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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Yip's Chemical Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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葉氏化工集團有限公司
YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

**PROPOSED OFF-MARKET REPURCHASE OF SHARES FROM
KINGBOARD CHEMICAL HOLDINGS LIMITED**

Independent Financial Adviser to the Independent Director



A letter from the Independent Director containing his recommendation in respect of the Share Repurchase to Disinterested Shareholders is set out on page 16 of this circular. A letter from Sommerley Limited containing its advice to the Independent Director is set out on pages 17 to 29 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Conference Room at 4th Floor, Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong at 10:00 a.m. on Friday, 27th December, 2002 is set out on pages 136 to 137 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the head office and principal place of business of the Company in Hong Kong, Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

4th December, 2002

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DEFINITIONS

In this circular, the following expressions have the meanings as set out below unless the context requires otherwise:

“Agreement”	the sale and purchase agreement dated 23rd September, 2002 entered into between the Company and Kingboard in relation to the Share Repurchase
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturday) on which banks in Hong Kong are open to conduct business generally throughout their normal business hours
“Company”	Yip’s Chemical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreement expected to take place three Business Days after the fulfillment of all the conditions of the Agreement
“Director(s)”	the director(s) of the Company
“Disinterested Shareholders”	Shareholders other than Kingboard and parties acting in concert with it
“EGM”	an extraordinary general meeting of the Company to be held at 10:00 a.m. on Friday, 27th December, 2002, to approve, among other matters, the Share Repurchase
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“Independent Director”	independent Director, Mr. Tong Wui Tung, Ronald

DEFINITIONS

“Ip Family”	Mr. Ip Chi Shing, Tony, Ms. Ip Fung Kuen and Mr. Yip Tsz Hin, Stephen and his spouse. Mr. Ip Chi Shing, Tony is interested in 194,323,932 Shares, representing approximately 38.6% of the issued share capital of the Company, of which 193,923,932 Shares are owned through a discretionary trust, the objects of which include Mr. Ip Chi Shing, Tony and his family. Ms. Ip Fung Kuen is interested in 61,200,000 Shares, representing approximately 12.2% of the issued share capital of the Company, of which 60,000,000 Shares are owned through a discretionary trust, the objects of which include Ms. Ip Fung Kuen and her family. Mr. Yip Tsz Hin, Stephen is interested in 61,400,000 Shares, representing approximately 12.2% of the issued share capital of the Company, of which 20,000,000 Shares are beneficially owned by his spouse
“Latest Practicable Date”	2nd December, 2002, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Kingboard”	Kingboard Chemical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange, owned as to approximately 40.8% by Hallgain Management Limited which is beneficially owned by the directors and senior management of Kingboard, and the remaining approximately 59.2% of the issued share capital of Kingboard are owned by The Capital Group Companies, Inc, a public fund of United States of America, certain directors of Kingboard personally in aggregate and the public (as defined in the Listing Rules) as to approximately 11.3%, 3.0% and 44.9% respectively
“PRC”	the People’s Republic of China, for the purpose of this circular excluding Hong Kong
“Repurchase Price”	HK\$0.88 per Share for the purchase of 48,096,000 Shares by the Company pursuant to the Agreement aggregating HK\$42,324,480
“Repurchase Shares”	48,096,000 Shares proposed to be purchased by the Company under the Share Repurchase
“SFC”	the Securities and Futures Commission
“Share(s)”	share(s) of HK\$0.1 each in the capital of the Company

DEFINITIONS

“Share Option”	options granted to the Directors and certain employees of the Company under the share option schemes the Company adopted on 18th July, 1991, 28th August, 2001 and 3rd September, 2002
“Share Repurchase”	the proposed purchase of 48,096,000 Shares by the Company at HK\$0.88 per Share for a total cash consideration of HK\$42,324,480 pursuant to the Agreement
“Share Repurchases Code”	the Hong Kong Code on Share Repurchases
“Shareholder(s)”	holder(s) of the Share(s)
“Somerley”	Somerley Limited, the financial adviser to the Independent Director and an investment adviser and exempt dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” or “HK Cents”	Hong Kong Dollar or Hong Kong cents
“%”	per cent
“RMB”	Renminbi, the lawful currency of the PRC

LETTER FROM THE BOARD



葉氏化工集團有限公司
YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Ip Chi Shing, Tony (*Chairman*)
Ip Fung Kuen
Yip Tsz Hin, Stephen
Ng Siu Ping, George
Ting Hon Yam
Wong Kam Yim, Kenny
Young Man Kim, Robert

Non-Executive Directors:

Tong Wui Tung, Ronald
Wong Kong Chi

Registered office:

Second Floor
One Capital Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

*Head Office and Principal Place of
Business in Hong Kong:*

Yip's Hang Cheung Building
13 Yip Cheong Street, On Lok Tsuen
Fanling, New Territories
Hong Kong

4th December, 2002

To the Shareholders

Dear Sir or Madam,

PROPOSED OFF-MARKET REPURCHASE OF SHARES FROM KINGBOARD CHEMICAL HOLDINGS LIMITED

INTRODUCTION

On 23rd September, 2002, the Board announced that the Company entered into the Agreement with Kingboard pursuant to which Kingboard agreed to dispose of and the Company agreed to acquire from Kingboard 48,096,000 Shares for a cash consideration of HK\$0.88 each, amounting to approximately HK\$42,324,480.

The Share Repurchase constitutes an off-market repurchase and will be subject to (i) grant of an approval by the Executive and (ii) approval of relevant resolution by at least three-fourths of the votes cast on a poll by Disinterested Shareholders at the EGM.

All the Directors are independent of and are not acting in concert with the controlling shareholders, the directors, the chief executive or the substantial shareholders of Kingboard or any of its subsidiaries or any of their respective associates, therefore the Directors, who are also Shareholders, are eligible to vote at the EGM.

LETTER FROM THE BOARD

Mr. Ip Chi Shing, Tony, the chairman and the managing director of the Company, and Mr. Ng Siu Ping, George, an executive Director, acting on the advice of Mr. Wong Kong Chi, an independent non-executive Director, conducted the negotiations with Kingboard on the Share Repurchase and therefore are considered not eligible to advise Disinterested Shareholders on the Share Repurchase. Mr. Ip Chi Shing, Tony, Mr. Yip Tsz Hin, Stephen, Mr. Ng Siu Ping, George, Mr. Ting Hon Yam, Mr. Wong Kam Yim, Kenny and Mr. Young Man Kim, Robert, all executive Directors, attended the Board meeting to approve the Share Repurchase and concluded at that time that the Share Repurchase was in the interest of the Company. They are therefore considered not eligible to advise Disinterested Shareholders on the Share Repurchase. Ms. Ip Fung Kuen, the sister of Mr. Ip Chi Shing, Tony and an executive Director receiving salary from the Company and a concert party of Mr. Ip Chi Shing, Tony, is therefore considered not eligible to advise Disinterested Shareholders on the Share Repurchase.

Accordingly, Mr. Tong Wui Tung, Ronald, who was not involved in any discussions or decisions in respect of the Share Repurchase and is a non-executive Director not in any employment relationship with the Company, has been appointed the Independent Director to advise Disinterested Shareholders whether they should approve or disapprove the relevant resolution to be proposed at the EGM in relation to the Share Repurchase. Somerley has been appointed the independent financial adviser to advise the Independent Director in this regard.

The purpose of this circular is to provide Disinterested Shareholders with, inter alia, information on the Share Repurchase and the financial effects of the Share Repurchase, advice from the Independent Director, advice from Somerley to the Independent Director in respect of the Share Repurchase and the notice of the EGM.

THE AGREEMENT

- (1) **Parties:** (i) the Company; and
- (ii) Kingboard

(2) **Repurchase Shares**

It is agreed under the Agreement that the Company will purchase from Kingboard 48,096,000 Shares, being Kingboard's entire shareholding interest in the Company, representing approximately 9.6% of the existing issued share capital of the Company.

It is also agreed between the Company and Kingboard that the Repurchase Shares shall be purchased, free from all charges, liens, encumbrances, equities and other adverse claims and interests and the Company is entitled to all rights attaching thereto (including the right to all dividends or other distributions thereafter paid, declared or made in respect thereof) with effect from the date of the Agreement.

Following Completion, the Repurchase Shares will be cancelled. As a result, the number of Shares in issue immediately following the Share Repurchase will be reduced from 503,611,121 to 455,515,121.

LETTER FROM THE BOARD

(3) Consideration

The Repurchase Shares will be acquired by the Company at HK\$0.88 per Share amounting to HK\$42,324,480 in total, which will be funded by internal resources of the Group. Somerley is satisfied that the Company has sufficient resources to satisfy the Share Repurchase.

The Repurchase Price was determined after arm's length negotiations between the Company and Kingboard. The Repurchase Price represents:

- (i) a discount of 2.2% to the closing price of the Share of HK\$0.900 as quoted on the Stock Exchange on 23rd September, 2002, being the last day of trading in Shares on the Stock Exchange before the signing of the Agreement;
- (ii) a discount of approximately 2.5% of the 10-day average closing price of the Shares as quoted on the Stock Exchange up to and including 23rd September, 2002, being the date of the Agreement, of HK\$0.903;
- (iii) a discount of approximately 1.3% to the 6-month daily average closing price of the Shares as quoted on the Stock Exchange since 24th March, 2002 up to and including 23rd September, 2002 of HK\$0.892;
- (iv) a discount of approximately 24.8% to the net book asset value per Share of HK\$1.17 based on the latest audited consolidated financial statement of the Company of approximately HK\$586.4 million, and 499,331,121 Shares in issue as at 31st March, 2002; and
- (v) a discount of approximately 20.7% to the unaudited net book asset value per Share of HK\$1.11 based on the unaudited consolidated interim financial statements of the Company as adjusted for the property valuation set out in Appendix II to this circular, and 502,881,121 Shares in issue as 30th September, 2002.

For the two years ended 31st March, 2002, the audited consolidated profit of the Company before taxation and minority interests were approximately HK\$46.55 million and HK\$69.43 million respectively. For the same period, the audited consolidated profits of the Company after tax and minority interests were approximately HK\$39.52 million and HK\$60.02 million, respectively.

On this basis, the basic earnings per Share after tax for the year ended 31st March, 2002 based on the number of Shares in issue as at 31st March, 2002 was HK 12.2 cents. The Repurchase Price represents a multiple of approximately 7.2 times of the earnings per Share.

On 13th November, 2002, the Company released the interim results for the six months ended 30th September, 2002. The interim results show that the earnings per Share for this period increased sharply by approximately 92% as compared to the same period in 2001. The interim results are set out in Appendix I to this circular. The Board considers that the political and economic outlook for the six months up to 31st March, 2003 does not seem promising and high raw material prices could adversely impact the Group's profit margins. Nevertheless, the Board is confident that it will be able to overcome the challenges ahead.

LETTER FROM THE BOARD

(4) Conditions

The Agreement is subject to the obtaining of:

- (i) the approval of the Share Repurchase by at least three-fourths of the votes cast at the EGM on a poll by Disinterested Shareholders;
- (ii) the approval by the Executive of the Share Repurchase; and
- (iii) any other consents or approvals required by the relevant regulatory authorities.

In the event that any of the aforesaid conditions is not satisfied on or before 31st December, 2002, the parties thereto shall be released from all their respective obligations and liabilities under the Agreement other than any liabilities arising from any antecedent breach of the Agreement, and any rights or remedies which shall have accrued shall not thereby be prejudiced or affected.

(5) Completion

Completion shall take place within three Business Days after the fulfillment of all the conditions of the Agreement or any other date as may be agreed by the parties to the Agreement (unless previously terminated in accordance with its terms).

INFORMATION ON THE GROUP

During the six months ended 30th September, 2002, turnover of the Group grew 23% to approximately HK\$735 million. The net profits of the Group for the same period grew by 97% to approximately HK\$62.4 million, which is 4% higher than the profit for the year ended 31st March, 2002. Against the backdrop of global economic downturn and continued declines in Hong Kong's domestic exports, this outstanding performance has been particularly gratifying. The Board considers that part of the reasons for the Group's remarkable performance is attributable to the sustained growth in the PRC's economy which enables the Group's sales in the PRC continue to grow strongly. The Board also considers that the growth is mainly attributable to the business re-engineering project completed in early 2002 which substantially improved all five core businesses of the Group in term of efficiency and effectiveness of operation of each core business, upgraded the products and services of respective divisions and enhanced competitiveness in their respective industries. The Group's performance during the six months ended 30th September, 2002 can therefore be seen as an initial reflection of the Group's successful business re-engineering efforts.

High Molecular Chemical Products and Mixed Solvents Division

This division serves the toys, electronics, paper and woodcraft industries in the Pearl River Delta. During the six months ended 30th September, 2002, this division's successful efforts in upgrading its products and services have produced record levels of turnover and profit. Turnover and profit from operations were approximately HK\$176.3 million and HK\$27.1 million, representing an increases of 7.5% and 14% respectively.

LETTER FROM THE BOARD

However, this division's products are based on petroleum-derived raw materials, and raw materials prices can be quite sensitive to oil price movements. The Board anticipates that rising costs of raw materials may impact upon margins in the six months up to 31st March, 2003.

The Group has began the construction of the new plant in Huiyang. The Board believes that the new plant will enhance the production capacity of this highly profitable division.

Paints Division

The results of the paints division in the six months ended 30th September, 2002 reflect the initial benefits of last year's management structure reorganization. Turnover and profit from operations increased respectively by 19% and 321%, to approximately HK\$239.9 million and HK\$22.5 million respectively.

With gradual improvements in profit margins and with trade debtors and inventories under effective control, the division is adopting a more aggressive stance towards new business development, including the recruitment of more high caliber staff to join the Division. The Board has also established a subsidiary "Bauhinia Paints Manufacturing (Shanghai) Co. Ltd." and will be setting up production facilities in Shanghai to exploit business opportunities in the Yangtze River Delta region.

Raw Solvents Division

In light of the PRC's move to ban or to reduce the use of harmful aromatic solvents from the middle of this year, demand for the more environmentally benign ester-type solvents has increased. As one of the PRC's major producers of esters, this increased demand has benefited the Group. Moreover, with continued expansion in production capacity during the past few years, this division's competitiveness has benefited from the improved economy of scale. Turnover and profit from operations of this division both achieved significant growth during this period. Turnover and profit from operations were approximately HK\$202.0 million and HK\$15.2 million respectively, representing an increases of 32% and 131% respectively.

The Group will complete the expansion of the plant of the raw solvents by early 2003 which is expected to increase the division's production capacity from 85,000 tons to 120,000 tons.

Lubricants Division

Turnover and profit from operations of the lubricants division for the six months ended 30th September, 2002 reached HK\$52.0 million and HK\$1.9 million respectively, representing increases of 24% and 101% respectively as compared to that of the same period in 2001. The Board considers the opening of the new plant in Tianjin earlier this financial year was the major turning point for the lubricants business. The new plant in Tianjin solves the logistical difficulties of relying only on Zhangjiang plant to supply all regions in the PRC, which also enables the lubricants division to reduce operating costs and improve customers service.

LETTER FROM THE BOARD

The Board expects that the benefits from the improved logistics will gradually flow through the system and will be reflected in the results of six months ending 31st March, 2003.

Inks Division

The inks division invested HK\$5 million at the end of last year to re-develop and expand its plant in Zhongshan, resulting in a 60% increase in production capability. However, as the pace of the growth of the business is faster than anticipated, the Zhongshan plant has now reached its maximum production capacity. The Group intend to open a new production plant in Shanghai later this year to relieve part of the pressures on the Zhongshan plant and at the same time enable the inks division to consolidate its business in the Pearl River Delta region. This new plant in Shanghai will also be developed into an operation center to provide the necessary hardware support for business development in the Yangtze River Delta region. The Board expects that eastern region of the PRC will provide a major impetus for sustained high growth for the inks business in future.

Turnover and profit from operations for the six months ended 30th September, 2002 grew to approximately HK\$73.1 million and HK\$8.6 million respectively, representing an increase of 67% and 104% respectively from that of the same period in 2001.

Prospects of the Group

The global political and economic outlook for the six months up to 31st March, 2003 does not seem promising. Sustained tension in the Middle East has already caused supply price increase for a wide range of petrochemical raw ingredients. Inevitably, a global downturn will hinder the further development of the Group's businesses, and high raw material prices could adversely impact upon the Group's profit margins.

Looking ahead, the Board will continue to carry out the Group's strategy of focusing on its core businesses, enhancing productivity, improving operating cost control, and broadening product mix. The Board is confident that, with the Group's dedicated and committed employees and the vibrant PRC economy, the Group will be able to overcome the challenges of this difficult economic climate. The Group also believes that the successful re-engineering of various divisions of the Group will restore the profitability and the growth of the Group.

INFORMATION ON KINGBOARD

Kingboard and its concert parties currently own 48,096,000 Shares, representing approximately 9.6% of the existing issued share capital of the Company. After Completion, Kingboard and its concert parties will have no shareholding interest in the Company. Kingboard and its subsidiaries are principally engaged in production and sale of laminates, copper foil, glass fabric, bleached kraft paper, printed circuit boards and chemicals.

LETTER FROM THE BOARD

The controlling shareholder of Kingboard, Hallgain Management Limited, was incorporated in the British Virgin Islands with limited liability. Hallgain Management Limited, which currently owns approximately 40.8% of the issued share capital of Kingboard, is beneficially owned as to 22% by Mr. Cheung Kwok Wing, 15% by Mr. Chan Wing Kwan, 10% by Mr. Lum Gum Wun, 5.5% by Mr. Lam Ka Po, 5.5% by Mr. Cheung Kwok Keung, 10% by Mr. Cheung Kwok Wa, 8% by Mr. Cheung Kwong Kwan, 9% by Mr. Cheung Kwok Ping and 5% by Mr. Chang Wing Yiu, all directors of Kingboard. The remaining 10% equity interest in Hallgain Management Limited is beneficially owned by the senior management of Kingboard.

The remaining 59.2% of the issued share capital of Kingboard is owned as to approximately 11.3% by The Capital Group Companies, Inc, a public fund in the United States of America; as to approximately 3.0% in aggregate by the above mentioned directors of Kingboard and two other directors of Kingboard namely Mr. Mok Cham Hung, Chadwick and Mr. Lau Tai Chim personally; and as to approximately 44.9% by the public (as defined in the Listing Rules).

RELATIONSHIP BETWEEN THE COMPANY AND KINGBOARD

The Company and Kingboard both are engaged in chemical products trading business. Trading of chemical products between certain subsidiaries of the Company and Kingboard occurs from time to time. The annual sales and purchases of goods for the year ended 31st March, 2002 by certain subsidiaries of the Company to and from that of Kingboard amounted to approximately HK\$2,743,000 and HK\$277,000 respectively, representing less than 1% and 0.2% of the consolidated turnover and purchases of the Company and Kingboard respectively.

Other than the holding of 48,096,000 Shares and business relationship with the Company as set out above, the controlling shareholder, substantial shareholders, directors or chief executive of Kingboard and any of its subsidiaries or any of their respective associates are independent of and are not acting in concert with the directors, the chief executive officer or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Kingboard or its concert parties have no representative in the Board.

Ip Family and the Directors and their respective concert parties confirm that they do not hold any shares in Kingboard. They also confirm that they have no business, financial or other relationship with Kingboard or its controlling shareholder.

REASONS FOR THE SHARE REPURCHASE

Kingboard approached the Company in late August 2002 and indicated that they were considering the disposal of its entire shareholding in the Company. In considering to proceed with the Share Repurchase, the Company has taken into consideration that:

- (i) the Share Repurchase is a good opportunity for the Company to utilise its surplus cash to enhance the earnings per Share and the rate of return on capital;
- (ii) the Repurchase Price is at a discount of 2.2% to the prevailing market price of HK\$0.900 of the Share as at the date of the Agreement;

LETTER FROM THE BOARD

- (iii) given the thin trading volume in the Shares, the Share Repurchase is a good opportunity for the Company to purchase a significant block of Shares without affecting the Share price; and
- (iv) the Share Repurchase could eliminate the downward effect on the Share price which is likely to occur on the assumption that Kingboard disposes of its entire shareholding of 48,096,000 Shares in the open market.

In view of the above, the Board considers that the Share Repurchase is in the interests of the Company and the Shareholders as a whole.

EFFECTS OF THE SHARE REPURCHASE

(A) Effect On Shareholding Structure

Following Completion, the Repurchase Shares will be cancelled. As a result, the number of Shares in issue immediately following the Share Repurchase will be reduced from 503,611,121 to 455,515,121. The shareholding structure of the Company before and after Completion is set out below:

Shareholders	Before Completion		After Completion	
	No. of Shares	%	No. of Shares	%
Ip Family and its concert parties	316,923,932	62.9	316,923,932	69.6
Other Directors (<i>Note</i>)	3,704,000	0.7	3,704,000	0.8
Kingboard	48,096,000	9.6	—	—
Other Public	134,887,189	26.8	134,887,189	29.6
Total	<u>503,611,121</u>	<u>100.00</u>	<u>455,515,121</u>	<u>100.00</u>

Note: the other Directors are Mr. Ng Siu Ping, George, Mr. Ting Hom Yam, Mr. Wong Kam Yim, Kenny, Mr. Young Man Kim, Robert, Mr. Tong Wui Tung, Ronald and Mr. Wong Kong Chi who are not concert parties of the Ip Family.

The Company has been controlled by the Ip Family since its flotation in 1991. The Share Repurchase will have the effect of increasing the controlling block of the Ip Family and its concert parties from approximately 62.9% to approximately 69.6%. Following the Share Repurchase, the public float of the Company will remain adequate.

As at the Latest Practicable Date, the Company has no convertible securities or derivatives in respect of securities which carry voting rights in the Company, except for the 280,000 and 1,800,000 outstanding share options issued to the Directors including Mr. Ng Siu Ping, George and Mr. Wong Kam Yim, Kenny, and certain employees of the Company which are exercisable at HK\$0.314, HK\$0.395 respectively. On 14th November, 2002, the Company granted an offer of share options to certain Directors and employees, subject to the acceptance by the grantees, for a total of 15,700,000 Shares at an exercise price of HK\$1.19 per share.

LETTER FROM THE BOARD

The members of Ip Family and other Directors namely Mr. Ng Siu Ping, George, Mr. Ting Hom Yam, Mr. Wong Kam Yim, Kenny, Mr. Young Man Kim, Robert who are also Shareholders have indicated that they will vote in favour of the relevant resolution in respect of the Share Repurchase at the EGM. Mr. Yip Tsz Hin, Stephen, Mr. Ng Siu Ping, George, Mr. Tong Wui Tung, Ronald and Mr. Wong Kong Chi have indicated that their respective spouses will vote in favour of the relevant resolution in respect of the Share Repurchase at the EGM.

(B) Financial Effects

The tables below summarize the financial effects of the Share Repurchase based on the audited and the unaudited results of the Group for the year ended 31st March, 2002 and the six months ended 30th September, 2002 respectively.

(i) Earnings per Share

(a) Audited earnings per Share

	Immediately prior to the Share Repurchase	Immediately after Completion
Number of Shares in issue	503,611,121	455,515,121
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consolidated net profit for the year ended 31st March, 2002	60,017	60,017
Deemed financing costs of the Share Repurchase (<i>Note</i>)	—	(876)
Pro forma adjusted consolidated net profit	<u>60,017</u>	<u>59,141</u>
Pro forma earnings per Share (basic)	HK 11.9 cents	HK 13.0 cents
This represents an increase of:		9.2%

Note: assumed to be funded by internal cash resources with an opportunity cost of 2% per annum.

