



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)

2006
Interim Report

Condensed Consolidated Income Statement

For the six months ended 30th June, 2006

		For the six months ended 30th June,	
		2006	2005
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue		135,557	179,241
Cost of sales		(104,364)	(141,927)
Gross profit		31,193	37,314
Other income		3,482	1,754
Distribution costs		(5,168)	(4,598)
Administrative expenses		(19,010)	(18,650)
Interest on bank borrowings wholly repayable within five years		–	(10)
Share of profits of associates		8,146	2,300
Profit before taxation		18,643	18,110
Income tax expense	4	(1,541)	(1,915)
Profit for the period	5	17,102	16,195
Dividends			
Dividend paid	6	20,000	16,250
Earnings per share – basic	7	HK6.8 cents	HK6.5 cents

Condensed Consolidated Balance Sheet

At 30th June, 2006

	Notes	At 30th June, 2006 HK\$'000 (Unaudited)	At 31st December, 2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	71,861	65,343
Prepaid lease payments		7,952	7,999
Interests in associates		35,009	26,617
Available-for-sale investments		10	10
Deposits paid for acquisition of property, plant and equipment		1,599	2,691
Deferred tax asset		–	119
		116,431	102,779
Current assets			
Inventories		29,028	27,875
Prepaid lease payments		200	199
Trade and other receivables	9	85,308	101,386
Loans to associates	10	16,400	15,740
Dividend receivable from an associate		2,700	2,700
Tax recoverable		504	–
Bank balances and cash		48,062	49,712
		182,202	197,612
Current liabilities			
Trade and other payables	11	34,955	36,409
Amount due to an associate	12	2,614	–
Amount due to a related company	13	92	61
Tax payable		–	721
		37,661	37,191
Net current assets		144,541	160,421
Total assets less current liabilities		260,972	263,200
Capital and reserves			
Share capital	14	25,000	25,000
Reserves		235,968	238,200
		260,968	263,200
Non-current liability			
Deferred tax liability		4	–
		260,972	263,200

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

	Share capital HK\$'000 (note 14)	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, 2005	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
Exchange difference arising from translation of financial statements of PRC operations	-	-	-	1,287	-	-	1,287
Share of translation reserve of an associate	-	-	-	335	-	-	335
Income recognised directly in equity	-	-	-	1,622	-	-	1,622
Profit for the period	-	-	-	-	-	35,366	35,366
Total recognised income and expenses for the period	-	-	-	1,622	-	35,366	36,988
Transfer to non-distributable reserve	-	-	-	-	490	(490)	-
Dividends paid	-	-	-	-	-	(8,750)	(8,750)
At 31st December, 2005	25,000	4,242	32,000	(2,893)	6,229	198,622	263,200
Exchange difference arising from translation of financial statements of PRC operations	-	-	-	912	-	-	912
Share of translation reserve of an associate	-	-	-	(246)	-	-	(246)
Net income recognised directly in equity	-	-	-	666	-	-	666
Profit for the period	-	-	-	-	-	17,102	17,102
Total recognised income and expenses for the period	-	-	-	666	-	17,102	17,768
Dividends paid	-	-	-	-	-	(20,000)	(20,000)
At 30th June, 2006	25,000	4,242	32,000	(2,227)	6,229	195,724	260,968

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 requirement that the foreign investment enterprises appropriated 10% of the profit after taxation of the subsidiary of the Company established 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, 2006

	For the six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	27,664	35,649
Net cash used in investing activities		
Acquisition of property, plant and equipment	(10,548)	(12,232)
Other investing activities	1,234	(14,644)
	(9,314)	(26,876)
Net cash used in financing activities		
Dividend paid	(20,000)	(16,250)
Net decrease in cash and cash equivalents	(1,650)	(7,477)
Cash and cash equivalents brought forward	49,712	58,654
Cash and cash equivalents carried forward, representing bank balances and cash	48,062	51,177

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

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.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and Interpretations (“new HKFRS”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

3. Segmental Information

No business segment information has been presented for the six month periods ended 30th June, 2006 and 30th June, 2005 as the Directors considered that the Group is principally engaged in one single segment of manufacturing and trading of liquid coatings, powder coatings and solvents which accounts for more than 90% of the turnover and trading profits of the Group for the periods.

The Group’s activities and operations are based in PRC including Hong Kong. Accordingly, no geographical analysis is presented.

4. Income Tax Expense

	For the six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax on the estimated assessable profit	1,418	1,220
Income tax calculated at the rates prevailing in the PRC	–	695
	1,418	1,915
Deferred tax	123	–
	1,541	1,915

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain companies of the Group registered in the PRC (“PRC subsidiaries”) are entitled to exemption from PRC income tax for two years starting from their first profit-marking year, followed by a 50% reduction for the next three years (the “Tax Holiday”). Certain PRC subsidiaries continue to enjoy their Tax Holiday during the period.

