INTERIM REPORT 2005

Greenfield Chemical Holdings Limited

嘉 輝 化 工 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

	Notes	For the six months ended 30th June, 2005 HK$'000 (Unaudited)	2004 HK$'000 (Unaudited and Restated)
Turnover		**179,241**	157,440
Cost of sales		**(141,927)**	(117,096)
Gross profit		**37,314**	40,344
Other income		**1,754**	2,110
Distribution costs		**(4,598)**	(5,125)
Administrative expenses		**(18,650)**	(19,075)
Interest on bank borrowings wholly repayable within five years		**(10)**	(1)
Share of profits of associates		**2,300**	3,840
Profit before taxation	4	**18,110**	22,093
Income tax expense	5	**(1,915)**	(1,869)
Profit for the period		**16,195**	20,224
Dividends – interim dividend declared	6	**8,750**	8,750
Earnings per share, basic	7	**HK 6.5 cents**	HK 8.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2005

	Notes	**At 30th June, 2005 *HK$'000* (Unaudited)**	At 31st December, 2004 *HK$'000* (Audited and Restated)
Non-current assets			
Property, plant and equipment	*8*	**66,749**	58,264
Prepaid lease payment		**1,887**	1,921
Interests in associates		**20,932**	18,632
Investments in securities		**–**	10
Available-for-sale financial assets		**10**	–
Deferred taxation		**76**	76
		89,654	78,903
Current assets			
Inventories		**45,628**	54,009
Prepaid lease payment		**67**	67
Trade and other receivables	*9*	**88,740**	117,912
Investments in securities		**–**	6,666
Investments at fair value through profit or loss		**6,721**	–
Loan to an associate	*10*	**15,000**	–
Dividend receivable from an associate		**2,250**	2,250
Bank balances and cash		**51,177**	58,654
		209,583	239,558
Current liabilities			
Trade and other payables	*11*	**63,722**	82,915
Amount due to a related company		**154**	128
Taxation payable		**399**	407
		64,275	83,450
Net current assets		**145,308**	156,108
Total assets less current liabilities		**234,962**	235,011
Capital and reserves			
Share capital	*12*	**25,000**	25,000
Reserves		**209,962**	210,011
		234,962	235,011

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	Share capital HK$'000 (note 12)	Share premium HK$'000	Special reserve HK$'000 (note i)	Translation reserve HK$'000	Non-distributable reserve HK$'000 (note ii)	Accumulated profits HK$'000	Total HK$'000
At 1st January, 2004	25,000	4,242	32,000	(4,647)	4,565	146,654	207,814
Exchange difference arising from translation of financial statements of PRC operations recognised directly in equity	–	–	–	158	–	–	158
Profit for the period	–	–	–	–	–	20,224	20,224
Total recognised income and expenses for the period	–	–	–	158	–	20,224	20,382
Dividends paid	–	–	–	–	–	(15,000)	(15,000)
At 30th June, 2004	25,000	4,242	32,000	(4,489)	4,565	151,878	213,196
Exchange difference arising from translation of financial statements of PRC operations recognised directly in equity	–	–	–	(32)	–	–	(32)
Transfer to non-distributable reserve	–	–	–	–	1,174	(1,174)	–
Net income (loss) recognised directly in equity	–	–	–	(32)	1,174	(1,174)	(32)
Profit for the period	–	–	–	–	–	30,597	30,597
Total recognised income and expenses for the period	–	–	–	(32)	1,174	29,423	30,565
Dividends paid	–	–	–	–	–	(8,750)	(8,750)
At 31st December, 2004	25,000	4,242	32,000	(4,521)	5,739	172,551	235,011
Exchange difference arising from translation of financial statements of PRC operations recognised directly in equity	–	–	–	6	–	–	6
Profit for the period	–	–	–	–	–	16,195	16,195
Total recognised income and expenses for the period	–	–	–	6	–	16,195	16,201
Dividends paid	–	–	–	–	–	(16,250)	(16,250)
At 30th June, 2005	**25,000**	**4,242**	**32,000**	**(4,515)**	**5,739**	**172,496**	**234,962**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Notes:

(i) Special reserve

The special reserve of the Group represents the nominal value of 32,000,000 non-voting class A shares of HK$1 each issued by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as set out in the prospectus issued by the Company dated 18th April, 2002.

