



MANFIELD

Manfield Chemical Holdings Limited

萬輝化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1561

2016 INTERIM
REPORT

The board of directors (the "Board") of Manfield Chemical Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Revenue	3	173,299	148,696
Cost of sales and services		(134,173)	(110,505)
Gross profit		39,126	38,191
Other income		8,820	7,713
Other gains and losses		1,470	1,731
Distribution and selling expenses		(16,714)	(16,384)
Administrative expenses		(27,873)	(23,547)
Other expenses		(864)	(2,807)
Finance costs		(4)	(18)
Share of profits of an associate		5,869	13,692
Profit before taxation	4	9,830	18,571
Taxation	5	521	(2,231)
Profit for the period		10,351	16,340
Earnings per share			
— Basic	6	HK1.72 cents	HK3.76 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Profit for the period	10,351	16,340
Other comprehensive expense which may be subsequently reclassified to profit or loss:		
Share of exchange differences of an associate	(1,721)	(41)
Exchange differences arising on translation of foreign operations	(3,284)	(613)
Other comprehensive expense for the period	(5,005)	(654)
Total comprehensive income for the period	5,346	15,686
Profit for the period attributable to:		
Owners of the Company	10,301	16,901
Non-controlling interests	50	(561)
	10,351	16,340
Total comprehensive income attributable to:		
Owners of the Company	5,446	16,260
Non-controlling interests	(100)	(574)
	5,346	15,686

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	NOTES	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	113,475	119,902
Prepaid lease payments		28,881	29,603
Interest in an associate	9	184,535	180,387
Deferred tax assets		162	162
Derivative financial instruments	13	2,273	1,638
Deposits to purchase of property, plant and equipment and prepaid lease payments		4,632	3,156
		333,958	334,848
Current assets			
Prepaid lease payments		809	818
Inventories		50,754	30,371
Trade and other receivables	10	131,296	116,657
Tax recoverable		568	1,090
Bank balances and cash		185,401	200,425
		368,828	349,361
Current liabilities			
Trade and other payables	11	54,043	40,054
Tax payable		1,569	2,327
Dividend payable	7	15,000	–
		70,612	42,381
Net current assets		298,216	306,980
Total assets less current liabilities		632,174	641,828
Capital and reserves			
Share capital	12	6,000	6,000
Reserves		609,559	619,113
Equity attributable to owners of the Company		615,559	625,113
Non-controlling interests		16,615	16,715
Total equity		632,174	641,828

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to owners of the Company										
	Shareholder's contribution/								Total	Non-controlling interests	Total
	Share capital	Share premium	Special reserve	distribution reserve	Translation reserve	Other reserve	Non-distributable reserve	Retained profits			
HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000 (note c)	HK\$'000 (note d)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015 (audited)	78	-	32,000	(11,673)	55,099	4,571	9,441	389,007	478,523	18,108	496,631
Share of exchange differences of an associate	-	-	-	-	(41)	-	-	-	(41)	-	(41)
Exchange differences arising on translation of foreign operations	-	-	-	-	(600)	-	-	-	(600)	(13)	(613)
Other comprehensive expense for the period	-	-	-	-	(641)	-	-	-	(641)	(13)	(654)
Profit for the period	-	-	-	-	-	-	-	16,901	16,901	(561)	16,340
Total comprehensive (expense) income for the period	-	-	-	-	(641)	-	-	16,901	16,260	(574)	15,686
Transfer	-	-	-	-	-	-	390	(390)	-	-	-
At 30 June 2015 (audited)	78	-	32,000	(11,673)	54,458	4,571	9,831	405,518	494,783	17,534	512,317
At 1 January 2016 (audited)	6,000	133,883	32,000	(274)	26,180	4,571	11,086	411,667	625,113	16,715	641,828
Share of exchange differences of an associate	-	-	-	-	(1,721)	-	-	-	(1,721)	-	(1,721)
Exchange differences arising on translation of foreign operations	-	-	-	-	(3,134)	-	-	-	(3,134)	(150)	(3,284)
Other comprehensive expense for the period	-	-	-	-	(4,855)	-	-	-	(4,855)	(150)	(5,005)
Profit for the period	-	-	-	-	-	-	-	10,301	10,301	50	10,351
Total comprehensive (expense) income for the period	-	-	-	-	(4,855)	-	-	10,301	5,446	(100)	5,346
Dividend recognised as distribution	-	-	-	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Transfer	-	-	-	-	-	-	485	(485)	-	-	-
At 30 June 2016 (unaudited)	6,000	133,883	32,000	(274)	21,325	4,571	11,571	406,483	615,559	16,615	632,174

