as internal audit function of the Group. Members of the Audit Committee are Mr. Tong Wui Tung, Ronald, Mr. Wong Kong Chi (Chairman), Mr. Au-Yeung Tsan Pong, Davie and Mr. Li Chak Man, Chuck.

An audit committee meeting was held on 2nd December 2005 to review the unaudited interim financial statements for the six months ended 30th September 2005. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial statements for the six months ended 30th September 2005 in accordance with the Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

The Remuneration Committee

In accordance with the Code, the Company established the Remuneration Committee on 29th June 2005 with specific written terms of reference. The Remuneration Committee consists of a Non-Executive Director and three Independent Non-Executive Directors of the Board. The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy and structure on the remuneration of directors and senior management and to review and approve performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by directors set out in Appendix 10 of the Listing Rules as its own the code of conduct regarding Directors' securities transactions in relation to the accounting period covered by this interim report. The Company confirms that, having made specific enquiry of all Directors, the Directors have compiled with the required standards of dealing as set out therein. On 6th December 2005, the Company adopted a new code on securities dealing by directors and the relevant employees which was prepared with reference to and fulfill the requirement of Appendix 10 and paragraph A.5.4 of Appendix 14 of the Listing Rules.

Deloitte.
德勤

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF YIP'S CHEMICAL HOLDINGS LIMITED

INTRODUCTION

We have been instructed by Yip's Chemical Holdings Limited (the "Company") to review the interim financial report set out on pages 21 to 38.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard No. 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months ended 30th September, 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6th December, 2005

UNAUDITED INTERIM RESULTS

The Board of Directors of Yip's Chemical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2005, together with comparative figures for the corresponding period of last year. The interim financial report has not been audited, but has been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 30th September, 2005 (Unaudited) *HK$'000***	2004 (Unaudited) *HK$'000*
Turnover	*3*	**1,760,950**	1,356,133
Cost of sales		**(1,418,775)**	(1,058,581)
Gross profit		**342,175**	297,552
Other income		**5,589**	3,048
Selling expenses		**(51,187)**	(42,705)
Administrative expenses		**(172,613)**	(145,748)
Profit from operations	*3&4*	**123,964**	112,147
Interest expenses		**(8,820)**	(1,528)
Profit before taxation		**115,144**	110,619
Taxation	*5*	**(7,094)**	(7,754)
Profit for the period		**108,050**	102,865
Attributable to:			
Equity holders of the Company		**93,917**	76,018
Minority interests		**14,133**	26,847
		108,050	102,865
Interim dividend	*6*	**23,737**	21,076
Earnings per share	*7*		
– Basic		**19.8 cents**	16.3 cents
– Diluted		**19.7 cents**	16.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30th September, 2005 (Unaudited) HK$'000	At 31st March, 2005 (Restated) HK$'000
Non-current assets			
Property, plant and equipment	8	**433,849**	403,391
Goodwill		**19,231**	19,231
Intangible asset		**2,500**	3,000
Available-for-sale investments	9	**16,841**	–
Prepaid lease payments		**76,249**	77,527
Deferred taxation assets		**691**	691
Other non-current assets		**4,600**	4,600
		553,961	508,440
Current assets			
Inventories		**368,476**	294,770
Trade debtors	10	**757,031**	556,260
Other debtors and prepayments		**68,291**	81,147
Prepaid lease payments		**1,926**	1,945
Taxation recoverable		**–**	863
Pledged bank deposits	13	**–**	3,914
Short term bank deposits		**11,032**	9,578
Bank balances and cash		**195,095**	163,174
		1,401,851	1,111,651
Current liabilities			
Creditors and accrued charges	11	**437,098**	381,155
Taxation payable		**11,154**	12,882
Obligations under a finance lease -amount due within one year		**56**	56
Bank borrowings-amount due within one year		**431,642**	281,970
Bank overdrafts		**549**	751
Derivative financial instruments		**126**	–
		880,625	676,814
Net current assets		**521,226**	434,837
Total assets less current liabilities		**1,075,187**	943,277

