



GREENFIELD CHEMICAL HOLDINGS LIMITED
嘉輝化工控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 582)

2008 Interim Report



UNAUDITED RESULTS OF THE GROUP

The Board of Directors (“Directors”) of Greenfield Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2008 together with the comparative figures for the corresponding period in 2007 as follows. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30th June,	
		2008	2007
		HK\$’000	HK\$’000
	Notes	(Unaudited)	(Unaudited)
Revenue	3	160,941	138,740
Cost of sales		(142,313)	(118,874)
Gross profit		18,628	19,866
Other income		8,644	6,531
Distribution and selling expenses		(7,562)	(4,554)
Administrative expenses		(22,376)	(15,050)
Share of profits of associates		11,151	6,789
Profit before taxation	4	8,485	13,582
Taxation	5	(1,668)	(1,895)
Profit for the period		6,817	11,687
Attributable to			
– Equity holders of the Company		1,835	11,811
– Minority interests		4,982	(124)
		6,817	11,687
Dividends	6	18,000	15,000
Earnings per share, basic	7	HK0.6 cents	HK4.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30th June, 2008 HK\$'000 (Unaudited)	At 31st December, 2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	86,173	83,669
Prepaid lease payments		13,904	13,397
Interests in associates		42,779	28,685
Available-for-sale investments		10	10
Deposit for acquisition of a subsidiary	9	100,000	100,000
Deferred tax assets		114	114
		242,980	225,875
Current assets			
Prepaid lease payments		348	320
Inventories		36,828	35,431
Trade and other receivables	10	103,216	102,815
Loan receivable	9	30,000	–
Advance to an associate		17,852	18,566
Dividend receivable from an associate		–	4,500
Tax recoverable		1,277	1,164
Bank balances and cash		128,898	173,948
		318,419	336,744
Current liabilities			
Trade and other payables	11	61,585	53,933
Amounts due to related companies		306	2,505
		61,891	56,438
Net current assets		256,528	280,306
Total assets less current liabilities		499,508	506,181
Capital and reserves			
Share capital		30,000	30,000
Reserves		358,360	370,227
Equity attributable to equity holders of the Company		388,360	400,227
Minority interests		111,148	105,954
Total equity		499,508	506,181

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note a)	Translation reserve HK\$'000	Non-distributable reserve HK\$'000 (Note b)	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2007 (audited)	25,000	4,242	32,000	1,051	6,229	200,088	268,610	-	268,610
Exchange difference arising from translation of foreign operations	-	-	-	1,835	-	-	1,835	11	1,846
Share of translation reserve of associates	-	-	-	538	-	-	538	-	538
Total income recognised directly in equity	-	-	-	2,373	-	-	2,373	11	2,384
Profit for the period	-	-	-	-	-	11,811	11,811	(124)	11,687
Total recognised income and expense for the period	-	-	-	2,373	-	-	14,184	(113)	14,071
Dividends	-	-	-	-	-	(15,000)	(15,000)	-	(15,000)
At 30th June, 2007 (unaudited)	25,000	4,242	32,000	3,424	6,229	196,899	267,794	(113)	267,681
Exchange difference arising from translation of foreign operations	-	-	-	5,771	-	-	5,771	(11)	5,760
Share of translation reserve of associates	-	-	-	2,032	-	-	2,032	-	2,032
Net income recognised directly in equity	-	-	-	7,803	-	-	7,803	(11)	7,792
Release upon deregistration of associates	-	-	-	-	(460)	-	(460)	-	(460)
Profit for the period	-	-	-	-	-	12,724	12,724	(1,185)	11,539
Total recognised income and expense for the period	-	-	-	7,803	(460)	12,724	20,067	(1,196)	18,871
Issue of new shares on placement	5,000	120,000	-	-	-	-	125,000	-	125,000
Partial disposal of interest in a subsidiary	-	-	-	(2,185)	-	-	(2,185)	98,863	96,678
Contribution from minority shareholders	-	-	-	-	-	-	-	8,400	8,400
Transaction costs attributable to issue of shares	-	(2,949)	-	-	-	-	(2,949)	-	(2,949)
Dividends	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
At 31st December, 2007 (audited)	30,000	121,293	32,000	9,042	5,769	202,123	400,227	105,954	506,181
Exchange difference arising from translation of foreign operations	-	-	-	2,797	-	-	2,797	2,690	5,487
Share of translation reserve of associates	-	-	-	1,501	-	-	1,501	1,442	2,943
Total income recognised directly in equity	-	-	-	4,298	-	-	4,298	4,132	8,430
Profit for the period	-	-	-	-	-	1,835	1,835	4,982	6,817
Total recognised income and expense for the period	-	-	-	4,298	-	1,835	6,133	9,114	15,247
Dividends recognised as distribution (note 6)	-	-	-	-	-	(18,000)	(18,000)	-	(18,000)
Dividends paid to minority interests	-	-	-	-	-	-	-	(3,920)	(3,920)
At 30th June, 2008 (unaudited)	30,000	121,293	32,000	13,340	5,769	185,958	388,360	111,148	499,508