Notes:

- The special reserve of the Group represents the nominal values of 32,000,000 non-voting class A shares of HK\$1 each issued by a subsidiary of the Company to its shareholders prior to a group reorganisation in 2002.
- The balance as at 30 June 2016 and 1 January 2016 included (i) deemed distribution to a shareholder of HK\$12,515,000 involving a distribution of assets other than cash to an owner by making reference to the fair value of the assets being distributed; (ii) deemed contribution from a shareholder of HK\$842,000 about the disposal of a subsidiary which having net liabilities; and (iii) deemed shareholder's contribution upon the waive of loan from ultimate holding company of HK\$11,399,000.
- Other reserve was resulted from the partial disposal of a subsidiary in previous years.
- 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") to the non-distributable reserve under the PRC laws and regulations until the transferred amount equals to 50% of the registered capital of these PRC subsidiaries. It can be used to make up for previous years' losses or converted into additional capital of these PRC subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(12,681)	17,753
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,177)	(2,899)
Dividends received from an associate	–	4,500
Interest received	618	178
Deposits paid for purchase of property, plant and equipment and prepaid lease payment	(1,521)	(1,900)
Proceeds from disposal of property, plant and equipment	331	42
NET CASH USED IN INVESTING ACTIVITIES	(1,749)	(79)
FINANCING ACTIVITIES		
Interest paid	(4)	(18)
Repayment of bank borrowing	–	(2,533)
CASH USED IN FINANCING ACTIVITIES	(4)	(2,551)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,434)	15,123
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	200,425	80,170
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(590)	(499)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	185,401	94,794

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. GENERAL INFORMATION AND REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on 14 April 2014. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 December 2015.

In the preparation for the listing of the Company's shares on the Stock Exchange, the companies now comprising the Group underwent a group reorganisation (the "Reorganisation"). The Group resulting from the Reorganisation is regarded as a continuing entity. Details of the Reorganisation are set out in the prospectus (the "Prospectus") dated 17 November 2015 issued by the Company.

The condensed consolidated financial statements for the period ended 30 June 2015 have been prepared on the basis as if the Company had always been the holding company of the Group. The condensed consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the period ended 30 June 2015 have been prepared as if the current group structure had been in existence throughout the period.

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

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and subcontracting services.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for services provided and goods sold, net of discounts and sales related taxes, during the both periods.

The Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and subcontracting services. The executive directors of the Company, being the Group's chief operating decision maker, make the decision on allocation of resources and assessment of performance based on geographical segments determined on the basis of location of customers. Information of the operating and reportable segments of the Group is as follow:

Six months ended 30 June 2016 (unaudited)

	Hong Kong and Others [#] HK\$'000	The PRC HK\$'000	Consolidated HK\$'000
REVENUE			
External revenue	29,519	143,780	173,299
RESULTS			
Segment profit	2,940	14,937	17,877
Interest income			618
Unallocated corporate income			5,539
Unallocated corporate expenses			(20,662)
Unallocated corporate other gains and losses			593
Finance costs			(4)
Share of profits of an associate			5,869
Profit before taxation			9,830

Six months ended 30 June 2015 (audited)

