



# Ngai Hing Hong Company Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1047)

Website: <http://www.nhh.com.hk>

## FOR THE SIX MONTHS ENDED 31ST DECEMBER 2007 INTERIM RESULTS

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2007 as follows:

### CONDENSED CONSOLIDATED INTERIM PROFIT AND LOSS ACCOUNT

|                               |      | Unaudited        |           |
|-------------------------------|------|------------------|-----------|
|                               |      | Six months ended |           |
|                               |      | 31st December    |           |
|                               | Note | 2007             | 2006      |
|                               |      | HK\$'000         | HK\$'000  |
| Turnover                      | 3    | 793,553          | 691,129   |
| Cost of sales                 |      | (724,106)        | (622,343) |
| Gross profit                  |      | 69,447           | 68,786    |
| Other income                  | 4    | 1,366            | 766       |
| Other gains – net             | 5    | 16,118           | 2,588     |
| Distribution costs            |      | (22,164)         | (21,559)  |
| Administrative expenses       |      | (42,735)         | (36,885)  |
| Operating profit              | 6    | 22,032           | 13,696    |
| Finance costs                 | 7    | (5,325)          | (4,472)   |
| Profit before taxation        |      | 16,707           | 9,224     |
| Taxation credit/(charge)      | 8    | 524              | (2,871)   |
| Profit for the period         |      | 17,231           | 6,353     |
| Attributable to:              |      |                  |           |
| Equity holders of the Company |      | 13,114           | 7,366     |
| Minority interests            |      | 4,117            | (1,013)   |
|                               |      | 17,231           | 6,353     |

|                                                                                                                                              |             | <b>Unaudited</b>        |                 |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------------------|-----------------|
|                                                                                                                                              |             | <b>Six months ended</b> |                 |
|                                                                                                                                              |             | <b>31st December</b>    |                 |
|                                                                                                                                              | <i>Note</i> | <b>2007</b>             | <b>2006</b>     |
|                                                                                                                                              |             | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| Dividends                                                                                                                                    | 9           | <u><b>3,600</b></u>     | <u>3,600</u>    |
| Earnings per share for profit<br>attributable to the equity holders of<br>the Company during the period<br>(expressed in HK cents per share) |             |                         |                 |
| – Basic                                                                                                                                      | 10          | <u><b>3.64</b></u>      | <u>2.05</u>     |
| – Diluted                                                                                                                                    | 10          | <u><b>3.64</b></u>      | <u>2.05</u>     |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

|                                                      |             | <b>Unaudited</b>      | <b>Audited</b>   |
|------------------------------------------------------|-------------|-----------------------|------------------|
|                                                      |             | <b>31st December</b>  | <b>30th June</b> |
|                                                      |             | <b>2007</b>           | <b>2007</b>      |
|                                                      | <i>Note</i> | <b>HK\$'000</b>       | <b>HK\$'000</b>  |
| <b>ASSETS</b>                                        |             |                       |                  |
| <b>Non-current assets</b>                            |             |                       |                  |
| Property, plant and equipment                        |             | <b>103,252</b>        | 103,313          |
| Investment properties                                |             | <b>17,400</b>         | 17,400           |
| Leasehold land and land use rights                   |             | <b>14,917</b>         | 14,756           |
| Intangible assets                                    |             | <b>4,000</b>          | —                |
| Deposits for acquisition of<br>investment properties |             | <b>6,649</b>          | 6,250            |
| Deferred tax assets                                  |             | <b>3,107</b>          | 527              |
|                                                      |             | <u><b>149,325</b></u> | <u>142,246</u>   |
| <b>Current assets</b>                                |             |                       |                  |
| Inventories                                          |             | <b>213,540</b>        | 152,802          |
| Trade and bills receivables                          | 11          | <b>293,707</b>        | 316,316          |
| Other receivables, prepayments<br>and deposits       |             | <b>28,334</b>         | 15,058           |
| Tax recoverable                                      |             | <b>5,021</b>          | 3,418            |
| Assets held for sale                                 | 13          | <b>—</b>              | 21,417           |
| Derivative financial instruments                     |             | <b>312</b>            | 1,575            |
| Cash and cash equivalents                            |             | <b>65,182</b>         | 59,217           |
|                                                      |             | <u><b>606,096</b></u> | <u>569,803</u>   |
| <b>Total assets</b>                                  |             | <u><b>755,421</b></u> | <u>712,049</u>   |