Notes:

- (a) 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 in 2002.
- (b) The non-distributable reserve of the Group mainly represents statutory reserve requirement that the foreign investment enterprises appropriated 10% of the profit after taxation of the subsidiary of the Company registered in the People's Republic of China (the "PRC") other than Hong Kong to the non-distributable reserve, under the PRC laws and regulations.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	For the six months ended 30th June,	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash from operating activities	5,132	7,189
Net cash (used in) from investing activities		
New loan receivable granted	(30,000)	–
Purchase of property, plant and equipment	(4,677)	(4,153)
Dividend received from an associate	4,500	2,700
Other investing activities	1,300	2,067
	(28,877)	614
Cash used in financing activities		
Dividends paid	(18,000)	(15,000)
Dividends paid to minority shareholders of subsidiary	(3,920)	–
	(21,920)	(15,000)
Net decrease in cash and cash equivalents	(45,665)	(7,197)
Cash and cash equivalents at the beginning of the period	173,948	47,212
Effect of foreign exchange rate changes	615	278
Cash and cash equivalents at the end of the period, represented by bank balances and cash	128,898	40,293

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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 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.

The principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007.

In the current period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2008.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC)-Int 13	Customer loyalty programmes ³
HK(IFRIC)-Int 15	Agreements for construction of real estate ¹
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation ⁴

¹ Effective for annual periods beginning on or after 1st January, 2009

² Effective for annual periods beginning on or after 1st July, 2009

³ Effective for annual periods beginning on or after 1st July, 2008

⁴ Effective for annual periods beginning on or after 1st October, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments (based on location of customers).

2008

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	95,005	65,936	–	160,941
Inter-segment sales	75,387	43,663	(119,050)	–
Total revenue	<u>170,392</u>	<u>109,599</u>	<u>(119,050)</u>	<u>160,941</u>
RESULTS				
Segment results	<u>4,194</u>	<u>2,494</u>		6,688
Interest income				1,760
Unallocated income				1,822
Unallocated expenses				(12,936)
Share of profits of associates				<u>11,151</u>
Profit before taxation				8,485
Taxation				<u>(1,668)</u>
Profit for the period				<u>6,817</u>

3. SEGMENT INFORMATION (Continued)

2007

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	89,215	49,525	–	138,740
Inter-segment sales	66,336	44,254	(110,590)	–
Total revenue	155,551	93,779	(110,590)	138,740
RESULTS				
Segment results	7,655	4,070		11,725
Interest income				1,183
Unallocated income				3,037
Unallocated expenses				(9,152)
Share of profits of associates				6,789
Profit before taxation				13,582
Taxation				(1,895)
Profit for the period				11,687

Inter-segment sales are charged at prices with reference to the prevailing market rates.

4. PROFIT BEFORE TAXATION

	For the six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	170	103
Depreciation of property, plant and equipment	5,765	5,040
Loss on disposal of property, plant and equipment	183	127
Share of taxation of associates (included in share of profits of associates)*	2,060	1,767
and after crediting:		
Net foreign exchange gain	2,086	1,350
Interest income on:		
Advance to an associate	613	668
Bank deposits	586	515
Loan receivable	561	-

* The amount includes the Group's share of deferred taxation of HK\$905,000 (six months ended 30th June, 2007: Nil) in respect of the temporary differences attributable to the undistributed retained profits earned by certain of the Company's associates in the PRC.