	Hong Kong and Others [#] HK\$'000	The PRC HK\$'000	Consolidated HK\$'000
REVENUE			
External revenue	38,292	110,404	148,696
RESULTS			
Segment profit	8,192	12,588	20,780
Interest income			178
Unallocated corporate income			3,360
Unallocated corporate expenses			(19,516)
Unallocated corporate other gains and losses			95
Finance costs			(18)
Share of profits of an associate			13,692
Profit before taxation			18,571

[#] Including Indonesia, Malaysia, Taiwan and other jurisdictions

3. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment profits represent the results of each segment without allocation of corporate items, including interest income, management fee income and rental income from subsidiaries of an associate, loss on disposal of property, plant and equipment, central administration cost, depreciation of property, plant and equipment, release of prepaid lease payments, change in fair value of derivative financial instruments, finance costs and share of profits of an associate. This is the measure reported to the management of the Group for the purpose of resources allocation and performance assessments.

Revenue from major products and services

The Group's revenue from its major products and services were as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000 (unaudited)	HK\$'000 (audited)
Sales		
Liquid coatings		
Sales to outsiders	113,742	117,167
Sales to subsidiaries of an associate	40,905	4,318
Powder coatings — sales to third parties	11,650	13,750
Subcontracting fee income from subsidiaries of an associate	7,002	13,461
	173,299	148,696

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	HK\$'000 (unaudited)	HK\$'000 (audited)
Profit before taxation has been arrived at after charging (crediting):		
Release of prepaid lease payments	413	434
Depreciation of property, plant and equipment	6,442	6,946
Donation	864	864
Listing expenses	—	1,943
Loss on disposal of property, plant and equipment	42	53
Minimum operating lease rentals in respect of rented premises	1,554	2,290
Interest income	(618)	(178)
Reversal of impairment losses on trade receivables	—	(32)
Bad debt recovered	—	(680)
Net exchange gain	(457)	(792)
Change in fair value of derivative financial instruments	(635)	(148)

5. TAXATION

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Hong Kong Profits Tax: Current period	454	1,040
PRC Enterprise Income Tax: Current period (Over)underprovision in prior years	1,120 (2,095)	932 259
	(975)	1,191
Tax (credit) charge for the period	(521)	2,231

6. EARNINGS PER SHARE

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	10,301	16,901
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	600,000	450,000

During the period ended 30 June 2015, the weighted average number of ordinary shares for the purposes of calculating basic earnings per share had been adjusted for the effect of the Reorganisation for the Company's shares listed on the Stock Exchange on 1 December 2015. The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the capitalisation (details are set out in the Prospectus) had been effective on 1 January 2015.

No diluted earnings per share for both periods were presented as there were no potential ordinary shares in issue for both periods.

7. DIVIDEND

During the six months ended 30 June 2016, a final dividend in respect of the year ended 31 December 2015 of HK\$15,000,000 or HK\$0.025 per share has been proposed by the directors of the Company and approved by the shareholders in the annual general meeting. No other dividends were proposed or declared during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, total additions to property, plant and equipment were approximately HK\$1,177,000 (six months ended 30 June 2015: HK\$2,899,000) which mainly represented additions to leasehold land and buildings, leasehold improvements and construction in progress of HK\$181,000 (six months ended 30 June 2015: HK\$1,185,000), furniture, fixtures and office equipment of approximately HK\$424,000 (six months ended 30 June 2015: HK\$733,000), motor vehicles of approximately HK\$151,000 (six months ended 30 June 2015: HK\$631,000), and plant and machinery of approximately HK\$421,000 (six months ended 30 June 2015: HK\$350,000).

