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

Interim Report **2011**

UNAUDITED INTERIM RESULTS OF THE GROUP

The board of directors (the "**Directors**") (the "**Board**") of Greenfield Chemical Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 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 (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		For the six months ended 30 June	
	Notes	**2011 HK$'000 (Unaudited)**	2010 HK$'000 (Unaudited)
Revenue	3	**244,734**	142,299
Cost of sales		**(169,324)**	(103,022)
Gross profit		**75,410**	39,277
Other income		**9,297**	15,580
Distribution and selling expenses		**(14,525)**	(11,848)
Administrative expenses		**(35,684)**	(20,677)
Change in fair value of embedded derivatives	17	**27**	—
Share of profits of associates		**9,465**	30,114
Finance costs		**(10,253)**	—
Profit before taxation	4	**33,737**	52,446
Taxation	5	**(6,984)**	(4,871)
Profit for the period		**26,753**	47,575
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**7,779**	1,220
Total comprehensive income for the period		**34,532**	48,795
Profit for the period attributable to			
— Owners of the Company		**9,792**	26,371
— Non-controlling interests		**16,961**	21,204
		26,753	47,575
Total comprehensive income attributable to			
— Owners of the Company		**13,703**	27,035
— Non-controlling interests		**20,829**	21,760
		34,532	48,795
Earnings per share	7		
Basic and diluted		**HK3.6 cents**	HK9.7 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	At 30 June 2011 HK$'000 (Unaudited)	At 31 December 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**232,824**	76,501
Prepaid lease payments	8	**45,013**	34,740
Interests in associates		**162,378**	150,138
Available-for-sale investments		**10**	10
Goodwill	16	**257,195**	—
Deferred tax assets		**163**	163
Deposits paid for acquisition of property, plant and equipment		**19,855**	—
		717,438	261,552
Current assets			
Prepaid lease payments	8	**2,771**	842
Inventories		**110,647**	30,214
Trade and other receivables	9	**201,836**	84,869
Tax recoverable		**3,162**	94
Pledged bank deposits		**5,245**	—
Bank balances and cash		**106,725**	449,975
		430,386	565,994
Current liabilities			
Trade and other payables	10	**127,283**	45,429
Borrowings — secured	12	**202,469**	—
Tax payable		**12,719**	7,209
		342,471	52,638
Net current assets		**87,915**	513,356
Total assets less current liabilities		**805,353**	774,908
Capital and reserves			
Share capital	11	**27,286**	27,286
Reserves		**422,324**	408,621
Equity attributable to owners of the Company		**449,610**	435,907
Non-controlling interests		**287,499**	203,837
Total equity		**737,109**	639,744
Non-current liabilities			
Borrowing — secured	12	**—**	135,164
Convertible bonds liability	17	**50,253**	—
Embedded derivatives	17	**16,546**	—
Deferred tax liability		**1,445**	—
		68,244	135,164
		805,353	774,908

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners 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$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011 (audited)	27,286	100,853	32,000	18,740	6,371	250,657	435,907	203,837	639,744
Exchange differences arising on translation of foreign operations	—	—	—	3,911	—	—	3,911	3,868	7,779
Profit for the period	—	—	—	—	—	9,792	9,792	16,961	26,753
Total comprehensive income for the period	—	—	—	3,911	—	9,792	13,703	20,829	34,532
Transfer	—	—	—	—	1,721	(1,721)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	62,833	62,833
At 30 June 2011 (unaudited)	27,286	100,853	32,000	22,651	8,092	258,728	449,610	287,499	737,109
At 1 January 2010 (audited)	27,286	100,853	32,000	13,753	6,127	225,951	405,970	175,890	581,860
Exchange differences arising on translation of foreign operations	—	—	—	664	—	—	664	556	1,220
Profit for the period	—	—	—	—	—	26,371	26,371	21,204	47,575
Total comprehensive income for the period	—	—	—	664	—	26,371	27,035	21,760	48,795
At 30 June 2010 (unaudited)	27,286	100,853	32,000	14,417	6,127	252,322	433,005	197,650	630,655