LETTER FROM THE BOARD

(b) Unaudited earnings per Share

	Immediately prior to the Share Repurchase	Immediately after Completion
Number of Shares in issue	503,611,121	455,515,121
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consolidated net profit for the six months ended 30th September, 2002	62,410	62,410
Deemed financing costs of the Share Repurchase (<i>Note</i>)	—	(438)
Pro forma adjusted consolidated net profit	<u>62,410</u>	<u>61,972</u>
Pro forma earnings per Share (basic)	HK 12.4 cents	HK 13.6 cents
This represents an increase of:		9.7%

Note: assumed to be funded by internal cash resources with an opportunity cost of 2% per annum (1% for six months).

LETTER FROM THE BOARD

(ii) Net asset value (“NAV”)

(a) Audited NAV

The NAV per Share set out below is based on the latest published audited consolidated accounts of the Company as at 31st March, 2002 and assuming that Completion took place on 31st March, 2002.

	<i>HK\$ million</i>
Audited consolidated NAV as at 31st March, 2002	586.4
<i>Less:</i> (i) amount of Share Repurchase	(42.3)
(ii) related expenses	<u>(1.5)</u>
NAV adjusted for Share Repurchase and expenses	<u><u>542.6</u></u>
NAV per Share	
– based on NAV of HK\$586.4 million and 499.3 million Shares in issue as at 31st March, 2002	HK\$1.17
– based on NAV of HK\$542.6 million and 451.2 million Shares assumed to be in issue, adjusting for 48.1 million Shares repurchased at a cost of HK\$43.8 million	HK\$1.20
Increase in NAV per Share	2.6%

LETTER FROM THE BOARD

(b) adjusted unaudited NAV

The NAV per Share set out below is based on the unaudited consolidated balance sheet of the Company as at 30th September, 2002 set out in the interim report, adjusted for the property valuation as set out in Appendix II to this circular, and assuming that Completion took place on 30th September, 2002.

	<i>HK\$ million</i>
Unaudited consolidated NAV as at 30th September, 2002	633.5
<i>Less:</i> (i) adjustment for deficit on valuation of the Group's property interests as at 30th September, 2002 (<i>Note</i>)	(74.4)
Adjusted unaudited consolidated NAV before adjusting for the Share Repurchase	559.1
<i>Less:</i> (i) amount of Share Repurchase (ii) related expenses	(42.3) (1.5)
Adjusted unaudited consolidated NAV after adjusting for the Share Repurchase	<u>515.3</u>
 NAV per Share	
– based on NAV of HK\$559.1 million adjusted for revaluation deficit of approximately HK\$74.4 million and 502.9 million Shares in issue as at 30th September, 2002	HK\$1.11
– based on NAV of HK\$515.3 million and 454.8 million Shares assumed to be in issue, adjusted for 48.1 million Shares repurchased at a cost of HK\$43.8 million	HK\$1.13
 Increase in NAV per Share	 1.8%

Note: The deficit of HK\$74.4 million is calculated based on the value of the property interests of the Group of HK\$150.5 million (including HK\$134 million as recorded in the interim accounts of the Group as at 30th September, 2002 and HK\$16.5 million initial payment made for construction of Hui Yang plant) and the value of the property interests of the Group as at 30th September, 2002 of HK\$76.1 million as stated in the valuation report prepared by DTZ Debenham Tie Leung Limited, the details of which are set out in Appendix II to this circular.

LETTER FROM THE BOARD

(iii) Dividends

The Company has been adopting an annual dividend policy of paying out approximately 40% to 50% of the consolidated net profit per Share. The Company paid total dividends of HK 6 cents per Share for the year ended 31st March, 2002 and HK 5 cents per Share for the year ended 31st March, 2001. The interim dividend for the six months ended 30th September, 2002 was HK 4 cents per Share.

The Directors are confident that the Share Repurchase will not materially affect the Company's capacity to continue paying dividends in the near future. Barring unforeseen circumstances, the Directors do not anticipate any change in the dividend policy of the Company.

(iv) Working Capital

The total consideration and the total estimated expenses will be approximately HK\$42.3 million and approximately HK\$1.5 million, respectively. The Directors estimate that, given the cash position of the Group of approximately HK\$147.0 million as at 31st October, 2002, the Group will have approximately HK\$103.2 million cash after Completion, which the Directors consider sufficient for its present working capital requirements.

(v) Liability

The Share Repurchase will be funded by the internal resources only and therefore it will not affect the level of indebtedness of the Group.

SHARE REPURCHASES CODE IMPLICATIONS

Pursuant to Rule 2 of the Share Repurchases Code, the Share Repurchase constitutes an off-market share repurchase and must be approved by the Executive. The Share Repurchase is also conditional upon approval by at least three-fourths of the votes cast on a poll by Disinterested Shareholders in attendance in person or by proxy at a general meeting. In accordance with the Share Repurchases Code, Kingboard and its concert parties are required to abstain from voting at the EGM in respect of the Share Repurchase. All other Shareholders (including the Ip Family and the other Directors) are eligible to vote.

REPURCHASE MANDATE

On 3rd September, 2002, a general mandate was given to the Directors to exercise all the powers of the Company to repurchase its own Shares up to 10% of the issued and fully paid-up share capital of the Company as at the date of passing of resolution authorising such general mandate. The Directors intend to use the said mandate to make the repurchase as contemplated under the Agreement. Therefore, an ordinary resolution will be proposed at the EGM to approve the grant of a new repurchase mandate. The number of Shares to be repurchased under the new mandate shall exclude the number of Shares to be repurchased under the Agreement.

LETTER FROM THE BOARD

An explanatory statement to provide Shareholders with all the information reasonably necessary for them to make an informed decision in relation to this proposed resolution as required by the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in the Appendix III to this circular.

EGM

The EGM is proposed to be convened and held at 10:00 a.m. on Friday, 27th December, 2002 at the Conference Room at 4th Floor, Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong for Disinterested Shareholders to consider and, if thought fit, to approve at the EGM the relevant resolution in relation to the Share Repurchase by way of a poll by at least three-fourths of the votes cast by Disinterested Shareholder at the EGM.

An ordinary resolution will also be proposed at the EGM to approve a general and unconditional mandate to be given to the Directors to exercise the powers of the Company to repurchase Shares, at any time until the next annual general meeting of the Company or such earlier period as stated in the ordinary resolution, up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of the ordinary resolution.

A notice to the EGM is set out on pages 136 to 137 of this circular.

ACTION TO BE TAKEN

A form of proxy for use at the EGM is enclosed. Whether or not you intend to be present at the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the head office and principal place of business of the Company in Hong Kong, Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournments thereof and voting in person should you wish to do so. In the event that you attend the EGM, the form of proxy lodged with the head office of the Company will be deemed to have been revoked.

RECOMMENDATION

The Independent Director recommends Disinterested Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Share Repurchase.

The Directors believe that the granting of the repurchase mandate is in the best interests of the Company and the Shareholders as a whole and recommend all Shareholders to vote in favour of such resolution to be proposed at the EGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

Disinterested Shareholders are advised to read carefully the Letter from Somerley on pages 17 to 29 of this circular setting out its advice to the Independent Director as to the fairness and reasonableness of the Share Repurchase.

Your attention is drawn to the other information contained in the Letter from the Board and the information contained in the appendices to this circular before considering whether to vote for or against the Share Repurchase.

The Company will make a further announcement upon Completion.

Yours faithfully,
Ip Chi Shing, Tony
Chairman

LETTER FROM THE INDEPENDENT DIRECTOR



葉氏化工集團有限公司
YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

4th December, 2002

To the Shareholders

Dear Sir or Madam,

**PROPOSED OFF-MARKET REPURCHASE OF SHARES FROM
KINGBOARD CHEMICAL HOLDINGS LIMITED**

I have been appointed the Independent Director to advise Disinterested Shareholders in connection with the Share Repurchase, details of which are set out in the section headed "Letter from the Board" on pages 1 to 15 of the circular of the Company dated 4th December, 2002 (the "Circular"). Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

I wish to draw to your attention the information set out in the letter from the Board, which provides details of the background and reasons for the Share Repurchase. I would also like to draw to your attention the letter from Somerley, which is set out on pages 17 to 29 of the Circular, containing its opinion on the Share Repurchase and its recommendation to me.

Having considered the terms of the Agreement, the principal factors and the reasons for the Share Repurchase and the opinion from Somerley with which I concur, I am of the view that the Share Repurchase is in the interest of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable so far as the Company and Disinterested Shareholders are concerned.

I therefore recommend Disinterested Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Share Repurchase.

Yours faithfully,
Tong Wui Tung, Ronald
Independent Director

LETTER FROM SOMERLEY

The following is the text of the letter from Somerley to the Independent Director, prepared for the purpose of incorporation in this circular, in connection with its opinion on the terms of the Agreement.



Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

4th December, 2002

The Independent Director
Yip's Chemical Holdings Limited
Yip's Hang Cheung Building
13 Yip Cheong Street
On Lok Tsuen
Fanling
New Territories
Hong Kong

Dear Sir,

PROPOSED OFF-MARKET REPURCHASE OF SHARES FROM KINGBOARD CHEMICAL HOLDINGS LIMITED

We refer to our appointment to act as independent financial advisers to the Independent Director as regards the terms of the Agreement and his recommendation to Disinterested Shareholders as to how to vote at the EGM. The terms defined in the circular of the Company to the Shareholders dated 4th December, 2002 (the "Circular"), of which this letter forms part, have the same meanings in this letter unless the context requires otherwise.

Mr. Ip Chi Shing, Tony, the chairman and the managing director of the Company, and Mr. Ng Siu Ping, George, an executive Director, acting on the advice of Mr. Wong Kong Chi, an independent non-executive Director, conducted the negotiations with Kingboard on the Share Repurchase and therefore are considered not eligible to advise Disinterested Shareholders on the Share Repurchase. Mr. Yip Tsz Hin, Stephen, Mr. Ting Hon Yam, Mr. Wong Kam Yim, Kenny and Mr. Young Man Kim, Robert, all executive Directors, attended the Board meeting to approve the Share Repurchase and concluded at that time that the Share Repurchase was in the interest of the Company. They are therefore considered not eligible to advise Disinterested Shareholders on the Share Repurchase. Ms. Ip Fung Kuen, the sister of Mr. Ip Chi Shing, Tony and an executive Director receiving salary from the Company and a concert party of Mr. Ip Chi Shing, Tony, is therefore considered not eligible to advise Disinterested Shareholders on the Share Repurchase.

LETTER FROM SOMERLEY

Accordingly, Mr. Tong Wui Tung, Ronald, who was not involved in any discussions or decisions in respect of the Share Repurchase, has been appointed the Independent Director to advise Disinterested Shareholders whether they should approve or disapprove the relevant resolution to be proposed at the EGM in relation to the Share Repurchase. Somerley has been appointed as independent financial adviser to advise the Independent Director in this regard.

Under Rule 2 of the Repurchases Code, the Share Repurchase must be approved by the Executive. The Executive's approval will normally be conditional upon approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by Disinterested Shareholders present in person or by proxy at the EGM. Disinterested Shareholders are defined in the Circular as all Shareholders except Kingboard, the vendor of the Repurchase Shares, and its concert parties.

All the Directors are independent of and are not acting in concert with the controlling shareholders, directors, chief executive or substantial shareholders of Kingboard or any of its subsidiaries or any of their respective associates. Accordingly, all Directors who are also Shareholders are eligible to vote at the EGM, and they have indicated that they will vote in favour and will procure their respective spouses who hold Shares to vote in favour of the resolution to be proposed at the EGM in relation to the Share Repurchase.

In formulating our opinion, we have relied upon the information and facts supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all information and representations made to us or referred to in the Circular were true, accurate and complete in all respects at the time they were made and will continue to be true as at the date of the EGM. We consider that the information that we have received is sufficient for us to reach the conclusions set out in this letter and we have no reason to doubt the truth and accuracy of the information provided to us. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and opinions and have not conducted an independent review of the business, operations or financial condition of the Group or the prospects for the industries in which the Company and its subsidiaries operate.

BACKGROUND TO AND REASONS FOR THE AGREEMENT

Kingboard approached the Company in late August 2002 and indicated that they were considering the disposal of their entire shareholding in the Company. On 23rd September, 2002, following arms' length negotiations with Kingboard, the Company entered into the Agreement to purchase from Kingboard 48,096,000 Shares at HK\$0.88 each, for a total consideration of HK\$42,324,480. The Repurchase Shares represent 9.6% of the existing issued share capital of the Company. We understand that Kingboard acquired its shareholding in the Company for investment purposes. Immediately after the Share Repurchase, Kingboard will have no further shareholding in the Company.

LETTER FROM SOMERLEY

Kingboard is principally engaged in the manufacture of laminates, copper foil, glass fabric, bleached kraft paper and printed circuit boards. Like the Group, Kingboard is also engaged in chemical products trading and trading of such products between subsidiaries of the Company and Kingboard occurs from time to time. The annual sales and purchases of goods for the year ended 31st March, 2002 by the Group to and from subsidiaries of Kingboard amounted to approximately HK\$2.7 million and HK\$0.3 million respectively, representing less than 1% and 0.2% of the consolidated turnover and purchases of the Company respectively.

Other than its holding of 48,096,000 Shares and its business relationship with the Company as set out above, the controlling shareholder, substantial shareholders, directors and chief executive of Kingboard and its subsidiaries, and their respective associates, are independent of and are not acting in concert with the directors, the chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Kingboard and its concert parties have no representative on the Board.

The Ip Family and the Directors and their respective concert parties have confirmed that they do not hold any shares in Kingboard. They have also confirmed that they have no business, financial or other relationship with Kingboard or its controlling shareholder.

On the above basis, we are satisfied that the Agreement was reached after normal commercial negotiations between arms' length parties and represents for the Company the best terms obtainable from Kingboard for the Repurchase Shares on a willing buyer, willing seller basis.

LETTER FROM SOMERLEY

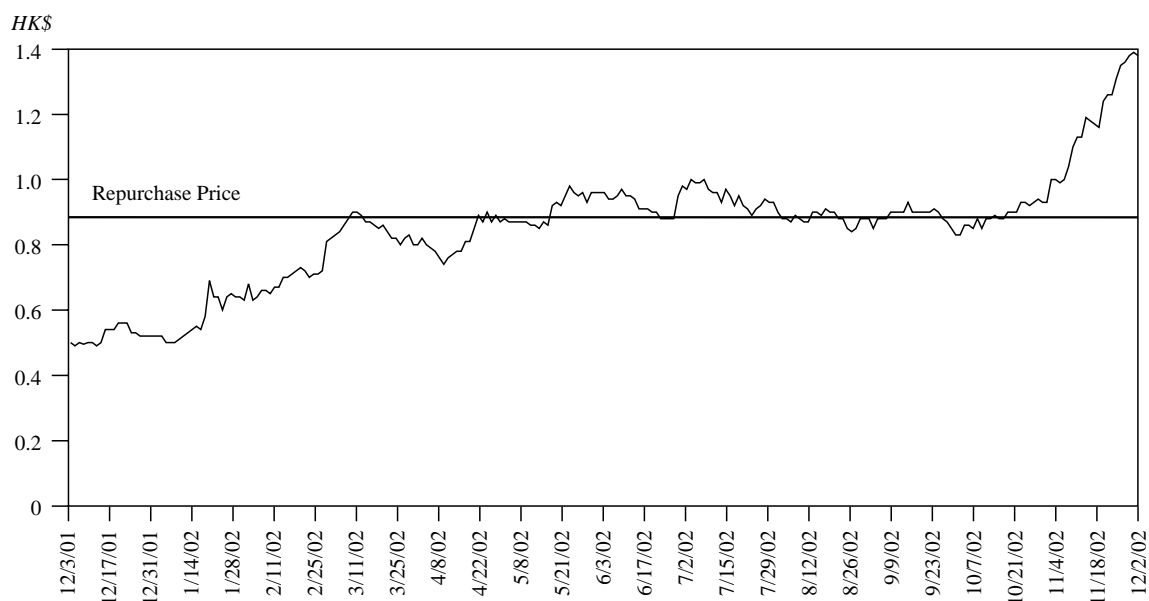
PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion on the fairness and reasonableness of the Agreement, we have taken into account the following principal factors:

1. Repurchase Price compared to market price

The Repurchase Price is HK\$0.88 per Repurchase Share. The following chart illustrates the Repurchase Price as compared to the daily closing price of the Shares as quoted on the Stock Exchange for a period of 12 months from the beginning of December 2001 to the Latest Practicable Date (the “Relevant Period”):

Daily closing price of Shares during the Relevant Period



The market price of the Shares during the Relevant Period has shown 3 broad trends:

- (i) a period when the Share price rose from its low for the period of HK\$0.49 in December 2001 to approximately the Repurchase Price of HK\$0.88 in March 2002;
- (ii) a period from March 2002 to late October 2002 when the Share price varied around the Repurchase Price; and
- (iii) a recent trend, from late October 2002, where the Share price has risen and remained above the Repurchase Price.

The Repurchase Price represents a premium/discount to the Share prices during the Relevant Period as follows:

- a discount of approximately 2.2% to the closing price of the Shares of HK\$0.900 per Share as quoted on the Stock Exchange on 23rd September, 2002, being the date of the Agreement;

LETTER FROM SOMERLEY

- a discount of approximately 1.3% to the six-month average closing price of the Shares of approximately HK\$0.892 per Share, as quoted on the Stock Exchange from 24th March, 2002 up to and including 23rd September, 2002;
- a premium of approximately 19.9% to the one-year average closing price of the Shares of approximately HK\$0.734 per Share as quoted on the Stock Exchange from 24th September, 2001 up to and including 23rd September, 2002; and
- a discount of approximately 26.1% to the one month average closing price of the Shares of approximately HK\$1.191 per Share as quoted on the Stock Exchange from 3rd November, 2002 up to and including the Latest Practicable Date.

The closing price of the Shares on the Latest Practicable Date was HK\$1.38.

Based on the above analysis, the Repurchase Price reasonably reflects, in our opinion, the Share price trends over the last 12 months. Comparing the Repurchase Price with the strong performance of the Shares over the last month, we consider that the Repurchase Price is favourable to the Company.

We also have reviewed off-market share repurchase transactions during the period from the beginning of 1999 up to the Latest Practicable Date, which are set out below. We have excluded the off-market share repurchase transaction carried out by SEA Holdings Limited as the transaction was not completed; we have also excluded the off-market share repurchase transaction carried out by Pegasus International Holdings Limited as it was in respect of non-voting convertible preference shares; we have also excluded the off-market share repurchase transaction carried out by AV Concept Holdings Limited as the consideration for the transaction included a transfer of business rather than cash.

	Date of announcement of the share repurchase	Prevailing market price of the share on the date of announcement	Repurchase price HK\$	(Discount)/ premium
Cheng Ming Investments Limited (formerly known as Sega.com Asia Limited)	10th February, 2001	0.465	0.79	69.9%
CLP Holdings Limited	27th August, 1999	36.10	34.80	(3.6)%
Hong Kong Aircraft Engineering Company Limited	15th September, 2000	12.20	15.25	25.0%
Shangri-La Asia Limited	11th December, 2001	6.35	6.85	7.9%
Company		0.90	0.88	(2.2)%

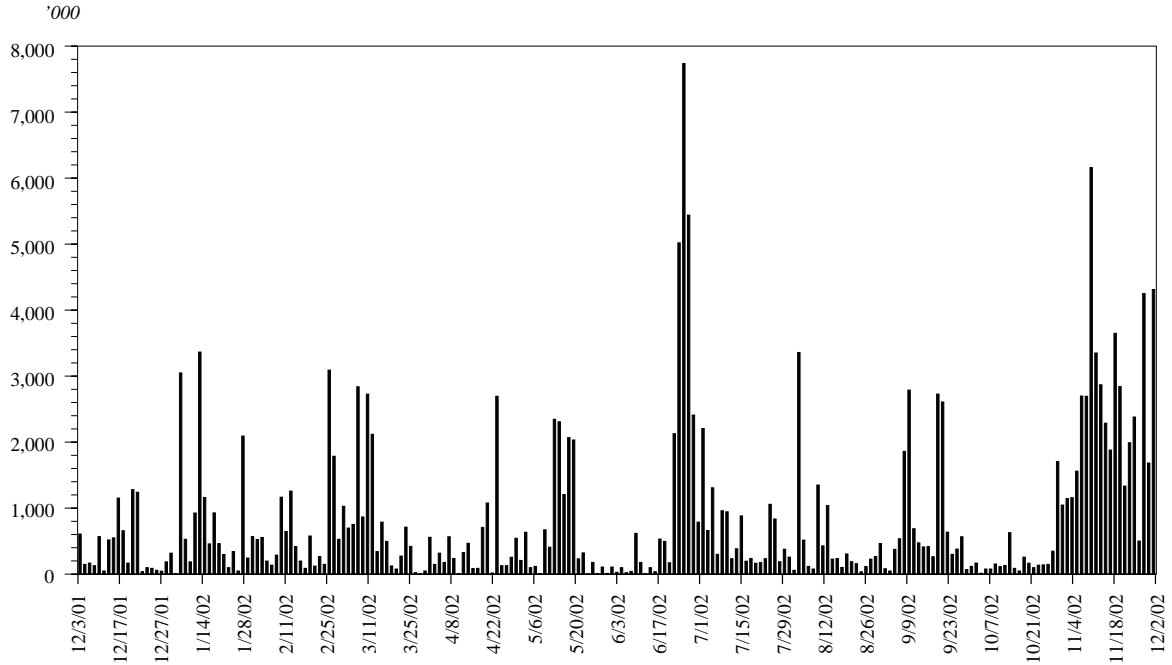
As shown in the above schedule, most of the repurchase prices for previous share repurchase transactions were at a premium to the prevailing market price. On this basis, we consider it is reasonable for the Company to repurchase Shares at the Repurchase Price, reflecting as it does a 2.2% discount to the market price at the date of announcement.

LETTER FROM SOMERLEY

2. Volume of trading in Shares

Set out below is a chart which illustrates the daily trading volume of the Shares on the Stock Exchange during the Relevant Period.

Daily trading volume of the Shares during the Relevant Period



As shown in the above chart, the daily trading volume of the Shares during the Relevant Period was below one million Shares on the majority of trading days and not infrequently was nil.

LETTER FROM SOMERLEY

Monthly trading volume of the Shares during the Relevant Period

	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002	July 2002	August 2002	September 2002	October 2002	November 2002	Average
Number of Shares (million)	7.5	12.5	9.4	19.9	7.7	13.6	1.6	33.2	11.2	15.5	3.6	47.6	15.3
% to the weighted average number of Shares in issue	1.5%	2.5%	1.9%	4.0%	1.5%	2.7%	0.3%	6.6%	2.2%	3.1%	0.7%	9.5%	3.1%
% to the weighted average number of Shares held in public hands	5.2%	8.7%	6.5%	13.6%	5.3%	9.3%	1.1%	22.4%	7.5%	10.4%	2.7%	35.3	10.7%

In the table shown above, the monthly trading volume during the Relevant Period ranges from a high of 47.6 million Shares in November 2002 to a low of 1.6 million Shares in June 2002, with an average of 15.3 million Shares. We believe that the surge in trading volume of the Shares in November 2002 was mainly due to the release of the interim results of the Group for the six months ended 30th September, 2002 which reflected a growth in the net profit of the Group of approximately 92% as compared to the same period in 2001. The net profit of the Group was 4% higher than the net profit of the Group for the whole financial year of 2001/02.