5. TAXATION

	For the six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period	1,119	869
Underprovision in prior period	–	932
	1,119	1,801
PRC Income Tax		
Current period	468	–
Underprovision in prior period	81	94
	549	94
	1,668	1,895

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the current tax for the current period. The estimated average annual tax rate used is 16.5% (six months ended 30th June, 2007: 17.5%) for the period.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries entitled to exemption from PRC Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. These PRC subsidiaries continue to enjoy their tax holiday during the period.

5. TAXATION (Continued)

The newly promulgated Enterprise Income Tax Law ("Tax Law") of the PRC is effective on 1st January, 2008. In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the Tax Law and have an impact on certain of the Company's PRC subsidiaries. The Company has certain PRC subsidiaries which previously enjoyed the preferential tax policies in the form of a reduced tax rate will have a five years from the time when the Tax Law takes effect to transition progressively to the legally prescribed tax rate. During the period, these PRC subsidiaries that previously enjoyed the 15% tax rate are subject to the 18% tax rate from 1st January, 2008, and will be subject to the 20% tax rate for the financial year 2009, 22% tax rate for the financial year 2010, 24% tax rate for the financial year 2011 and 25% tax rate for the financial year 2012. The Company also has certain PRC subsidiaries which previously enjoyed the 24% tax rate are subject to the 25% tax rate starting from 1st January, 2008.

In the previous years, the Inland Revenue Department issued additional assessment in aggregate of approximately HK\$11,001,000 to an indirect wholly-owned subsidiary of the Company disallowing its offshore claims in respect of its production activities for years of assessment 2002/03, 2003/04, 2004/05 and 2005/06. The Group had purchased tax reserve certificates totalling HK\$11,001,000 and an amount of HK\$10,000,000 was recognised as income tax expense against such tax reserve certificates in the previous year and the remaining amount of tax reserve certificates of HK\$1,001,000 was included in tax recoverable as at the balance sheet date. In the opinion of the directors of the Company, the ultimate outcome of the additional assessment remains undetermined and the Group will continue to defend vigorously against the additional assessment.

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to the undistributed retained profits earned by the Company's PRC subsidiaries starting from 1st January, 2008 under the Tax Law that requires withholding tax upon the distribution of such profits to the shareholders as, in the opinion of the directors, the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDENDS

	For the six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Dividends paid and recognised as distribution during the period:		
2007 Final – HK3 cents (2007: 2006 Final – HK3 cents) per ordinary share	9,000	7,500
2007 Special – HK3 cents (2007: 2006 Special – HK3 cents) per ordinary share	9,000	7,500
	18,000	15,000

The Directors of the Company do not recommend the payment of interim dividend for the period ended 30th June, 2008 (six months ended 30th June, 2007: HK2.5 cents per share).

7. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company for the period is based on the profit attributable to equity holders of the Company for the period of HK\$1,835,000 (six months ended 30th June, 2007: HK\$11,811,000) and on 300,000,000 shares (six months ended 30th June, 2007: 250,000,000 shares) in issue throughout the period.

No diluted earnings per share is presented as the Company did not have any potential ordinary shares in issue at any time during the current and prior periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$4,677,000 on acquisition of property, plant and equipment.

9. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY/LOAN RECEIVABLE

During the year ended 31st December, 2007, an initial refundable deposit of HK\$100,000,000 was paid to independent third parties (the "Vendors") in connection with the acquisition of the entire issued share capital of Winfame Investments Limited ("Winfame"), which indirectly held interest in coal mines ("Coal Mines") in the PRC. Such deposit is secured by the pledge of the entire issued share capital of Winfame and Winfame's equity interest in its immediate subsidiary (the "Shares"). As at 30th June, 2008, the acquisition had not yet been completed.

During the period, a loan principal of HK\$30,000,000 was advanced to Winfame to finance the purchase of plant and machinery in connection with the operation of the Coal Mines. The loan is secured by the second mortgage of the Shares, bears interest at 1% per month and repayable on demand.