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 subsidiaries 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 until the transferred amount met 50% of the registered capital of these PRC subsidiaries. No transfer was noted for the prior period, as the PRC subsidiaries had already transferred an amount equal to 50% of its relevant registered capital to non-distributable reserve in prior years or no profit after taxation was generated for the period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Note	For the six months ended 30 June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Net cash (used in) from operating activities		**(14,301)**	12,926
Net cash used in investing activities			
Purchase of property, plant and equipment		**(18,413)**	(1,728)
Prepaid lease payment paid		**—**	(21,188)
Interest received		**360**	8,019
Proceeds from disposal of property, plant and equipment		**245**	345
Acquisition of subsidiaries	16	**(322,061)**	—
Deposits paid for acquisition of property, plant and equipment		**(13,981)**	—
Withdrawal of pledged bank deposits		**5,899**	—
		(347,951)	(14,552)
Net cash from financing activities			
Interest paid		**(957)**	—
New borrowing raised		**16,810**	—
		15,853	—
Net decrease in cash and cash equivalents		**(346,399)**	(1,626)
Cash and cash equivalents at the beginning of the period		**449,975**	165,498
Effect of foreign exchange rate changes		**3,149**	559
Cash and cash equivalents at the end of the period, represented by bank balances and cash		**106,725**	164,431

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 "**Stock Exchange**") (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**").

During the period, the Group acquired certain subsidiaries (see note 16) with main operations located in the PRC. After this acquisition, the substantial portion of the Group's business is in the PRC. The currency of the primary economic environment in which the subsidiaries of the Company operate is substantially denominated in Renminbi ("**RMB**"). Accordingly, the Directors determined the functional currency of the Company be changed from Hong Kong Dollars ("**HKD**") to RMB from the date of the completion of the acquisition (i.e. 17 March 2011). For the convenience of the users of the condensed consolidated financial statements, the condensed consolidated financial statements are presented in HKD, as the Company's shares are listed on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. In addition, the Group has applied the following accounting policies as they became applicable to the Group as a result of the acquisition of subsidiaries during the current interim period.

Change in functional currency

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The entity applied the translation procedures applicable to the new functional currency prospectively. At the date of the change, the entity translates all items into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as their historical cost.

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amount recognised as of that date.

Convertible bonds that contain liability component and conversion/early redemption option derivatives

Convertible bonds issued by the Group that contain both liability and conversion/ early redemption option derivatives components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. The redemption option derivative represents the redemption at the option of the Company before the maturity date. At the date of issue, both the liability and conversion/early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion/early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments or interpretations ("**new and revised HKFRSs**") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendment)	Classification of rights issues
HK(IFRIC)-INT 14	Prepayments of a minimum funding requirement
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments

The application of these new or revised HKFRSs had no material effect on the condensed consolidated financial statements for the current or prior accounting periods.

The Group has not early applied new or revised standards that have been issued after the date of the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective.

HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosures of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[2]
HKAS 19 (Revised)	Employee benefits[1]
HKAS 27 (Revised)	Separate financial statements[1]
HKAS 28 (Revised)	Investments in associates and joint ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013.

[2] Effective for annual periods beginning on or after 1 July 2012.

The Directors anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

In the prior period, the Group was principally engaged in manufacturing and trading of liquid coatings, powder coatings and solvents (the "**Coating Business**"). On 17 March 2011, the Group acquired subsidiaries which are principally engaged in design, manufacturing and sale of light-emitting diode ("**LED**") and semi-conductor lighting related products (the "**Lighting Business**"). The Directors, being the Group's chief operating decision maker considered that the Lighting Business is a separate operating segment and, as a result, an additional segment on this operation has been presented.

The Directors make the decision on allocation of resources and assessment of performance of the Coating Business and Lighting Business based on the location of customers.

For the six months ended 30 June 2011

	Lighting Business	Coating Business		
	The PRC	Hong Kong	The PRC	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE				
External sales	100,260	56,646	87,828	244,734
RESULTS				
Segment results	21,205	6,068	8,406	35,679
Interest income				360
Management fee income				2,777
Royalty fee income				3,596
Central administration costs				(7,914)
Change in fair value of embedded derivatives				27
Share of profits of associates				9,465
Finance costs				(10,253)
Profit before taxation				33,737

For the six months ended 30 June 2010

	Coating Business		
	Hong Kong	The PRC	Consolidated
	HK$'000	HK$'000	HK$'000
REVENUE			
External sales	62,474	79,825	142,299
RESULTS			
Segment results	8,149	7,613	15,762
Interest income			8,019
Management fee income			2,565
Royalty fee income			3,483
Central administration costs			(7,497)
Share of profits of associates			30,114
Profit before taxation			52,446

3. SEGMENT INFORMATION (Continued)

Segment results represent the profit or loss earned by each segment without allocation of interest income, management fee income, royalty fee income, unallocated central administration costs, change in fair value of embedded derivatives, share of profits of associates and finance costs. This is the measure reported to the directors for the purpose of resource allocation and performance assessments.