(ii) Non-distributable reserve

The non-distributable reserve of the Group represents statutory reserves appropriated from the profit after taxation of a subsidiary of the Company registered in the People's Republic of China, other than Hong Kong (the "PRC") under the PRC laws and regulations.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	Six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	**35,649**	23,255
Net cash used in investing activities	**(26,876)**	(29,996)
Net cash used in financing activities	**(16,250)**	(15,000)
Net decrease in cash and cash equivalents	**(7,477)**	(21,741)
Cash and cash equivalents brought forward	**58,654**	71,666
Effect of foreign exchange rates changes	**–**	55
Cash and cash equivalents carried forward, representing bank balances and cash	**51,177**	49,980

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of share of tax of associates has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results are prepared and presented.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition on measurement of financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 has no impact on the condensed consolidated financial statements. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Investments in securities" ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in profit or loss. "Available-for-sale financial assets" are carried at cost less impairment, as the equity securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured, in accordance with HKAS 39. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Accordingly, investments in securities in 2004 were reclassified as investments at fair value through profit or loss and available-for-sale investments on 1st January, 2005 and no prior period adjustments has been required.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively and the balance on the Group's property, plant and equipment has been reduced by HK$1,988,000 while the balance on the Group's prepaid lease payment has been increased by HK$1,988,000 accordingly as at 31st December, 2004.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Owner-occupied Leasehold Interest in Land *(continued)*

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds

3. SEGMENTAL INFORMATION

No business segments has been presented for the six months period ended 30th June, 2005 as the Group is principally engaged in manufacturing and trading of liquid coatings and solvents which accounts for more than 90% of the turnover and trading profits of the Group for the six months ended 30th June, 2005.

For the six months ended 30th June, 2004

	Liquid coatings *HK$'000*	Powder coatings *HK$'000*	Solvents *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
TURNOVER					
External sales	119,916	13,236	24,288	–	157,440
Inter segment sales*	46,390	6,512	4,436	(57,338)	–
Total	166,306	19,748	28,724	(57,338)	157,440
SEGMENT RESULT	15,817	286	2,768	–	18,871
Unrealised holding loss on investments in securities					(696)
Gain on disposal of investments in securities					79
Finance costs					(1)
Share of results of associates					3,840
Profit before taxation					22,093
Income tax expense					(1,869)
Profit for the period					20,224

* *Inter segment sales are charged at prevailing market rates.*

The Group's activities and operations are based in the People's Republic of China (the "PRC") including Hong Kong. Accordingly, a geographical analysis is not presented.

4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting) the following items:

	For the six months ended 30th June, 2005 HK$'000	2004 HK$'000
Depreciation and amortisation of property, plant and equipment	**3,431**	2,880
Amortisation of prepaid rental (included in administrative expenses)	**34**	34
Share of tax of an associate (included in share of profits of associates)	**113**	714
Unrealised holding (gain) loss on investments	**(55)**	696
Gain on sale of investments	**–**	(79)
Loss (gain) on disposal of property, plant and equipment	**134**	(216)
Dividend income from listed investments	**(51)**	(219)
Interest income from investments	**(26)**	(362)
Interest income from banks	**(74)**	(231)
Interest income on loan to an associate	**(485)**	–
Management fee income from an associate	**(851)**	(571)

5. INCOME TAX EXPENSE

	For the six months ended 30th June, 2005 HK$'000	2004 HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2004: 17.5%) on the estimated assessable profit	**1,220**	1,593
Income tax calculated at the rates prevailing in the PRC	**695**	276
	1,915	1,869

The Group had no significant unprovided deferred taxation during the period and at 30th June, 2005.

6. DIVIDENDS

At a board meeting held on 15th September, 2005, the Directors of the Company declared an interim dividend of HK3.5 cents per share for the six months ended 30th June, 2005 (2004 interim dividend: HK3.5 cents per share). The interim dividend will be payable on 6th October, 2005 to shareholders whose names appear on the register of members of the Company on 5th October, 2005.

During the current period, a final dividend of HK3 cents per share and a special dividend of HK3.5 cents per share, amounting to a total of HK$7,500,000 and HK$8,750,000 respectively, were paid to the shareholders for the year ended 31st December, 2004.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2005 is based on the profit for the period of HK$16,195,000 (for the six months ended 30th June, 2004: HK$20,224,000) and on 250,000,000 shares (for the six months ended 30th June, 2004: 250,000,000 shares) in issue throughout the period.

No diluted earnings per share is presented as there was no dilutive potential ordinary shares in issue.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$12,232,000 on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

The Group operates a controlled credit policy and allows an average credit period of 30-90 days to its trade customers who satisfy the credit evaluation.