|                                                                          |             | Unaudited<br>31st December<br>2007<br>HK\$'000 | Audited<br>30th June<br>2007<br>HK\$'000 |
|--------------------------------------------------------------------------|-------------|------------------------------------------------|------------------------------------------|
|                                                                          | <i>Note</i> |                                                |                                          |
| <b>EQUITY</b>                                                            |             |                                                |                                          |
| <b>Capital and reserves attributable to the Company's equity holders</b> |             |                                                |                                          |
| Share capital                                                            |             | 36,000                                         | 36,000                                   |
| Other reserves                                                           |             | 92,388                                         | 82,225                                   |
| Retained earnings                                                        |             | 239,310                                        | 229,796                                  |
| Proposed dividends                                                       |             | 3,600                                          | 3,600                                    |
|                                                                          |             | <u>371,298</u>                                 | <u>351,621</u>                           |
| Minority interests                                                       |             | 15,953                                         | 7,444                                    |
| <b>Total equity</b>                                                      |             | <u>387,251</u>                                 | <u>359,065</u>                           |
| <b>LIABILITIES</b>                                                       |             |                                                |                                          |
| <b>Non-current liabilities</b>                                           |             |                                                |                                          |
| Amount due to a minority shareholder                                     |             | 2,000                                          | —                                        |
| Obligations under finance leases                                         |             | 4,057                                          | 5,536                                    |
| Deferred tax liabilities                                                 |             | 2,568                                          | 3,343                                    |
|                                                                          |             | <u>8,625</u>                                   | <u>8,879</u>                             |
| <b>Current liabilities</b>                                               |             |                                                |                                          |
| Trade payables                                                           | 12          | 112,706                                        | 128,888                                  |
| Other payables and deposits received                                     |             | 12,957                                         | 26,884                                   |
| Accruals                                                                 |             | 15,487                                         | 12,624                                   |
| Obligations under finance leases – current portion                       |             | 3,799                                          | 5,711                                    |
| Short-term bank loans – secured                                          |             | 58,579                                         | 40,660                                   |
| Trust receipt loans – secured                                            |             | 143,432                                        | 116,718                                  |
| Bank advances for discounted bills                                       | 11          | 7,132                                          | 7,083                                    |
| Derivative financial instruments                                         |             | 1,092                                          | 603                                      |
| Tax payable                                                              |             | 4,361                                          | 4,934                                    |
|                                                                          |             | <u>359,545</u>                                 | <u>344,105</u>                           |
| <b>Total liabilities</b>                                                 |             | <u>368,170</u>                                 | <u>352,984</u>                           |
| <b>Total equity and liabilities</b>                                      |             | <u>755,421</u>                                 | <u>712,049</u>                           |
| <b>Net current assets</b>                                                |             | <u>246,551</u>                                 | <u>225,698</u>                           |
| <b>Total assets less current liabilities</b>                             |             | <u>395,876</u>                                 | <u>367,944</u>                           |

## 1 Basis of preparation

The Company has a financial year end date of 30th June. This condensed consolidated interim financial information for the six-months period ended 31st December 2007 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated interim financial information should be read in conjunction with the annual accounts for the year ended 30th June 2007.

## 2 Accounting policies

The accounting policies and method of computation used in the preparation of this condensed consolidated interim financial information are consistent with those of the annual accounts for the year ended 30th June 2007.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 30th June 2008.

|                                                                                            |                                                           |
|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| HKAS 1 (Amendment)                                                                         | Presentation to Financial Statements: Capital Disclosures |
| Hong Kong Financial Reporting Standard (“HKFRS”) 7                                         | Financial Instruments: Disclosures                        |
| Hong Kong International Financial Reporting Interpretations Committee (“HK(IFRIC)”)–Int 10 | Interim Financial Reporting and Impairment                |
| HK(IFRIC)–Int 11                                                                           | HKFRS 2 – Group and Treasury Share Transactions           |