The segment assets of the Group represent its trade receivables, as set out below:

As at 30 June 2011

	Lighting Business	Coating Business		
	The PRC	Hong Kong	The PRC	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	**88,758**	**26,678**	**60,827**	**176,263**

As at 31 December 2010

	Coating Business		
	Hong Kong	The PRC	Consolidated
	HK$'000	HK$'000	HK$'000
Trade receivables	28,610	46,447	75,057

4. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	**929**	213
Depreciation of property, plant and equipment	**8,169**	4,825
Gain on disposal of property, plant and equipment	**(87)**	(74)
Share of taxation of associates (included in share of profits of associates)	**3,839**	5,530
Net foreign exchange loss	**446**	35
Finance costs on:		
Bank borrowings	**957**	—
Other borrowing	**7,439**	—
Convertible bonds liability	**1,857**	—
Interest income on:		
Bank deposits	**(360)**	(132)
Loan receivable	**—**	(7,887)

5. TAXATION

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
The charge comprises:		
Current period		
Hong Kong Profits Tax	**2,822**	2,930
PRC Income Tax	**4,162**	1,941
	6,984	4,871

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC Income Tax is calculated at 25% of the estimated profit for both periods. Pursuant to the relevant laws and regulations in the PRC, a newly acquired subsidiary, Jiangsu Wenrun Optoelectronic Co., Ltd. ("**Jiangsu Wenrun**") was approved as Hi-New Technology Enterprise and is entitled to adopt a tax rate of 15% for the three years ending 31 December 2011. The applicable tax rate of Jiangsu Wenrun for the current period is 15%.

In 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 (31 December 2010: HK$1,001,000) was included in tax recoverable as at the end of the reporting period. In the opinion of the Directors, 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 1 January 2008 under the Tax Law that requires withholding tax to be paid 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

The Directors do not recommend the payment of interim dividend for both periods.

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company for the period is based on the following data:

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**9,792**	26,371

	For the six months ended 30 June	
	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**272,860**	272,860

Note: The conversion of the Company's outstanding convertible bonds would increase the earnings per share, after taking into account the effect of the interest of the convertible bonds liability and the change in fair value of the embedded derivatives of the convertible bonds.

8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group spent approximately HK$18,413,000 (six months ended 30 June 2010: HK$1,728,000) and nil (six months ended 30 June 2010: HK$21,188,000) on acquisition of property, plant and equipment and prepaid lease payments, respectively, in addition to those acquired through the acquisition of subsidiaries (details are set out in note 16).

In addition, during the period, the Group disposed of certain of its property, plant and equipment with a carrying amount of approximately HK$158,000 (six months ended 30 June 2010: HK$271,000) for proceeds of approximately HK$245,000 (six months ended 30 June 2010: HK$345,000).

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Trade receivables from third parties	165,241	67,815
Trade receivables from associates	11,022	7,242
Deposits made to suppliers	18,382	127
Other receivables	7,191	9,685
	201,836	84,869

The Group allows a credit period of 30 to 90 days to its trade customers. The following is an aging analysis of trade receivables presented based on invoice date at the end of the reporting period:

	Trade receivables from third parties		Trade receivables from associates	
	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
0 – 30 days	63,380	34,731	11,022	7,242
31 – 60 days	56,008	16,456	—	—
61 – 90 days	27,558	10,380	—	—
91 – 180 days	14,790	6,248	—	—
Over 180 days	3,505	—	—	—
	165,241	67,815	11,022	7,242

10. TRADE AND OTHER PAYABLES

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Trade payables to third parties	73,876	21,136
Trade payable to an associate	601	921
Bills payable, aged within 90 days	10,679	—
Deposits received from customers	17,692	90
Accrued staff costs	8,579	8,794
Other payables	15,856	14,488
	127,283	45,429

10. TRADE AND OTHER PAYABLES (Continued)

The following is an aging analysis of trade payables presented based on invoice date at the end of the reporting period:

	Trade payables to third parties		Trade payable to an associate	
	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
0 – 30 days	46,200	19,247	601	921
31 – 60 days	14,883	1,412	—	—
61 – 90 days	11,529	105	—	—
Over 90 days	1,264	372	—	—
	73,876	21,136	601	921

11. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each:		
Authorised:		
At 31 December 2010 and 30 June 2011	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2010 and 30 June 2011	272,860,000	27,286

12. BORROWINGS — SECURED

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Bank borrowings (note i)	59,866	—
Other borrowing (note ii)	142,603	135,164
	202,469	135,164
Carrying amounts payable:		
Within one year	202,469	—
In more than one year but not more than five years	—	135,164
	202,469	135,164
Less: Amounts due within one year shown under current liabilities	(202,469)	—
	—	135,164

12. BORROWINGS — SECURED (Continued)

Notes:

(i) At 30 June 2011, bank borrowings of HK$43,181,000 are fixed rate borrowings with effective interest of 5.25% per annum. The remaining bank borrowings of HK$16,685,000 are variable rate with average interest at 6.98% per annum.