The above table also shows that the number of Shares traded during the Relevant Period as compared to the weighted average number of total issued Shares ranges from the low of 0.7% in October 2002 to the high of 9.5% in November 2002, with an average of approximately 3.1%. Shares traded during the Relevant Period as compared to Shares in public hands shows an average percentage of approximately 10.7% during the Relevant Period. Taking into account the sudden surge in the trading volume in July and November 2002 which significantly lifted the average trading volume of the Shares during the Relevant Period, we consider that the general level of liquidity of the Shares is relatively low.

In our opinion, the trading volume in the Shares supports the Directors' view that if Kingboard were to dispose of the Repurchase Shares in the open market, a downward pressure would be exerted on the Share price for a considerable period of time. We consider that it is preferable from the point of view of Disinterested Shareholders to remove this overhang of Shares through the Share Repurchase. In addition, in our opinion, if the Company attempted to repurchase up to 48 million Shares in the market, the Share price would rise and the Company would have difficulty in acquiring such Shares at a price of HK\$0.88 per Share.

LETTER FROM SOMERLEY

3. Funding of Share Repurchase and working capital of the Group

As at 31st October, 2002, the Group had short term bank deposits and cash balances of approximately HK\$147.0 million, as compared to funds required for the Share Repurchase of HK\$42.3 million, plus estimated expenses of HK\$1.5 million. The interim report for the six months ended 30th September, 2002 reflects the excellent performance of the Group in the first half of the financial year with 23% growth in turnover and 97% growth in net profit as compared to the same period in 2001. The Group has outlined in that report significant plans for capital expenditure to meet expected future growth. Based on the above and on discussions with the Directors, we concur with the Directors' view that the Group has ample available cash and bank facilities in hand to fund the proposed construction of new plant and the acquisition of new machinery, as well as to fund the Share Repurchase.

The Share Repurchase will have the effect of reducing the net assets of the Group by about 8% to about HK\$542.6 million on the "audited NAV" basis set out below. However, as bank deposits and cash (after provision for funding the Share Repurchase) exceed the bank borrowings of HK\$56.7 million as at 31st October, 2002, we consider the effect on the Group's financial gearing is not materially adverse.

Consequently, we are satisfied that the Group has surplus financial resources available to fund the Share Repurchase prudently, without jeopardising the future growth of the Group or straining its capital structure.

Given the above and taking into account that the Directors do not anticipate any change in the proportion of earnings which the Group pays out as dividend, we also concur with the Directors' view that the Share Repurchase should have no material impact on the Company's dividend payments in the near future.

LETTER FROM SOMERLEY

4. Effects of the Share Repurchase on earnings and net assets per Share

- (i) *Effects on earnings per Share (based on the earnings per Share for six months ended 30th September, 2002)*

The table below sets out the effects of the Share Repurchase on earnings per Share based on the unaudited results of the Group for the six months ended 30th September, 2002.

	Unaudited results before adjusting for Completion	Unaudited results adjusted for Completion
Number of Shares in issue	503,611,121	455,515,121
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consolidated net profit for the six months ended 30th September, 2002	62,410	62,410
Deemed financing costs of the Share Repurchase (<i>Note</i>)	—	(438)
Net profit/adjusted net profit	62,410	61,972
Earnings per Share/adjusted earnings per Share	HK 12.4 cents	HK 13.6 cents
This represents an increase of:		9.7%

Note: assumed to be funded by internal cash resources with an opportunity cost of 2% per annum (1% for six months).

LETTER FROM SOMERLEY

- (ii) *Comparison of earnings per Share for the year ended 31st March, 2002 with other comparables*

The audited basic earnings per Share for the year ended 31st March, 2002 were HK 12.2 cents. Based on the basic earnings per Share of HK 12.2 cents, the price earnings ratio for the Share Repurchase at a price of HK\$0.88 per Share is 7.2 times. This compares with the latest available price earnings ratios for Hong Kong listed companies with similar activities as follows:

Company	Descriptions of business	Market capitalization* as at the Latest Practicable Date	P/E ratio
Kingboard Chemicals Holdings Limited	principally engaged in manufacture and sale of laminates, copper foil, glass fabric, bleached kraft paper and specialty chemicals	HK\$3,043.4 million	8.1
Greenfield Chemicals Holdings Limited	principally engaged in manufacture and sale of industrial anti-corrosive coatings	HK\$118.8 million	2.8
CNT Group Limited	principally engaged in manufacture and sale of paint	HK\$147.7 million	22.1
Wing Shing Chemical Holdings Limited	principally engaged in the manufacture and sale of paints, blended solvents and plastic colorants; trading of chemical materials	HK\$244.8 million	7.2
Sunlord Chemical Group Limited	principally engaged in manufacture and sale of petroleum refined products, namely: lubricating oil and lubricating grease for industrial usage; anti-corrosive coating for a variety of applications; and composite additive for diesel engine oil	HK\$301.2 million	3.8
the Company			7.2

* *Based on the total issued shares and the closing price as quoted on the Stock Exchange on the Latest Practicable Date.*

The above comparables represent all the Hong Kong listed companies which are principally engaged in the manufacture and sale of chemicals or chemical related products. We believe that using companies in a similar line of business as comparables in analysing the earnings per Share is the most valid approach and indeed essential in a specialised industry as it could be reasonably assumed that these companies have similar characteristics in terms of demand, supply, cost of raw materials and product life cycle. Thus, their earnings will be affected by the trading environment and economic conditions in a similar way.

Based on the rating of above comparable companies, we consider the Repurchase Price, reflecting a price earnings ratio of 7.2 times, is a reasonable basis for the Company to repurchase its Shares.

LETTER FROM SOMERLEY

(iii) *Net asset value per Share (“NAV”)*

(a) Audited NAV

As set out in the letter from the Board, the effect of the Share Repurchase on the audited NAV per Share is as follow:

	Audited NAV per Share as at 31st March, 2002 HK\$
Based on NAV of HK\$586.4 million and 499.3 million Shares in issue	1.17
Based on NAV of HK\$542.6 million and 451.2 million Shares assumed to be in issue, after adjustment for 48.1 million Shares repurchased at a cost of HK\$43.8 million	1.20
Increase in audited NAV per Share	2.6%

The Repurchase Price of HK\$0.88 per Share represents a discount of approximately 24.8% to the audited NAV. The Share Repurchase has the effect of improving the NAV per Share on the above basis by 2.6%.

LETTER FROM SOMERLEY

(b) Adjusted unaudited NAV

As set out in the Letter from the Board, the effect of the Share Repurchase on the unaudited consolidated NAV of the Company as at 30th September, 2002 adjusted for a deficit on property valuation and assuming that the Share Repurchase was completed as at 30th September, 2002 is as follows:

	Unaudited NAV per Share as at 30th September, 2002 HK\$
Based on unaudited NAV of HK\$559.1 million after adjustment for the revaluation deficit of approximately HK\$74.4 million and 502.9 million Shares in issue at 30th September, 2002	1.11
Based on unaudited NAV of HK\$515.3 million after adjustment for the revaluation deficit of HK\$74.4 million and 48.1 million Shares repurchased at a cost of HK\$43.8 million	1.13
Increase in adjusted unaudited NAV per Share	1.8%

The Repurchase Price per Share represents a discount of 20.7% to the unaudited adjusted NAV of HK\$1.11 per Share. The Share Repurchase has the effect of improving the unaudited adjusted NAV per Share on the above basis by 1.8%.

5. Shareholding control and listed status

Following Completion, the Repurchase Shares will be cancelled. As a result, the number of Shares in issue immediately following the Share Repurchase will be reduced from 503,611,121 to 455,515,121. Accordingly, the percentage shareholdings of all the Shareholders will be increased by approximately 10.6%. This will increase the holding of the Ip family from 62.9% to 69.6%. However, as the Ip family has controlled the Company since its flotation in 1991, we do not consider this increase prejudices the interests of Shareholders generally.

Following Completion, the public float of the Shares will be approximately 29.6%, which is in compliance with Rule 8.08 of the Listing Rules of the Stock Exchange for public float. Consequently, the listed status of the Company will not be affected by the Share Repurchase.

LETTER FROM SOMERLEY

CONCLUSIONS AND RECOMMENDATION

Having considered the above principal factors, in particular that:

1. the price of the Share Repurchase is reasonable when viewed against the market price over the past year and favourable when viewed against the market price in the last month;
2. given the generally low level of the trading volume of the Shares, the Share Repurchase both enables the Company to repurchase a substantial block of Shares which would otherwise be difficult and prevents a period of possible weakness in the Share price if Kingboard decided to dispose of its holding in the market;
3. the Share Repurchase is funded by surplus cash resources and will not, in our opinion, have a material adverse impact on the Company's cash flow, liquidity position or dividends in the near future;
4. the Share Repurchase is based on a basic price earnings ratio of 7.2 times and would improve the earnings per Share by approximately 10%. It also improves the audited and adjusted unaudited NAV per Share by approximately 2-3% on the bases set out above; and
5. the Share Repurchase will not affect the control or listed status of the Company,

we are of the opinion that the terms of the Agreement are fair and reasonable so far as Disinterested Shareholders are concerned. Accordingly, we advise the Independent Director to recommend Disinterested Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. SHARE CAPITAL

The authorized and issued share capital of the company as at the Latest Practicable Date and upon Completion are as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>800,000,000 Shares</u>	<u>80,000,000.00</u>
 <i>Issued and to be cancelled</i>	
503,611,121 Shares in issue as at the Latest Practicable Date	50,361,112.10
<u>48,096,000 Shares to be cancelled after Completion</u>	<u>4,809,600.00</u>
<u>455,515,121 Shares in issue after Completion</u>	<u>45,551,512.10</u>

The total number of Shares in issue as at 31st March, 2002 was 499,331,121. During the six months from 1st April, 2002 and up to the Latest Practicable Date, an aggregate of 4,280,000 Shares were issued upon exercise of option under the share option scheme adopted by the Company on 18th July, 1991. Of the 4,280,000 Shares, 2,300,000 Shares were exercised at a price of HK\$0.395, 1,400,000 Shares were exercised at a price of HK\$0.314 and 580,000 Shares were issued at a price of HK\$0.3.

On the Latest Practicable Date, a total of 503,611,121 Shares were in issue.

All the Shares in issue are fully paid up and rank pari passu in all respects including all rights as to dividends, voting and capital.

Pursuant to the share option scheme adopted by the Company on 18th July, 1991 and 28th August, 2001, the Board may at their discretion grant options to any employees of the Group, including Directors or directors of any member of the Group to subscribe for Shares subject to certain terms and conditions which in aggregate may not exceed 10% of the issued share capital of the Company from time to time, excluding Shares issued pursuant to the scheme. Pursuant to the option scheme adopted by the Board on 3rd September, 2002, the Board has the right to grant options, at their sole discretion, to any employee, legal, financial, management and technical adviser, legal, financial, management and technical consultant, major customer and raw material and machinery supplier of any members of the Group to subscribe for Shares such that the total number of Shares shall not exceed 10% of the issued share capital of the Company from time to time, unless the Company obtains an approval from the Shareholders to refresh such 10% limit. Nevertheless, the maximum number of Shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option schemes of the Company shall not in aggregate exceed 30% of the Shares in issue from time to time.

As at the Latest Practicable Date, the Company had outstanding options granted under the share option scheme entitling the holders to subscribe for a total of 17,780,000 Shares as follows:

No. of Shares issuable under options	Subscription price per Share	Option period
280,000	0.314	3/3/1999 – 2/3/2004
1,800,000	0.395	16/7/2001 – 15/7/2006
15,700,000	1.190	14/11/2002 – 13/11/2012
<u>17,780,000</u>		

2. FINANCIAL INFORMATION

A. Summary of financial results for the six months ended 30th September, 2002 and the three years ended 31st March, 2002

The following is a summary of the results of the Group based on the audited consolidated profits and loss accounts of the Group for the six months ended 30th September, 2002 and each of the three years ended 31st March, 2002.

Consolidated income statement

	For the six months ended		For the year ended 31st March,	
	30th September, 2002 HK\$	2002 HK\$	2001 HK\$	2000 HK\$
Turnover	735,000,000	1,113,476,674	1,069,868,752	925,488,643
Cost of sales	(507,029,000)	(792,910,705)	(764,367,968)	(599,440,822)
Gross profit	227,971,000	320,565,969	305,500,784	326,047,821
Other revenue	5,404,000	4,584,140	8,774,833	6,831,634
Selling expenses	(27,571,000)	(42,411,255)	(55,640,568)	(45,805,555)
Administrative expenses	(130,657,000)	(210,309,991)	(206,365,299)	(206,759,369)
Profit from operations	75,147,000	72,428,863	52,269,750	80,314,531
Interest expenses	(1,151,000)	(2,994,136)	(5,029,328)	(2,950,429)
Loss on disposal of subsidiaries	—	—	(685,834)	(8,228,931)
Provision for the amount recoverable from a property developer in Mainland China	—	—	—	(3,736,052)
Profit before taxation	73,996,000	69,434,727	46,554,588	65,399,119
Taxation	(5,365,000)	(4,774,151)	(3,063,164)	(5,942,759)
Profit before minority interests	68,631,000	64,660,576	43,491,424	59,456,360
Minority interests	(6,221,000)	(4,643,500)	(3,974,719)	(5,015,538)
Net profit for the period	<u>62,410,000</u>	<u>60,017,076</u>	<u>39,516,705</u>	<u>54,440,822</u>
Interim Dividend/Dividends	<u>20,115,000</u>	<u>29,903,817</u>	<u>24,580,206</u>	<u>29,393,897</u>
Dividend per Share	<u>4.0 cents</u>	<u>6.0 cents</u>	<u>5.0 cents</u>	<u>6.0 cents</u>
Earnings per Share				
– Basic	<u>12.5 cents</u>	<u>12.2 cents</u>	<u>8.1 cents</u>	<u>11.2 cents</u>
– Diluted	<u>12.4 cents</u>	<u>12.1 cents</u>	<u>8.0 cents</u>	<u>11.1 cents</u>

B. Financial information of the Group for the two years ended 31st March, 2002

The following financial report is extracted from the audited consolidated financial statements of the Group for the year ended 31st March, 2002.

“Consolidated income statement

	<i>Notes</i>	For the year ended 31st March,	
		2002	2001
		<i>HK\$</i>	<i>HK\$</i>
Turnover	5	1,113,476,674	1,069,868,752
Cost of sales		(792,910,705)	(764,367,968)
Gross profit		320,565,969	305,500,784
Other revenue		4,584,140	8,774,833
Selling expenses		(42,411,255)	(55,640,568)
Administrative expenses		(210,309,991)	(206,365,299)
Profit from operations	6	72,428,863	52,269,750
Interest expenses	8	(2,994,136)	(5,029,328)
Loss on disposal of subsidiaries		—	(685,834)
Profit before taxation		69,434,727	46,554,588
Taxation	9	(4,774,151)	(3,063,164)
Profit before minority interests		64,660,576	43,491,424
Minority interests		(4,643,500)	(3,974,719)
Net profit for the year		<u>60,017,076</u>	<u>39,516,705</u>
Dividends	10	<u>29,903,817</u>	<u>24,580,206</u>
Earnings per share	11		
– Basic		<u>12.2 cents</u>	<u>8.1 cents</u>
– Diluted		<u>12.1 cents</u>	<u>8.0 cents</u>

Consolidated Balance Sheet

		At 31st March,	
	Notes	2002 HK\$	2001 HK\$ (restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	226,269,875	227,849,596
Other non-current assets	14	4,600,000	4,600,000
Deferred expenditure	15	—	9,473,533
		<u>230,869,875</u>	<u>241,923,129</u>
Current assets			
Inventories	16	144,909,802	183,991,814
Trade debtors	17	235,177,102	231,031,017
Other debtors and prepayments		27,869,571	34,305,379
Taxation recoverable		76,303	1,091,253
Short term bank deposits		39,889,855	2,043,805
Bank balances and cash		82,267,168	47,113,197
		<u>530,189,801</u>	<u>499,576,465</u>
Current liabilities			
Creditors and accrued charges	18	113,412,504	86,839,474
Taxation payable		4,975,379	4,197,320
Bank borrowings	19	36,983,850	95,489,040
		<u>155,371,733</u>	<u>186,525,834</u>
Net current assets		<u>374,818,068</u>	<u>313,050,631</u>
Total assets less current liabilities		605,687,943	554,973,760
Minority interests		19,249,767	14,727,591
		<u>586,438,176</u>	<u>540,246,169</u>
CAPITAL AND RESERVES			
Share capital	20	49,933,112	49,093,912
Reserves	22	536,505,064	491,152,257
Shareholders' funds		<u>586,438,176</u>	<u>540,246,169</u>

Balance Sheet

		At 31st March,	
	<i>Notes</i>	2002	2001
		<i>HK\$</i>	<i>HK\$</i>
			<i>(restated)</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	<i>13</i>	112,699,998	112,699,998
Current assets			
Other debtors and prepayments		184,250	138,325
Amount due from a subsidiary		277,446,632	259,376,806
Taxation recoverable		16,576	18,650
Bank balances and cash		530,976	236,295
		<u>278,178,434</u>	<u>259,770,076</u>
Current liabilities			
Accrued charges		886,937	595,136
		<u>277,291,497</u>	<u>259,174,940</u>
Net current assets		<u>389,991,495</u>	<u>371,874,938</u>
Net assets		<u><u>389,991,495</u></u>	<u><u>371,874,938</u></u>
CAPITAL AND RESERVES			
Share capital	<i>20</i>	49,933,112	49,093,912
Reserves	<i>22</i>	340,058,383	322,781,026
		<u>389,991,495</u>	<u>371,874,938</u>
Shareholders' funds		<u><u>389,991,495</u></u>	<u><u>371,874,938</u></u>

Consolidated Statement of Recognised Gains and Losses

	For the year ended 31st March,	
	2002 HK\$	2001 HK\$ (restated)
Net gains not recognised in the consolidated income statement in respect of exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	8,095,817	10,799,659
Net profit for the year	<u>60,017,076</u>	<u>39,516,705</u>
Total recognised gains	68,112,893	50,316,364
Goodwill arising on acquisition of the remaining interest in subsidiaries charged to the accumulated profits	<u>—</u>	<u>(330,236)</u>
	<u>68,112,893</u>	<u>49,986,128</u>
Prior period adjustment arising from derecognition of final dividend declared by the Company (note 2)		<u>17,136,319</u>

Consolidated Cash Flow Statement

	<i>Notes</i>	For the year ended 31st March,	
		2002 <i>HK\$</i>	2001 <i>HK\$</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	23	183,540,256	13,141,820
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(24,700,706)	(29,443,047)
Interest paid		(2,994,136)	(5,029,328)
Dividends paid to minority shareholders of subsidiaries		(1,126,800)	(2,010,340)
Interest received		527,087	1,380,094
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(28,294,555)	(35,102,621)
TAXATION			
Hong Kong Profits Tax paid		(2,455,069)	(9,960,308)
Enterprise Income Tax in Mainland China paid		(526,073)	—
Hong Kong Profits Tax refunded		—	35,518
NET CASH OUTFLOW FROM TAXATION		(2,981,142)	(9,924,790)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(24,940,000)	(29,822,329)
Proceeds from disposal of property, plant and equipment		1,510,287	423,959
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	24	—	(180,270)
Decrease in pledged bank deposits		—	10,696,279
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(23,429,713)	(18,882,361)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		128,834,846	(50,767,952)

Consolidated Cash Flow Statement (continued)

	Notes	For the year ended 31st March,	
		2002 HK\$	2001 HK\$
FINANCING	25		
Bank loans raised		38,856,450	72,521,531
Shares issued for cash		3,461,720	533,620
Repayment of bank loans		(75,240,051)	(36,947,277)
Net cash (outflow) inflow from import loans		(22,157,645)	4,986,669
Premium paid on repurchase of shares		(569,100)	—
Par value of shares repurchased		(112,800)	—
		<u> </u>	<u> </u>
NET CASH (OUTFLOW) INFLOW FROM FINANCING		<u>(55,761,426)</u>	<u>41,094,543</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		73,073,420	(9,673,409)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		48,347,138	57,214,387
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>736,465</u>	<u>806,160</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	<u><u>122,157,023</u></u>	<u><u>48,347,138</u></u>

Notes to the Financial Statements*For the year ended 31st March, 2002***1. GENERAL**

The Company is an exempted company incorporated in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the manufacture of and trading in high molecular chemical products and mixed solvents, paints, raw solvents, lubricants, inks and the storage of solvents in bulk.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group’s accounting policies that have affected the amounts reported and disclosures for the current and prior years.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the balance sheet date”, dividends proposed or declared after the balance sheet date but before the financial report authorised for issue was not recognised as liabilities at the balance sheet but are disclosed in the notes to the financial statements. The change in accounting policy has been applied retrospectively, resulting in a prior period adjustment. The effect of this change was to increase the Group’s and the Company’s accumulated profits by HK\$17,136,319 and HK\$12,273,478 at 1st April, 2000 and 1st April, 2001 respectively.

Leases

SSAP 14 (Revised) “Leases” has introduced some amendments to the basis of accounting for leases, and to the disclosures specified for the Group’s leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods. Disclosures for the Group’s leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has followed the basis of identification of reportable segments to that required by SSAP 26 “Segment reporting”. Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a basis consistent with that for the current year.

Goodwill

In the current year, the Group has adopted SSAP 30 “Business combinations” and has elected not to restate the goodwill previously written off against accumulated profits.

Goodwill arising on acquisition prior to 1st April, 2001 continues to be held in accumulated profits and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st April, 2001 is presented as an asset and will be amortised on a straight line basis over its estimated useful life.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition after 1st April, 2001 is recognised as an asset and amortised on a straight line basis over its estimated useful life.

Goodwill arising on acquisition prior to 1st April, 2001 continues to be written off against accumulated profits and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation or amortisation and any identified impairment loss.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of that asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the remaining unexpired terms of the leases
Buildings in Hong Kong	2.5%
Buildings outside Hong Kong on freehold land	2.5%
Buildings outside Hong Kong on long leases or medium term leases, including the renewal period	Over the shorter of twenty years or the unexpired terms of the original leases
Buildings outside Hong Kong on short term leases	Over the unexpired terms of the leases
Furniture, fixtures and office equipment	20% to 50%
Motor vehicles	20% to 33%
Plant and machinery	6% to 33%

Construction in progress will not be depreciated until the assets are put into use and accordingly is stated at cost.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at carrying value less any identified impairment loss.

Deferred expenditure

Deferred expenditure represents the costs incurred by the Group in obtaining an exclusive licence to use certain storage tanks and ancillary facilities in Mainland China. The costs include licence fees paid in advance to the independent third party, certain additional direct costs attributable to the project and the interest capitalised during the period of development of the facilities. Upon completion of the construction, amortisation is provided to write off the cost of the deferred expenditure based on the attributable economic benefits expected to be derived from the licence every year over the initial licence period of 12 years. Should the expected economic benefits in a particular year not be realised, the deferred expenditure will be written down immediately to reflect revised estimates of economic benefits expected to be derived from the licence over the remaining licence period with subsequent annual amortisation charges to be adjusted accordingly.

Joint ventures

The Group has investments in joint ventures established in Mainland China. In respect of those equity joint ventures of which the partners' capital contribution ratios are defined in the joint venture contracts and the partners' profit sharing ratios are in proportion to the capital contribution ratios, the Group accounts for these investments in equity joint ventures as subsidiaries as the Group holds more than half of the contributed capital and controls the composition of the board of directors or equivalent governing body.