The aged analysis of trade receivables of HK$86,789,000 (31st December, 2004: HK$110,820,000) which are included in trade and other receivables is as follows:

	At 30th June, 2005 *HK$'000*	At 31st December, 2004 *HK$'000*
0–30 days	**31,792**	35,698
31–60 days	**23,472**	35,933
61–90 days	**16,737**	26,955
Over 90 days	**14,788**	12,234
	86,789	110,820

10. LOAN TO AN ASSOCIATE

The loan is unsecured, bears interest at Hong Kong Prime Rate plus 1% per annum and repayable on demand.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK$58,723,000 (31st December, 2004: HK$73,610,000), and the aged analysis is as follows:

	At 30th June, 2005 *HK$'000*	At 31st December, 2004 *HK$'000*
0–30 days	**33,889**	25,991
31–60 days	**14,256**	23,908
61–90 days	**8,084**	17,443
Over 90 days	**2,494**	6,268
	58,723	73,610

12. SHARE CAPITAL

	Authorised *HK$'000*	**Issued and fully paid** *HK$'000*
Ordinary shares of HK$0.1 each		
– Balance at 31st December, 2004 and 30th June, 2005	**100,000**	**25,000**

13. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2005 *HK$'000*	At 31st December, 2004 *HK$'000*
Within one year	**228**	205
In the second to fifth year inclusive	**15**	60
	243	265

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for a term of two years.

14. CAPITAL COMMITMENTS

	At 30th June, 2005	At 31st December, 2004
	HK$'000	*HK$'000*
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	**2,522**	7,405

15. PLEDGE OF ASSETS

At 30th June, 2005, the Group had pledged certain of its land and buildings with a net book value of approximately HK$2,500,000 (31st December, 2004: HK$2,600,000) to a bank to secure credit facilities granted to the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October, 2005 to 5th October, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend of HK3.5 cents, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Registrars in Hong Kong, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 3rd October, 2005. Dividend warrants will be dispatched on 6th October, 2005.

BUSINESS REVIEW

For the six months ended 30th June, 2005, the Group had a turnover of HK$179,241,000, representing an increase of 14% from the corresponding period last year. Profit attributable to shareholders for the period was HK$16,195,000, a decrease of 20% from HK$20,224,000. Earnings per share dropped from HK8.1 cents to HK6.5 cents.

During the period, the operating environment for the paint industry was very difficult. The crude oil prices rocketed to record level, resultantly the prices of the petroleum-based raw materials also shot up to new heights. Such persistent increase in raw material prices presented challenges to the Group and squeezed our profit margin. Knowing well that our customers were also having a difficult time, we absorbed substantial part of the increase and passed on only part of the increase to our customers. As a result, the gross profit rate and net profit rate of the Group were badly affected. This ill effect is partially overcome by our strategy to promote the growth in turnover of our core business. Furthermore, the intense competition in the paint industry continued to exert downward pressure on profit margin, thus exacerbated the situation.

BUSINESS REVIEW *(continued)*

Facing the challenges, the Group vigorously responded with measures to mitigate the negative impacts arising from the increases in raw material prices and production costs. By taking a close watch in the market, the Group was able to adapt itself to the ever-changing market condition with flexible pricing policies, high levels of management efficiency and productivity. Having taken responsive measures, the Group's turnover achieved a double-digit growth. We strengthened our competitive advantages by focusing on enhancement of production capacity, quality of products and services. The Group continued to strive to meet customers' highest standards and needs.

The Group's associate company had surmounted immense difficulties and achieved growth in turnover. Given the challenging operating environment, its profits decreased and consequently the Group's share in its profits dropped. To enhance its productivity, a new factory in Guangzhou is built by the associate company and will come into operation by the end of the year.

Having put our relentless effort to seek for management improvement and provide customers with improved products and service, Manfield Coatings Company Limited, a wholly owned subsidiary of the Company, was awarded the Gold Award of the 2005 HKMA Quality Award by The Hong Kong Management Association. This evidenced the recognition of the Group's commitment to quality management, products and customer service.

OUTLOOK

With the persistent climbing of the crude oil prices, the business condition for the paint industry may become even more difficult in the second half of the year. The competition in the industry is expected to intensify further with more and more foreign and local manufacturers entering into the market in China. However, the Group expects that the continued improvement in the Hong Kong economy and rapid growth in the China economy would provide ample opportunities for the Group in expanding its scope of business in the China market.

The Group will strive to strengthen its competitiveness by enhancing the efficiency and cost-control mechanism in production and distribution. High product quality and good customer service are of utmost importance for the success of the Group, which we will strive to attain.

The management is confident that the Group has capitalized its experienced management, quality product and value-added customer service to generate the best returns to the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30th June, 2005, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance operation from internally generated cashflow. The Group maintained a satisfactory financial position derived from the steady growth of its business. As at 30th June, 2005, the Group had cash on hand of HK$51,177,000 (31st December, 2004: HK$58,654,000).

SIGNIFICANT INVESTMENTS

During the period, the Group made further investments in listed and unlisted securities and contributed an unrealized gain of approximately HK$55,000 to the Group. The Directors will regularly review the investment portfolio of the Group in order to achieve the Group's investment objectives.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group has no material acquisition and disposal of subsidiaries and associates during the period.