(ii) On 23 December 2010, the Company entered into a loan agreement with a financial institution and obtained a term loan amounting to HK$150,000,000, which bears fixed interest rate at 10% per annum. Pursuant to the loan agreement, the Company prepaid loan interest of HK$15,000,000 to the lender on or before 31 December 2010 and the remaining interest, together with the principal will be repayable on 30 June 2012 but the lender could demand early repayment of the principal amount and accrued interest in full or any part thereof, at any time on or after 1 March 2012. The other borrowing is carried at amortised cost with effective interest rate of 10.21% per annum.

13. OPERATING LEASE COMMITMENTS

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

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Within one year	**691**	102
In the second to fifth year inclusive	**394**	85
	1,085	187

Leases are negotiated and monthly rentals are fixed for terms of two years.

14. CAPITAL COMMITMENTS

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Capital expenditure in respect of acquisition of subsidiaries contracted but not provided for in the condensed consolidated financial statements (Note)	**—**	400,000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the condensed consolidated financial statements	**42,983**	24,691

Note: The acquisition of subsidiaries was completed during the current period. Details are set out in note 16.

15. PLEDGE OF ASSETS

As at 30 June 2011, the Group pledged its property, plant and equipment, prepaid lease payments, trade receivables and bank deposits of HK$38,452,000, HK$11,471,000, HK$2,216,000 and HK$5,245,000, respectively to secure the general banking facilities and bills payable.

In addition, as at 30 June 2011 and 31 December 2010, the Group pledged its 51% equity interests in Rookwood Investments Limited ("**Rookwood**"), a non-wholly owned subsidiary of the Group, and an undated deed of assignment duly executed by the Company and Rookwood pursuant to which the Company agrees to assign a loan to Rookwood of HK$31,476,308 in case of default to a financial institution to secure the other borrowing with the principal amount of HK$150,000,000.

16. ACQUISITION OF SUBSIDIARIES

On 21 September 2010, the Company entered into a sales and purchase agreement (the "**S&P**") with China Century Worldwide Limited ("**China Century**"). Under the S&P, the Company conditionally agreed to acquire from China Century the entire issued share capital of Ace Winner Holdings Limited ("**Ace Winner**"), a limited company incorporated in the British Virgin Islands, which owns 69.44% of a group of companies registered in the PRC, which are principally engaged in the Lighting Business (the "**Acquisition**"). The total consideration for the Acquisition was satisfied by HK$335,000,000 in cash and by issuance of convertible bonds with principal amount of HK$65,000,000. Fair value of the consideration as at the date of the Acquisition was HK$399,969,000. The Acquisition was completed on 17 March 2011 and this transaction has been accounted for using the acquisition method. The amount of goodwill as a result of the Acquisition was HK$257,195,000.

Assets and liabilities recognised as at the date of completion of the Acquisition (determined on a provisional basis):

	Fair value HK$'000 (Note (i))
Property, plant and equipment	145,608
Prepaid lease payments	11,906
Deposits paid for acquisition of property, plant and equipment	5,875
Intangible assets	—
Inventories	62,240
Tax recoverable	1,410
Trade and other receivables (Note (ii))	79,068
Pledged bank deposits	11,144
Bank balances and cash	12,939
Trade and other payables	(80,082)
Borrowings	(43,056)
Deferred tax liability	(1,445)
	205,607
Non-controlling interests (Note (iii))	(62,833)
	142,774
Goodwill arising from acquisition (Note (iv))	257,195
Total consideration	399,969
Total consideration satisfied by:	
Cash	335,000
Convertible bonds (Note (v))	64,969
	399,969
Net cash outflow arising on acquisition:	
Cash consideration paid	335,000
Less: Cash and cash equivalent balances acquired	(12,939)
	322,061

16. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

(i) The initial accounting for prepaid lease payments acquired in the above business combination with fair value of HK$5,778,000 has been determined on a provisional basis, awaiting the completion of professional valuations. Furthermore, the Group is in the process of identifying and determining the fair value of intangible assets acquired, if any. The fair value of the intangible assets determined on a provisional basis is assumed to be nil. The amounts of fair value of prepaid lease payments, intangible assets, deferred tax liabilities and goodwill may be adjusted accordingly.