In addition to these equity joint ventures, the Group holds a 40% interest in a co-operative joint venture established in Mainland China, 湛江凌志潤滑油有限公司 Zhanjiang Best Lubricant Blending Limited, which is engaged in the manufacture of and trading in lubricants. In accordance with the joint venture agreement of this co-operative joint venture, the income, expenses, assets and liabilities arising from this interest are directly attributable to the Group and are accounted for as such.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers and services rendered during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Storage income is recognised when storage services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries outside Hong Kong are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the respective lease terms.

4. 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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

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

	High molecular chemical products and mixed solvents <i>HK\$'000</i>	Paints <i>HK\$'000</i>	Raw solvents <i>HK\$'000</i>	Lubricants <i>HK\$'000</i>	Inks <i>HK\$'000</i>	Storage <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31st March, 2002								
Segment revenue								
External sales	276,834	349,190	289,388	84,711	99,273	14,081	—	1,113,477
Inter-segment sales	1,697	2,249	17,584	52	1,387	2,549	(25,518)	—
Total	<u>278,531</u>	<u>351,439</u>	<u>306,972</u>	<u>84,763</u>	<u>100,660</u>	<u>16,630</u>	<u>(25,518)</u>	<u>1,113,477</u>
Results								
Segment result	35,864	11,013	17,498	644	11,868	(2,663)	114	74,338
Interest income								527
Unallocated corporate expenses								(2,436)
Profit from operations								72,429
Interest expenses								(2,994)
Profit before taxation								69,435
Taxation								(4,774)
Profit before minority interests								64,661
Minority interests								(4,644)
Net profit for the year								<u>60,017</u>
Year ended 31st March, 2001								
Segment revenue								
External sales	300,131	411,757	216,801	69,201	57,319	14,660	—	1,069,869
Inter-segment sales	3,927	16,095	23,888	263	2	2,141	(46,316)	—
Total	<u>304,058</u>	<u>427,852</u>	<u>240,689</u>	<u>69,464</u>	<u>57,321</u>	<u>16,801</u>	<u>(46,316)</u>	<u>1,069,869</u>
Results								
Segment result	29,745	7,616	13,702	(105)	2,829	659	(114)	54,332
Interest income								1,380
Unallocated corporate expenses								(3,442)
Profit from operations								52,270
Interest expenses								(5,029)
Loss on disposal of subsidiaries								(686)
Profit before taxation								46,555
Taxation								(3,063)
Profit before minority interests								43,492
Minority interests								(3,975)
Net profit for the year								<u>39,517</u>

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

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FINANCIAL INFORMATION ON THE GROUP

(ii) Other information

	High molecular chemical products and mixed solvents <i>HK\$'000</i>	Paints <i>HK\$'000</i>	Raw solvents <i>HK\$'000</i>	Lubricants <i>HK\$'000</i>	Inks <i>HK\$'000</i>	Storage <i>HK\$'000</i>	Corporate level <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31st March, 2002								
Capital additions	4,020	6,018	3,778	2,753	7,790	—	581	24,940
Depreciation and amortisation of property, plant and equipment	6,691	13,179	1,478	2,224	2,120	8	1,102	26,802
Amortisation of deferred expenditure	—	—	—	—	—	9,474	—	9,474
Year ended 31st March, 2001								
Capital additions	8,177	15,074	1,757	1,918	2,545	—	351	29,822
Depreciation and amortisation of property, plant and equipment	6,278	12,195	1,208	2,120	1,487	71	2,490	25,849
Amortisation of deferred expenditure	—	—	—	—	—	10,335	—	10,335

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

	High molecular chemical products and mixed solvents <i>HK\$'000</i>	Paints <i>HK\$'000</i>	Raw solvents <i>HK\$'000</i>	Lubricants <i>HK\$'000</i>	Inks <i>HK\$'000</i>	Storage <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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>
At 31st March, 2001								
Assets								
Segment assets	149,821	283,933	94,408	74,280	39,390	11,147	(114)	652,865
Taxation recoverable								1,091
Unallocated corporate assets								87,544
Consolidated total assets								<u>741,500</u>
Liabilities								
Segment liabilities	21,605	29,593	17,008	10,181	4,626	573	—	83,586
Taxation payable								4,197
Unallocated corporate liabilities								98,743
Consolidated total liabilities								<u>186,526</u>

(b) Geographical segment

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

	Turnover		Contribution to profit (loss) from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The People's Republic of China				
– Mainland China	1,076,716	1,011,939	76,549	56,599
– Hong Kong	29,589	50,754	(1,780)	(1,933)
Others	7,172	7,176	(431)	(334)
	<u>1,113,477</u>	<u>1,069,869</u>	74,338	54,332
Interest income			527	1,380
Unallocated corporate expenses			<u>(2,436)</u>	<u>(3,442)</u>
Profit from operations			<u>72,429</u>	<u>52,270</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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The People's Republic of China				
– Mainland China	631,995	645,344	22,861	27,480
– Hong Kong	119,166	85,757	2,028	1,906
Others	9,899	10,399	51	436
	<u>761,060</u>	<u>741,500</u>	<u>24,940</u>	<u>29,822</u>

5. TURNOVER

An analysis of the Group's turnover is as follows:

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Sales of goods	1,099,396,098	1,055,209,440
Storage income	14,080,576	14,659,312
	<u>1,113,476,674</u>	<u>1,069,868,752</u>

6. PROFIT FROM OPERATIONS

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Profit from operations has been arrived at after charging:		
Amortisation of deferred expenditure	9,473,533	10,334,748
Auditors' remuneration	1,472,150	1,866,307
Depreciation and amortisation of property, plant and equipment	26,801,720	25,849,364
Loss on disposal of property, plant and equipment	1,449,569	575,207
Operating lease payments in respect of storage tanks and ancillary facilities	4,699,052	—
Operating lease payments in respect of rented premises	3,284,765	3,323,170
Staff costs, including directors' remuneration (<i>Note</i>)	134,958,355	128,966,495
and after crediting:		
Rental income in respect of storage tanks and ancillary facilities	10,685,287	11,526,918
Interest income	<u>527,087</u>	<u>1,380,094</u>

Note:

Pension contributions included in staff costs are as follows:

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Pension contributions to the Group's defined contribution schemes	2,798,795	2,651,451
<i>Less:</i> Forfeited contributions	<u>588,927</u>	<u>628,184</u>
	<u>2,209,868</u>	<u>2,023,267</u>

The Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) for certain employees. The assets of the ORSO Scheme are held separately from those of the Group in funds under the control of the independent trustees.

In the light of the introduction of the Mandatory Provident Fund Scheme (the “MPF Scheme”), all the employees in ORSO Scheme were granted a one-off option to elect to switch to the MPF Scheme or stay with the ORSO Scheme.

The cost charged to the income statement represented contributions payable to both schemes by the Group at rates specified in the rules of respective schemes. Where there are employees who have elected to stay with the ORSO Scheme and leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group in the future years are reduced by the amount of forfeited contributions.

At 31st March, 2002, there was no forfeited contributions from the ORSO Scheme, which arose upon employees leaving the ORSO Scheme and which were available to reduce the contributions payable in future years (2001: nil).

7. DIRECTORS’ REMUNERATION AND EMPLOYEES’ EMOLUMENTS

Directors

	2002 HK\$	2001 HK\$
Fees to independent non-executive directors	857,764	967,800
Emoluments to executive directors:		
Salaries and other benefits	8,733,642	9,143,330
Pension scheme contributions	618,128	358,473
Estimated rateable value of residential accommodation	436,380	476,280
	9,788,150	9,978,083
	<u>10,645,914</u>	<u>10,945,883</u>

Emoluments of the directors, including (a) accommodation benefits but excluding (b) share option benefits, were within the following bands:

	Number of directors	
	2002	2001
Nil — HK\$1,000,000	4	3
HK\$1,000,001 — HK\$1,500,000	2	1
HK\$1,500,001 — HK\$2,000,000	1	2
HK\$2,000,001 — HK\$2,500,000	—	1
HK\$2,500,001 — HK\$3,000,000	2	1
	<u>2</u>	<u>1</u>

Notes:

(a) **Accommodation benefits**

The estimated rateable value of residential accommodation in respect of properties owned by the Group and occupied by an executive director of the Company amounted to HK\$436,380 (2001: HK\$476,280).

(b) **Share option benefits**

On 16th July, 2001, the Company granted an aggregate of 2,500,000 (2001: nil) share options to certain directors of the Company.

Employees

The five highest paid individuals of the Group for the year included four (2001: four) executive directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual of the Group, not being a director of the Company, are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	1,362	1,892
Pension scheme contributions	60	45
	<u>1,422</u>	<u>1,937</u>

Emoluments of this employee, excluding share option benefits, were within the following band:

	Number of employee	
	2002	2001
HK\$1,000,001 — HK\$1,500,000	1	—
HK\$1,500,001 — HK\$2,000,000	<u>—</u>	<u>1</u>

On 16th July, 2001, the Company granted an aggregate of 500,000 (2001: nil) share options to the above employee.

8. INTEREST EXPENSES

	2002	2001
	HK\$	HK\$
Interest on bank and other borrowings wholly repayable within five years	<u>2,994,136</u>	<u>5,029,328</u>

9. TAXATION

	2002	2001
	HK\$	HK\$
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year	4,226,795	3,535,686
Overprovision in previous years	<u>(30,304)</u>	<u>(957,000)</u>
	4,196,491	2,578,686
Enterprise Income Tax in Mainland China calculated at the rates prevailing in the relevant jurisdictions	<u>577,660</u>	<u>484,478</u>
	<u>4,774,151</u>	<u>3,063,164</u>

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

10. DIVIDENDS

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Final dividend proposed after the balance sheet date: 3.5 cents (2001: 2.5 cents) per share	17,476,589	12,273,478
Interim dividend paid during the year: 2.5 cents (2001: 2.5 cents) per share	12,392,228	12,273,478
Additional prior year's final dividend paid during the year as a result of exercise of employees' share options prior to the book close date	35,000	33,250
	<u>29,903,817</u>	<u>24,580,206</u>

The final dividend proposed of 3.5 cents (2001: 2.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

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

	2002	2001
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	<u>HK\$60,017,076</u>	<u>HK\$39,516,705</u>
Weighted average number of shares for the purpose of basic earnings per share	493,551,828	490,500,518
Effect of dilutive potential shares:		
Share options	<u>3,365,264</u>	<u>1,415,729</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>496,917,092</u>	<u>491,916,247</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$	Freehold land HK\$	Leasehold land and buildings HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Plant and machinery HK\$	Total HK\$
THE GROUP							
AT COST							
At 1st April, 2001	1,440,402	2,819,671	186,627,920	59,429,770	43,518,513	112,893,186	406,729,462
Currency realignment	53,432	117,418	1,925,660	468,502	660,598	2,197,258	5,422,868
Reclassification	(1,415,374)	—	282,448	100,509	—	1,032,417	—
Additions	1,009,919	—	2,423,183	5,679,338	4,487,529	11,340,031	24,940,000
Disposals	(9,885)	—	(389,614)	(2,209,101)	(6,291,076)	(2,987,418)	(11,887,094)
At 31st March, 2002	1,078,494	2,937,089	190,869,597	63,469,018	42,375,564	124,475,474	425,205,236
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1st April, 2001	—	1,955,171	46,710,657	42,923,722	33,984,740	53,305,576	178,879,866
Currency realignment	—	81,418	544,334	259,822	432,374	863,065	2,181,013
Provided for the year	—	—	7,527,856	5,334,799	3,918,136	10,020,929	26,801,720
Eliminated on disposals	—	—	(61,369)	(2,076,414)	(5,191,947)	(1,597,508)	(8,927,238)
At 31st March, 2002	—	2,036,589	54,721,478	46,441,929	33,143,303	62,592,062	198,935,361
NET BOOK VALUES							
At 31st March, 2002	1,078,494	900,500	136,148,119	17,027,089	9,232,261	61,883,412	226,269,875
At 31st March, 2001	1,440,402	864,500	139,917,263	16,506,048	9,533,773	59,587,610	227,849,596
					2002		2001
					HK\$		HK\$

The Group's property interests comprise:

Freehold land held outside Hong Kong (<i>Note</i>)	900,500	864,500
Leasehold properties:		
Held in Hong Kong		
– long leases	1,749,216	1,777,429
– medium term leases	28,642,959	29,483,065
Held outside Hong Kong:		
– long leases	2,412,520	2,518,014
– medium term leases	103,147,965	105,937,791
– short term leases	195,459	200,964
	137,048,619	140,781,763

Note: The freehold land is located in Thailand and is currently vacant.

13. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares	<u>112,699,998</u>	<u>112,699,998</u>

The carrying value of the unlisted shares is based on the book values of the underlying net assets of Yip's Hang Cheung (Holdings) BVI Ltd. and its subsidiaries at the date on which the Company became the ultimate holding company under the group reorganisation in 1991.

Details of the Company's principal subsidiaries at 31st March, 2002 are set out in note 32.

14. OTHER NON-CURRENT ASSETS

The amount of the Group represents the cost of club debentures held by the Group.

In the opinion of the directors, the club debentures are worth at least their carrying values.

15. DEFERRED EXPENDITURE

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
COST		
At beginning of the year and at end of the year	<u>68,195,312</u>	<u>68,195,312</u>
AMORTISATION AND IMPAIRMENT		
At beginning of the year	58,721,779	48,387,031
Provided for the year	<u>9,473,533</u>	<u>10,334,748</u>
At end of the year	<u>68,195,312</u>	<u>58,721,779</u>
NET BOOK VALUE		
At end of the year	<u>—</u>	<u>9,473,533</u>

Deferred expenditure represents the costs incurred by a subsidiary in respect of a contract entered into with an independent third party ("licensor") which constructed various storage tanks and ancillary facilities, located at Xiao Hu Dao, Panyu City, Guangdong Province, the People's Republic of China. The subsidiary was granted an exclusive licence to use the storage tanks and ancillary facilities, for an initial term of 12 years with a further right, subject to agreement as to terms and fees, to use the tanks for a further 18 years. On 9th November, 2000, the subsidiary and the licensor revised the contract and agreed that the exclusive licence to use the storage tanks and ancillary facilities would be terminated on 28th February, 2002. Accordingly, the deferred expenditure was fully amortised on 28th February, 2002.

16. INVENTORIES

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Raw materials	85,034,729	115,198,687
Work in progress	7,343,756	12,678,549
Finished goods	52,531,317	56,114,578
	<u>144,909,802</u>	<u>183,991,814</u>

At 31st March, 2002, included above are raw materials of HK\$9,016,929 (2001: HK\$3,571,874), work in progress of HK\$53,702 (2001: HK\$458,855) and finished goods of HK\$3,712,501 (2001: HK\$3,020,060) which are carried at net realisable value.

17. TRADE DEBTORS

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

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
0 – 3 months	189,489,672	175,369,906
4 – 6 months	39,943,557	48,073,161
Over 6 months	23,516,271	25,246,243
	<u>252,949,500</u>	<u>248,689,310</u>
<i>Less: Allowance for bad and doubtful debts</i>	<u>(17,772,398)</u>	<u>(17,658,293)</u>
	<u>235,177,102</u>	<u>231,031,017</u>

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

18. CREDITORS AND ACCRUED CHARGES

At the balance sheet date, the balance of creditors and accrued charges included trade creditors of HK\$73,151,447 (2001: HK\$56,525,462). An aged analysis of trade creditors at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
0 – 3 months	69,073,933	49,437,220
4 – 6 months	2,882,491	4,014,763
Over 6 months	1,195,023	3,073,479
	<u>73,151,447</u>	<u>56,525,462</u>

19. BANK BORROWINGS

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Bank borrowings comprise the following:		
Bank loans	36,983,850	72,521,531
Import loans	—	22,157,645
Bank overdrafts	—	809,864
	<u>36,983,850</u>	<u>95,489,040</u>
Secured	936,300	—
Unsecured	36,047,550	95,489,040
	<u>36,983,850</u>	<u>95,489,040</u>

At 31st March, 2002, bank loans of HK\$936,300 (2001: nil) are secured by the Group's plant and machinery having a net book value of approximately HK\$9,070,000 (2001: nil).

On 30th November, 2000, Handsome Chemical Services Limited ("HCSL"), a wholly owned subsidiary of the Company, obtained an unsecured banking facility of HK\$30,000,000 which was renewed on 7th June, 2001. The facility is subject to review from time to time ("Facility A").

In addition, on 5th June, 2000, HCSL renewed another banking facility with an international bank and obtained a committed and unsecured banking facility of HK\$30,000,000 for a period of one year with a maturity date on 8th June, 2001. The facility was renewed for one more year with revised facility amount of HK\$40,000,000 with a maturity date on 8th June, 2002 (“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 the Company at a level above 50% and 51% respectively. Any breach of the aforesaid obligation will cause defaults in respect of the facilities.

20. SHARE CAPITAL

	Authorised	Issued and fully paid	
	2002 & 2001	2002	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Shares of HK\$0.10 each	<u>80,000,000</u>	<u>49,933,112</u>	<u>49,093,912</u>

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

	Number of shares	Amount
		<i>HK\$</i>
At 1st April, 2000	489,359,121	48,935,912
Exercise of share options	<u>1,580,000</u>	<u>158,000</u>
At 31st March, 2001 and 1st April, 2001	490,939,121	49,093,912
Exercise of share options (<i>note (a)</i>)	9,520,000	952,000
Cancelled upon repurchase of shares (<i>note (b)</i>)	<u>(1,128,000)</u>	<u>(112,800)</u>
At 31st March, 2002	<u>499,331,121</u>	<u>49,933,112</u>

Notes:

- (a) During the year ended 31st March, 2002, 9,520,000 share options were exercised, resulting in the issue of 480,000 shares, 1,500,000 shares, 2,640,000 shares and 4,900,000 shares of HK\$0.100 each in the Company at a price of HK\$0.314, HK\$0.389, HK\$0.300 and HK\$0.395 per share respectively.

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

- (b) During the year ended 31st March, 2002, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of shares purchased	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	consideration paid HK\$
January 2002	580,000	0.59	0.55	327,000
February 2002	548,000	0.66	0.63	354,900
	<u>1,128,000</u>			<u>681,900</u>

The above shares were cancelled upon repurchase.

21. SHARE OPTION SCHEME

A summary of the movements of the outstanding options during the year and the number of options outstanding at 1st April, 2001 and 31st March, 2002 under the Company's share option scheme which was set up on 18th July, 1991 is as follows:

	Number of option shares at an exercise price of						Total
	HK\$0.725 per share	HK\$0.314 per share	HK\$0.396 per share	HK\$0.389 per share	HK\$0.300 per share	HK\$0.395 per share	
At beginning of the year	6,650,000	2,290,000	1,500,000	1,500,000	3,450,000	—	15,390,000
Granted on 16th July, 2001	—	—	—	—	—	9,500,000	9,500,000
Expired during the year	(6,150,000)	—	—	—	—	—	(6,150,000)
Cancelled upon resignation of employees during the year	(500,000)	—	(1,500,000)	—	(30,000)	(300,000)	(2,330,000)
Exercised during the year	—	(480,000)	—	(1,500,000)	(2,640,000)	(4,900,000)	(9,520,000)
At end of the year	<u>—</u>	<u>1,810,000</u>	<u>—</u>	<u>—</u>	<u>780,000</u>	<u>4,300,000</u>	<u>6,890,000</u>

22. RESERVES

	Share premium HK\$	Translation reserve HK\$	Legal reserve HK\$	Goodwill reserve HK\$	Accumulated profits HK\$	Capital redemption reserve HK\$	Total HK\$
THE GROUP							
At 1st April, 2000							
– as originally reported	206,090,720	(6,320,115)	509,278	—	252,866,085	115,600	453,261,568
– prior period adjustment in respect of derecognition of proposed final dividend declared by the Company for the year ended 31st March, 2000	—	—	—	—	17,136,319	—	17,136,319
– reclassification	—	—	—	(37,395,775)	37,395,775	—	—
At 1st April, 2000, as restated	206,090,720	(6,320,115)	509,278	(37,395,775)	307,398,179	115,600	470,397,887
Premium arising from shares issued upon exercise of options	375,620	—	—	—	—	—	375,620
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	—	10,799,659	—	—	—	—	10,799,659
Translation differences realised on disposal of a subsidiary	—	(164,331)	—	—	—	—	(164,331)
Goodwill arising on acquisition of additional interests in subsidiaries	—	—	—	(330,236)	—	—	(330,236)
Net profit for the year	—	—	—	—	39,516,705	—	39,516,705
Dividends paid							
– final dividend for 2000	—	—	—	—	(17,136,319)	—	(17,136,319)
– additional final dividend for 2000 as a result of exercise of share options	—	—	—	—	(33,250)	—	(33,250)
– interim dividend for 2001	—	—	—	—	(12,273,478)	—	(12,273,478)
At 31st March, 2001 and 1st April, 2001	206,466,340	4,315,213	509,278	(37,726,011)	317,471,837	115,600	491,152,257
Premium arising from shares issued upon exercise of options	2,509,720	—	—	—	—	—	2,509,720
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	—	8,095,817	—	—	—	—	8,095,817
Premium paid on repurchase of own shares	—	—	—	—	(569,100)	—	(569,100)
Transfer to capital redemption reserve	—	—	—	—	(112,800)	112,800	—
Net profit for the year	—	—	—	—	60,017,076	—	60,017,076
Dividends paid							
– final dividend for 2001	—	—	—	—	(12,273,478)	—	(12,273,478)
– additional final dividend for 2001 as a result of exercise of share options	—	—	—	—	(35,000)	—	(35,000)
– interim dividend for 2002	—	—	—	—	(12,392,228)	—	(12,392,228)
At 31st March, 2002	<u>208,976,060</u>	<u>12,411,030</u>	<u>509,278</u>	<u>(37,726,011)</u>	<u>352,106,307</u>	<u>228,400</u>	<u>536,505,064</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Share premium <i>HK\$</i>	Special reserve <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Accumulated profits <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY					
At 1st April, 2000					
– as originally reported	206,090,720	77,699,999	115,600	10,714,252	294,620,571
– prior period adjustment in respect of derecognition of proposed final dividend declared by the Company for the year ended 31st March, 2000	—	—	—	17,136,319	17,136,319
At 1st April, 2000, as restated	206,090,720	77,699,999	115,600	27,850,571	311,756,890
Premium arising from shares issued upon exercise of options	375,620	—	—	—	375,620
Net profit for the year	—	—	—	40,091,563	40,091,563
Dividends paid					
– final dividend for 2000	—	—	—	(17,136,319)	(17,136,319)
– additional final dividend for 2000 as a result of exercise of share options	—	—	—	(33,250)	(33,250)
– interim dividend for 2001	—	—	—	(12,273,478)	(12,273,478)
At 31st March, 2001 and 1st April, 2001	206,466,340	77,699,999	115,600	38,499,087	322,781,026
Premium arising from shares issued upon exercise of options	2,509,720	—	—	—	2,509,720
Premium paid on repurchase of own shares	—	—	—	(569,100)	(569,100)
Transfer to capital redemption reserve	—	—	112,800	(112,800)	—
Net profit for the year	—	—	—	40,037,443	40,037,443
Dividends paid					
– final dividend for 2001	—	—	—	(12,273,478)	(12,273,478)
– additional final dividend for 2001 as a result of exercise of share options	—	—	—	(35,000)	(35,000)
– interim dividend for 2002	—	—	—	(12,392,228)	(12,392,228)
At 31st March, 2002	<u>208,976,060</u>	<u>77,699,999</u>	<u>228,400</u>	<u>53,153,924</u>	<u>340,058,383</u>

The special reserve, which is available for distribution, represents the difference between the book values of the underlying net assets of Yip's Hang Cheung (Holdings) BVI Ltd. at the date on which its shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

The legal reserve is non-distributable and represents the transfer of profit of a subsidiary outside Hong Kong pursuant to the legal requirements in the relevant place of registration.