CONDENSED CONSOLIDATED BALANCE SHEET *(Cont'd)*

	Notes	**At 30th September, 2005 (Unaudited) *HK$'000***	At 31st March, 2005 (Restated) *HK$'000*
Non-current liabilities			
Bank borrowings -amount due after one year		**155,050**	126,283
Deferred taxation liabilities		**1,767**	1,832
Obligations under a finance lease -amount due after one year		**5**	33
		156,822	128,148
Net assets		**918,365**	815,129
Capital and reserves			
Share capital	*12*	**47,473**	47,293
Reserves		**791,221**	712,481
Equity attributable to equity holders of the Company		**838,694**	759,774
Minority interests		**79,671**	55,355
Total equity		**918,365**	815,129

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

	Attributable to equity holders of the Company										
	Share Capital *HK$'000*	Share premium account *HK$'000*	Non-distributable reserve *HK$'000*	Translation reserve *HK$'000*	Legal reserve *HK$'000*	Goodwill reserve *HK$'000*	Capital redemption reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Minority Interests *HK$'000*	Total *HK$'000*
At 1st April, 2004	46,693	221,519	1,524	11,100	525	(38,050)	5,038	428,107	676,456	38,933	715,389
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	1,685	–	–	–	–	1,685	131	1,816
Profit for the period	–	–	–	–	–	–	–	76,018	76,018	26,847	102,865
Total recognised income for the period	–	–	–	1,685	–	–	–	76,018	77,703	26,978	104,681
Shares issued at premium upon exercise of share options	111	705	–	–	–	–	–	–	816	–	816
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	1,800	1,800
Advance from minority interests	–	–	–	–	–	–	–	–	–	4,400	4,400
Capitalisation of accumulated profits by a subsidiary	–	–	2,100	–	–	–	–	(2,100)	–	–	–
Dividends paid	–	–	–	–	–	–	–	(28,041)	(28,041)	–	(28,041)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(42,267)	(42,267)
At 30th September, 2004	46,804	222,224	3,624	12,785	525	(38,050)	5,038	473,984	726,934	29,844	756,778

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Cont'd)*

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

	Attributable to equity holders of the Company										
	Share Capital *HK$'000*	Share premium account *HK$'000*	Non-distributable reserve *HK$'000*	Translation reserve *HK$'000*	Legal reserve *HK$'000*	Goodwill reserve *HK$'000*	Capital redemption reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Minority Interests *HK$'000*	Total *HK$'000*
At 31st March, 2005, as originally stated	47,293	228,622	3,915	12,760	525	(38,050)	5,038	499,671	759,774	55,355	815,129
Effect of changes in accounting policies	–	–	–	–	–	(1,995)	–	1,995	–	–	–
At 1st April, 2005, as restated	47,293	228,622	3,915	12,760	525	(40,045)	5,038	501,666	759,774	55,355	815,129
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	17,946	–	–	–	–	17,946	1,778	19,724
Profit for the period	–	–	–	–	–	–	–	93,917	93,917	14,133	108,050
Total recognised income for the period	–	–	–	17,946	–	–	–	93,917	111,863	15,911	127,774
Share issued at premium upon exercise of share options	180	2,482	–	–	–	–	–	–	2,662	–	2,662
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	14,500	14,500
Transfer to legal reserve	–	–	–	–	49	–	–	(49)	–	–	–
Dividends paid	–	–	–	–	–	–	–	(35,605)	(35,605)	–	(35,605)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(6,095)	(6,095)
At 30th September, 2005	47,473	231,104	3,915	30,706	574	(40,045)	5,038	559,929	838,694	79,671	918,365