The adoption of the above standards, amendments to standards and interpretations did not have any significant financial impact to the Group. Full disclosures as required by HKAS 1 and HKFRS 7 will be disclosed in the annual accounts for the year ending 30th June 2008.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 30th June 2008 and have not been early adopted:

|                   |                                                                                                    |
|-------------------|----------------------------------------------------------------------------------------------------|
| HKAS 1 (Revised)  | Presentation of Financial Statements                                                               |
| HKAS 23 (Revised) | Borrowing Costs                                                                                    |
| HKFRS 8           | Operating Segments                                                                                 |
| HK(IFRIC)–Int 12  | Service Concession Arrangements                                                                    |
| HK(IFRIC)–Int 13  | Customer Loyalty Programmes                                                                        |
| HK(IFRIC)–Int 14  | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The Directors anticipate that the adoption of these new standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

### 3 Turnover and segment information

|                | Unaudited<br>Six months ended<br>31st December |                  |
|----------------|------------------------------------------------|------------------|
|                | 2007<br>HK\$'000                               | 2006<br>HK\$'000 |
| Turnover       |                                                |                  |
| Sales of goods | <u>793,553</u>                                 | <u>691,129</u>   |

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the manufacturing and trading of plastic materials, pigments, colorants, compounded plastic resins and engineering plastic products.

An analysis of the Group's turnover and results for the six months ended 31st December 2007 by geographical segment is as follows:

|                                | Hong Kong<br>HK\$'000 | Unaudited<br>The People's<br>Republic<br>of China<br>excluding<br>Hong Kong<br>(the "PRC")<br>HK\$'000 | Group<br>HK\$'000 |
|--------------------------------|-----------------------|--------------------------------------------------------------------------------------------------------|-------------------|
| Turnover                       |                       |                                                                                                        |                   |
| – Gross segment                | 643,262               | 208,567                                                                                                | 851,829           |
| – Inter-segment                | <u>(36,911)</u>       | <u>(21,365)</u>                                                                                        | <u>(58,276)</u>   |
|                                | <u>606,351</u>        | <u>187,202</u>                                                                                         | <u>793,553</u>    |
| Segment results                | 1,392                 | 8,639                                                                                                  | 10,031            |
| Gain on disposal of a business | <u>13,235</u>         | <u>—</u>                                                                                               | <u>13,235</u>     |
| Unallocated costs              |                       |                                                                                                        | (1,234)           |
| Finance costs                  |                       |                                                                                                        | <u>(5,325)</u>    |
| Profit before taxation         |                       |                                                                                                        | 16,707            |
| Taxation credit                |                       |                                                                                                        | <u>524</u>        |
| Profit for the period          |                       |                                                                                                        | <u>17,231</u>     |

The segment assets and liabilities at 31st December 2007 and other segment information for the six months then ended are as follows:

|                                                    | <b>Hong Kong</b> | <b>Unaudited<br/>PRC</b> | <b>Group</b>    |
|----------------------------------------------------|------------------|--------------------------|-----------------|
|                                                    | <b>HK\$'000</b>  | <b>HK\$'000</b>          | <b>HK\$'000</b> |
| Segment assets                                     | <b>433,890</b>   | <b>312,964</b>           | <b>746,854</b>  |
| Unallocated assets                                 |                  |                          | <b>8,567</b>    |
| Total assets                                       |                  |                          | <b>755,421</b>  |
| Segment liabilities                                | <b>98,396</b>    | <b>52,304</b>            | <b>150,700</b>  |
| Borrowings                                         |                  |                          | <b>209,867</b>  |
| Other unallocated liabilities                      |                  |                          | <b>7,603</b>    |
| Total liabilities                                  |                  |                          | <b>368,170</b>  |
| Other information:                                 |                  |                          |                 |
| Capital expenditure                                | <b>4,322</b>     | <b>1,798</b>             | <b>6,120</b>    |
| Depreciation of property, plant and equipment      | <b>2,373</b>     | <b>4,848</b>             | <b>7,221</b>    |
| Amortisation of leasehold land and land use rights | <b>76</b>        | <b>125</b>               | <b>201</b>      |