23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	69,434,727	46,554,588
Depreciation and amortisation of property, plant and equipment	26,801,720	25,849,364
Amortisation of deferred expenditure	9,473,533	10,334,748
Loss on disposal of property, plant and equipment	1,449,569	575,207
Loss on disposal of subsidiaries	—	685,834
Interest expenses	2,994,136	5,029,328
Interest income	(527,087)	(1,380,094)
Decrease (increase) in inventories	42,205,818	(31,073,718)
Increase in trade debtors	(619,222)	(49,771,974)
Decrease (increase) in other debtors and prepayments	7,109,584	(10,746,872)
Increase in creditors and accrued charges	25,346,002	14,428,229
Effect of foreign exchange rate changes on inter-company balances	(128,524)	2,657,180
Net cash inflow from operating activities	<u>183,540,256</u>	<u>13,141,820</u>

24. DISPOSAL OF SUBSIDIARIES

	2002 HK\$	2001 HK\$
Net assets disposed of:		
Property, plant and equipment	—	2,534,495
Inventories	—	1,107,299
Other debtors and prepayments	—	51,418
Pledged bank deposits	—	6,840,441
Bank balances and cash	—	180,272
Creditors and accrued charges	—	(6,839,927)
Bank borrowings	—	(1,645,380)
Minority interests	—	(1,378,451)
	<u>—</u>	<u>850,167</u>
Translation reserve realised	—	(164,331)
	<u>—</u>	<u>685,836</u>
Loss on disposal	—	(685,834)
	<u>—</u>	<u>2</u>
Satisfied by:		
Cash	<u>—</u>	<u>2</u>
Analysis of the net cash outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	—	2
Bank balances disposed of	—	(180,272)
	<u>—</u>	<u>(180,270)</u>

The subsidiaries disposed of in the prior year did not contribute significantly to the Group's operating results and cash flows during that year.

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Import loans HK\$	Bank loans HK\$	Minority interests HK\$
Balance at 1st April, 2000	255,026,632	17,170,976	38,249,691	23,186,948
Shares issued for cash	533,620	—	—	—
Net cash inflow from import loans	—	4,986,669	—	—
New loans raised	—	—	72,521,531	—
Repayment during the year	—	—	(36,947,277)	—
Disposal of subsidiaries	—	—	(1,645,380)	(1,378,451)
Dividends paid to minority shareholders of subsidiaries	—	—	—	(2,010,340)
Eliminated upon acquisition of additional interests in subsidiaries	—	—	—	(10,242,964)
Minority interests in the profits of subsidiaries	—	—	—	3,974,719
Currency realignment	—	—	342,966	1,197,679
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2001 and 1st April, 2001	255,560,252	22,157,645	72,521,531	14,727,591
Shares issued for cash	3,461,720	—	—	—
Repurchase of own shares (Note)	(112,800)	—	—	—
Net cash outflow from import loans	—	(22,157,645)	—	—
New loans raised	—	—	38,856,450	—
Repayment during the year	—	—	(75,240,051)	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	(1,126,800)
Minority interests in the profits of subsidiaries	—	—	—	4,643,500
Currency realignment	—	—	845,920	1,005,476
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2002	<u>258,909,172</u>	<u>—</u>	<u>36,983,850</u>	<u>19,249,767</u>

Note: Premium paid on repurchase of own shares which amounted to HK\$569,100 has been debited to the accumulated profits.

26. MAJOR NON-CASH TRANSACTIONS

On 23rd June, 2000, Bauhinia Paints Manufacturing Limited (“BPM”), an indirect wholly owned subsidiary of the Company, entered into an agreement with Mr. Wang Jian (“Mr. Wang”), the owner of Jilin Xiong Yun Furniture Limited, a limited company established in the People’s Republic of China and being the joint venture partner of 紫荊花製漆(吉林)有限公司 Bauhinia Paints Manufacturing (Jilin) Co., Ltd. (“BPMJ”), a then indirect 80% owned subsidiary of the Company, to acquire the remaining 20% equity interest in BPMJ from Mr. Wang. Under the agreement, Mr. Wang also agreed to give up his right to share 20% net profit derived from 紫荊花製漆(山東)有限公司 Bauhinia Paints Manufacturing (Shandong) Co., Ltd. thereafter. The Company issued and allotted 46 and 19 new shares respectively of Bauhinia Paints Limited (“BPL”), a then wholly-owned subsidiary of the Company, representing 6.5% in total of the enlarged issued share capital of BPL to American Cently Limited, a company wholly-owned by Mr. Wang, as the consideration for the above two transactions.

27. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Short term bank deposits	39,889,855	2,043,805
Bank balances and cash	82,267,168	47,113,197
Bank overdrafts	—	(809,864)
	<u>122,157,023</u>	<u>48,347,138</u>

28. CONTINGENT LIABILITIES

	THE COMPANY	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Corporate guarantees given to bankers for general banking facilities granted to the Company’s subsidiaries	<u>304,000,000</u>	<u>239,000,000</u>

At 31st March, 2002, the Company has provided guarantees to four (2001: two) independent third parties to guarantee the payment of all indebtedness for the purchases of goods by four (2001: two) subsidiaries from the third parties.

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

29. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>872,005</u>	<u>2,183,402</u>

In addition, certain subsidiaries are committed to contribute approximately HK\$4.1 million (2001: HK\$4.1 million) in respect of unpaid investment in their subsidiaries.

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

30. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented properties and storage tanks and ancillary facilities which fall due as follows:

	THE GROUP			
	Rented properties		Storage tanks and ancillary facilities	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,806,756	1,997,088	8,189,265	7,524,119
In the second to fifth year inclusive	3,713,583	4,457,953	6,863,384	14,351,080
After five years	<u>190,092</u>	<u>1,470,397</u>	<u>—</u>	<u>—</u>
	<u>5,710,431</u>	<u>7,925,438</u>	<u>15,052,649</u>	<u>21,875,199</u>

Under the leases entered into by the Group, the lease terms are from one year to ten years. The lease payments are fixed and predetermined except for the rental of storage tanks and ancillary facilities of which additional storage charges will be incurred if the monthly usage exceeds a certain level.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants to receive the following future minimum sub-leasing payments in respect of storage tanks and ancillary facilities:

	THE GROUP	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Within one year	10,819,969	3,799,444
In the second to fifth year inclusive	6,811,909	943,740
	<u>17,631,878</u>	<u>4,743,184</u>

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

31. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group entered into agreements to acquire two pieces of land in Mainland China for an aggregate consideration of RMB30,850,000 (*equivalent to approximately HK\$29,049,000*).

32. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2002 are as follows:

Name of company	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Attributable equity interest of the Group	Principal activities
Base Rich Development Limited	Hong Kong	Ordinary – HK\$2	100%	Property investment
Bauhinia Paints Limited	British Virgin Islands	Ordinary – HK1,000	93.5%	Investment holding
Bauhinia Paints Manufacturing (Chengdu) Co., Limited	People's Republic of China	Capital Contribution – HK\$7,325,930	93.5%	Manufacture of and trading in paints and mixed solvents
Bauhinia Paints Manufacturing (Greater China) Company Limited	Hong Kong	Ordinary – HK\$149,665 Deferred – HK\$335	100%*	Investment holding
Bauhinia Paints Manufacturing (Jilin) Co., Ltd.	People's Republic of China	Capital Contribution – HK\$7,225,000	93.5%	Manufacture of and trading in paints and mixed solvents

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Name of company	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Attributable equity interest of the Group	Principal activities
Bauhinia Paints Manufacturing Limited	Hong Kong	Ordinary – HK\$20 Deferred – HK\$600,000	93.5% 100%	Trading in paints and chemical products
Bauhinia Paints Manufacturing (Shandong) Co., Ltd.	People's Republic of China	Capital Contribution – HK\$5,158,007	93.5%	Manufacture of and trading in paints and mixed solvents
Bauhinia Paints Manufacturing (Shantou) Co., Ltd.	People's Republic of China	Capital Contribution – HK\$8,000,000	93.5%	Manufacture of and trading in paints and mixed solvents
Bauhinia Paints (Thailand) Manufacturing Limited	Thailand	Ordinary – Baht 250,000	49%**	Property investment
Best Lubricant Blending Limited	Hong Kong	Ordinary – HK\$2	100%	Trading in lubricant products
Big Youth Investments Limited	Hong Kong	Ordinary – HK\$10,000	100%	Property investment
Broad Harvest Investments Limited	British Virgin Islands	Ordinary – US\$1	100%	Investment holding
Concord Chemical Storing Limited	Western Samoa	Ordinary – US\$1	100%	Investment in storage facilities in Mainland China
Full Power Investments Limited	British Virgin Islands	Ordinary – US\$1	100%	Investment holding
Fullton International Limited	Hong Kong	Ordinary – HK\$2	100%	Property investment
Goldchain Limited	Hong Kong	Ordinary – HK\$2	100%	Property investment
Great Success Limited	Western Samoa	Ordinary – US\$1	100%	Investment holding
Handsome Chemical Development Limited	Hong Kong	Ordinary – HK\$600,000	100%	Investment holding
Handsome Chemical Services Limited	Hong Kong	Ordinary – HK\$10,000	100%	Provision of treasury services
Hang Cheung Merchandising Limited	Hong Kong	Ordinary – HK\$2,000,000	100%	Merchandising of chemical products

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

Name of company	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Attributable equity interest of the Group	Principal activities
Hang Cheung Petrochemical (International) Limited	British Virgin Islands	Ordinary – US\$1	100%	Manufacture of high molecular chemical products, mixed solvents and paints in Mainland China
Hang Cheung Petrochemical Limited	Hong Kong	Ordinary – HK\$800,000	100%	Manufacture of and trading in high molecular chemical products, mixed solvents and paints
Hang Cheung (W.S.) Limited	Western Samoa	Ordinary – US\$1	100%	Investment holding
Hercules Tech Limited	British Virgin Island	Ordinary – US\$1	100%	Investment holding and manufacture of and trading in paints in Mainland China
Hui Yang Da Chang Industrial Limited	People's Republic of China	Capital contribution – HK\$15,000,000	100%	Manufacture of and trading in mixed solvents and paints
Jiangmen Handsome Chemical Development Ltd.	People's Republic of China	Capital contribution – HK\$12,414,100	60%	Manufacture of and trading in raw solvents
Primer Limited	Western Samoa	Ordinary – US\$1	100%	Investment holding
Prophet Investments Limited	British Virgin Islands	Ordinary – US\$1	100%	Investment holding
Tianjin Best Lubricant Blending Co., Limited	People's Republic of China	Capital Contribution – HK\$1,000,000	100%	Manufacture of and trading in lubricant products
TM Holding Limited	British Virgin Islands	Ordinary – HK\$1	100%	Holding of trade-mark
Yip's H.C. (Holding) Limited	Hong Kong	Ordinary – HK\$200 Deferred – HK\$500	100%*	Investment holding and provision of services
Yip's Hang Cheung (Holdings) BVI Ltd.	British Virgin Islands	Ordinary – HK\$500	100%	Investment holding

Name of company	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Attributable equity interest of the Group	Principal activities
Yip's Ink and Chemicals Company Limited	Hong Kong	Ordinary – HK\$200	100%	Trading in inks and related products
Zhong Shan Yau Seng Petrochemical Limited	People's Republic of China	Capital contribution – HK\$17,547,658	100%	Manufacture of and trading in inks and related products

* *The deferred shares, which are not held by the Group, carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the company. On a winding-up, the holders of the deferred shares are entitled out of the surplus assets of the company to a return of capital paid up on the non-voting deferred shares but only when holders of ordinary shares, namely, the Group, have received in full the return of capital paid on them and, in aggregate, a total sum of HK\$100,000,000,000.*

** *As the Company controls the composition of the board of directors of Bauhinia Paints (Thailand) Manufacturing Limited, this company is treated as a subsidiary of the Company.*

Except for Yip's Hang Cheung (Holdings) BVI Ltd. which is held directly by the Company, all other subsidiaries are indirectly held. All subsidiaries operate principally in their respective places of incorporation/registration unless specified otherwise under the heading "Principal activities".

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31st March, 2002 or at any time during the year."

C. Financial information of the Group for the six months ended 30th September, 2002

The following financial report is extracted from the unaudited consolidated financial statements of the Group for the six months ended 30th September, 2002.

Condensed consolidated income statement

	<i>Notes</i>	Six months ended 30th September,	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	735,000	598,955
Cost of sales		(507,029)	(427,355)
Gross profit		227,971	171,600
Other revenue		5,404	1,905
Selling expenses		(27,571)	(24,935)
Administrative expenses		(130,657)	(111,290)
Profit from operations	2 & 3	75,147	37,280
Interest expenses		(1,151)	(1,748)
Profit before taxation		73,996	35,532
Taxation		(5,365)	(2,674)
Profit before minority interests		68,631	32,858
Minority interests		(6,221)	(1,127)
Net profit for the period		<u>62,410</u>	<u>31,731</u>
Interim dividend	5	<u>20,115</u>	<u>12,311</u>
Earnings per share			
– Basic	6	<u>12.5 cents</u>	<u>6.5 cents</u>
– Diluted	6	<u>12.4 cents</u>	<u>6.4 cents</u>

Condensed consolidated balance sheet

		At 30th September, 2002 (Unaudited) HK\$'000	At 31st March, 2002 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	229,770	226,270
Deposit paid for land acquisition		12,651	—
Other non-current assets		4,600	4,600
		<u>247,021</u>	<u>230,870</u>
Current assets			
Inventories		164,965	144,910
Trade debtors	8	334,147	235,177
Other debtors and prepayments		45,536	27,870
Taxation recoverable		20	76
Short term bank deposits		51,037	39,890
Bank balances and cash		86,538	82,267
		<u>682,243</u>	<u>530,190</u>
Current liabilities			
Creditors and accrued charges	9	202,908	113,413
Taxation payable		8,967	4,975
Bank borrowings	10	63,415	36,984
		<u>275,290</u>	<u>155,372</u>
Net current assets		<u>406,953</u>	<u>374,818</u>
Total assets less current liabilities		653,974	605,688
Minority interests		20,500	19,250
Net assets		<u>633,474</u>	<u>586,438</u>
CAPITAL AND RESERVES			
Share capital	11	50,288	49,933
Reserves		583,186	536,505
Shareholders' funds		<u>633,474</u>	<u>586,438</u>

Condensed consolidated statement of changes in equity

	Issued share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Legal reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated profits HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1st April, 2002	49,933	208,976	12,411	509	(37,726)	352,106	229	586,438
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	—	—	990	—	—	—	—	990
Net gains and losses not recognised in the income statement	49,933	208,976	13,401	509	(37,726)	352,106	229	587,428
Transfer to legal reserve	—	—	—	1,540	—	(1,540)	—	—
Net profit for the period	—	—	—	—	—	62,410	—	62,410
Dividends paid								
– final dividend for 2001/02	—	—	—	—	—	(17,601)	—	(17,601)
Shares issued upon exercise of options	355	882	—	—	—	—	—	1,237
At 30th September, 2002	<u>50,288</u>	<u>209,858</u>	<u>13,401</u>	<u>2,049</u>	<u>(37,726)</u>	<u>395,375</u>	<u>229</u>	<u>633,474</u>
At 1st April, 2001	49,094	206,466	4,315	509	(37,726)	317,472	116	540,246
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong	—	—	8,994	—	—	—	—	8,994
Net gains and losses not recognised in the income statement	49,094	206,466	13,309	509	(37,726)	317,472	116	549,240
Net profit for the period	—	—	—	—	—	31,731	—	31,731
Dividends paid								
– final dividend for 2000/01	—	—	—	—	—	(12,309)	—	(12,309)
Shares issued upon exercise of options	150	427	—	—	—	—	—	577
At 30th September, 2001	<u>49,244</u>	<u>206,893</u>	<u>13,309</u>	<u>509</u>	<u>(37,726)</u>	<u>336,894</u>	<u>116</u>	<u>569,239</u>

Condensed consolidated cash flow statement

	Six months ended	
	30th September,	
	2002	2001
	(Unaudited)	(Unaudited)
		<i>(Restated)</i>
	HK\$'000	HK\$'000
Net cash inflow from operating activities	31,098	49,154
Net cash outflow from investing activities	(19,864)	(11,287)
Net cash inflow/(outflow) from financing activities	4,064	(24,854)
Increase in cash and cash equivalents	15,298	13,013
Cash and cash equivalents at beginning of the period	122,157	48,347
Effect of foreign exchange rate changes	120	968
Cash and cash equivalents at end of the period	<u>137,575</u>	<u>62,328</u>

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 <i>HK\$'000</i>	Paints <i>HK\$'000</i>	Raw solvents <i>HK\$'000</i>	Lubricants <i>HK\$'000</i>	Inks <i>HK\$'000</i>	Storage <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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	<u>2,275</u>	<u>4,511</u>	<u>9,764</u>	<u>39</u>	<u>42</u>	<u>1,334</u>	<u>(17,965)</u>	<u>—</u>
Total	<u>176,346</u>	<u>239,937</u>	<u>202,027</u>	<u>52,037</u>	<u>73,115</u>	<u>9,503</u>	<u>(17,965)</u>	<u>735,000</u>
Results								
Segment result	<u>27,112</u>	<u>22,501</u>	<u>15,172</u>	<u>1,914</u>	<u>8,589</u>	<u>1,298</u>	<u>—</u>	76,586
Interest income								400
Unallocated corporate expenses								<u>(1,839)</u>
Profit from operations								75,147
Interest expense								<u>(1,151)</u>
Profit before taxation								73,996
Taxation								<u>(5,365)</u>
Profit before minority interests								68,631
Minority interests								<u>(6,221)</u>
Net profit for the period								<u>62,410</u>
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	<u>445</u>	<u>1,118</u>	<u>9,801</u>	<u>36</u>	<u>1,353</u>	<u>1,064</u>	<u>(13,817)</u>	<u>—</u>
Total	<u>163,975</u>	<u>202,497</u>	<u>152,548</u>	<u>41,976</u>	<u>43,747</u>	<u>8,029</u>	<u>(13,817)</u>	<u>598,955</u>
Results								
Segment result	<u>23,699</u>	<u>5,339</u>	<u>6,573</u>	<u>953</u>	<u>4,205</u>	<u>(2,176)</u>	<u>50</u>	38,643
Interest income								228
Unallocated corporate expenses								<u>(1,591)</u>
Profit from operations								37,280
Interest expense								<u>(1,748)</u>
Profit before taxation								35,532
Taxation								<u>(2,674)</u>
Profit before minority interests								32,858
Minority interests								<u>(1,127)</u>
Net profit for the period								<u>31,731</u>

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							929,264
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							275,290
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							761,060
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							155,372

(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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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>	76,586	38,643
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		Contribution Additions to property, plant and equipment	
	At 30th September,		Six months ended 30th September,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	400	228
	<u>400</u>	<u>228</u>

4. TAXATION

	Six months ended 30th September,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	5	(1)
	<u>3,435</u>	<u>2,349</u>
Enterprise Income Tax in Mainland China calculated at the rates prevailing in the respective jurisdictions	1,930	325
	<u>1,930</u>	<u>325</u>
	<u>5,365</u>	<u>2,674</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	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared after balance sheet date:		
HK 4.0 cents per share (2001: HK 2.5 cents per share)	20,115	12,311
	<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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	<u>62,410</u>	<u>31,731</u>
	Number of shares	Number of shares
	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of basic earnings per share	501,232	491,463
Effect of dilutive potential shares:		
Share options	<u>2,880</u>	<u>2,567</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>504,112</u>	<u>494,030</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	290,581	189,490
4 – 6 months	38,541	39,943
Over 6 months	23,741	23,516
	<u>352,863</u>	<u>252,949</u>
<i>Less: Provision for bad and doubtful debts</i>	<u>(18,716)</u>	<u>(17,772)</u>
	<u><u>334,147</u></u>	<u><u>235,177</u></u>

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	At 31st March, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 At 30th September, 2002 & 31st March, 2002 HK\$’000	Issued and fully paid 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>

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.

3. STATEMENT OF PRO FORMA UNAUDITED ADJUSTED CONSOLIDATED NET ASSETS AS AT THE LATEST PRACTICABLE DATE

	<i>HK\$ million</i>
Unaudited consolidated net asset value as at 30th September, 2002 and adjusted for the followings:	633.5
<i>Less:</i> Property revaluation deficit	<u>(74.4)</u>
Unaudited consolidated net asset value before adjusting for the Share Repurchase	<u>559.1</u>
Cost of Share Repurchase	(42.3)
Expenses incurred in the Share Repurchase	<u>(1.5)</u>
Unaudited consolidated net asset value after adjusting for the Share Repurchase	<u>515.3</u>
<i>Plus:</i> proceeds from exercise of share option	0.3
Proforma adjusted unaudited consolidated net asset value	<u>515.6</u>

4. STATEMENT OF INDEBTEDNESS

At the close of business on 31st October, 2002, being the latest practicable date for preparing this statement prior to the printing of this circular, the Group has total outstanding bank borrowings of approximately HK\$56.7 million comprised short term bank loans of approximately HK\$48.2 million and trust receipts and import loans of approximately HK\$8.5 million. A bank deposit of HK\$0.4 million was pledged to secure general banking facilities of a subsidiary. Renminbi amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st October, 2002.

Save as aforesaid and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding at the close of business on 31st October, 2002 any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there have been no material changes in the above indebtedness and contingent liabilities position since 31st October, 2002.

5. MATERIAL CHANGES

Save as disclosed in the annual report of the Group for the year ended 31st March, 2002 and the interim report for the six months ended 30th September, 2002, the Directors are not aware of any material changes in the financial and trading position or prospects of the Group since 31st March, 2002, the date to which the latest audited financial statements of the Group were made up.

The following are the texts of the letter, summary of valuation and valuation certificates received from DTZ Debenham Tie Leung and addressed to the Board in connection with the valuation as at 30th September, 2002 of the property interests of the Group:



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

4th December, 2002

The Directors
Yip's Chemical Holdings Limited
Yip's Hang Cheung Building
13 Yip Cheong Street
On Lok Tsuen
Fanling
New Territories

Dear Sirs,

In accordance with the instructions for us to carry out open market valuations of all the property interests (as per the property list provided) held by Yip's Chemical Holdings Limited (the "Company") and its subsidiaries (hereinafter referred as "the Group") situated in Hong Kong, Thailand and the People's Republic of China (the "PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of values of these property interests as at 30th September, 2002.

Our valuation of each of the property interests represents its open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

- (e) that both parties to the transaction had acted knowledgeably, prudently, and without compulsion”.

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of deferred term contracts, leasebacks, management agreements or any similar arrangements which could serve to affect the values of the property interests.

In valuing the property interests in the PRC, unless otherwise stated, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees have been granted and that any premium payable has already been fully settled. We have also assumed that the grantees or the users of the property interests have free and uninterrupted rights to use or assign the property interests for the whole of the unexpired land use terms as granted.