EXPOSURE TO FOREIGN EXCHANGE RISK

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Though the Group does not engage in any hedging contract, the Group's exposure to foreign exchange risk is minimal.

DIRECTORS' INTERESTS

At 30th June, 2005, the interests of the Directors and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

	Associated Corporation	Name of Director	Personal interests	Percentage of issued share capital
(a)	Pacific Orchid Investments Limited ("Pacific Orchid")	Yuen Shu Wah	2,865 (Ordinary Shares)	28.65%
		Ko Jack Lum	1,550 (Ordinary Shares)	15.50%
(b)	Manfield Coatings Company Limited ("Manfield Coatings")	Yuen Shu Wah	9,168,000 (Non-voting Class A Shares)	28.65%
		Ko Jack Lum	4,960,000 (Non-voting Class A Shares)	15.50%
(c)	Chemfield Trading Company Limited ("Chemfield")	Yuen Shu Wah	280,000 (Ordinary Shares)	28.00%

Note: Messrs. Yuen Shu Wah and Ko Jack Lum are directors of each of Pacific Orchid, Manfield Coatings and Chemfield. Pacific Orchid is the immediate holding company, and holds 75% of the issued share capital, of the Company. Manfield Coatings is a wholly owned subsidiary of the Company, which holds 49% of the issued share capital of Chemfield.

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2005, none of the Directors of the Company had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following persons (other than the Directors) had notified the Company of relevant interests in the issued share capital of the Company:

Name	Number of Shares	Percentage of issued share capital
Mulpha International Bhd. ("Mulpha International")	187,500,000	75%
Mulpha Strategic Limited ("Mulpha Strategic")	187,500,000	75%
Pacific Orchid	187,500,000	75%

Note: These shares were held by Pacific Orchid, in which Mulpha Strategic, an indirect wholly owned subsidiary of Mulpha International, holds 51% equity interests. Therefore, each of Mulpha International and Mulpha Strategic is deemed to be interested in the shares held by Pacific Orchid.

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2005, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2005, the Group had a workforce of over 1,000 full-time employees. They included management and administrative staff and production workers. Most were stationed in Mainland China, while the rest were in Hong Kong. The remuneration, promotion and salary increments of employees are assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2005.

CORPORATE GOVERNANCE

None of the Directors is aware of any information that would reasonably indicate that the company is not, or was not for any part of the six months ended 30th June, 2005 in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"), except for the following deviations:

Code provision A.2.1

Under code provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has deviated from this code by having the chairman and chief executive officer to be the same person. Mr. Yuen Shu Wah currently assumes the roles of both the chairman and chief executive officer of the Company. The Board believes that the vesting of the roles of chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

Code provisions A.4.1 and A.4.2

Under code provisions A.4.1 and A.4.2, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a causal vacancy should be subject to election at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company does not fully comply with code provisions A.4.1 and A.4.2. The existing Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting.

The Board does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long-term interests of the Shareholders.

Under the Articles of Association of the Company, the Managing Director is not subject to rotation and the Directors are not subject to retirement by rotation at least once every three years. This constituted a deviation from the code provision A.4.2. The Board will review in the current year the relevant Articles and propose any amendment, where appropriate, to ensure compliance with the Code.

Code provision A.5.4

Under code provision A.5.4, Directors must comply with their obligations under the Model Code set out in Appendix 10 of the Listing Rules and, in addition, the Board should establish written guidelines for relevant employees in respect of their dealings in the securities of the Company.

CORPORATE GOVERNANCE *(continued)*

Code provision A.5.4 *(continued)*

The Company has deviated from this code provision as there are currently no written guidelines issued by the Board for relevant employees in respect of their dealings in the securities of the Company. The Board will review the current measures of the Company and will consider adopting such written guidelines in accordance with the code provision.

Code provision B.1.1

Under code provision B.1.1, the Company should establish a remuneration committee with specific written terms of reference.

During the period under review, the Company did not establish a remuneration committee. This constituted a deviation from the code provision. At the Board Meeting held on 15th September, 2005, a Remuneration Committee is established with written terms of reference in accordance with the code provision.

At the same Board Meeting, the terms of reference of the Audit Committee was modified to incorporate certain provisions set out in the Code.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended on 30th June, 2005.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung, the Independent Non-executive Directors of the Company. The Audit Committee reviews and supervises the Group's financial reporting and internal control systems.

The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Yuen Shu Wah, Mr. Ko Jack Lum and Mr. Ng Kai On as Executive Directors; Mr. Chung Tze Hien, Mr. Ng Seng Nam and Mr. Tan Peng Koon as Non-executive Directors; and Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung as Independent Non-executive Directors.

By Order of the Board
Yuen Shu Wah
Managing Director

Hong Kong, 15th September, 2005