(ii) The trade and other receivables acquired with a fair value of HK$79,068,000 had gross contractual amounts of HK$82,775,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$3,707,000.

(iii) Non-controlling interests are measured by reference to the proportionate share of recognised amounts of net identifiable assets at the date of acquisition.

(iv) Goodwill arose on the Acquisition because the Acquisition included the viability of continuous expansion and development of the Lighting Business with the expected financing from the Company. The high capital expenditure required to establish an LED production plant and importation of core equipment, LED production technology requirements and the well functioned research and development team pose significant barriers to entry for new competitors. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill is expected to be deductible for tax purposes.

(v) The convertible bonds with principal amount of HK$65,000,000 are denominated in Hong Kong dollars, bearing interest at 3% per annum and will be matured on 17 March 2014. The convertible bonds can be converted into 30,952,380 shares of the Company at a conversion price of HK$2.1 per share, subject to the usual provisions for adjustments arising from the events such as share consolidation, share subdivision, capitalisal issue, capital distribution, rights issue and issue of shares at below 80% of market price. The Company may redeem the convertible bonds at 100% of the principal outstanding amount at any time from the date of issue to the maturity date. As at the date of issue, the fair value of the convertible bonds was HK$64,969,000. Details of the convertible bonds are set out in note 17.

Included in the profit and revenue for the period are HK$17,211,000 and HK$100,260,000, respectively, attributable to the newly acquired subsidiaries.

Had the Acquisition taken effect on 1 January 2011, the revenue of the Group for the six months ended 30 June 2011 would have been HK$298,061,000, and the profit for the period would have been HK$30,584,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

17. CONVERTIBLE BONDS LIABILITY AND EMBEDDED DERIVATIVES

	Liability HK$'000	Embedded derivatives HK$'000	Total HK$'000
At 1 January 2011	—	—	—
Issued during the period	48,396	16,573	64,969
Imputed interest charged	1,857	—	1,857
Gain arising from change in fair value recognised in profit or loss	—	(27)	(27)
At 30 June 2011	50,253	16,546	66,799

The Group's convertible bonds contain the following components:

(a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interests, on initial recognition, of instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives. The effective interest rate of the liability component is 14% per annum.

(b) Embedded derivatives of the convertible bonds represent: (i) the option to convert the liability into equity of the Company. The conversion will be settled other than by the exchange of a fixed number of the Company's own equity is classified as conversion option derivative as the convertible bonds are denominated in currency other than the functional currency of the Company's; and (ii) the issuer's right to redeem the convertible bonds before the maturity date. The fair value of the embedded derivatives is calculated using the Binomial Option Pricing Model. The inputs into the model at 17 March 2011 and 30 June 2011 were as follows:

	17 March 2011	**30 June 2011**
Share price	HK$1.65	**HK$1.75**
Conversion price	HK$2.1	**HK$2.1**
Expected life (note i)	3 years	**2.71 years**
Risk free rate (note ii)	0.901%	**0.519%**
Expected volatility (note iii)	61.826%	**58.797%**

Notes:

(i) Expected life was the expected remaining contractual life adjusted for suboptional factors applied in the valuation model.

(ii) The risk free rate is determined with reference to the Hong Kong Exchange Fund Note.

(iii) Expected volatility was estimated by calculating the historical weekly share price volatility of the share prices of the Company over 260 trading days.

18. MAJOR NON-CASH TRANSACTION

During the period, convertible bonds liability and embedded derivatives with aggregated fair value amounted to HK$64,969,000 were issued as part of the consideration for the Acquisition.

19. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
Nature of transactions	**2011 HK$'000**	2010 HK$'000
Sales of goods by the Group	**18,394**	15,426
Management fee income received and receivable by the Group	**2,777**	2,565
Purchases of goods by the Group	**4,331**	3,666
Royalty fee income received and receivable by the Group	**3,596**	3,483
Rental income received and receivable by the Group	**981**	137

The remuneration of Directors and other members of key management of the Company 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 30 June	
	2011 HK$'000	2010 HK$'000
Short-term benefits	**1,725**	2,128
Post-employment benefits	**145**	138
	1,870	2,266

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2011, the Group's revenue increased by 72.0% to HK$244,734,000 (2010: HK$142,299,000). However, the profit for the period attributable to owners of the Company decreased by 62.9% to HK$9,792,000 (2010: HK$26,371,000). The earnings per share was HK3.6 cents (2010: HK9.7 cents).

As at 30 June 2011, the net asset value per share attributable to owners of the Company was HK$1.65 (31 December 2010: HK$1.60).