10. TRADE AND OTHER RECEIVABLES

	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
Trade receivables from third parties	89,235	81,639
Trade receivables from associates	8,707	14,714
Other receivables	5,274	6,462
	103,216	102,815

The Group allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

	Trade receivables from third parties		Trade receivables from associates	
	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
0-30 days	33,966	23,699	6,417	8,222
31-60 days	28,479	26,583	2,290	1,679
61-90 days	18,992	20,117	-	1,292
Over 90 days	7,798	11,240	-	3,521
	89,235	81,639	8,707	14,714

11. TRADE AND OTHER PAYABLES

	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
Trade payables to third parties	43,250	34,059
Trade payables to an associate	482	4,212
Other payables	17,853	15,662
	61,585	53,933

The following is an aged analysis of trade payables at the balance sheet dates:

	Trade payables to third parties		Trade payables to an associate	
	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
0-30 days	32,793	19,991	482	4,212
31-60 days	8,742	10,498	-	-
61-90 days	1,551	2,706	-	-
Over 90 days	164	864	-	-
	43,250	34,059	482	4,212

12. OPERATING LEASE COMMITMENTS

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

	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
Within one year	1,296	1,650
In the second to fifth year inclusive	2,247	2,415
Over five years	6,698	6,724
	10,241	10,789

Leases are negotiated and monthly rentals are fixed for terms ranging from two to fifty years.

13. CAPITAL COMMITMENTS

	At 30th June, 2008 HK\$'000	At 31st December, 2007 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	120	1,043

14. PLEDGE OF ASSETS

As at 30th June, 2008, the Group pledged certain land and buildings in Hong Kong with a carrying value of approximately HK\$2,310,000 (31st December, 2007: HK\$2,348,000) to a bank to secure general banking facilities granted to the Group.

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with the associates:

Nature of transactions	For the six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Sales of goods by the Group	16,195	17,581
Management fee income received by the Group	2,722	1,287
Purchases of goods by the Group	2,274	1,218
Royalty fee income received by the Group	1,822	1,440
Interest income received by the Group	602	668
Rental income received by the Group	110	101
Licence fee income received by the Group	–	1,597
Sale of property, plant and equipment by the Group	–	873

The remuneration of directors and other members of key management during the period, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	For the six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Short-term benefits	1,080	2,735
Retirement benefits scheme contribution	12	160
	1,092	2,895

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30th June, 2008, the Group achieved a 16% increase in turnover to HK\$160,941,000 (2007: HK\$138,740,000), and recorded a net profit attributable to shareholders of the Company of HK\$1,835,000 compared to a net profit of HK\$11,811,000 for the corresponding period last year. Earnings per share was HK0.6 cents (2007: earnings per share HK4.7 cents).

As at 30th June, 2008, the net asset value per share attributable to equity holders of the Company was HK\$1.29 (31st December, 2007: HK\$1.33).

BUSINESS REVIEW

During the period under review, despite operating in a highly competitive toy paints market, the Group managed to expand its business scope by introduction of new products to the market to achieve sustained growth in turnover. However, the escalation in prices of crude oil, other key raw materials and labour costs offset the growth in turnover substantially, resulting in a decrease in profit margin for the period.

As announced in November 2007, the Group entered into a conditional agreement with independent third parties to acquire two coal mines in Inner Mongolia (the "Coal Mines"), which would enable the Company to diversify its business in coal mining business in the PRC. In May 2008, the Group entered into a loan agreement in the amount of HK\$30,000,000 to provide the funding for purchase the necessary plant and machinery to carry on operations of the Coal Mines in order to facilitate the completion of the conditional agreement.

Since more time is required to prepare a technical report and a valuation report on the Coal Mines, and additional time is needed to complete the procedure for inspection of the relevant facilities and operations of the Coal Mines, the Group, the vendors and the guarantor have entered into a supplemental agreement on 24th June, 2008 (a) to extend the long stop date for the fulfillment of the conditions of the conditional agreement to 31st December, 2008; (b) to amend the applicable date for the refund of the initial refundable deposit of HK\$100,000,000 upon non-completion and/or termination of the conditional agreement; and (c) to amend the respective representations and warranties by the vendors and the guarantor with respect to the audited after tax net profit of Hulunbeier Dong Ming Mining Co. Ltd (the "Subsidiary") to the effect that the vendors and the guarantor, jointly and severally, unconditionally and irrevocably,

represent and warrant that the audited after tax net profit of the Subsidiary (i) for the year ending 31st December, 2009 shall not be less than HK\$80,000,000, and (ii) for the year ending 31st December, 2010 shall not be less than HK\$120,000,000.