An analysis of the Group's turnover and results for the six months ended 31st December 2006 by geographical segment is as follows:

|                        | <b>Hong Kong</b> | <b>Unaudited<br/>PRC</b> | <b>Group</b>    |
|------------------------|------------------|--------------------------|-----------------|
|                        | <b>HK\$'000</b>  | <b>HK\$'000</b>          | <b>HK\$'000</b> |
| Turnover               |                  |                          |                 |
| – Gross segment        | 589,667          | 168,006                  | 757,673         |
| – Inter-segment        | (41,534)         | (25,010)                 | (66,544)        |
|                        | <b>548,133</b>   | <b>142,996</b>           | <b>691,129</b>  |
| Segment results        | <b>5,794</b>     | <b>9,002</b>             | <b>14,796</b>   |
| Unallocated costs      |                  |                          | (1,100)         |
| Finance costs          |                  |                          | (4,472)         |
| Profit before taxation |                  |                          | 9,224           |
| Taxation charge        |                  |                          | (2,871)         |
| Profit for the period  |                  |                          | <b>6,353</b>    |

The segment assets and liabilities at 30th June 2007 and other segment information for the six months ended 31st December 2006 are as follows:

|                                                    | <b>Hong Kong</b> | <b>Audited<br/>PRC</b>   | <b>Group</b>    |
|----------------------------------------------------|------------------|--------------------------|-----------------|
|                                                    | <i>HK\$'000</i>  | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Segment assets                                     | 443,410          | 264,476                  | 707,886         |
| Unallocated assets                                 |                  |                          | 4,163           |
| Total assets                                       |                  |                          | <u>712,049</u>  |
| Segment liabilities                                | 130,799          | 44,808                   | 175,607         |
| Borrowings                                         |                  |                          | 168,625         |
| Other unallocated liabilities                      |                  |                          | 8,752           |
| Total liabilities                                  |                  |                          | <u>352,984</u>  |
|                                                    |                  |                          |                 |
|                                                    | <b>Hong Kong</b> | <b>Unaudited<br/>PRC</b> | <b>Group</b>    |
|                                                    | <i>HK\$'000</i>  | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Other information:                                 |                  |                          |                 |
| Capital expenditure                                | 4,087            | 3,633                    | 7,720           |
| Depreciation of property, plant and equipment      | 3,504            | 4,432                    | 7,936           |
| Amortisation of leasehold land and land use rights | 75               | 136                      | 211             |

Turnover and segment results are presented based on the operating locations of group companies. Unallocated costs represent corporate expenses.

All the Group's turnover and operating profit are attributable to the manufacturing and trading of plastic products and accordingly no analysis of the Group's turnover and contribution to operating profit by business segment is provided.

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, inventories, trade and bills receivables, other receivables and deposits, cash and cash equivalents and assets held for sale. Unallocated assets mainly comprise deferred tax assets and tax recoverable.

Segment liabilities comprise operating liabilities. Other unallocated liabilities mainly comprise deferred tax liabilities and tax payable.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights and intangible assets.

#### 4 Other income

|                 | Unaudited<br>Six months ended<br>31st December |            |
|-----------------|------------------------------------------------|------------|
|                 | 2007                                           | 2006       |
|                 | HK\$'000                                       | HK\$'000   |
| Rental income   | 1,126                                          | 576        |
| Interest income | 240                                            | 190        |
|                 | <u>1,366</u>                                   | <u>766</u> |

#### 5 Other gains – net

|                                      | Unaudited<br>Six months ended<br>31st December |              |
|--------------------------------------|------------------------------------------------|--------------|
|                                      | 2007                                           | 2006         |
|                                      | HK\$'000                                       | HK\$'000     |
| Gain on disposal of a business       | 13,235                                         | —            |
| Net exchange gains                   | 4,635                                          | 3,848        |
| Derivative financial instruments     |                                                |              |
| – forward contracts held for trading | (1,752)                                        | (1,260)      |
|                                      | <u>16,118</u>                                  | <u>2,588</u> |

#### 6 Operating profit

Operating profit is stated after charging the following:

|                                                               | Unaudited<br>Six months ended<br>31st December |               |
|---------------------------------------------------------------|------------------------------------------------|---------------|
|                                                               | 2007                                           | 2006          |
|                                                               | HK\$'000                                       | HK\$'000      |
| Depreciation:                                                 |                                                |               |
| – Owned property, plant and equipment                         | 5,066                                          | 5,838         |
| – Leased equipment                                            | 2,155                                          | 2,098         |
| Amortisation of leasehold land and<br>land use rights         | 201                                            | 211           |
| Operating lease rentals in respect of land<br>and buildings   | 4,113                                          | 3,917         |
| Employee benefit expenses, including<br>directors' emoluments | <u>42,186</u>                                  | <u>38,174</u> |