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th September, 2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(66,624)**	(67,884)
Net cash used in investing activities	**(39,767)**	(74,617)
Net cash from financing activities	**137,513**	250,609
Net increase in cash and cash equivalents	**31,122**	108,108
Cash and cash equivalents at beginning of the period	**172,001**	101,596
Effect of foreign exchange rate changes	**2,455**	263
Cash and cash equivalents at end of the period	**205,578**	209,967
Analysis of balances of cash and cash equivalents		
Short term bank deposits	**11,032**	41,673
Bank balances and cash	**195,095**	169,699
Bank overdrafts	**(549)**	(1,405)
	205,578	209,967

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2005 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the condensed consolidated income statement, condensed consolidated balance sheet and the condensed consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed as required by HKAS 1 "Presentation of financial statements". The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

The Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions for the period between 1st April, 2001 and 31st December, 2004 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the accumulated profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill related becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2005 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of HK$1,995,000 at 1st April, 2005 with a corresponding increase to retained earnings.

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. The Group had no share options granted after 7th November, 2002 and had not yet vested on 1st April, 2005, and accordingly, no retrospective restatement is required.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1st April, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments for which fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Derivatives and hedging

From 1st April 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise (see note 2A for financial impact). At 1st April, 2005, the adoption of HKAS 39 has had no material effect on the results and financial position.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and corresponding period of last year are as follows:

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Loss arising from fair value changes of derivative financial instruments	**(126)**	–
Decrease in amortisation of goodwill	**445**	–
Net increase in profit for the period	**319**	–

Analysis of increase in profit for the period by line item presented according to their function:

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Decrease in administrative expenses	**319**	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March 2005 HK$'000 (orginally stated)	Adjustments HK$'000	As at 31st March 2005 HK$'000 (Restated)	Adjustments HK$'000	As at 1st April 2005 HK$'000 (Restated)
Balance sheet items					
Property, plant and equipment	482,863	(79,472)	403,391	–	403,391
Prepaid lease payments	–	79,472	79,472	–	79,472
Retained earnings	499,671	–	499,671	1,995	501,666
Goodwill reserve – derecognition of negative goodwill	(38,050)	–	(38,050)	(1,995)	(40,045)

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group's operations are currently classified under three business segments, namely solvents, coatings and lubricants. This classification differs from the reporting format of prior period in that varnishes, paints, inks and resins are grouped under 'coatings', thinners and raw solvents are grouped under 'solvents', while lubricants are reported separately in prior period. This re-classification does not affect the way the Group organises its business operations, but it does give a clearer picture of the Group's overall business performance. It is also more in line with the business logic, as varnishes, paints, inks and resins all fall into the category of 'coatings', and are all affected by the same business factors. Thinners are a blend of solvents and it is therefore included in the segment of 'solvents'. This re-classification should give a simpler and clearer picture of the operations of the Group. Comparative figures have been restated to conform with the current period's presentation.

As the turnover and results of the storage activities were insignificant in the current and prior period, such activities were grouped under 'others' for presentation purposes.

Principal activities are as follows:

Solvents – manufacture of and trading in solvents and related products

Coatings – manufacture of and trading in coatings and related products

Lubricants – manufacture of and trading in lubricants products

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

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

	Solvents *HK$'000*	Coatings *HK$'000*	Lubricants *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Six months ended 30th September, 2005						
Segment revenue						
External sales	**1,029,023**	**609,912**	**113,712**	**8,303**	**–**	**1,760,950**
Inter-segment sales	**39,253**	**24,964**	**–**	**2,989**	**(67,206)**	**–**
Total	**1,068,276**	**634,876**	**113,712**	**11,292**	**(67,206)**	**1,760,950**
Results						
Segment result	**80,054**	**45,172**	**550**	**882**	**(480)**	**126,178**
Interest income						**727**
Unallocated corporate expenses						**(2,941)**
Profit from operations						**123,964**
Interest expenses						**(8,820)**
Profit before taxation						**115,144**
Taxation						**(7,094)**
Profit for the period						**108,050**
Six months ended 30th September, 2004	*(Restated)*	*(Restated)*				
Segment revenue						
External sales	731,963	563,392	50,778	10,000	–	1,356,133
Inter-segment sales	26,818	24,062	28	2,240	(53,148)	–
Total	758,781	587,454	50,806	12,240	(53,148)	1,356,133
Results						
Segment result	85,851	40,854	(13,622)	491	(125)	113,449
Interest income						352
Unallocated corporate expenses						(1,654)
Profit from operations						112,147
Interest expenses						(1,528)
Profit before taxation						110,619
Taxation						(7,754)
Profit for the period						102,865