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2011 (2010: nil).

Review of Operations

Following an expansionary of monetary policies introduced by worldwide governments in late 2009, the economy recovered in 2010. However, while the Group benefited from the high growth rate maintained by the Chinese economy in the first half of 2011, the Group also suffered from the increased manufacturing cost brought about by the high inflation rate.

In order to broaden the income base and diversify the businesses of the Group, the Company acquired the entire issued share capital of Ace Winner, a company incorporated in the British Virgin Islands with limited liability. Ace Winner holds 69.44% of a group of companies registered in the PRC, and is principally engaged in design, manufacturing and sales of LED and semi-conductor lighting related products. With the introduction of the new LED business, the Group's turnover increased by 72.0% to HK$244,734,000 (2010: HK$142,299,000) for the six months ended 30 June 2011.

In light of the increasing price in raw materials and labour cost in the PRC, the management maintained the implementation of tighter cost control. Combining the coating and LED businesses as a whole, the gross profit increased by 92.0% to HK$75,410,000 (2010: HK$39,277,000). Yet, combined with the significant reduction of share of profits of associates and the increase in the borrowings which led to a rise in finance costs, the profit for the period attributable to owners of the Company dropped by 62.9% to HK$9,792,000 (2010: HK$26,371,000).

Financial Resources Borrowings and Capital Structure

As at 30 June 2011, the Group had non-current assets of HK$717,438,000 (31 December 2010: HK$261,552,000) and net current assets of HK$87,915,000 (31 December 2010: HK$513,356,000). The current ratio, expressed as the ratio of the current assets over the current liabilities, was 1.26 as at 30 June 2011 (31 December 2010: 10.75). The sharp decrease in net current assets and current ratio is mainly due to (i) the settlement of cash consideration amounting to HK$335,000,000 in relation to the Acquisition, and (ii) a loan amounting to HK$150,000,000 which will be due within a year.

As at 30 June 2011, the Group had trade and other payables of HK$127,283,000 (31 December 2010: HK$45,429,000), bank and other borrowings of HK$202,469,000 (31 December 2010: HK$135,164,000) and convertible bonds liability of HK$50,253,000 (31 December 2010: nil), while total liabilities were HK$410,715,000 (31 December 2010: HK$187,802,000). Total liabilities that increased by HK$222,913,000 were mainly because of (i) the acquisition of the new business line which led to an increase in trade payables and banking facilities, and (ii) the issuance of convertible bonds with the principal amount of HK$65,000,000 during the period.

Capital Commitments

As at 30 June 2011, the Group had capital commitments of HK$42,983,000 (31 December 2010: HK$24,691,000) in respect of the purchase of production equipment and expansion of production lines.

Contingent Liability

As at 30 June 2011, the Group did not have any contingent liability.

Pledge of Assets

As at 30 June 2011, the Group pledged its property, plant and equipment, prepaid lease payments, trade receivables and bank deposits of HK$38,452,000, HK$11,471,000, HK$2,216,000 and HK$5,245,000, respectively to secure the general banking facilities and bills payable.

In addition, as at 30 June 2011 and 31 December 2010, the Group pledged its 51% equity interests in Rookwood, a non-wholly owned subsidiary of the Group, and an undated deed of assignment duly executed by the Company and Rookwood pursuant to which the Company agrees to assign a loan to Rookwood of HK$31,476,308 in case of default to a financial institution to secure the other borrowing of HK$150,000,000. Save for the above disclosed, the Group did not have any charge of assets.

Treasury Policy

As at 30 June 2011, the Group had no formal treasury policy.

Segment Information

Paint and coating products

The Group assessed its sales performance based on the geographical segment which is determined on the basis of location of customers, i.e. Hong Kong and the PRC.

The Hong Kong segment recorded a turnover of HK$56,646,000 (2010: HK$62,474,000) and segment results of HK$6,068,000 (2010: HK$8,149,000). The decreasing turnover and segment results by approximately 9.3% and 25.5% represented a decrease in global market demand, in which the international sales were made through Hong Kong distributors.

The PRC segment recorded a turnover of HK$87,828,000 (2010: HK$79,825,000) and segment results of HK$8,406,000 (2010: HK$7,613,000), representing a slight increase in turnover and segment results by approximately 10.0% and 10.4%. Although the market is benefiting from the high growth rate of the PRC economy in the first half of 2011, the slight growth rate in the PRC segment reiterates the Group's adverse attitude towards the Coating Business in the PRC.

LED and semi-conductor lighting products

The LED and lighting segment recorded a turnover of HK$100,260,000 (2010: nil) and segment results of HK$21,205,000 (2010: nil).