## 7 Finance costs

|                                              | Unaudited<br>Six months ended<br>31st December |              |
|----------------------------------------------|------------------------------------------------|--------------|
|                                              | 2007                                           | 2006         |
|                                              | HK\$'000                                       | HK\$'000     |
| Interest on bank borrowings wholly repayable |                                                |              |
| within five years                            | 5,059                                          | 4,021        |
| Interest element of finance leases           | 266                                            | 451          |
|                                              | <u>5,325</u>                                   | <u>4,472</u> |

## 8 Taxation (credit)/charge

Hong Kong profits tax has been provided for at the rate of 17.5% (31st December 2006: 17.5%) on the estimated assessable profit for the period. The provision for current income tax of subsidiaries established in the PRC has been calculated based on the estimated assessable profit for the period at the rates of taxation as applicable to the relevant PRC subsidiaries.

The amount of taxation (credited)/charged to the consolidated interim profit and loss account represents:

|                                         | Unaudited<br>Six months ended<br>31st December |              |
|-----------------------------------------|------------------------------------------------|--------------|
|                                         | 2007                                           | 2006         |
|                                         | HK\$'000                                       | HK\$'000     |
| Current taxation                        |                                                |              |
| – Hong Kong profits tax                 | 1,268                                          | 1,724        |
| – PRC income tax                        | 2,313                                          | 359          |
| Overprovision for Hong Kong profits tax |                                                |              |
| in prior years                          | (750)                                          | —            |
| Deferred taxation                       | (3,355)                                        | 788          |
|                                         | <u>(524)</u>                                   | <u>2,871</u> |

## 9 Dividends

At a meeting held on 12th March 2008, the Directors declared an interim dividend of HK1.0 cent per share, totaling HK\$3,600,000 for the year ending 30th June 2008 (31st December 2006: HK 1.0 cent per share). This dividend is not reflected as a dividend payable in the interim financial information but will be reflected as an appropriation of retained earnings for the year ending 30th June 2008.

## 10 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period of HK\$13,114,000 (31st December 2006: HK\$7,366,000) and 360,000,000 (31st December 2006: 360,000,000) ordinary shares in issue during the period.

Diluted earnings per share equals basic earnings per share as the exercise of the outstanding share options would be anti-dilutive for the six months ended 31st December 2006 and 2007.

## 11 Trade and bills receivables

The aging analysis of trade and bills receivables is as follows:

|               | <b>Unaudited</b><br><b>31st December</b><br><b>2007</b><br><i>HK\$'000</i> | <b>Audited</b><br><b>30th June</b><br><b>2007</b><br><i>HK\$'000</i> |
|---------------|----------------------------------------------------------------------------|----------------------------------------------------------------------|
| Below 90 days | <b>258,737</b>                                                             | 288,940                                                              |
| 91-180 days   | <b>31,373</b>                                                              | 23,910                                                               |
| Over 180 days | <b>3,597</b>                                                               | 3,466                                                                |
|               | <b>293,707</b>                                                             | <b>316,316</b>                                                       |

The majority of the Group's sales are with credit terms of 30 to 90 days. The remaining amounts are on letter of credit or documents against payment.

A subsidiary of the Group transferred certain bills of exchange amounting to HK\$7,132,000 (30th June 2007: HK\$7,083,000) to banks with recourse in exchange for cash as at 31st December 2007. The transactions have been accounted for as collateralised bank advances.

## 12 Trade payables

The aging analysis of trade payables is as follows:

|               | <b>Unaudited</b><br><b>31st December</b><br><b>2007</b><br><i>HK\$'000</i> | <b>Audited</b><br><b>30th June</b><br><b>2007</b><br><i>HK\$'000</i> |
|---------------|----------------------------------------------------------------------------|----------------------------------------------------------------------|
| Below 90 days | <b>110,133</b>                                                             | 124,547                                                              |
| 91-180 days   | <b>2,545</b>                                                               | 3,895                                                                |
| Over 180 days | <b>28</b>                                                                  | 446                                                                  |
|               | <b>112,706</b>                                                             | <b>128,888</b>                                                       |