OUTLOOK

Looking ahead to the second half year of 2008, paint industry is facing with persistently difficult business environment. The prices of raw materials are expected to remain high and production costs will continue to rise. Seeking to mitigate the effect of rising costs on net profit, the Group considers shifting part of the rising costs to customers by raising the selling price.

With drastical increase in demand for coal in China in recent years, the Group considers the acquisition of the Coal Mines an opportunity to develop its investment and business within the natural resources sector. Despite the recent global financial crisis, the Group still maintains a strong and healthy financial position and will continue to search for grossly under-valued investment opportunities to maximize return for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2008, the Group's non-current assets amounted to HK\$242,980,000 (31st December, 2007: HK\$225,875,000) and net current assets amounted to HK\$256,528,000 (31st December, 2007: 280,306,000) with a current ratio of 5.1 (31st December, 2007: 6.0) calculated on the basis of the Group's current assets over current liabilities.

During the period under review, the Group had no borrowings outstanding and with sufficient cash surplus generated from its operations and maintained a satisfactory financial position derived from the steady growth of its business. As at 30th June, 2008, the Group had cash on hand of HK\$128,898,000 (31st December, 2007: HK\$173,948,000).

EXPOSURE TO FOREIGN EXCHANGE RISK

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Currently, the Group does not engage in any hedging contract. In view of the revaluation of the Renminbi during the period, the Group will monitor the situation closely and will introduce suitable hedging measures if there are any adverse changes.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2008, 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.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

At 30th June, 2008, the interests of the Directors and the chief executives of the Company and their associates in the shares, underlying shares and debentures 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 (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Corporate Interests	Percentage of the Issued Share Capital Held
Mr. Lau Yau Cheung ("Mr. Lau")	6,500,000	2.17%

Note: The shares were held by BH Equities Limited, a company wholly owned by Mr. Lau.

The interests stated above represent long positions. Save as disclosed above, as at 30th June, 2008, none of the Directors, the chief executives of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 pursuant to the Model Code..

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name	Capacity	Number of Shares Held	Percentage of the Issued Share Capital of the Company
Mulpha International Bhd. ("MIB")	Held by controlled corporation (Note)	187,500,000	62.5%
Mulpha Strategic Limited ("MSL")	Held by controlled corporation (Note)	187,500,000	62.5%
Pacific Orchid Investments Limited ("Pacific Orchid")	Beneficial owner	187,500,000	62.5%

Note: These shares were held by Pacific Orchid, which is owned as to 68% by MSL, an indirect wholly-owned subsidiary of MIB, and as to 32% by Jumbo Hill Group Limited, a wholly-owned subsidiary of MSL. Therefore, each of MIB and MSL is deemed to be interested in the shares held by Pacific Orchid.

All the interests stated above represent long positions. Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2008.

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, 2008.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2008, except for the following deviations:

CODE PROVISION A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not have a separate chairman and chief executive officer and Mr. Lau Yau Cheung, an Executive Director of the Company, currently assumes both roles. 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. The Board also believes that the Company already has a strong corporate governance structure and as such the present structure is considered to be appropriate under the circumstances.

CODE PROVISIONS A.4.1 AND A.4.2

Code provisions A.4.1 and A.4.2 stipulate that (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 the 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.

Pursuant to the Articles of Association of the Company, the Directors are not subject to retirement by rotation at least once every three years. This constituted a deviation from code provision A.4.2. However, the Articles of Association requires one-third of the Directors (other than the Managing Director or Joint Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from the office by rotation at every annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transaction by the Directors of the Company. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended on 30th June, 2008.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Lau Yau Cheung and Mr. Tsui Robert Che Kwong as the Executive Directors; Mr. Chung Tze Hien and Mr. Ng Seng Nam as the Non-Executive Directors; Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung as the Independent Non-Executive Directors.

By Order of the Board
Lau Yau Cheung
Executive Director

Hong Kong, 23rd September, 2008