9. INTEREST IN AN ASSOCIATE

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Unlisted investment, at cost	178	178
Share of post-acquisition translation reserve	8,965	10,686
Share of post-acquisition profits, net of dividends received	175,392	169,523
	184,535	180,387

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Trade receivables	122,609	106,993
Bills receivables	8,042	5,841
Less: Impairment losses on trade receivables	(3,941)	(3,978)
Total trade and bills receivables	126,710	108,856
Other receivables	4,586	7,801
Total trade and other receivables	131,296	116,657

10. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows credit period of 30 days to 90 days to its trade customers. The following is an aging analysis of trade receivables net of impairment losses presented based on the invoice date at the end of the reporting period. For customers who used bank bills to settle their trade receivables upon the expiry of the initial credit period, the aged analysis of bills receivables at the end of the reporting period was presented based on the date of issuance of the bills. All bills receivables will be matured within a period of 30 days to 180 days.

	Trade receivables		Bills receivables	
	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
0–30 days	46,896	33,754	–	381
31–60 days	26,796	21,028	–	984
61–90 days	18,504	20,700	1,161	716
Over 90 days	26,472	27,533	6,881	3,760
	118,668	103,015	8,042	5,841

As at 30 June 2016, included in trade receivables, there were trade receivables due from subsidiaries of an associate of HK\$18,799,000 (unaudited) (31 December 2015: HK\$9,611,000), and trade receivables due from a subsidiary of a non-controlling shareholder of HK\$9,737,000 (unaudited) (31 December 2015: HK\$8,383,000).

11. TRADE AND OTHER PAYABLES

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Trade payables to third parties	41,322	21,053
Accrued staff cost	7,666	14,079
Other payables and accruals	5,055	4,922
	54,043	40,054

11. TRADE AND OTHER PAYABLES (Continued)

The average credit period on purchases of goods is 90 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	Trade payables to third parties	
	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
0–30 days	23,644	16,058
31–60 days	13,700	2,883
61–90 days	2,748	1,055
Over 90 days	1,230	1,057
	41,322	21,053

12. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January and 30 June 2016	10,000,000,000	100,000
Issued:		
At 1 January and 30 June 2016	600,000,000	6,000

13. DERIVATIVE FINANCIAL INSTRUMENTS

On 3 December 2013, the Group entered into a share transfer agreement and a shareholder's agreement (the "Shareholder's Agreement") with Teknos Group Oy, an independent third party (the "Purchaser"). Pursuant to these agreements, the Group agreed to dispose of its 20% equity interest in Manfield Teknos (Changzhou) Chemical Company Limited ("Manfield Changzhou") to the Purchaser at a cash consideration of approximately RMB10 million (or equivalent to approximately HK\$13 million) reducing the Group's equity interest in Manfield Changzhou to 60% upon completion. In addition, the Group has a right ("Put Option") to dispose of its further 40% equity interests in Manfield Changzhou at a consideration pre-described in the Shareholder's Agreement (the "Price") for a period of five years from the date of the Shareholder's Agreement. According to the Shareholder's Agreement, the Purchaser has a right ("Call Option") to acquire further 40% equity interests in Manfield Changzhou from the Group at the Price starting from the sixth years from the date of the Shareholder's Agreement (no definite period set out in the Shareholder's Agreement) if the Group does not exercise its right to dispose of its 40% equity interests in Manfield Changzhou during the first five years period.

At the date of further disposal of 40% equity interests in Manfield Changzhou, the Price is determined at the higher of (i) 40% of the net assets value of Manfield Changzhou plus a premium at the date of such further disposal or (ii) 6 times of earnings before interest, taxes, depreciation and amortisation for the period of twelve months immediately before the date of such further disposal; or (iii) RMB20,500,000.

13. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The Put Option and Call Option ("Options") are classified as derivative financial instruments at initial recognition.