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

(ii) Other information

	Solvents *HK$'000*	Coatings *HK$'000*	Lubricants *HK$'000*	Others *HK$'000*	Corporate level *HK$'000*	Consolidated *HK$'000*
Six months ended 30th September, 2005						
Capital additions	**12,005**	**33,169**	**908**	**–**	**448**	**46,530**
Depreciation and amortisation of property, plant and equipment	**5,340**	**10,758**	**1,634**	**52**	**1,092**	**18,876**
Impairment loss of property, plant and equipment	**400**	**1,178**	**–**	**–**	**–**	**1,578**
Amortisation of intangible asset	**–**	**500**	**–**	**–**	**–**	**500**
Six months ended 30th September, 2004	*(Restated)*	*(Restated)*				
Capital additions	52,262	22,864	452	19	437	76,034
Depreciation and amortisation of property, plant and equipment	4,185	11,261	1,497	52	1,286	18,281
Amortisation of intangible asset	–	500	–	–	–	500

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

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

	Solvents *HK$'000*	Coatings *HK$'000*	Lubricants *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
At 30th September, 2005					
Assets					
Segment assets	**687,807**	**823,880**	**180,822**	**3,261**	**1,695,770**
Goodwill	**17,343**	**–**	**1,888**	**–**	**19,231**
Deferred taxation asset					**691**
Unallocated corporate assets					**240,120**
Consolidated total assets					**1,955,812**
Liabilities					
Segment liabilities	**241,813**	**132,825**	**50,392**	**890**	**425,920**
Taxation payable					**11,154**
Deferred taxation liabilities					**1,767**
Unallocated corporate liabilities					**598,606**
Consolidated total liabilities					**1,037,447**
At 31st March, 2005	*(Restated)*	*(Restated)*			
Assets					
Segment assets	553,583	716,116	113,172	2,476	1,385,347
Goodwill	17,343	–	1,888	–	19,231
Deferred taxation asset					691
Taxation recoverable					863
Unallocated corporate assets					213,959
Consolidated total assets					1,620,091
Liabilities					
Segment liabilities	224,805	101,636	44,639	1,500	372,580
Taxation payable					12,882
Deferred taxation liabilities					1,832
Unallocated corporate liabilities					417,668
Consolidated total liabilities					804,962

(b) Geographical segments

As the Group's turnover and contribution to profit from operations are principally derived from the Mainland China and the assets are substantially located in the Mainland China, an analysis of the consolidated turnover, contribution to profit from operations and assets by geographical location is not presented.

4. PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	**18,876**	18,281
Amortisation of intangible asset	**500**	500
Impairment loss of property, plant and equipment	**1,578**	–
and after crediting:		
Interest income	**727**	352

5. TAXATION

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**2,122**	2,294
Mainland China	**5,037**	5,431
	7,159	7,725
Deferred tax		
Hong Kong	**(65)**	29
	7,094	7,754

Hong Kong Profits Tax has been provided at the rate of 17.5% *(2004:17.5%)* on the estimated assessable profit for the period. Enterprise income tax in the Mainland China has been provided at the rates prevailing in the respective jurisdictions.

6. INTERIM DIVIDEND

During the period, a final dividend of HK 7.5 cents per share in respect of the year ended 31st March, 2005 amounting to HK$35,605,000 was paid *(six months ended 30th September, 2004: HK 6.0 cents per share was paid for the year ended 31st March, 2004 amounting to HK$28,041,000)*.