Currency and Interest Rate Structure

Business transactions of the Group are mainly denominated in HKD and RMB. Currently, the Group did not enter into any agreement to hedge against the foreign exchange risk. In view of the fluctuation of the RMB in the recent years, the Group will monitor the situation closely and will introduce suitable measures if necessary.

The Group had limited exposure to interest rate fluctuation as the interest rates of other borrowing with the principal amount of HK$150,000,000 and convertible bonds with principal amount of HK$65,000,000 are fixed throughout the loan term.

Material Acquisition and Disposal

Save for the disclosed in note 16 of the notes to the condensed consolidated financial statements above, there was no material acquisition or disposal that should be notified to the shareholders for the period ended 30 June 2011.

Employees and Remuneration Policies

As at 30 June 2011, the Group had around 1,700 full-time employees, as compared to the 1,000 employees in 2010. Such includes management and administrative staff and production workers. Most were stationed in the PRC, 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 the prevailing industry practices. Staff remuneration and benefit policies, which are formulated with reference to the market, are competitive and performance based.

Outlook

Paint and coating products

During the review period, the management observed a significant drop in profit of the paint and coating segment, which reiterates the Company's view towards the coating business. In view of the escalating awareness for a more stringent environmental protection and product safety laws and regulations pertaining to the Group's manufacturing facilities and products in the PRC, increase in price of crude oil, other key raw materials and labour costs, growing market competition of paint and petrochemical products worldwide, and as well as an increase in the capital expenditure for replacement of aging production facilities, the management expects future results and cash flow of the coating and paint segment will be adversely affected. As a result, the management considers the re-allocation of the existing resources of the Group (including but not limited to the disposal of the assets of the Group) to the new business to be introduced to the Group.

Currently, the Company is actively identifying investors so as to dispose of the paint and petrochemical products business so that the Company could re-allocate its resources to the Lighting Business and other businesses to be identified by the Group. The Company shall comply with the Listing Rules for such possible disposal at all times. However, as at the date of this report, the Company has no agreement, arrangement, understanding or negotiation about the disposal of any of the Group's assets.

LED and semi-conductor lighting products

The LED sector is considered as one of the fastest growing industries worldwide. It has strong support from the government and the demand of LED products is increasing drastically. Besides, the entry barrier is high as the business is capital intensive.

The Acquisition was just completed on 17 March 2011 and more time is required to observe its result and performance in the long run. Meanwhile, the management will from time to time seek for investment opportunities in difference phases of the LED industry that could improve corporate synergy and broaden the market shares of the Group.

Besides, the management will continue to review the performance of existing businesses and assess the financial position of the Group and seek for any investment opportunities in the fast growing industry. Should any suitable business opportunities arise, the Group may change its existing business activities and redeploy any assets of the Group.

DIRECTORS' INTERESTS

At 30 June 2011, none of the Directors and chief executive of the Company had any interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required (i) pursuant to Division 7 and 8 of Part XV of SFO (including the interest and short positions in which they are deemed or taken to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows the following shareholders had notified the Company of relevant interests and short position in the issued share capital of the Company.

Name	Capacity	Number of Shares Held	Long or Short Position	Percentage of Issued Share Capital of the Company
Hong Han Limited ("**Hong Han**")	Beneficial Owner	140,000,000	Long	51.31%
Mr. Wan Zhongbo ("**Mr. Wan**")	Held by controlled corporation (Note 1)	140,000,000	Long	51.31%
Simsen International Corporation Limited ("**Simsen International**")	Held by controlled corporation (Note 1)	140,000,000	Long	51.31%
Ms. Liu Jia ("**Ms. Liu**")	Held by controlled corporation (Note 1)	140,000,000	Short	51.31%
Joy Wealth Finance Limited ("**Joy Wealth**")	Beneficial Owner (Note 2)	30,952,381	Long	11.34%
Pacific Plywood Holdings Limited ("**Pacific Plywood**")	Held by controlled corporation (Note 2)	30,952,381	Long	11.34%
China Century	Beneficial Owner (Note 2)	30,952,381	Short	11.34%
Mr. Ji Xiao Bo (**Mr. Ji**)	Held by controlled corporation (Note 2)	30,952,381	Short	11.34%