### 13 Assets held for sale

Pursuant to an agreement entered into between the Group and certain third parties dated 19th October 2006, the Group agreed to dispose of certain assets, representing the business of Ngai Hing PlastChem Company Limited, a subsidiary of the Group, to the relevant parties. Details of these assets held for sale as a disposal group at 30th June 2007 were as follows:

|                               | <b>Audited<br/>30th June<br/>2007<br/>HK\$'000</b> |
|-------------------------------|----------------------------------------------------|
| Property, plant and equipment | <b>7,460</b>                                       |
| Inventories                   | <b>4,588</b>                                       |
| Prepayments                   | <b>115</b>                                         |
| Cash and cash equivalents     | <b>9,254</b>                                       |
|                               | <hr/>                                              |
|                               | <b>21,417</b>                                      |
|                               | <hr/>                                              |

Immediately before the completion of the disposal, the carrying value of these assets held for sale as a disposal group and the costs directly attributable to the disposal amounted to HK\$29,877,000. The disposal was completed on 31st December 2007 at a final consideration of HK\$43,112,000. Consequently a profit on disposal of a business amounting to HK\$13,235,000 was recorded for the period.

### INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of Hong Kong 1.0 cent per share for the six months ended 31st December 2007 to members whose names appear on the Register of Members on 28th March 2008. The dividend will be paid on or before 10th April 2008.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 27th March 2008 to Friday, 28th March 2008 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Union Registrars Limited, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 26th March 2008.

### BUSINESS REVIEW AND PROSPECTS

In the six months ended 31 December 2007, the Group recorded a turnover of HK\$793,553,000 (2006: HK\$691,129,000), profit attributable to shareholders of HK\$13,114,000 (2006: HK\$7,366,000) and earnings per share of HK3.64 cents (2006: HK2.05 cents). The Board of Directors has recommended payment of an interim dividend of HK1.0 cent per share (2006: HK1.0 cent).

In the first half of the financial year, thanks to the double-digit growth in turnover of both the plastics trading business and manufacturing business, the Group's total turnover increased by 15% against the same period last year. More than 78% surge in profit attributable to shareholders was recorded, attributable mainly to the gain of HK\$13,235,000 from the disposal of PVC business to PolyOne Corporation ("PolyOne") in December 2007. Although crude oil and raw material prices remained high during the period, the Group was able to maintain its gross profit margin at 9% through effective cost control measures and prudence in taking orders. Drawing on its abundant experience in the plastics industry, the management has mapped out flexible yet prudent strategies that navigated the Group through challenging operating environment and resulting in generating satisfactory returns for shareholders.

During the review period, turnover from plastics trading business increased by 10% when compared with the same period last year. The subsidiaries set up in Guangzhou and Shanghai in 2006 commenced operation and have secured new customers. They performed satisfactorily and started to contribute to the Group's revenue during the period.

As for the engineering plastics manufacturing business, it grew satisfactorily during the period reporting a turnover 12% higher than that of the same period last year, becoming the Group's major growth driving force. During the review period, the Group strengthened research and development of new engineering plastic products and found new applications for them to stimulate sales and attract new customers. Furthermore, the Group also boosted its capability in customizing products for customers, with the aim of fostering stable growth of such segment.

Domestic sales of colorants and compounded plastic resins in Northern and Eastern China continued to grow, reporting 17% more in turnover against the same period last year. However, the Group's customers in Dongguan, mostly toy exporters, had been cautious in ordering as a result of recent tense trade relations between the PRC and the United States of America (the "U.S."). This led to a reduced sales in the Dongguan market and hence an approximately 3% drop in overall turnover from the colorants and compounded plastic resins business in the review period. In addition, this segment experienced a slight increase in cost due to the new policies introduced by the Customs Bureau last year. The gross profit margin of the Group's colorants and compound plastic resins business in the Southern China for the period thus declined slightly.

Upholding its corporate spirit emphasising innovation, the Group has been relentless in exploring new products and markets. Tapping the growing acceptance of environmentally friendly products in recent years, the Group started developing and promoting new biodegradable plastics products in August last year. The new plastics products are primarily used in the production of disposable household and packaging products. They facilitated expansion of business of the Group in the high margin U.S. and European markets, thus boosted the Group's profitability.