The Hong Kong Inland Revenue Department (“IRD”) issued an enquiry letter in prior year to a company within the Group regarding its offshore claim in respect of its production activities for the year of assessment 2002/03. On 16th March, 2006, 20th June, 2006 and 20th July, 2006, the IRD issued additional assessments for years of assessment 2002/03, 2003/04 and 2004/05, respectively, totalling approximately HK\$8,200,000, disallowing the offshore claims claimed by that company. In the opinion of the Directors, all production activities of that company are performed in the PRC and such income does not arise in or derived from Hong Kong. The Directors had lodged an objection against these additional assessments and accordingly, considered that no tax provision in respect of these assessments are necessary.

5. Profit for the Period

	For the six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
<hr/>		
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation and amortisation of property, plant and equipment	4,636	3,431
Amortisation of prepaid rental	99	34
Share of tax of an associate (included in share of profits of associates)	–	113
Unrealised holding gain on investments at fair value through profit or loss	–	(55)
Loss on disposal of property, plant and equipment	36	134
Dividend income from listed investments	–	(51)
Interest income from investments	–	(26)
Interest income from banks	(563)	(74)
Interest income on loan to an associate	(660)	(485)
Management fee income from an associate	(1,103)	(851)
	<hr/>	

6. Dividends

At a board meeting held on 19th September, 2006, the Directors of the Company declared an interim dividend of HK3 cents per share for the six months ended 30th June, 2006 (for the six months ended 30th June, 2005: interim dividend of HK3.5 cents per share). The interim dividend will be payable on 16th October, 2006 to shareholders whose names appear on the register of members of the Company on 10th October, 2006.

During the current period, a final dividend of HK3 cents per share and a special dividend of HK5 cents per share, amounting to a total of HK\$7,500,000 and HK\$12,500,000, respectively, were paid to shareholders for the year ended 31st December, 2005.

7. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30th June, 2006 is based on the profit for the period of HK\$17,102,000 (for the six months ended 30th June, 2005: HK\$16,195,000) and the number of 250,000,000 shares (for the six months ended 30th June, 2005: 250,000,000 shares) in issue throughout the period.

No diluted earnings per share figure is presented as there was no dilutive potential ordinary shares in issue at any time during the period.

8. Property, Plant and Equipment

During the period, the Group spent approximately HK\$10,548,000 on acquisition of property, plant and equipment.

9. Trade and Other Receivables

Included in trade and other receivables are trade receivable of HK\$82,909,000 (31st December, 2005: HK\$99,708,000) of which HK\$17,670,000 (31st December, 2005: HK\$20,274,000) are trade receivables from associates.

The Group operates a 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\$82,909,000 (31st December, 2005: HK\$99,708,000) which are included in trade and other receivables is as follows:

	At 30th June, 2006 HK\$'000	At 31st December, 2005 HK\$'000
0-30 days	28,574	32,075
31-60 days	22,970	26,567
61-90 days	15,461	17,344
Over 90 days	15,904	23,722
	82,909	99,708

10. Loans to Associates

The loans are unsecured and repayable on demand. HK\$15,000,000 bears interest at Hong Kong Prime Rate plus 1% per annum, HK\$740,000 bears interest at 8.4% per annum and the remaining amount is interest free.

11. Trade and Other Payables

Included in trade and other payables are trade and bills payables of HK\$30,681,000 (31st December, 2005: HK\$25,842,000) and their aged analysis is as follows:

	At 30th June, 2006 HK\$'000	At 31st December, 2005 HK\$'000
0-30 days	19,152	13,934
31-60 days	7,430	9,105
61-90 days	3,509	2,399
Over 90 days	590	404
	30,681	25,842

12. Amount Due to an Associate

The amount due to an associate is unsecured, interest free and repayable on demand.

13. Amount Due to a Related Company

The amount is due to a related company of which a Director of the Company has a beneficial interest. The amount is unsecured, interest free and repayable on demand.

14. Share Capital

	Authorised HK\$'000	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.1 each		
– Balance at 31st December, 2005 and 30th June, 2006	100,000	25,000

15. Operating Lease Commitments**The Group as lessee**

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

	At 30th June, 2006 HK\$'000	At 31st December, 2005 HK\$'000
Within one year	407	456
In the second to fifth year inclusive	1,549	1,539
Over five years	6,656	6,822
	8,612	8,817

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two and fifty years and rentals are fixed for a term of 2 to 50 years.