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Options assets	2,273	1,638

The fair values of Options at the end of the reporting period were determined by an independent valuer, Asset Appraisal Limited, using the Binominal Option Pricing Model. The inputs into the model are as follows:

	As at 30 June 2016	As at 31 December 2015
The Price	RMB24,540,304	RMB23,473,575
Equity value <i>(note a)</i>	RMB24,540,304	RMB23,473,575
Expected volatility <i>(note b)</i>	38.03%	32.95%
Time-to-maturity	2.43	2.92
Dividend yield	0%	0%
Risk-free rate <i>(note c)</i>	2.59%	2.57%

Notes:

- (a) The equity value was determined with reference to net assets value of Manfield Changzhou plus a premium.
- (b) Expected volatility for the Options is based on the historical daily price movements of comparable listed companies in the same industry. The expected volatility has been adjusted, based on management's best estimate, for the effects of non-marketability, exercise restrictions and behavioural considerations.
- (c) The risk-free rate is determined by reference to the yield of China Government Bond with similar maturities.

The directors of the Company have represented that they have no intention to exercise the Put Option within twelve months from the end of the reporting period. Accordingly the respective derivative financial instruments are classified as non-current assets as at 30 June 2016 and 31 December 2015 respectively.

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's options classified as derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 30 June 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Options classified as derivative financial instruments	Assets – HK\$2,273,000	Assets – HK\$1,638,000	Level 3	Binomial Option Pricing Model The key inputs are risk-free interest rate, equity value of Manfield Changzhou, expected volatility, dividend yield and the Price	Equity value of Manfield Changzhou, the Price and expected volatility

There were no transfers between Level 1 and 2.

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	HK\$'000
At 1 January 2016 (audited)	1,638
Change in fair value — unrealised	635
At 30 June 2016 (unaudited)	2,273

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, where Level 1 inputs are not available, the management of the Group work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The qualified external valuers were engaged to perform the valuations of the options required for financial reporting purposes, including Level 3 fair value measurements of derivative financial instruments.

15. COMMITMENTS

(a) Capital commitments

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of: Property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	1,714	1,263

(b) Other commitments

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Proposed purchase of land contracted for but not provided in the condensed consolidated financial statements (<i>Note</i>)	8,634	8,728

Note:

On 10 September 2012, the Group entered into a sale and purchase agreement with a company owned by Mr. Yuen Shu Wah, a director of the Company, to acquire two pieces of land located in the PRC at an aggregate cash consideration of RMB3,367,000. Deposit of RMB673,000 was paid during the year ended 31 December 2012. The remaining balance of RMB2,694,000 was included as commitment as at 30 June 2016, equivalent to HK\$3,181,000 (31 December 2015: HK\$3,216,000). The purchase of these two pieces of land had not yet been completed up to 30 June 2016.

On 22 May 2015, the Group entered into a sale and purchase agreement with the People's Government of Luoyang Town, Wujin District, Changzhou City to acquire a piece of land located in the PRC at a cash consideration of RMB6,579,000. Deposit of RMB1,961,000 was paid during the year ended 31 December 2015, with the remaining balance of RMB4,618,000 was included as commitment as at 30 June 2016, equivalent to HK\$5,453,000 (31 December 2015: HK\$5,512,000). The purchase of the land had not yet been completed up to 30 June 2016.

16. OPERATING LEASE COMMITMENTS

The Group as lessor

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

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Within one year	1,603	1,791
In the second to fifth year inclusive	534	1,350
	2,137	3,141

Lease was negotiated and monthly rentals were fixed for term of one to two years.

The Group as lessee

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:

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Within one year	932	233
In the second to fifth year inclusive	537	28
	1,469	261

Lease was negotiated and monthly rentals were fixed for term of one to two years.