Looking forward, the Group will not only focus on developing its environmentally friendly products, but will also continue to control production costs, with the aim of boosting cost effectiveness and overall operational efficiency. In the second half of the year, the Group will step up sales and marketing efforts and strive to secure new customers among especially large enterprises likely to place volume orders and promising shorter receivable period and lower bad debt risks.

To expand the engineering plastics business, the Group will accelerate research and development of new products and applications and mount active promotion for those products, and also strive to improve product quality and after-sale services. In addition, the Group disposed of its PVC business, which had given it 5% interest in the related subsidiary of PolyOne. The Group is looking forward to collaborating with PolyOne to secure opportunities in the PVC market in the PRC.

For enterprises operating in mainland China, recently launched new Customs policies and Labour Law are expected to increase their operation costs. To boost its competitive strengths, the Group will continue to adopt sound business strategies and manage its finance with prudence. It will also actively study the feasibility of expanding the Southern China productions to other districts close by. The Group envisages this move will reduce overall production cost as well as enhance its overall production capacity conducive to improving economies of scale and the long-term growth of its business.

Last but not least, the Board wishes to take this opportunity to thank its customers, suppliers and shareholders of the Group for their invaluable support, and its employees for their hard work over the years.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers. As at 31st December 2007, the Group has available aggregate bank loan facilities of approximately HK\$314,819,000, of which HK\$216,999,000 have been utilised and were secured by corporate guarantee issued by the Group and legal charges on certain leasehold land and buildings in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances as at 31st December 2007 amounted to approximately HK\$65,182,000. The Group's gearing ratio as at 31st December 2007 was approximately 58.4%, based on the total bank borrowings of approximately HK\$209,143,000, together with obligations under finance leases of approximately HK\$7,856,000 and the shareholders' funds of approximately HK\$371,298,000.

## **FOREIGN EXCHANGE RISK**

The Group's borrowings and cash balances are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group's purchases were principally denominated in US dollars. The Group closely monitors currency fluctuations and reduces its exchange risk by hedging with forward exchange contracts from time to time.

At 31st December 2007, the Group had maximum outstanding commitments in respect of forward contracts in order to hedge the Group's exposure in foreign currencies from its operations as follows:

|                                | <b>2007</b><br><b>HK\$'000</b> |
|--------------------------------|--------------------------------|
| Sell HK dollars for US dollars | 554,885                        |
| Sell HK dollars for Renminbi   | 15,957                         |
|                                | <hr/> <b>570,842</b> <hr/>     |

## **EMPLOYEE INFORMATION**

As at 31st December 2007, the Group employed a total of approximately 801 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has an incentive scheme which is geared to the profit of the Group and the performance of its employees, as an incentive to motivate its employees to increase their contribution to the Group. The Group also provides social and medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HKSE"). Having made specific enquiry to all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period.

## **CORPORATE GOVERNANCE PRACTICE**

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasizes on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31st December 2007, except for deviation of the code provisions A.2.1 and A.4.1 of the Code as mentioned below.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this interim report, the Board has not appointed an individual to the post of chief executive officer. The roles of the chief executive officer have been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual to chief executive officer when it thinks appropriate.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company's independent non-executive directors were not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

For the purpose of further enhancing the internal control systems, the Company has engaged an external consultant to carry out an on-going project to conduct independent internal review and to evaluate major operations of the Group. The Board of Directors has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries with no material issues noted.

#### **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for Effective Audit Committees” published by the HKICPA.

The Audit Committee provides an important link between the Board of Directors and the Company’s auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 31st December 2007 with the Directors.

#### **REMUNERATION COMMITTEE**

The Company has formulated written terms of reference for the Remuneration Committee which stated clearly its authorities and duties in accordance with the requirements of the Stock Exchange. The remuneration committee consists of three independent non-executive directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung and an executive director, Mr HUI Sai Chung.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive Directors and senior management. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year to assess the performance and review the annual salaries and bonus of the senior executives.

On behalf of the Board

**HUI Sai Chung**

*Chairman*

Hong Kong, 12th March 2008

*As at the date of this announcement, the Board of Directors comprises five Executive Directors, namely Mr HUI Sai Chung (Chairman), Mr HUI Kwok Kwong, Dr WONG Chi Ying, Anthony, Mr LAI Kam Wah and Madam LIU Sau Lai and three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung.*