Name	Capacity	Number of Shares Held	Long or Short Position	Percentage of Issued Share Capital of the Company
True Focus Limited	Beneficial owner and held by controlled corporation (Note 3)	18,010,000	Long	6.60%
Besford International Limited	Held by controlled corporation (Note 4)	18,010,000	Long	6.60%
COL Capital Limited	Held by controlled corporation (Note 4)	18,010,000	Long	6.60%
Vigor Online Offshore Limited	Held by controlled corporation (Note 5)	18,010,000	Long	6.60%
China Spirit Limited	Held by controlled corporation (Note 5)	18,010,000	Long	6.60%
Ms. Chong Sok Un	Held by controlled corporation (Note 5)	18,010,000	Long	6.60%

Notes:

1. Hong Han is wholly and beneficially owned by Mr. Wan and Ms. Liu as to 50%. Ms. Liu has pledged her entire shares of Hong Han to Simsen Capital Finance Limited, a wholly-owned subsidiary of Simsen International, to secure a loan granted to her. Therefore, Mr. Wan and Simsen International are deemed to be interested in the Shares held by Hong Han and Ms. Liu is deemed to hold a short position in the shares.

2. China Century is interested in 30,952,381 underlying shares in connection with the convertible bonds issued by the Company on 17 March 2011 in an outstanding principal amount of HK$65,000,000 at the conversion price of HK$2.1 per conversion share. China Century is beneficially owned by Mr. Ji. China Century has pledged the convertible bonds to Joy Wealth, a wholly-owned subsidiary of Pacific Plywood, for a loan. Therefore, Pacific Plywood is deemed to be interested in the shares, and China Century and Mr. Ji are deemed to hold short positions in the shares.

3. True Focus Limited owns 13,510,000 Shares. Pacific Orchid Investments Limited, a wholly-owned subsidiary of True Focus Limited, owns 4,500,000 Shares. True Focus Limited is therefore deemed to be interested in 18,010,000 shares.

4. True Focus Limited is wholly-owned by Besford International Limited. Besford International Limited is a wholly-owned subsidiary of COL Capital Limited. Besford International Limited and COL Capital Limited are therefore deemed to be interested in 18,010,000 shares.

5. COL Capital Limited is beneficially owned by Vigor Online Offshore Limited as to approximately 64.33%. Vigor Online Offshore Limited is a wholly-owned subsidiary of China Spirit Limited, a company wholly and beneficially owned by Ms. Chong Sok Un. Vigor Online Offshore Limited, China Spirit Limited and Ms. Chong Sok Un are therefore deemed to be interested in 18,010,000 shares.

Other than the above disclosed, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the shares.

SHARE OPTION SCHEME

On 11 June 2010, an ordinary resolution was passed at the annual general meeting of the Company regarding the approval of the adoption of share option scheme (the "**Share Option Scheme**") of the Company. No share option has been granted by the Company since the adoption of the Share Option Scheme.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011, except for the following deviation:

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and are subject to re-election.

The Company does not fully comply with code provision A.4.1. The existing independent 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 the Directors' service are appropriate given that Directors ought to be committed to representing the long-term interests of the shareholders of the Company.

NON-COMPLIANCE WITH REQUIREMENTS REGARDING INDEPENDENT NON-EXECUTIVE DIRECTOR AND MEMBER OF AUDIT COMMITTEE

Rules 3.10(1) and 3.21 of the Listing Rules require that the Board and Audit Committee should include at least three independent non-executive directors and members respectively.

The total number of independent non-executive Directors and members of the Audit Committee fell below the minimum requirement as required under the Listing Rules after the former independent non-executive Director, Ms. Zheng DaYong resigned on 16 June 2011. On 22 August 2011, Mr. Chiang Chi Kin, Stephen was appointed as an independent non-executive Director and a member of the Audit Committee. Following the appointment of Mr. Chiang, the Company has fulfilled the minimum number of independent non-executive Directors required under Rule 3.10(1) of the Listing Rules and Audit Committee members under Rule 3.21 of the Listing Rules.

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 transaction 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 30 June 2011.

AUDIT COMMITTEE REVIEW

As at the date of this report, the Audit Committee comprises Mr. Fok Ho Yin, Thomas, Mr. Ng Hoi Yue and Mr. Chiang Chi Kin, Stephen, the independent non-executive Directors of the Company. The Audit Committee has reviewed and supervised with the management and external auditors in relation to 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 for the six months ended 30 June 2011.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Hu Jun, Ms. Zhang Ying, Mr. Li Li, Mr. Zhang Yang and Mr. Jiang Zhiqian as executive Directors and Mr. Fok Ho Yin, Thomas, Mr. Ng Hoi Yue and Mr. Chiang Chi Kin, Stephen as independent non-executive Directors.

By order of the Board
Greenfield Chemical Holdings Limited
Li Li
Executive Director

Hong Kong, 25 August 2011