17. RELATED PARTY TRANSACTIONS

During the period, save as disclosed elsewhere in the condensed consolidated financial statements, the Group also had the following transactions with its related parties:

Relationship	Nature of transactions	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Subsidiaries of an associate	Sales of goods	40,905	4,318
	Subcontracting fee income	7,002	13,461
	Management fee income	4,622	2,542
	Rental income	917	818
	Transportation fee income	783	1,088
	Royalty fee income	1,739	2,686
	Purchase of goods	11,626	1,780
	Dividend received	–	4,500
A subsidiary of a non-controlling shareholder	Rental income	356	390
	Sales of goods	8,874	7,633
	Purchase of goods	472	508

As at 30 June 2016 and 31 December 2015, there is joint and several personal guarantee executed by Mr. Yuen Shu Wah and Mr. Ko Jack Lum to a bank for general banking facilities granted to the Group amounting to HK\$25,000,000, for which no charge was paid by the Group. No amount has been drawn as at 30 June 2016 and 31 December 2015.

Compensation of key management personnel

The remuneration of the executive directors, who represent the key management personnel of the Group, were as follows:

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Short-term employee benefits	1,983	1,871
Post-employment benefits	178	171
	2,161	2,042

RESULTS AND FINANCIAL OVERVIEW

For the six months ended 30 June 2016, the Group's revenue rose by approximately 16.5% to HK\$173,299,000 (2015: HK\$148,696,000). Gross profit amounted to HK\$39,126,000 (2015: HK\$38,191,000), slightly increased by approximately 2.4% compared to the same period last year.

For the six months ended 30 June 2016, the unaudited profit for the period attributable to shareholders of the Group amounted to HK\$10,301,000 (2015: HK\$16,901,000), a decrease of approximately 39.1% compared to the same period last year due to the decrease in the share of profits of an associate, CMW Holding Limited ("CMW Holding").

Earnings per share for the first half of 2016 amounted to HK1.72 cents (2015: HK3.76 cents), a decrease of approximately 54.3% compared to the same period last year.

The Group's net asset per share as at 30 June 2016 was approximately HK\$1.03.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group saw a very difficult operation environment in the first half of 2016 with a shrinking PRC market. In addition, the increasing wages of workers in the PRC imposed great pressure on the operating costs and hence affected the profit margin of the Group. In view of the above-mentioned, the Group put great effort to streamline its corporate structure by reducing the number of staff and to simplify its operating procedures as its cost control measures.

The sales of liquid coatings for the toys and automobile sectors maintained stable growth for the six months ended 30 June 2016 as expected and the resale of raw materials to subsidiaries of CMW Holding for the six months ended 30 June 2016 also recorded growth.

However, due to the prolonged sluggish market environment, in particular, the weak consumer market in the PRC in the first half of 2016, revenue from sales to the consumer electronics industry recorded a decrease.

In addition, the Group's share of profit derived from CMW Holding amounted to HK\$5,869,000 (2015: HK\$13,692,000) for the six months ended 30 June 2016 representing a decrease of approximately 57.1% compared to the same period last year. The decrease was mainly due to the decline in CMW Holding's business of liquid coatings for mobile phones which was attributable to the declining demand for mobile phones and the intensifying market competition which led to a shrinking demand for mobile phones coatings.

USE OF NET PROCEEDS FROM LISTING

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 December 2015 (the "Listing") and received net proceeds of approximately HK\$119.9 million from the placing and public offer of its shares in December 2015 after the deduction of underwriting commissions and all related expenses. The actual use of proceeds were as follows:

Intended use of proceeds	Actual use of proceeds
i. Approximately HK\$81.7 million to partially fund phase two of construction of Springfield Chemical (Guangzhou) Company Limited's ("Springfield GZ") production facilities	i. Approximately HK\$0.5 million was used as funds for phase two of construction of Springfield GZ's production facilities
ii. Approximately HK\$12.0 million for the purchase of additional machinery and equipment	ii. Not yet used
iii. Approximately HK\$3.3 million for partial settlement of the purchase price of the land for phase two of construction of Springfield GZ's production facilities	iii. Not yet used
iv. Approximately HK\$20.0 million for repayment of a bank overdraft facility	iv. HK\$20.0 million was used as repayment of a bank overdraft facility
v. Approximately HK\$2.9 million for general working capital of the Group	v. Approximately HK\$2.9 million was used as general working capital for the Group

The Directors consider that the unused proceeds of approximately HK\$96.5 million are to be applied in accordance with the proposed applications as set out in the section headed "Use of proceeds" in the prospectus dated 17 November 2015 issued by the Company. The Directors are not aware of any material change to the planned use of the proceeds as at the date of this report.