16. Capital Commitments

	At 30th June, 2006 HK\$'000	At 31st December, 2005 HK\$'000
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	198	1,803

17. Pledge of Assets

At 30th June, 2006, the Group pledged certain of its land and buildings with a carrying value of approximately HK\$2,462,000 (31st December, 2005: HK\$2,500,000) to secure credit facilities granted to the Group.

18. Related Party Disclosures

The Group had the following material transactions and balances with related parties during the period.

(A) Transactions

	For the six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Related parties		
Associates		
Sales of goods	28,280	63,226
Royalty income	796	2
Interest income	660	485
Management fee income	1,103	851

(B) Balances

Details of balances with related parties are set out in the balance sheet and at notes 10, 12 and 13.

(C) Compensation of key management personnel

The remunerations of Directors and other members of key management during the period were as follows:

	For the six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Short-term benefits	4,846	5,048
Retirement benefits scheme	156	160
	5,002	5,208

The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Closure of Register of Members

The Register of Members of the Company will be closed from 6th October, 2006 to 10th October, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend of HK3 cents per share, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 5th October, 2006. Dividend warrants will be dispatched on 16th October, 2006.

Management Discussion and Analysis

Business Review

For the six months ended 30th June, 2006, the Group had a turnover of HK\$135,557,000, representing a decrease of 24% from the corresponding period last year. This was due to the decreased demand for paints on the sluggish toy market, a major market of the Group, coupled with the decline in sales to the associate company, Weilburger Manfield Limited ("WML"), after commencement of its own production.

The Profit attributable to shareholders for the period was HK\$17,102,000, an increase of 6% from HK\$16,195,000. Earnings per share increased from HK6.5 cents to HK6.8 cents. With the contribution from WML, the Group recorded a moderate growth in net profit.

During the period, persistent high oil prices, volatile raw materials prices and intense competition between manufacturers continued to adversely affect the Group's overall performance. Faced with the tough business environment, customers of toy market were cautious about accepting and placing orders and this further aggravated the condition.

To cope with these challenges, the Group put efforts in enhancing its equipment and devoted necessary resources in meeting production needs. Apart from adhering to the commitment of quality product and service, the Group adopted a flexible raw material purchasing and sourcing system. At the same time, we actively undertook researches to develop substitute raw materials and make improvements while maintaining quality standard with an aim to minimize the impacts of the high raw material costs. To keep abreast with the latest developments in the market, we conducted researches in developing new product series.

To increase our presence in the booming market in China, WML has built a new factory in Wuxi which will come into operation by the end of the year.

Management Discussion and Analysis *(continued)*

Outlook

The prevailing challenges and difficult environment will persist in the second half of the year. The fierce competition will necessitate further cuts in product prices and margins. Hence, maintaining long established customer relationships, broadening customer base, improving product quality and service, widening scope of product mix and tightening cost control lay the foundations for the Group's continual growth under such a tough market condition. Given the prosperous prospect of the teltronic market in China, the Group will increase its investment in product research and development for this business.

Following the operation of the Wuxi factory of WML by the end of the year, we expect that its increased productivity and sales will bring contribution to the Group's profit. The Group is actively making strategic plan to boost the sales aiming at bringing higher profits to the Group. Furthermore, the Group is looking for strategic acquisition of production plant so as to accelerate the business growth.

In spite of the difficulties ahead, the Group will dedicate its utmost efforts to strive for achieving satisfactory returns for its shareholders.

Liquidity and Financial Resources

During the six months ended 30th June, 2006, 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, 2006, the Group had cash on hand of HK\$48,062,000 (31st December, 2005: HK\$49,712,000).

Significant Investments

The Group has no significant investment held during the period.

Material Acquisitions and Disposals

The Group has no material acquisitions 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. In view of the revaluation of the Renminbi during the period under review, the Group will monitor the situation closely and will introduce suitable hedging measures if there are any adverse changes.

Directors' Interests

At 30th June, 2006, 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 and holds 49% of issued share capital of Chemfield.

All the interests stated above represent long positions. Save as disclosed above, at 30th June, 2006, none of the Directors of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations.

Substantial Shareholders

At 30th June, 2006, 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, 2006, 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, 2006, the Group had a workforce of around 1,200 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, 2006.

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, 2006, 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. Yuen Shu Wah 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 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 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. The Board believes that the continuity in office of the Managing Director is of considerable benefit to the Group in view of his leadership, vision and profound knowledge in the business conducted by the Group.

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 on 30th June, 2006.

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 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 for the six months ended on 30th June, 2006.

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 and Mr. Ng Seng Nam as Non-executive Directors; 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, 19th September, 2006