In valuing the property interests in Group I, Group II and the property interest Nos. 5 and 13 in Group III, we have valued the open market value of the property interests in existing state using direct comparison approach by making reference to comparable sale evidence in the relevant market.

Regarding property interest Nos. 4, 6, 9 and 12 in Group III, as the transferability of the properties are subject to certain land grant procedures, which are yet to be processed, we have not assigned values to the properties.

Regarding property interest Nos. 7, 10 and 11, as the transferability of the buildings of the properties are subject to application for Building Ownership Certificate, which are yet to be processed, we have not assigned values to the building portions of the properties. In arriving at our opinion of the open market value of the land, we have valued it by comparison approach by making reference to the comparable sale evidences in the relevant locality.

Regarding property interest No. 8, as there are no market sales comparable for the specific buildings and structures, we have adopted the Depreciated Replacement Costs (“DRC”) Approach in valuing the said property interest. A DRC Approach is used, as it is most reliable indication of the value for property interest without comparable transactions for the specific buildings, which are occupied by the business. A DRC requires a valuation of the open market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. In arriving at our opinion of the open market value of the land, we have valued it by comparison approach by making reference to the comparable sale evidences in the relevant locality.

The property interests in Group IV & V which are leased by the Group in Hong Kong and the PRC respectively are considered to have no commercial value due to prohibitions against sub-letting or lack of substantial profit rents.

We have relied to a very considerable extent on the information given to us by the Group and its PRC legal adviser, Fangda Partners, on the PRC laws in respect of the Group’s interests in the properties. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, buildings completion dates, particulars of occupancy, development schemes, construction costs expended, tenancy details, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which are material to the valuation. We were also advised by the Group that no material facts have been omitted from the information supplied.

In valuing the property interests in Hong Kong the Government Leases of which expired before 30th June, 1997, we have taken into account that under the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent. of the rateable value is charged per annum from the date of extension for each property interest.

We have not been provided with copies of the title documents relating to the property interests in Hong Kong but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have been provided with extracts and copies of documents relating to the titles of the property interests in the PRC and Thailand, but no searches have been made in respect of these property interests. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We have relied on the advice given by the Group and its legal advisers regarding the Group's interests in these properties.

We have inspected the exterior and where possible, the interior of the properties held by the Group. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out to any of the services. We have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the development period.

Unless otherwise stated, we have not carried out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Unless otherwise stated, all money amounts stated in the valuation certificates are in Hong Kong dollars. The exchange rates adopted in our valuations are HK\$1 = RMB1.06 and HK\$1 = THB5.6697 which were the approximate exchange rates prevailing as at the date of valuation. There has been no significant fluctuation in such rates between that date and the date of this letter.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of onerous nature which could affect their values.

According to the information prepared by the Group, the total potential tax liability on the disposal of property interests in Group I, II and III is estimated to be approximately HK\$5,800,000. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability. As advised by the Group as well, such tax liability is not likely to crystallise in the foreseeable future as the properties are used in its business operation and the Group has no intention to dispose of these properties at present.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K B Wong
Registered Professional Surveyor (GP)
A.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. K B Wong is a registered professional surveyor with 18 years of experience in the valuation of properties in Hong Kong and over 10 years of experience in valuation of properties in the PRC and Thailand.

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 <i>HK\$</i>	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30th September, 2002 <i>HK\$</i>
Group I – Property interests held by the Group in Hong Kong			
1. Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories	23,000,000	100%	23,000,000
2. Apartment No. 1, 27th Floor, Block A and Car Parking Space No. 20 on C1 Floor and the spare space appertaining thereto of Block A, Elm Tree Towers, 8 Chun Fai Road, Tai Hang, Hong Kong	10,500,000	100%	10,500,000
Sub Total:	33,500,000		33,500,000
Group II – Property interest held by the Group in Thailand			
3. Lot Nos. 19 and 67 situated at Phan Thong Road, Ban Bueng District, Chouburi Province 20170, Thailand	HK\$1,181,720 or THB6,700,000	49%	579,043
Sub Total:	1,181,720		579,043

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 <i>HK\$</i>	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30th September, 2002 <i>HK\$</i>
Group III – Property interests held by the Group in the PRC			
4. An industrial complex, Xuexiang Village, Buji Town, Longgang District, Shenzhen, Guangdong Province	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)	100%	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)
5. A piece of industrial land, Land reference number 06-07-190, East of Huishen Expressway, Xinlian Industrial Estate, Xinxu Town, Huiyang, Guangdong Province	16,500,000	100%	16,500,000
6. Unit 9-A, Gaojia Mansion, Chunfeng Road, Luohu District, Shenzhen, Guangdong Province	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)	100%	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)
7. An industrial complex, Land reference number 09-13-03-300, Chenjia Road, Chenjiang Town, Huiyang, Guangdong Province	10,500,000 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)	93.5%	9,817,500 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 <i>HK\$</i>	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30th September, 2002 <i>HK\$</i>
Group III – Property interests held by the Group in the PRC			
8. An industrial complex, Land reference number 127-1-T1-1, 3rd Phase Tuopu Diejin Industrial Zone, Shengping District, Shantou, Guangdong Province	12,050,000	93.5%	11,266,750
9. An industrial complex, Land reference number (67)-1, Huamei Village Ershe, Dafeng Town, Xindu county, Chengdu, Sichuan Province	(We have not assigned a value to the property, please see the notes in the Valuation Certificate)	93.5%	(We have not assigned a value to the property, please see the notes in the Valuation Certificate)
10. An industrial complex, Baixi Village, Banfu Town, Zhongshan, Guangdong Province	2,450,000 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)	100%	2,450,000 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)
11. An industrial complex, Land reference number “之一”, 1 Youyi Road, Xiashan District, Zhanjiang, Guangdong Province	2,100,000 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)	40%	840,000 (Land portion only, we have not assigned a value to the building portion, please see the notes in the Valuation Certificate.)

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 <i>HK\$</i>	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30th September, 2002 <i>HK\$</i>
Group III – Property interests held by the Group in the PRC			
12. Unit 501, 502, No. 107 Haijing Road, Xiashan District, Zhanjiang, Guangdong Province	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)	100%	(We have not assigned a value to the property, please see the notes in the Valuation Certificate.)
13. Unit 1507 and Car park No. 1, Golden Bridge Building, 2077 Yanan Road, Shanghai	1,120,000	100%	1,120,000
Sub Total:	<u>44,720,000</u>		<u>41,994,250</u>
Property			Capital value in existing state as at 30th September, 2002 <i>HK\$</i>

Group IV – Property interest leased by the Group in Hong Kong

14. House 5, 14th Street, Hong Lok Yuen, Tai Po, New Territories		No commercial value
Sub Total:		<u>No commercial value</u>

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 HK\$
Group V – Property interests leased by the Group in the PRC	
15. Room 2003-2007 on Level 20, Guidu Building, 52-56 Chunfeng Road, Luohu District, Shenzhen, Guangdong Province	No commercial value
16. Level 4, Hualin Building, 190 Caoxi Road, Xuhui District, Shanghai	No commercial value
17. A warehouse with ancillary office, situated at 720 Pudong Avenue, Nanfu Village, Sanlin Town, Pudong New Area, Shanghai	No commercial value
18. A unit at Baixing Market, 658 Xinan Road, Shahekou District, Dalian, Liaoning Province	No commercial value
19. 7 Weihuashi Road, Jinan, Shandong Province	No commercial value
20. A block of dormitory building situated at Chenjia Road, Chenjiang Town, Huiyang, Guangdong Province	No commercial value

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 HK\$
Group V – Property interests leased by the Group in the PRC	
21. A plot of land situated at Daguongling Village Chenjiang Town, Huiyang, Guangdong Province	No commercial value
22. A warehouse situated at Baixi Industrial Area, Banfu Town, Zhongshan, Guangdong Province	No commercial value
23. Room N, 9/F, Tianli Estate, Yungsheng Square, 92 Anlan Road, Shiqi District, Zhongshan, Guangdong Province	No commercial value
24. Various industrial buildings next to Shiheli, Jianghai Road, Jiangmen, Guangdong Province	No commercial value
25. 2061 Yuzhuangzi Road, Tangu District, Tianjin	No commercial value

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 HK\$
Group V – Property interests leased by the Group in the PRC	
26. East, 2/F, Block B, Dongfangmingju Industrial/Trading Centre, No. 93 Zhongshan Avenue, Tianhe District, Guangzhou, Guangdong Province	No commercial value
27. Room 808, 8/F, Shanghai Building, 1476 Pudong Avenue, Pudong New Area, Shanghai	No commercial value
28. Rooms 306-308, Xinhua Printing Factory Composite Building, 43 Minsheng Avenue, Jinan, Shandong Province	No commercial value
29. Units 202, 204, 209 and 211 on Level 2, Keyu Building, 60 Gongnong Avenue, Chaoyang District, Changchun, Jilin Province	No commercial value
30. Rooms 506-508, Block B, Gaofa Industrial Building, 6 Jiuxing Avenue, Gaoxin District, Chengdu, Sichuan Province	No commercial value

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th September, 2002 HK\$
Group V – Property interests leased by the Group in the PRC	
31. 168 Hongtong Road, Tianhuaan Village, Sanlin, Pudong New Area, Shanghai	No commercial value
32. A warehouse situated in Baihao Industrial District, Houjie Town, Dongguan, Guangdong Province	No commercial value
33. Warehouse No. 4, 5, 6 and 7, situated at No. 2 Xinye Street, Erdao District, Changchun, Jilin Province	No commercial value
34. Wudui Warehouse situated at Dalingang, Dongpuzhu Village, Tianhe District, Guangzhou, Guangdong Province	No commercial value
Sub Total:	No commercial value
Grand Total:	<u>76,073,293</u>

VALUATION CERTIFICATE

Group I – Property interests held by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
1. Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories Fanling Sheung Shui Town Lot No. 35	<p>The property comprises a 6-storey industrial building erected on a site with an area of approximately 1,198 sq.m. (12,895 sq.ft.). The property was completed in 1990.</p> <p>The property has a total gross floor area of approximately 5,936 sq.m. (63,897 sq.ft.).</p> <p>The property is held from the Government for a term commencing from 13th July, 1988 to 30th June, 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>	The property is currently occupied by the Group for warehouse and ancillary office uses.	HK\$23,000,000

Note: The registered owner of the property is Big Youth Investments Limited, a wholly owned subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
2. Apartment No. 1, 27th Floor, Block A and Car Parking Space No. 20 on C1 Floor and the spare space appertaining thereto of Block A, Elm Tree Towers, 8 Chun Fai Road, Tai Hang, Hong Kong 31/3722nd shares of and in Inland Lot No. 8510	<p>The property comprises a domestic unit on the 27th floor and a car parking space of a 32-storey residential building erected upon a 3-level car parking podium completed in 1983.</p> <p>The property has a gross floor area of approximately 188.41 sq.m. (2,028 sq.ft.), excluding the car park area.</p> <p>The property is held from the Government for a term of 75 years from 28th February, 1980 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$1,000 per annum.</p>	<p>The property is currently occupied by the Group as a director's residence.</p>	<p>HK\$10,500,000</p>

Note: The registered owner of the property is Hang Cheung Petrochemical Limited, a wholly owned subsidiary of the Company.

Group II – Property interest held by the Group in Thailand

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
3. Lot Nos. 19 and 67 situated at Phan Thong Road, Ban Bueng District, Chouburi Province 20170, Thailand	The property comprises two contiguous pieces vacant land with a total site area of approximately 38,372 sq.m. (413,036.21 sq.ft.). The property is held in freehold.	The property is currently vacant.	HK\$1,181,720 (or THB6,700,000) (49% interest attributable to the Group: HK\$579,043)

Notes: Pursuant to Land Title Deed No. 6262 of Lot No. 19 and Title Deed No. 12630 of Lot No. 67, the registered owner of the property is Bauhinia Paints (Thailand) Manufacturing Limited, a 49% owned subsidiary of the Company (As advised by the Company, the Company controls the composition of the board of directors of Bauhinia Paints (Thailand) Manufacturing Limited, this company is treated by the Company as a subsidiary).

Group III – Property interests held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
4. An industrial complex, Xuexiang Village, Buji Town, Longgang District, Shenzhen, Guangdong Province	<p>The property comprises 6 industrial buildings erected on 2 pieces of contiguous land with a total site area of 34,864.20 sq.m. (375,278 sq.ft.).</p> <p>The buildings were completed between 1992 and 1995.</p> <p>The buildings have a total gross floor area of 18,577.34 sq.m. (199,966 sq.ft.).</p> <p>Portion of the land with an area of 9,150.60 sq.m., is granted with a land use right for a term of 50 years from 3rd January, 1994 to 2nd January, 2043 for industrial and storage of dangerous goods use. The remaining portion of the land with an area of 25,713.60 sq.m., is allocated for an unspecified term.</p>	The property is currently occupied by the Group as workshop and warehouse.	(We have not assigned a value to the property, please see note 4.)

Notes:

- (1) According to a Land Use Right Grant Contract 土地使用權出讓合同 dated 25th May, 1994:
- (i) Party A : 深圳市規劃國土局龍崗分局
 - Party B : Hang Cheung Petrochemical (International) Limited, a wholly owned subsidiary of the Company.
恒昌石油化工(國際)有限公司
 - (ii) Land premium : Fully exempted
 - (iii) Site area : 9,150.60 sq.m.
 - (iv) Use : Industrial and storage of dangerous goods use
 - (v) Land use term : Granted for a term from 3rd January, 1994 to 2nd January, 2043
 - (vi) Plot ratio : 0.8
- (2) According to an Approval regarding Land Use of Hang Cheung Petrochemical (International) Limited (關於恒昌石油化工(國際)有限公司申請用地的批覆) dated 18th January, 1995 issued by Longgang Land Bureau, Hang Cheung Petrochemical (International) Limited may use a land plot of 25,713.60 sq.m..

- (3) According to a PRC legal opinion prepared by Fangda Partners:

Land Plot of 9,150.60 sq.m.

- (i) The buildings comprise of

No. of storey	Gross Floor Area <i>sq.m.</i>	Uses
1	1,483.38	Warehouse
2	3,285.56	Workshop
Total :	<u>4,768.94</u>	

- (ii) Hang Cheung Petrochemical (International) Limited (恒昌石油化工(國際)有限公司, “HC International”), a wholly owned subsidiary of the Company, entered into a land use right grant contract (the “Grant Contract”) with Shenzhen Planning and State Land Bureau, Longgang Branch (“Longgang Land Bureau”) dated 25th May, 1994, under which HC International would acquire the land use right to the land plot of 9,150.60 sq.m. for industrial use for a term of fifty (50) years commencing from 3rd January, 1994 and ending on 2nd January, 2043 with all the relevant land premium be fully exempted.
- (iii) According to the Grant Contract, HC International is approved to use the land plot of 9,150.60 sq.m. and HC International will become a legal owner if it has obtained the relevant land use right certificate or real estate title certificate (the “Land Certificate”) duly issued by competent administrative authority.
- (iv) HC International may obtain the Land Certificate by attending to relevant application and registration formalities with competent administrative authorities.
- (v) Both of the buildings were built by Longgang District Buji Gangtuo Hang Cheung Chemical Factory (龍崗區布吉崗頭恒昌化工, “HC Factory”), a processing factory operated solely for the benefit of HC International and its assets and operations are funded only by HC International, which has control over its day to day management and operations. We were informed that the buildings are located at the land plot.
- (vi) Based on the Completion, Inspection & Acceptance Certificate (竣工驗收證書, the “CIA Certificate”), HC Factory is allowable to use the buildings.
- (vii) By virtue of the Grant Contract, HC International will become a legal owner of the title to the buildings if it has obtained the relevant real estate title certificate duly issued by competent administrative authority.
- (viii) HC International may obtain the Buildings Certificate by acquiring from HC Factory its interests and rights in relation to the construction of the buildings and attending to relevant application and registration formalities, which shall be subject to approval by competent administrative authority.
- (ix) According to a written confirmation issued by HC Factory dated 8th November, 2002 (the “Confirmation”), HC Factory has confirmed that the construction of the buildings was funded by HC International and it is willing to assign to HC International all of its rights and interests in connection with the buildings and assist HC International in attending to relevant application and registration formalities for obtaining the buildings Certificate. With such confirmation, the assignment shall become effective upon approval by competent administrative authority.

Land Plot of 25,713.60 sq.m.

- (x) The buildings comprise of

No. of storey	Gross Floor Area <i>sq.m.</i>	Uses
3	1,000.00	Complex
2	1,340.00	Warehouse
3	6,345.00	Warehouse/workshop
3	5,123.40	Warehouse
Total :	<u>13,808.40</u>	

- (xi) According to the Approval regarding Land Use of Hang Cheung Petrochemical (International) Limited (關於恒昌石油化工(國際)有限公司申請用地的批覆, the “Approval”) dated 18th January, 1995 issued by Longgang Land Bureau, HC International may use the land plot of 25,713.60 sq.m..
 - (xii) HC International will become a legal owner of the land use right to the land plot if it has obtained the relevant land use right certificate or real estate title certificate (the “Land Certificate”) duly issued by competent administrative authority.

HC International may obtain the Land Certificate by attending to relevant application and registration formalities with competent administrative authority.
 - (xiii) The buildings were built by HC Factory. We were informed that the buildings are located at the land plot.
 - (xiv) Based on the relevant CIA Certificates, HC Factory is allowable to use the buildings.
 - (xv) By virtue of the Approval, HC International will become a legal owner of the title to the buildings if it has obtained the relevant real estate title certificates (“Building Certificates”) duly issued by competent administrative authority.
 - (xvi) HC International may obtain the Building Certificates by acquiring from HC Factory its interests and rights in relation to the construction of the buildings and attending to relevant application and registration formalities, which shall be subject to approval by competent administrative authorities.
 - (xvii) According to the Confirmation, HC Factory has confirmed that the construction of the buildings was funded by HC International and it is willing to assign to HC International all of its rights and interests in connection with the buildings and assist HC International in attending to relevant application and registration formalities for obtaining the Building Certificate. With such confirmation, the assignment shall become effective upon approval by competent administrative authority.
 - (xviii) It should be noted that the land use right is in the nature of an allocated land use right. Given such nature, the transfer, mortgage and lease of the land use right and the title shall be subject to prior approval by the competent administrative authority. Furthermore, in the case of transfer of the land use right and the title, HC International may be required to pay to the competent administrative authority either its proceeds derived in part of the land use right, or the land premium for the purpose of changing such right into a granted land use right in nature which is freely transferable under the PRC laws.
 - (xix) Furthermore, competent administrative authority shall have authority to withdraw the land plot together with the buildings according to the needs of urban development and planning, with appropriate compensation for the buildings only.
 - (xx) Subject to the approval by Longgang Land Bureau, HC international may convert the land use right into a granted land use right in nature by entering into a land use right grant contract with Longgang Land Bureau and paying the relevant land premium.
- (4) As the transferability of the property is subject to certain land grant procedures and application for Building Ownership Certificate, which are yet to be processed, we have not assigned a value to the property.
- (5) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--------------------------------|---------------|
| Land Use Right Certificate | No |
| Red-line Drawing (site plan) | Yes (Portion) |
| Land Use Right Grant Contract | Yes (Portion) |
| Building Ownership Certificate | No |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
5. A piece of industrial land, Land reference number 06-07-190, Xinlian Village, Xinxu Town, Huiyang, Guangdong Province	The property comprises a piece of industrial land with a site area of 150,000 sq.m. (1,614,600 sq.ft.). The land use right of the property is granted for a term due to expire on 23rd September, 2052 for industrial use.	The property is currently vacant and site levelling works is being carried out.	HK\$16,500,000

Notes:

- (1) According to Land Use Right Certificate 國有土地使用證 No. (2002) 13210600144:
- (i) Land User : Hang Cheung Coatings (Hui Yang) Company Limited, a wholly owned subsidiary of the Company.
恒昌塗料（惠陽）有限公司
 - (ii) Location : East of Huishen Highway, Xinlian Village, Xinxu Town
 - (iii) Lot No. : 06-07-190
 - (iv) Site area : 150,000 sq.m.
 - (v) Land use term : Granted for a term due to expire on 23rd September, 2052
 - (vi) Use : Industrial use.
- (2) According to Land Transfer Contract 土地轉讓合同書 dated 9th May, 2002, the property was transferred to 恒昌塗料（惠陽）有限公司 as follows:
- (i) Party A : 惠陽市新墟鎮人民政府
 - Party B : 恒昌塗料（惠陽）有限公司
 - (ii) Land price : RMB17,250,000 (Party A would be responsible for the costs of land acquisition and related costs for obtaining the Land Use Right Certificate of the property, site leveling and provision of ancillary facilities to the property)
 - (iii) Site area : 150,000 sq.m.
 - (iv) Use : Industrial
- (3) According to Business License No. 004355, Hang Cheung Coatings (Hui Yang) Company Limited 恒昌塗料（惠陽）有限公司 was established with a registered capital of US\$4,500,000 for a valid operation period from 8th September, 2002 to 7th May, 2052.
- (4) According to a PRC legal opinion prepared by Fangda Partners:
- As certified by a land use right certificate No. 13210600144, Hang Cheung Coatings (Hui Yang) Company Limited (恒昌塗料（惠陽）有限公司, “HC Huiyang”) is the legal owner of the land use right to the land plot 06-07-190 for industrial use for a term commencing from 28th September, 2002 and ending on 23rd September, 2052.
- (5) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|----------------------------|-----|
| Land Use Right Certificate | Yes |
| Land Transfer Contract | Yes |
| Business License | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
6. Unit 9-A, Gaojia Mansion, Chunfeng Road, Luohu District, Shenzhen, Guangdong Province	<p>The property comprises a residential unit on Level 9 of a residential building completed in 1989.</p> <p>The property has a gross floor area of 171.86 sq.m. (1,850 sq.ft.).</p> <p>The land use right of the property is in the nature of allocated land use right.</p>	The property is currently occupied by the Group as staff quarters.	(We have not assigned a value to the property, please see note 3.)