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

As at 30 June 2016, the Group's non-current assets of HK\$333,958,000 (31 December 2015: HK\$334,848,000) consisted of property, plant and equipment of HK\$113,475,000 (31 December 2015: HK\$119,902,000), prepaid lease payments of HK\$28,881,000 (31 December 2015: HK\$29,603,000), interest in an associate of HK\$184,535,000 (31 December 2015: HK\$180,387,000), deferred tax assets of HK\$162,000 (31 December 2015: HK\$162,000), derivative financial instruments of HK\$2,273,000 (31 December 2015: HK\$1,638,000) and deposits to purchase of property, plant and equipment and prepaid lease payments of HK\$4,632,000 (31 December 2015: HK\$3,156,000). These non-current assets are principally financed by the Group's shareholders' funds. As at 30 June 2016, the Group's net current assets decreased to HK\$298,216,000 (31 December 2015: HK\$306,980,000).

As at 30 June 2016, the Group has no bank borrowing (31 December 2015: HK\$Nil). As at 30 June 2016, the Group's leasehold land and buildings situated in Hong Kong amounting to HK\$1,699,000 (31 December 2015: HK\$4,638,000), were pledged to a bank for general banking facilities granted to the Group.

The Group's operations are mainly located in the PRC and its transactions, related working capital and borrowing are primarily denominated in Renminbi and Hong Kong Dollars. The Group will closely monitor its foreign exchange exposure and will consider hedging significant currency exposure should the need arises.

As at 30 June 2016, the Group had capital commitment contracted for but not provided — acquisition of property, plant and equipment of HK\$1,714,000 (31 December 2015: HK\$1,263,000) and other commitment contracted for but not provided — proposed purchase of land of HK\$8,634,000 (31 December 2015: HK\$8,728,000).

As at 30 June 2016, the Group did not have any material contingent liabilities.

EMPLOYEES

The Group had 706 employees as at 30 June 2016 (2015: 735). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

PROSPECTS AND STRATEGIES

In view of the weak global economy, the Group remains conservative in its outlook for the toys and automobiles sectors in the second half of the year. However, the Group will continue its strategy to maintain close working relationships with its current customers in the toy industry and the consumer electronics manufacturing industry and coordinate with them to explore new markets and to introduce new technologies to enable us to tailor our products to meet our customers' changing needs and to remain competitive in the market. The Group is expecting its new product to be launched in the fourth quarter of 2016 or early 2017.

Of the Group's plan to further increase the production capacity of its existing coating plants, design work on the construction of the phase two of Springfield GZ's coating plant has been started in the fourth quarter of 2015. It is expected that the construction work of a warehouse and a coating plant will be carried out in the late 2016. The management considers that the Group will take advantage of the new advanced technology and the greater production capacity there.

For CMW Holding, although the mobile phones market recorded a substantial decrease in the first half of the year, it is expected to recover in the second half of the year with new product launch and growth of demand for related non-stick and high temperature decorative coatings.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2016, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interest in associated corporation

Name of associated corporation	Name of Director	Capacity	Number of shares held	Percentage of issued share capital of the Company
Guang Ming Holdings Limited ("Guang Ming")	Mr. Yuen Shu Wah ("Mr. Yuen")	Beneficial Owner	2,865 shares (L) (Note 1)	28.65%
	Mr. Ko Jack Lum ("Mr. Ko")	Beneficial Owner	1,550 shares (L) (Note 2)	15.5%

L — represent the entity / individual's long position in the shares of the Company

Notes:

- Guang Ming, the ultimate holding company of the Company. Mr. Yuen has associated corporation interest in long position of 2,865 ordinary shares of Guang Ming. Therefore, Mr. Yuen is deemed to have corporate interest of approximately 28.65% of the Company.
- Mr. Ko has associated corporation interest in long position of 1,550 ordinary shares of Guang Ming. Therefore, Mr. Ko is deemed to have corporate interest of approximately 15.5% of the Company.