The directors resolved to declare an interim dividend of HK 5.0 cents per share for the six months ended 30th September, 2005 *(six months ended 30th September, 2004: HK 4.5 cents per share)*. The interim dividend is payable on 6th January, 2006 to the shareholders of the Company whose names appear on the Company's register of members on 23rd December, 2005.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30th September, 2005 *HK$'000*	Six months ended 30th September, 2004 *HK$'000*
Earnings for the purposes of calculating basic and diluted earnings per share	**93,917**	76,018
	Number of shares *'000*	Number of shares *'000*
Weighted average number of shares for the purpose of calculating basic earnings per share	**474,053**	467,331
Effect of dilutive potential ordinary shares: Share options	**2,808**	1,986
Weighted average number of shares for the purpose of calculating diluted earnings per share	**476,861**	469,317

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$46,530,000 *(six months ended 30th September, 2004: HK$76,034,000)* on additions to manufacturing plant in the Mainland China to upgrade its manufacturing capacity.

9. AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group acquired certain investments amounting to HK$16,841,000 which represent unlisted shares in the Mainland China.

10. TRADE DEBTORS

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

	At 30th September, 2005 *HK$'000*	At 31st March, 2005 *HK$'000*
0 - 3 months	**637,212**	440,700
4 - 6 months	**89,063**	90,002
Over 6 months	**30,756**	25,558
	757,031	556,260

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

11. CREDITORS AND ACCRUED CHARGES

At the balance sheet date, the balance of creditors and accrued charges included trade creditors of HK$310,337,000 *(31st March, 2004: HK$262,753,000)*. The aged analysis of trade creditors at the balance sheet date is as follows:

	At 30th September, 2005 *HK$'000*	At 31st March, 2005 *HK$'000*
0 - 3 months	**278,642**	243,112
4 - 6 months	**30,428**	18,532
Over 6 months	**1,267**	1,109
	310,337	262,753

12. SHARE CAPITAL

	Authorised	Issued and fully paid	
	At 30th September, 2005 & 31st March, 2005	**At 30th September, 2005**	At 31st March, 2005
	HK$'000	***HK$'000***	*HK$'000*
Shares of HK$0.10 each	**80,000**	**47,473**	47,293

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

	Number of shares	**Amount**
	'000	*HK$'000*
At 1st April, 2005	472,930	47,293
Exercise of share options	1,800	180
At 30th September, 2005	**474,730**	**47,473**

During the six months ended 30th September, 2005, 1,800,000 option shares were exercised, resulting in the issue of 500,000 shares and 1,300,000 shares of HK$0.10 each in the Company at a price of HK$1.19 and HK$1.59 per share respectively.

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

13. PLEDGE OF ASSETS

As at 31st March, 2005, bank deposits of HK$3,914,000 of a subsidiary of the Group were pledged to banks to secure its own general banking facilities. The pledged deposits were released during the period ended 30th September, 2005.

As at 31st March, 2005, a property held under medium term leases with an aggregate carrying amount of HK$646,000 of a subsidiary of the Group was pledged to banks to secure its own general banking facilities. The pledge was released upon the disposal of the property during the period ended 30th September, 2005.

14. CAPITAL COMMITMENTS

	At 30th September, 2005	At 31st March, 2005
	HK$'000	*HK$'000*
Contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment	**26,519**	28,042

15. RELATED PARTY TRANSACTIONS

During the period, the Group paid rent of HK$360,000 (*six months ended 30th September, 2004: HK$360,000)*, HK$300,000 *(six months ended 30th September, 2004: HK$300,000)* and HK$108,000 *(six months ended 30th September, 2004: HK$108,000)* to Goldex Investments Limited, Galsheer Investments Limited and Microphase Technology Company Limited respectively in which Mr. Ip Chi Shing, Tony, Mr. Yip Tsz Hin, Stephen and Mr. Ng Siu Ping, George, the directors of the Company, have beneficial interests respectively. The rents were paid in accordance with the relevant rental agreements.

By Order of the Board
Ip Chi Shing, Tony
Chairman

Hong Kong, 6th December, 2005