Notes:

- (1) According to Realty Title Certificate 房地產證 No. 0055690:
- (i) Owner : Fullton International Limited, a wholly owned subsidiary of the Company
滿昌國際有限公司
 - (ii) Property : Unit 9A, Gaojia Building, Chunfeng Road, Luohu District
 - (iii) Lot No. : H116-2(74)
 - (iv) Term of tenure : 50 years from 3rd January, 1988 to 2nd January, 2038
 - (v) Use : Residential
- (2) According to a PRC legal opinion prepared by Fangda Partners:
- (i) As certified by a real estate title certificate No. 0055690, Fullton International Limited (滿昌國際有限公司, “Fullton”) is the legal owner of the title to the unit for residential purpose for a term of fifty (50) years commencing from 3rd January, 1988 and ending on 2nd January, 2038.
 - (ii) However, the land use right pertinent to the unit is in the nature of an allocated land use right. Given such nature, the transfer, mortgage and lease of the unit shall be subject to approval by the competent administrative authority. Furthermore, in the case of transfer of the unit, Fullton may be required to pay to the competent administrative authority either its proceeds derived in part of the land use right, or the land premium for purpose of change such right into a granted land use right in nature which is freely transferable under the PRC laws.
- (3) As the transferability of the property is subject to certain land grant procedure, which is yet to be processed, we have not assigned a value to the property.
- (4) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--------------------------|-----|
| Realty Title Certificate | Yes |
|--------------------------|-----|

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
7. An industrial complex, Land reference number 09-13-03-300, Chenjia Road, Chenjiang Town, Huiyang, Guangdong Province	<p>The property comprises an industrial complex with 10 buildings erected on a piece of land with a site area of 18,964 sq.m. (204,129 sq.ft.).</p> <p>The buildings were completed between 1990 and 2001.</p> <p>The buildings have a total gross floor area of approximately 13,080 sq.m. (140,793 sq.ft.).</p> <p>The land use right of the property is granted for a term from 30th December, 1993 to 30th December, 2043 for composite use.</p>	The property is currently occupied by the Group as workshops and warehouses.	<p>HK\$10,500,000 (93.5% interest attributable to the Group: HK\$9,817,500)</p> <p>(Land portion only, we have not assigned a value to the building portion. Please see note 3.)</p>

Notes:

- (1) According to Land Use Right Certificate 國有土地使用證 Nos. (93)13210900957/13210900326:
- (i) Land User : Base Rich Development Limited, a wholly owned subsidiary of the Company 億澤發展有限公司
 - (ii) Location : Chenjia Road, Chenjiang Town, Huiyang
 - (iii) Lot No. : 09-13-03-300
 - (iv) Site area : 18,964 sq.m.
 - (v) Land use term : Granted for a term from 30th December, 1993 to 30th December, 2043
 - (vi) Use : Composite
- (2) According to a PRC legal opinion prepared by Fangda Partners:
- (i) As certified by land use right certificates Nos. (93)13210900957 & (93) 13210900326, Base Rich Development Limited (億澤發展有限公司, “Base Rich”) is the legal owner of a land use right to the land plot for a term commencing from 30th December, 1993 and ending on 30th December, 2043.
 - (ii) Base Rich is entitled to freely transfer, mortgage or let out the land use right.
 - (iii) Base Rich will become a legal owner of the title to the relevant buildings erected on the land if it has obtained the relevant real estate title certificates duly issued by competent administrative authority.
- (3) As the transferability of the property is subject to application for Building Ownership Certificate, which is yet to be processed, we have not assigned a value to building portion of the property.
- (4) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--------------------------------|-----|
| Land Use Right Certificate | Yes |
| Building Ownership Certificate | No |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
8. An industrial complex, Land reference number 127-1-T1-1, 3rd Phase Tuopu Diejin Industrial Zone, Shengping District, Shantou, Guangdong Province	The property comprises an industrial complex with 7 buildings erected on a piece of land with a site area of 10,010.36 sq.m. (107,752 sq.ft.). The buildings were completed between 1994 and 1997. Six buildings of the property have a total gross floor area of 13,361.61 sq.m. (143,828 sq.ft.). The remaining warehouse building of the property has a gross floor area of approximately 712.50 sq.m. (7,669 sq.ft.) The land use right of the property is granted for a term from 6th January, 1997 to 5th January, 2047 for industrial use.	The property is currently occupied by the Group as workshop and warehouse.	HK\$12,050,000 (93.5% interest attributable to the Group; HK\$11,266,750) (Please see note 6.)

Notes:

- (1) According to Land Use Right Certificate 國有土地使用證 No. (2001) 91300021:
- (i) Land User : Bauhinia Paints Manufacturing (Shantou) Co., Ltd., a 93.5% owned subsidiary of the Company 紫荊花製漆(汕頭)有限公司
- (ii) Location : Phase III, Tuopu Diejin Industrial Area
- (iii) Lot No. : 125-T-1
- (iv) Site area : 10,010.36 sq.m.
- (v) Land use term : Granted for a term from 6th January, 1997 to 5th January, 2047
- (vi) Use : Industrial use.
- (2) According to two Land Transfer Contracts 土地使用權轉讓協議 dated 16th August, 1993 and 19th November, 1995 respectively, party A agreed to grant the property to Party B:
- (i) Party A : 汕頭市升平區鮑浦鎮國土所
Party B : Shantou Bauhinia Paints Manufacturing Co., Ltd.
- (ii) Location : Phase III, Tuopu Diejin Industrial Area
- (iii) Site area & land premium
- | | Site Area
sq.m. | Land premium
RMB |
|-------|---------------------------|---------------------|
| | 6,666.67
(10 Mu 畝) | 2,500,000 |
| | 3,680.00
(5.52 Mu 畝) | 1,262,400 |
| Total | 10,346.67
(15.52 Mu 畝) | |
- (iv) Land use term : 50 years
- (vi) Use : Industrial

(3) According to six Realty Title Certificates 房地產權證:

(i) Owner : Bauhinia Paints Manufacturing (Shantou) Co., Ltd.
紫荊花製漆（汕頭）有限公司

(ii) Location : Phase III, Tuopu Diejin Industrial Area

(iii) **Certificate No.** **No. of storey** **Gross Floor Area**
sq.m.

2960595	3	1,794.35
2960596	3	10,372.93
2960597	1	184.81
2960598	2	884.91
2960599	1	100.00
2960600	1	26.61

Total 13,361.61

(4) According to Business License No. 005099, Bauhinia Paints Manufacturing (Shantou) Co., Ltd. was established with a registered capital of HK\$8,000,000 for a valid operation period from 8th September, 1993 to 7th September, 2013.

(5) According to a PRC legal opinion prepared by Fangda Partners:

(i) The buildings comprise of

Certificate No. **No. of storey** **Gross Floor Area**
sq.m.

2960595	3	1,794.35
2960596	3	10,372.93
2960597	1	184.81
2960598	2	884.91
2960599	1	100.00
2960600	1	26.61

Total 13,361.61

(ii) As certified by a land use right certificate No. (2001) 91300021 and 6 real estate title certificates respectively, Bauhinia Paints Manufacturing (Shantou) Limited (紫荊花製漆（汕頭）有限公司, “Bauhinia Shantou”) is the legal owner of a land use right to the land plot and the title to the buildings for a term commencing from 6th January, 1997 and ending on 5th January, 2047.

(iii) Bauhinia Shantou is entitled to freely transfer, mortgage or let out the land use right and the title to 6 buildings.

(iv) Bauhinia Shantou will become a legal owner of the title to the remaining building erected on the land if it has obtained the relevant real estate title certificates duly issued by competent administrative authority.

(6) As the transferability of one of the buildings of the property, with a gross floor area of approximately 712.50 sq.m., is subject to application for Building Ownership Certificate, which is yet to be processed, we have not assigned a value to this building portion of the property.

(7) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Land Use Right Certificate	Yes
Red-line Drawing (site plan)	Yes
Building Ownership Certificate	Yes (6 buildings only)
Business License	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
9. An industrial complex, Land reference number (67)-1, Huamei Village Ershe, Dafeng Town, Xindu County, Chengdu, Sichuan Province	The property comprises an industrial complex with 16 buildings erected on a piece of land with a site area of 22,465.31 sq.m. (241,817 sq.ft.). The buildings were completed between 1995 and 1998. The buildings have a total gross floor area of 10,204.20 sq.m. (109,838 sq.ft.). The land use right of the property is allocated for an unspecified term for industrial use.	The property is currently owner-occupied as workshop and warehouse.	(93.5% interest attributable to the Group) (We have not assigned a value to the property. Please see note 5.)

Notes:

(1) According to Land Use Right Certificate 國有土地使用證, No. (2001) 0416:

- (i) Land User : Bauhinia Paints Manufacturing (Chengdu) Co., Ltd., a 93.5% interest owned subsidiary of the Company
紫荊花製漆(成都)有限公司
- (ii) Location : Huamei Village, Dafeng Town, Xindu County, Chengdu
- (iii) Lot No. : (67)-1
- (iv) Site area : 22,465.31 sq.m.
- (v) Land use term : Allocated
- (vi) Use : Industrial

(2) According to Building Ownership Certificate 房屋所有權證 No. 07447:

(i) Owner	: Bauhinia Paints Manufacturing (Chengdu) Co., Ltd. 紫荊花製漆(成都)有限公司		
(ii) Location	: Huamei Village, Dafeng Town, Xindu County, Chengdu		
(iii) Certificate No.	No. of storey	Gross Floor Area	Uses
		sq.m.	
0104351	2	1,153.18	Office
0104350	2	1,844.29	Residential
0104346	1	785.03	Industrial/warehouse
0104345	1	895.91	Industrial/warehouse
0104349	1	910.52	Industrial/warehouse
0104348	1	1,039.52	Industrial/warehouse
0104347	1	1,040.60	Industrial/warehouse
0104344	1	60.59	Industrial/warehouse
0104374	1	105.06	Industrial/warehouse
0104339	1	51.96	Others
0104338	1	369.99	Industrial/warehouse
0104337	1	150.43	Industrial/warehouse
0104355	1	275.70	Industrial/warehouse
0104372	1	481.88	Industrial/warehouse
0104353	1	542.70	Industrial/warehouse
0104352	2	496.84	Recreation
	Total	10,204.20	

APPENDIX II**PROPERTY INTERESTS OF THE GROUP**

(3) According to Business License No. 0347, Bauhinia Paints Manufacturing (Chengdu) Co., Ltd. 紫荊花製漆（成都）有限公司 was established with a registered capital of RMB8,000,000 for a valid operation period from 21st December, 1994 to 20th December, 2014.

(4) According to the PRC legal opinion:

(i) The buildings comprise of

Certificate No.	No. of storey	Gross Floor Area <i>sq.m.</i>	Uses
0104351	2	1,153.18	Office
0104350	2	1,844.29	Residential
0104346	1	785.03	Industrial/warehouse
0104345	1	895.91	Industrial/warehouse
0104349	1	910.52	Industrial/warehouse
0104348	1	1,039.52	Industrial/warehouse
0104347	1	1,040.60	Industrial/warehouse
0104344	1	60.59	Industrial/warehouse
0104374	1	105.06	Industrial/warehouse
0104339	1	51.96	Others
0104338	1	369.99	Industrial/warehouse
0104337	1	150.43	Industrial/warehouse
0104355	1	275.70	Industrial/warehouse
0104372	1	481.88	Industrial/warehouse
0104353	1	542.70	Industrial/warehouse
0104352	2	496.84	Recreation
Total		<u>10,204.20</u>	

(ii) As certified by a land use right certificate No. (2001) 0104355 and 16 real estate title certificates, Bauhinia Paints Manufacturing (Chengdu) Limited (紫荊花製漆（成都）有限公司, “Bauhinia Chengdu”) is the legal owner of the land use right to the land plot and the title to the buildings.

(iii) However, land use right is in the nature of an allocated land use right. Given such nature, the transfer, mortgage and lease of the land use right or the title to the buildings shall be subject to approval by the competent administrative authority. Furthermore, in the case of transfer of the land use right or the title to the buildings, Bauhinia Chengdu may be required to pay to the competent administrative authority either its proceeds derived in part of the land use right, or the land premium for the purpose of changing such right into a granted land use right in nature which is freely transferable under the PRC laws.

(iv) Furthermore, competent administrative authority shall have authority to withdraw the land plot together with the buildings for the needs of urban development and planning, with appropriate compensation for the buildings only.

(v) Subject to the approval by competent administrative authority, Bauhinia Chengdu may convert the land use rights into a granted land use right in nature by entering into a land use right grant contract with competent administrative authority and paying the relevant land premium.

(5) As the transferability of the property is subject to certain land grant procedure, which is yet to be processed, we have not assigned a value to the property.

(6) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Land Use Right Certificate	Yes (Allocated)
Red-line Drawing (site plan)	Yes
Building Ownership Certificate	Yes
Business License	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
10. An industrial complex, Baixi Village, Banfu Town, Zhongshan City, Guangdong Province	<p>The property comprises ten industrial buildings erected on two contiguous pieces of land with a total site area of 19,379 sq.m. (208,596 sq.ft.).</p> <p>The buildings were completed in 1993, 2001 and 2002 respectively.</p> <p>The buildings have a total gross floor area of 7,094.72 sq.m. (76,368 sq.ft.).</p> <p>The land use right of the property is granted for two terms from 1st November, 1993 to 1st January, 2043 and from 27th August, 1994 to 23rd August, 2044 for industrial buildings use.</p>	The property is currently occupied by the Group as workshop and warehouse.	<p>HK\$2,450,000</p> <p>(Land portion only, we have not assigned a value to the building portion. Please see note 3.)</p>

Notes:

(1) According to two Land Use Right Certificate 國有土地使用證 Nos. 0094 & 0227:

- (i) Land User : Yau Seng Petrochemical (International) Limited, a wholly owned subsidiary of the Company 友成石油化工（國際）有限公司
- (ii) Location : Baixi Village, Banfu Town, Zhongshan
- (iii) Site area & land use term:

Certificate No.	Site area sq.m.	Land use term
0094	12,191	1st November, 1993 to 1st January, 2043
0227	7,188	27th August, 1994 to 23rd August, 2044
Total	<u>19,379</u>	

- (iv) Use : Industrial buildings

(2) According to the PRC legal opinion:

- (i) As certified by the land use right certificates No. 0094 & 0227, Yau Seng Petrochemical (International) Limited (友成石油化工（國際）有限公司 “Yau Seng”) is the legal owner of (i) the land use right to the land plot for industrial use for a term commencing from 27th August, 1994 and ending on 23rd August, 2044; (ii) and the land use right to the land plot for industrial use for a term commencing from 1st November, 1993 and ending on 1st January, 2043.
- (ii) Yau Seng is entitled to freely transfer, mortgage or let out the land use right.
- (iii) Yau Seng will become a legal owner of the title to the relevant building erected on the land if it has obtained the relevant real estate title certificates duly issued by competent administrative authority.

- (3) As the transferability of the property is subject to application for Building Ownership Certificate, which is yet to be processed, we have not assigned a value to the building.
- (4) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Land Use Right Certificate	Yes
Red-line Drawing (site plan)	Yes
Building Ownership Certificate	No

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
11. An industrial complex, Land reference number “之一” 1 Youyi Road, Xiashan District, Zhanjiang, Guangdong Province	<p>The property comprises 5 industrial buildings erected on a piece of land with a site area of 14,819 sq.m. (159,512 sq.ft.).</p> <p>The buildings were completed in 1995.</p> <p>The property has a total gross floor area of 7,748.76 sq.m. (83,408 sq.ft.).</p> <p>The land use right of the property is granted for a term due to expire in March 2051 for industrial use.</p>	The property is currently occupied by the Group as workshop and warehouse.	<p>HK\$2,100,000 (40% interest attributable to the Group: HK\$840,000)</p> <p>(Land portion only, we have not assigned a value to the building portion. Please see note 6.)</p>

Notes:

- (1) According to Land Use Right Certificate 國有土地使用證 No. (2001) 107:
- (i) Land User : Zhanjiang Best Lubricant Blending Ltd., 40% owned by the Company
湛江凌志潤滑油有限公司
 - (ii) Location : 1 Youyi Road, Xiashan District, Zhanjiang
 - (iii) Site area : 14,819 sq.m.
 - (iv) Land use term : Due to expire in March 2051
 - (v) Use : Industrial
- (2) According to Land Transfer Contract 土地使用權轉讓協議 dated 9th July, 2001:
- (i) Party A : 湛江港務局
 - Party B : Zhanjiang Best Lubricant Blending Ltd.
湛江凌志潤滑油有限公司
 - (ii) Location : 1 Youyi Road, Xiashan District, Zhanjiang
 - (iii) Consideration : Party A agreed to transfer the property to Party B. Party B would be responsible for the related costs of transfer.
 - (iv) Site area : 14,819 sq.m.
 - (v) Land use term : 50 years
- (3) According to Contract for Grant of Land Use Rights 土地使用權出讓合同 in March 2001:
- (i) Party A : 湛江市國土局
 - Party B : Zhanjiang Best Lubricant Blending Ltd.
湛江凌志潤滑油有限公司
 - (ii) Location : 1 Youyi Road, Xiashan District, Zhanjiang
 - (iii) Site area : 14,819 sq.m.
 - (iv) Land premium : RMB281,561
- (4) According to Business License No. 000135, Zhanjiang Best Lubricant Blending Ltd. 湛江凌志潤滑油有限公司 was established with a registered capital of US\$3,800,000 for a valid operation period from 4th April, 1993 to 1st April, 2043.

- (5) According to a PRC legal opinion prepared by Fangda Partners:
- (i) As certified by a land use right certificate No. (2001) 107, Zhanjiang Best Lubricant Blending Ltd. (湛江凌志潤滑油有限公司) “Zhanjiang Best” is the legal owner of a land use right to the land plot for industrial use for a term ending in March 2051.
 - (ii) Zhanjiang Best is entitled to freely transfer, mortgage or let out the land use right.
 - (iii) Zhanjiang Best will become a legal owner of the title to the relevant building erected on the land if it has obtained the relevant real estate title certificates duly issued by competent administrative authority.
- (6) As the transferability of the property is subject to application for Building Ownership Certificate, which is yet to be processed, we have not assigned a value to the building portion of the property.
- (7) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Land Use Right Certificate	Yes
Red-line Drawing (site plan)	Yes
Land Transfer Contract	Yes
Contract for Grant of Land Use Rights	Yes
Building Ownership Certificate	No
Business License	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
12. Unit 501, 502, No. 107 Haijing Road, Xiashan District, Zhanjiang, Guangdong Province	<p>The property comprises two residential units on Level 5 of a 9-storey residential building completed in 1994.</p> <p>The property has a total gross floor area of 203.52 sq.m. (2,191 sq.ft.).</p> <p>The land use term is allocated for an unspecified term for residential use.</p>	The property is currently occupied by the Group as staff quarters.	(We have not assigned a value to the property. Please see note 4.)

Notes:

(1) According to two Realty Title Certificates 房地產權證 Nos. 0498942 & 0498943:

(i) Owner : Best Lubricant Blending Limited, a wholly owned subsidiary of the Company
凌志潤滑油有限公司

(ii) Property : Unit 501 & 502, 107 Haijing Road, Hashan District, Zhanjiang

(iii) Certificate No.	No. of storey	Gross floor area sq.m.	Land use term
0498942	9	101.76	Allocated for an unspecified term for residential use
0498943	9	101.76	Allocated for an unspecified term for residential use
	Total	<u>203.52</u>	

(2) According to two Sale & Purchase Contracts, Unit Nos. 501 & 502 were purchased at a total consideration of RMB445,987.08.

(3) According to a PRC legal opinion prepared by Fangda Partners:

(i) As certified by the real estate title certificates Nos. 0498942 & 0498943, Best Lubricant Blending Limited. (凌志潤滑油有限公司, "Best Ltd.") is the legal owner of the title to the units.

(ii) However, the land use rights pertinent to the units are in the nature of an allocated land use right. Given such nature, the transfer, mortgage and lease of the title shall be subject to approval by the competent administrative authority. Furthermore, in the case of transfer of the title, Best Ltd. may be required to pay to the competent administrative authority either its proceeds derived in part of the land use rights, or the land premium for the purpose of changing such right into a granted land use right in nature which is freely transferable under the PRC laws.

(4) As the transferability of the property is subject to certain land grant procedures, which is yet to be processed, we have not assigned a value to the property.

(5) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Realty title Certificate	Yes
Sale & Purchase Contract	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2002
13. Unit 1507 and Car Park No. 1, Golden Bridge Building, 2077 Yanan Road, Shanghai 上海市 延安路2077號 金橋大廈1507室及 1號車位	The property comprises an office unit on Level 15 of a 30-storey composite building plus a car park. The building was completed in 1994. Unit 1507 of the property has a gross floor area of 142.91 sq.m. (1,538 sq.ft.). The land use right of the property is granted for a term from 22nd September, 1992 to 21st September, 2062.	The property is currently occupied by the Group as office.	HK\$1,120,000

Notes:

- (1) According to Building Ownership Certificate 房屋所有權證 No. 08275:
- (i) Owner : Goldchain Limited, a wholly owned subsidiary of the Company
金畔有限公司
 - (ii) Property : Unit 1507 and Car Park No. 1, 2077 Yanan Road
 - (iii) Gross floor area : 142.91 sq.m.
 - (iv) Land use term : Granted for a term from 22nd September, 1992 to 21st September, 2062.
- (2) According to a Subscription Letter 認購書, Unit 1507 was purchased at a consideration of US\$333,427.32 and a furniture and decoration fee of US\$43,300.
- (3) According to a PRC legal opinion prepared by Fangda Partners:
- (i) As certified by a building title certificates No. 08275, Goldchain Limited. (金畔有限公司) is the legal owner of the title to the unit and the car park for a term of seventy years commencing from 22nd September, 1992 and ending on 21st September, 2062.
 - (ii) Goldchain is entitled to freely transfer, mortgage or let out the title.
- (4) In accordance with the opinion of the PRC legal adviser and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--------------------------------|-----|
| Building Ownership Certificate | Yes |
| Subscription Letter | Yes |

Group IV – Property interest leased by the Group in Hong Kong

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
14. House 5, 14th Street, Hong Lok Yuen, Tai Po, New Territories	The property comprises a 2-storey garden house completed in 1981. The property has a gross floor area of approximately 278.71 sq.m. (3,000 sq.ft.) and a garden and garage area of approximately 255.72 sq.m. (2,753 sq.ft.).	No commercial value
Sub-section 458 of Section D of Lot No. 1945 in Demarcation District No. 7	The property is currently leased to the Group for a term of 2 years from 1st April, 2002 to 31st March, 2004 at a monthly rent of HK\$50,000, exclusive of rates, management fees and Government rent.	