Further Note:

Each of Mr. Yuen and Mr. Ko has associated corporation interest in long position of 9,168,000 and 4,960,000 non-voting class A shares of Manfield Coatings Company Limited, an indirect wholly-owned subsidiary of the Company.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

Save as disclosed above, as at 30 June 2016, none of the Directors, the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares, underlying shares, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of Shares held	Percentage of issued share capital of the Company
Mr. Lee Seng Hui ("Mr. Lee")	Held by controlled corporation	450,000,000 (L) (Note 1)	75%
Mezzo International Limited ("Mezzo")	Held by controlled corporation	450,000,000 (L) (Note 1)	75%
Guang Ming	Beneficial owner	450,000,000 (L) (Note 1)	75%
Ms. Chew Wai Ling ("Ms. Chew")	Held by spouse	450,000,000 (L) (Note 2)	75%

L — represent the entity / individual's long position in the shares of the Company

Notes:

- (1) Guang Ming, approximately 51% owned by Mezzo, has corporate interest in long position of 450,000,000 ordinary shares of the Company. Mr. Lee maintains 100% beneficial interests in Mezzo. Accordingly, Mr. Lee is deemed to have corporate interest in long position of 450,000,000 ordinary shares of the Company.
- (2) Ms. Chew is the spouse of Mr. Lee. Accordingly, Ms. Chew is deemed to have corporate interest in long position of 450,000,000 ordinary shares of the Company.

Save as disclosed above, as at 30 June 2016, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

NON-COMPETITION UNDERTAKING

Mr. Yuen Shu Wah and Mr. Ko Jack Lum (each being a member of the senior management of the Company) and Guang Ming Holdings Limited, Mezzo International Limited and Mr. Lee Seng Hui (each being a controlling shareholder of the Company), as covenantors (collectively, the "Covenantors"), have entered into a deed of non-competition in favour of the Company on 6 November 2015 (the "Non-competition Deed"), pursuant to which each of the Covenantors has irrevocably and unconditionally undertaken to and covenant with the Company (for itself and for the benefit of the members of the Group) that during the continuation of the Non-competition Deed that each of the Covenantors shall not carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on by any member of the Group from time to time or in which any member of the Group is engaged or has invested or is otherwise involved in any territory that the Group carries on its business from time to time.

The Covenantors have provided confirmations to the Company confirming of their compliance with the Non-competition Deed for the year ended 31 December 2015.

The Independent Non-executive Directors of the Company have also reviewed and were satisfied that each of the Covenantors had complied with the Non-Competition Deed.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with corporate governance code

The Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2016.

Compliance with model code for securities transactions by directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding directors' securities transactions. Having made specific enquiries with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months ended 30 June 2016.

Audit committee review

The Audit Committee, comprising all the Independent Non-executive Directors of the Company, has reviewed with the Company's external auditor, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Directors, including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

By Order of the Board

Manfield Chemical Holdings Limited
Yuen Shu Wah
Chairman

Hong Kong, 18 August 2016

As at the date of this report, the Board comprises Mr. Yuen Shu Wah (Chairman), Mr. Ko Jack Lum and Mr. Ng Kai On as Executive Directors; Dato' Wong Peng Chong and Mr. Kong Muk Yin as Non-Executive Directors; and Dr. Chui Hong Sheung, JP, Mr. Cheung Chi Wai Vidy and Mr. Yue Kwai Wa Ken as Independent Non-Executive Directors.