Group V – Property interests leased by the Group in the PRC

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
15. Room 2003-2007 on Level 20, Guidu Building, 52-56 Chunfeng Road, Luohu District, Shenzhen, Guangdong Province	<p>The property comprises 4 office units on Level 20 of a 25-storey office building plus 2 levels of basement completed in 1998.</p> <p>The property has a total gross floor area of 686.78 sq.m. (7,392 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 3 years from 1st May, 2000 to 30th April, 2003 at an annual rent of RMB288,444 with an option to extend for a further term of 2 year.</p>	No commercial value
16. Level 4, Hualin Building, 190 Caoxi Road, Xuhui District, Shanghai	<p>The property comprises Level 4 of a 12-storey office building completed in 1990's.</p> <p>The property has a gross floor area of 647.22 sq.m. (6,967 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 5 years from 18th July, 2001 to 17th July, 2006 at a total annual rent of RMB27,150.</p>	No commercial value
17. A warehouse with ancillary office, situated at 720 Pudong Avenue, Nanfu Village, Sanlin Town, Pudong New Area, Shanghai	<p>The property comprises a single storey warehouse building completed in 1990's.</p> <p>The property has a total gross floor area of 2,100 sq.m. (22,604 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 6 years from 15th July, 2000 to 14th July, 2006 at an annual rent of RMB180,000.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
18. A unit at Baixing Market, 658 Xinan Road, Shahekou District, Dalian, Liaoning Province	<p>The property comprises a unit of a 4-storey composite market building completed in 2000.</p> <p>The property has a gross floor area of 65.60 sq.m. (706 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 3 years from 10th February, 2001 to 9th February, 2004 at a total rent of RMB350,000 for the whole term.</p>	No commercial value
19. 7 Weihuashi Road, Jinan, Shandong Province	<p>The property comprises an single-storey office/ warehousing building erected on a land of site area 22,289.19 sq.m. (239,924 sq. ft.).</p> <p>The property has a gross floor area of 3,309.79 sq.m. (35,627 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 10 years from 1st August, 1997 to 1st August, 2007.</p> <p>For the first 3 years from 1st August, 1997 to 1st August, 2000, the total annual rent is RMB200,000.</p> <p>For the term of 3 years from 1st August, 2000 to 1st August, 2003, the total annual rent is RMB220,000.</p> <p>For the term of 4 years from 1st August, 2003 to 1st August, 2007, the total annual rent is RMB253,000.</p>	No commercial value
20. A block of dormitory building situated at Chenjia Road, Chenjiang Town, Huiyang, Guangdong Province	<p>The property comprises a 2-storey residential building completed in 1990's.</p> <p>The property has a gross floor area of 312 sq.m. (3,358 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 8 years from 1st November, 1999 to 1st November, 2007 at a total annual rent of RMB18,720.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
21. A plot of land situated at Daguongling Village, Chenjiang Town, Huiyang, Guangdong Province	<p>The property comprises a piece of industrial land with a site area of 5,000 sq.m. (53,821 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 20 years from 10th November, 2000 to 10th November, 2020 at a total annual rent of RMB8,250.</p>	No commercial value
22. A warehouse situated at Baixi Industrial Area, Banfu Town, Zhongshan, Guangdong Province	<p>The property comprises a single storey warehouse completed in 1998.</p> <p>The property has a gross floor area of 700 sq.m. (7,534 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 3 years from 10th October, 2001 to 9th October, 2003 at a total annual rent of RMB42,000.</p>	No commercial value
23. Room N, 9/F, Tianli Estate, Yungsheng Square, 92 Anlan Road, Shiqi District, Zhongshan, Guangdong Province	<p>The property comprises a unit on Level 9 of a 35-storey composite building completed in 1998.</p> <p>The property has a gross floor area of 100 sq.m. (1,076 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 1 year from 1st November, 2001 to 30th October, 2002 and extended for a further term of 1 year at a total annual rent of RMB15,600.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
24. Various industrial buildings next to Shiheli, Jianghai Road, Jiangmen, Guangdong Province	<p>The property comprises various industrial buildings and ancillary facilities erected on a land of 7,300 sq.m. (78,577 sq.ft.)</p> <p>The property has a gross floor area of 2,100 sq.m. (22,604 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 20 years from 1st January, 2002 to 31st December, 2021 at a total annual rent of RMB299,220.</p> <p>As advised by the Group, some buildings, with gross floor area of 3,713 sq.m. (39,967 sq.m.), were self erected by the Group on the site.</p>	No commercial value
25. 2061 Yuzhuangzi Road, Tanggu District, Tianjin	<p>The property comprises a various industrial building and ancillary facilities completed in 1985.</p> <p>The property has a total gross floor area of 2,480 sq.m. (26,695 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 20 years from 1st January, 2000 to 3rd December, 2011 at a total annual rent of RMB185,200.</p> <p>As advised by the Group, a warehouse, with gross floor area of 4,000 sq.m. (93,056 sq.ft.), was self erected by the Group on the site.</p>	No commercial value
26. East, 2/F, Block B, Dongfangmingju Industrial/Trading Centre, No. 93 Zhongshan Avenue, Tianhe District, Guangzhou, Guangdong Province	<p>The property comprises Level 2 of an 8-storey office building completed in 1980's.</p> <p>The property has a gross floor area of 793 sq.m. (8,536 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 5 years from 1st March, 2000 to 28th February, 2005. The annual rent is RMB22,204 from 1st March, 2002 to 28th February, 2002, RMB23,980.32 from 1st March, 2002 to 28th February, 2004 and RMB26,378.35 from 1st March, 2004 to 28th February, 2005.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
27. Room 808, 8/F, Shanghai Building, 1476 Pudong Avenue, Pudong New Area, Shanghai	<p>The property comprises part of Level 8 of a 20-storey office building completed in 1992.</p> <p>The property has a gross floor area of 240.73 sq.m. (2,591 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 2 years from 5th October, 2001 to 4th October, 2003 at a total annual rent of RMB70,293.</p>	No commercial value
28. Rooms 306-308, Xinhua Printing Factory Composite Building, 43 Minsheng Avenue, Jinan, Shandong Province	<p>The property comprises 3 office units on Level 3 of a 6-storey composite building completed in 2000.</p> <p>The property has a gross floor area of 155 sq.m. (1,668 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 5 years from 1st March, 2002 to 28th February, 2007 at a total annual rent of RMB27,156.</p>	No commercial value
29. Units 202, 204, 209 and 211 on Level 2, Keyu Building, 60 Gongnong Avenue, Chaoyang District, Changchun, Jilin Province	<p>The property comprises 4 units of Level 2 of a 7-storey office building completed in 1997.</p> <p>The property has a gross floor area of 89.41 sq.m. (962 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 2 years from 20th March, 2001 to 20th March, 2003 at a total annual rent of RMB32,000.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
30. Rooms 506-508, Block B, Gaofa Industrial Building, 6 Jiuxing Avenue, Gaoxin District, Chengdu, Sichuan Province	<p>The property comprises a 2 units on Level 5 of a 6-storey composite building completed in 2001.</p> <p>The property has a gross floor area of 151.36 sq.m. (1,629 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 2 years from 1st March, 2002 to 29th February, 2004 at a total annual rent of RMB54,489.60.</p>	No commercial value
31. 168 Hongtong Road, Tianhuan Village, Sanlin Pudong New Area, Shanghai	<p>The property comprises a single storey warehousing building completed in 2001.</p> <p>The property has a gross floor area of 1,392 sq.m. (14,983 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 2 years from 1st February, 2002 to 31st January, 2004 at a total annual rent of RMB153,792.</p>	No commercial value
32. A warehouse situated in Baihao Industrial District, Houjie Town, Dongguan, Guangdong Province	<p>The property comprises a land of 8,784 sq.m. (94,551 sq.ft.) completed in 1994.</p> <p>The annual rental for the first 10 years is RMB36,326.40 and there is a 10% increment every 10 years thereafter.</p> <p>As advised by the Group, some buildings, with total gross floor area of 5,742 sq.m (61,807 sq.ft.), were self erected by the Group on the site.</p>	No commercial value

Property	Description and tenancy detail	Capital value in existing state as at 30th September, 2002
33. Warehouse No. 4, 5, 6 and 7, situated at No. 2 Xinye Street, Erdao District, Changchun, Jilin Province	<p>The property comprises 4 warehouses of a single-storey warehousing building completed in 2002.</p> <p>The property has a gross floor area of 5,800 sq.m. (62,433 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 1 year from 1st September, 2002 to 1st September, 2003 at a total annual rent of RMB84,000.</p>	No commercial value
34. Wudui Warehouse situated at Dalingang, Dongpuzhu Village, Tianhe District, Guangzhou, Guangdong Province	<p>The property comprises a single storey warehousing building completed in 2000.</p> <p>The property has a gross floor area of 1,400 sq.m. (15,070 sq.ft.).</p> <p>The property is currently leased to the Group for a term of 5 years from 12th July, 2000 to 11th July, 2005 at a total annual rent of RMB168,000.</p>	No commercial value

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide requisite information to you to make an informed decision whether to vote for or against the resolution to approve the grant of the repurchase mandate to the Directors.

1. LISTING RULES RELATING TO THE REPURCHASE OF SECURITIES

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important provisions of which are summarised below. The Company is empowered by its memorandum and the articles of association to repurchase its own securities.

(a) Shareholders' approval

The Listing Rules provide that all on-market securities repurchases by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a general mandate or by specific approval with reference to a specific transaction.

(b) Source of funds

Repurchase must be paid out of funds which are legally available for the purpose and in accordance with the memorandum and the articles of association of the Company and the Companies law, Chapter 22 (Law 3 of 1961, as consolidated and amended) of the Cayman Islands (the "Companies Law"). A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(c) Connected parties

No connected person of the Company has notified the Company that he/she/it has a present intention to sell any securities to the Company nor has any such connected person undertaken not to sell any of the securities held by him/her/it to the Company in the event that the Repurchase Mandate is granted.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 503,611,121 Shares. Upon completion of the Share Repurchase, the issued Share will be reduced to 455,515,121.

Subject to the passing of the proposed resolution for the grant of the Repurchase Mandate to the Directors and on the basis that no Shares are allotted, issued or repurchased by the Company prior to the EGM, the Company will be allowed under the repurchase mandate to repurchase a maximum of 45,551,512 Shares.

3. REASONS FOR THE REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases of Shares will benefit the Company and the Shareholders.

4. FUNDING OF REPURCHASES

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

Taking into account the current working capital position of the Company, the Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position as at 30th September, 2002 and after taking into consideration the completion of the Share Repurchase. However, the Directors do not intend to make any repurchases to such an extent as would, in circumstances, have a material adverse effect on the working capital requirements or the gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during each of the previous twelve months were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2001		
December	0.560	0.490
2002		
January	0.690	0.500
February	0.740	0.610
March	0.940	0.710
April	0.900	0.740
May	0.980	0.800
June	0.970	0.860
July	1.030	0.860
August	0.930	0.840
September	0.960	0.840
October	0.940	0.820
November	1.410	0.920
December (<i>Note</i>)	1.400	1.340

Note: the Latest Practicable Date

6. DISCLOSURE OF INTERESTS, THE TAKEOVERS CODE AND MINIMUM PUBLIC HOLDING

None of the Directors nor, to the best of their knowledge and belief, having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), have any intention to sell to the Company or its subsidiaries any of the Shares if the repurchased mandate is approved at the EGM and exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make repurchases of the Shares pursuant to the repurchase mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands and the regulations set out in the memorandum and articles of association of the Company.

Assuming that none of the substantial Shareholders disposes of their Shares, if the repurchase mandate were exercised in full, the respective percentage shareholdings of the substantial Shareholders before and after such repurchase would be as follows:

	Before repurchase	After repurchase
Mr. Ip Chi Shing, Tony ^(a)	38.6%	42.9%
Ms. Ip Fung Kuen ^(a)	12.2%	13.5%
Mr. Yip Tsz Hin, Stephen ^(b)	12.2%	13.5%

Notes:

- (a) The interest of Mr. Ip Chi Shing, Tony and Ms. Ip Fung Kuen in the Shares are beneficially owned by two separate discretionary trusts, the objects of which include Mr. Ip Chi Shing, Tony and his family and Ms. Ip Fung Kuen and her family respectively.
- (b) The family interest of Mr. Yip Tsz Hin, Stephen is held by his spouse.

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase securities pursuant to the repurchase mandate, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code.

On the basis of the current shareholdings held by the substantial Shareholders named above, an exercise of the repurchase mandate in full will not result in any of the Shareholders referred to above obliged to make a mandatory offer under the Takeovers Code.

Assuming that there is no issue of Shares between the date of this circular and the date of a repurchase and no acquisition by any of the substantial Shareholders of the Company of any interests in the Shares, an exercise of the repurchase mandate whether in part or in whole will not result in less than 25% of the Shares being held by the public.

The Directors have no intention to exercise the repurchase mandate to an extent as may result in less than 25% of the Shares being held by the public.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Repurchases Code for the purpose of giving information with regard to the Company. The information contained herein has been supplied by the Directors who have taken all reasonable care to ensure the information stated herein is accurate. The information contained in this circular regarding the Group is based on information supplied by the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, the opinions expressed herein have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained herein misleading.

The issue of this circular has been approved by the Board.

2. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which were required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

(a)	Directors	Personal interests	Family interests	Other interests	Total interests	% of the total issued Shares as at the Latest Practicable Date	% of the total issued Shares after Completion
	Mr. Ip Chi Shing, Tony	400,000	—	193,923,932 ^(a)	194,323,932	38.59	42.66
	Ms. Ip Fung Kuen	1,200,000	—	60,000,000 ^(a)	61,200,000	12.15	13.44
	Mr. Yip Tsz Hin, Stephen	41,400,000	20,000,000 ^(b)	—	61,400,000	12.19	13.48
	Mr. Ng Siu Ping, George	632,000	50,000 ^(c)	—	682,000	0.14	0.15
	Mr. Ting Hon Yam	1,464,000	—	—	1,464,000	0.29	0.32
	Mr. Wong Kam Yim, Kenny	408,000	—	—	408,000	0.08	0.09
	Mr. Young Man Kim, Robert	550,000	—	—	550,000	0.11	0.12
	Mr. Tong Wui Tung, Ronald	—	500,000 ^(d)	—	500,000	0.10	0.11
	Mr. Wong Kong Chi	—	100,000 ^(e)	—	100,000	0.02	0.02

Notes:

- (a) The interest of Mr. Ip Chi Shing, Tony and Ms. Ip Fung Kuen in Shares are beneficially owned by two separate discretionary trusts, the objects of which include Mr. Ip Chi Shing, Tony and his family and Ms. Ip Fung Kuen and her family respectively.

- (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.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in the share capital of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transaction by Directors of Listing Companies contained in the Listing Rules or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

All the above Directors have indicated that they will vote or cause their respective family members to vote in favour of the relevant resolutions in relation to the Shares Repurchase at the EGM.

- (b) Details of the share options granted to Directors which remained outstanding as at the Latest Practicable Date were as follow:

Directors	Date of grant	Exercise price HK\$	Number of Shares issuable under share options as at the Latest Practicable Date	Option exercise period
Mr. Ng Siu Ping, George	16th July, 2001	0.395	1,000,000	16th July, 2001 – 15th July, 2006
	14th November, 2002	1.190	500,000	14th November, 2002 – 13th November, 2012
Mr. Ting Hon Yam	14th November, 2002	1.190	500,000	14th November, 2002 – 13th November, 2012
Mr. Wong Kam Yim, Kenny	16th July, 2001	0.395	500,000	16th July, 2001 – 15th July, 2006
	14th November, 2002	1.190	500,000	14th November, 2002 – 13th November, 2012
Mr. Young Man Kim, Robert	14th November, 2002	1.190	500,000	14th November, 2002 – 13th November, 2012
Total			<u>3,500,000</u>	

On 29th July, 2002, Mr. Ip Chi Shing, Tony exercised his rights under the share option to subscribe for 400,000 Shares at HK\$0.314 each. On 23rd August, 2002, Mr. Ng Siu Ping, George exercised his rights under the share option to subscribe for 400,000 Shares at HK\$0.314 each.

During the six months prior to the date of announcement of the Share Repurchase and up to the Latest Practicable Date, Mr. Ip Ching Sing, Tony and Mr. Young Man Kim, Robert has dealt in Shares details of which are set out below:

Director	Transaction Date	Consideration <i>HK\$</i>	Number of Shares	
			Acquired	Disposed of
Ip Chi Shing, Tony	16th August, 2002	NIL	—	200,000
Mr. Young Man Kim, Robert	25th September, 2002	0.90	100,000	—
	26th September, 2002	0.88	120,000	—
	27th September, 2002	0.88	140,000	—
	3rd October, 2002	0.81	20,000	—
	4th October, 2002	0.84	10,000	—
		0.86	20,000	—

Save as disclosed above, during the six months prior to the date of announcement of the Share Repurchase and up to the Latest Practicable Date none of the Directors had dealt in value for Shares.

(c) Substantial Shareholders

As at the Latest Practicable Date, the register of substantial Shareholders maintained under Section 16(1) of the SDI Ordinance shows that other than the interests disclosed above in respect of certain Directors, the Company has not been notified of any interest representing 10% or more of the Company's issued share capital.

3. MARKET PRICES

- (a) The table below sets out the highest and lowest closing prices of the Shares on the Stock Exchange, with the relevant dates, for each month during the six months period immediately preceding the date of announcement of the Share Repurchase on 23rd September, 2002:

	Closing price	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2002		
March	0.90	0.72
April	0.90	0.74
May	0.98	0.85
June	0.97	0.88
July	1.00	0.88
August	0.93	0.84
2nd September to 20th September, 2002	0.93	0.85
23rd September, 2002 up to the Latest Practicable Date	1.39	0.83

- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the date of the announcement of the Share Repurchase on 23rd September, 2002 on which trading in the Shares took place and on the Latest Practicable Date:

	Closing price <i>HK\$</i>
2002	
28th March, 2002	0.82
30th April, 2002	0.87
31st May, 2002	0.96
28th June, 2002	0.88
31st July 2002	0.94
30th August, 2002	0.88
20th September, 2002, being the last business day immediately preceding the date of the announcement of the Share Repurchase	0.90
Latest Practicable Date	1.38

4. PREVIOUS SHARE REPURCHASE AND SHARE DEALINGS

The Company has repurchased a total of 1,128,000 Shares (whether on the Stock Exchange or otherwise) in the twelve months preceding the Latest Practicable Date with particulars as follows:

Date of Repurchase	Number of Shares of HK\$0.10 each	Price per Share		Aggregate consideration before expenses
		Highest HK\$	Lowest HK\$	HK\$
18th January, 2002	330,000	0.55	0.55	181,500
18th January, 2002	100,000	0.57	0.55	57,000
21st January, 2002	100,000	0.59	0.55	59,000
30th January, 2002	50,000	0.59	0.55	29,500
5th February, 2002	42,000	0.63	0.63	26,460
5th February, 2002	76,000	0.64	0.63	48,640
7th February, 2002	400,000	0.65	0.63	260,000
7th February, 2002	30,000	0.66	0.63	19,800
Total	<u>1,128,000</u>			<u>681,900</u>

5. SERVICE CONTRACTS

None of the Directors has any existing or proposed service agreement with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. CONSENTS

Both Somerley and DTZ Debenham Tie Leung have given and have not withdrawn their respective consent to the issue of this circular with the inclusion herein of their letter and the references to their names, in the forms and contexts in which they respectively appear.

7. QUALIFICATION

The following is the qualification of the experts who has given opinion or advice which is contained in this circular:

Name	Qualification
Somerley	an investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
DTZ Debenham Tie Leung	a firm of professional property valuer

8. MATERIAL CONTRACTS

The Company does not have any material contracts (not being contracts entered into in the ordinary course of business) entered into by the Group apart from the material contracts disclosed in the annual report within the two years immediately preceding the Latest Practicable Date.

9. MISCELLANEOUS

- (a) Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and, so far as the Directors are aware, no litigation or arbitration or claim of material importance is pending or threatened by or against the Company or any of its subsidiaries.
- (b) The secretary of the Company is Mr. Ng Siu Ping, George.
- (c) The Company's registered office is situated at Second Floor, One Capital Place, P.O. Box 1787, Grand Cayman, Cayman Islands, British West Indies.
- (d) The Company's Hong Kong share registrar and transfer office, Secretaries Limited is situated at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (e) The English text of this circular and proxy form shall prevail over the Chinese text.
- (f) Neither Somerley nor DTZ Debenham Tie Leung has any shareholding in any member of the Group and neither of them have any right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on weekdays (Saturday and public holidays excepted) at the principal place of business of the Company in Hong Kong at Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong up to and including the date of the EGM (and any adjournment thereof) and will also be available at the EGM.

- 1. the Memorandum and Articles of Association of the Company;
- 2. the Agreement;
- 3. letter from the Independent Director, the text of which is set out on page 16;
- 4. the letter from Somerley dated 4th December, 2002, the text of which is set out on pages 17 to 29 of this circular;

5. written consents from the experts referred to in paragraph 7 of this Appendix;
6. the annual reports of the Company for the year ended 31st March, 2001 and 31st March, 2002 and the interim report for the six months ended 30th September, 2002; and
7. the letter, summary of valuation and valuation certificates issued by DTZ Debenham Tie Leung, the text of which is set out in Appendix II to this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



葉氏化工集團有限公司 YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of the Company will be held at 10:00 a.m. on Friday, 27th December, 2002 at the Conference Room at 4th Floor Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong for the purpose of:

1. considering and, if thought fit, passing, with or without amendments, the following resolution as a Special Resolution, and the voting on which will be by poll:

“THAT the Conditional Repurchase Agreement (“Agreement”) dated 23rd September, 2002, a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification and the details of which are set out in the circular of the Company dated 4th December, 2002, in respect of the repurchase (“Share Repurchase”) by the Company from Kingboard Chemical Holdings Limited of 48,096,000 shares of HK\$0.10 each (“Shares”) in the capital of the Company at the aggregate purchase price of HK\$42,324,480 and the transactions contemplated under the Agreement, be and they are hereby approved, confirmed, and ratified and any director of the Company (“Director”) be and is hereby authorized to take such action, do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing or giving effect to any of the matters relating to, or incidental to, the Agreement or the Share Repurchase.”

2. considering and, if thought fit, passing, with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- 2.1. subject to paragraph 2.2 below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase issued Shares in the capital of the Company, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- 2.2. the aggregate nominal amount of shares of the Company to be purchased by the Company on The Stock Exchange of Hong Kong Limited or on another stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph 2.1 above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution (excluding those Shares to be repurchased under the Agreement), and the said approval shall be limited accordingly; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- 2.3. for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
- (a) the conclusion of the next annual general meeting of the Company; or
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Law of the Cayman Islands to be held; or
 - (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.”

By order of the Board
Ip Chi Shing, Tony
Chairman

Hong Kong, 4th December, 2002

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney must be deposited at the head office and principal place of business of the Company at Yip’s Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
3. A proxy form for use at the meeting is enclosed herewith.
4. The Share Repurchase amounts to an off-market share repurchase pursuant to the Hong Kong Code on Share Repurchases. The Executive Director of the Corporate Finance Division of the Securities and Futures Commission has approved the Share Repurchase conditional on approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the shareholders of the Company not having any interest in the Share Repurchase.



葉氏化工集團有限公司
YIP'S CHEMICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

PROXY FORM
FOR THE EXTRAORDINARY GENERAL MEETING OF 27TH DECEMBER, 2002

I/We ⁽¹⁾ _____
of _____
being the registered holder(s) of ⁽²⁾ _____ shares of HK\$0.10 each
in the capital of Yip's Chemical Holdings Limited (the "Company") hereby appoint the Chairman of the Meeting,
or ⁽³⁾ _____
as my/our proxy to attend and vote for me/us and on my/our behalf at the Extraordinary General Meeting
of the Company (and at any adjournment thereof) to be held at The Conference Room, 4th Floor Yip's Hang
Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong on Friday,
27th December, 2002 at 10:00 a.m. and to vote in respect of the following resolutions as indicated:

SPECIAL RESOLUTION	FOR ⁽⁴⁾	AGAINST ⁽⁴⁾
1. to approve the Conditional Repurchase Agreement dated 23rd September, 2002 in connection with the proposed purchase by the Company of 48,096,000 shares in the capital of the Company		
ORDINARY RESOLUTION		
2. to extend the Repurchase Mandate to the directors of the Company (the "Repurchase Mandate") as set out in item 2 of the Notice of Extraordinary General Meeting		

Dated _____ Signature^{(5) (6) (7) (8)} _____
(Full name in block capitals)

Notes :

1. Full name(s) and address(es) to be inserted in block capitals.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. If you wish to appoint a proxy other than the Chairman of the Meeting, please strike out "the Chairman of the Meeting" and insert the name and address of the person you wish to appoint in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.** A proxy need not be a member of the Company.
4. **IMPORTANT:** If you wish to vote for any resolution, please indicate with an "x" in the appropriate space marked "For" beside the resolution. If you wish to vote against any resolution, please indicate with an "x" in the appropriate space marked "Against" beside the resolution. In the absence of any such indication, the proxy will vote for or against the resolution or will abstain at his/her discretion. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the meeting other than those referred to in the Notice convening the Meeting.
5. In the case of joint Shareholders, the vote of the senior who renders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
6. The form of proxy must be signed by you or your attorney duly authorised in writing. In the case of a corporation, this form must be executed under seal or under the hand of an officer or attorney duly authorised.
7. To be valid, this form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the head office of the Company at Yip's Hang Cheung Building, 13 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the Extraordinary General Meeting or any adjournment thereof.
8. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.