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## **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 2010 INTERIM RESULTS**

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2010 as follows:

#### **CONDENSED CONSOLIDATED INCOME STATEMENT**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
	Note	2010	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	<b>830,980</b>	582,206
Cost of sales		<b>(748,950)</b>	(510,131)
Gross profit		<b>82,030</b>	72,075
Other income	4	<b>1,600</b>	1,367
Other gains/(losses) - net	5	<b>6,378</b>	(432)
Distribution costs		<b>(23,320)</b>	(17,227)
Administrative expenses		<b>(42,983)</b>	(40,270)
Operating profit	6	<b>23,705</b>	15,513
Finance income	7	<b>101</b>	94
Finance costs	7	<b>(3,576)</b>	(1,606)
Finance costs - net		<b>(3,475)</b>	(1,512)
Share of profit of an associated company		<b>1</b>	—
Profit before income tax		<b>20,231</b>	14,001
Income tax	8	<b>(3,322)</b>	(6,320)
Profit for the period		<b>16,909</b>	7,681

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
	Note	<b>2010</b>	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		<b>14,503</b>	7,513
Non-controlling interests		<b>2,406</b>	168
		<u><b>16,909</b></u>	<u>7,681</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)			
– Basic	10	<u><b>3.93</b></u>	<u>2.03</u>
– Diluted	10	<u><b>3.93</b></u>	<u>2.03</u>

Details of dividends payable to equity holders of the Company are set out in note 9.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended	
	31st December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<b>16,909</b>	7,681
Other comprehensive income:		
Revaluation gain of property, plant and equipment and leasehold land and land use rights on transfer to investment properties, net of tax	<b>586</b>	1
Currency translation differences	<b>8,755</b>	—
Total comprehensive income for the period	<b>26,250</b>	7,682
Total comprehensive income attributable to:		
Equity holders of the Company	<b>23,844</b>	7,514
Non-controlling interests	<b>2,406</b>	168
	<b>26,250</b>	7,682

## CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 31st December 2010 <i>HK\$'000</i>	Audited 30th June 2010 <i>HK\$'000</i> <i>(Restated)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		126,409	121,740
Leasehold land and land use rights		13,118	14,700
Investment properties		33,736	30,560
Deposits for acquisition of properties		8,412	8,125
Prepayment for property, plant and equipment and renovation costs		15,686	7,129
Interest in an associated company		51	—
Available-for-sale financial assets		690	690
Deferred tax assets		5,755	4,486
		203,857	187,430
<b>Current assets</b>			
Inventories		257,555	278,846
Trade and bills receivables	11	251,666	238,545
Other receivables, prepayments and deposits		18,025	22,810
Amount due from an associated company		4,574	—
Tax recoverable		862	969
Derivative financial instruments		964	1,755
Cash and cash equivalents		87,079	82,589
		620,725	625,514
<b>Total assets</b>		824,582	812,944
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		36,920	36,920
Share premium		62,466	62,466
Other reserves		56,542	47,176
Retained earnings		263,160	256,041
		419,088	402,603
<b>Non-controlling interests</b>		22,522	20,831
<b>Total equity</b>		441,610	423,434

	Note	Unaudited 31st December 2010 HK\$'000	Audited 30th June 2010 HK\$'000 (Restated)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Obligations under finance leases		—	235
Deferred tax liabilities		4,154	5,241
		<u>4,154</u>	<u>5,476</u>
<b>Current liabilities</b>			
Trade payables	12	73,244	97,630
Other payables, deposits received and accruals		22,989	19,524
Obligations under finance leases - current portion		466	458
Bank borrowings		270,231	252,531
Derivative financial instruments		4,217	6,272
Tax payable		7,671	7,619
		<u>378,818</u>	<u>384,034</u>
<b>Total liabilities</b>		<u>382,972</u>	<u>389,510</u>
<b>Total equity and liabilities</b>		<u>824,582</u>	<u>812,944</u>
<b>Net current assets</b>		<u>241,907</u>	<u>241,480</u>
<b>Total assets less current liabilities</b>		<u>445,764</u>	<u>428,910</u>

## **1 Basis of preparation**

The condensed consolidated interim financial information for the six months ended 31st December 2010 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30th June 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

## **2 Accounting policies**

Except as described below, the accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 30th June 2010, as described in those annual financial statements.

### **(a) Effect of adopting amendments to standards and interpretations**

#### **(i) Classification of leases of land**

In the current period, the Group adopted HKAS 17 (Amendment), “Leases”, which is mandatory for the financial year beginning 1st July 2010.

HKAS 17 (Amendment), “Leases”, deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under “Leasehold land and land use rights”, and amortised over the lease term.

HKAS 17 (Amendment) has been applied retrospectively for the financial year beginning 1st July 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1st July 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance leases retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease. Such land interest of the Group that is held for own use is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.

The effect of the adoption of the this amendment is as follows:

	<b>31st December</b> <b>2010</b> <i>HK\$'000</i>	30th June 2010 <i>HK\$'000</i>	1st July 2009 <i>HK\$'000</i>
Increase in property, plant and equipment	<b>6,192</b>	6,305	7,015
Decrease in leasehold land and land use rights	<b>(6,192)</b>	(6,305)	(7,015)

(ii) Hong Kong Interpretation 5

In November 2010 the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued Hong Kong Interpretation 5 “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause”. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 “Presentation of Financial Statements”. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the balance sheet. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1st July 2009, with consequential reclassification adjustments to comparatives for the year ended 30th June 2010. As a result, the non-current portion of the Group’s bank loans, determined in accordance with the agreed repayment schedule, totaling HK\$15,743,000 as at 31st December 2010 (30th June 2010: HK\$15,600,000; 1st July 2009: Nil) was reclassified as current liabilities in the condensed consolidated balance sheet. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

(iii) The following amendments to standards and interpretation are also mandatory for the financial year beginning 1st July 2010. The adoption of these amendments to standards and interpretation does not have any significant impact to the results and financial position of the Group.

HKFRSs (Amendment)	Improvements to HKFRSs 2009 <sup>1</sup>
HKAS 32 (Amendment)	Classification of Right Issue
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
Hong Kong International Financial Reporting Interpretations Committee ("HK(IFRIC)")-Int 19	Extinguishing Financial Liabilities with Equity Instruments

<sup>1</sup> Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which were effective for the Group for annual period beginning on 1st July 2009, all other amendments are effective for the Group for annual period beginning on 1st July 2010.

**(b) New standard, amendments to standards and interpretation that have been issued but are not effective**

The following new standard, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1st July 2010 and have not been early adopted:

HKFRSs (Amendment)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>1</sup>
HKFRS 7 (Amendment)	Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement <sup>1</sup>

<sup>1</sup> Effective for the Group for annual period beginning on 1st July 2011

<sup>2</sup> Effective for the Group for annual period beginning on 1st July 2012

<sup>3</sup> Effective for the Group for annual period beginning on 1st July 2013

HKAS 12 (Amendment) introduced a rebuttable presumption that deferred tax on investment property carried at fair value under HKAS 40 shall be measured reflecting the tax consequences of recovering the carrying amount of the investment property entirely through sale. Consequently, deferred tax liability in respect of the Group's investment properties will be required to measure with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date. The amendments are effective for the Group's financial year beginning 1st July 2012 and are required to be applied retrospectively. The Directors are currently assessing the impact of the amendment to the Group.

Except for the above, the Directors anticipate that the adoption of other new standard, amendments to standards and interpretation will not result in a significant impact on the results and financial position of the Group.



### 3 Revenue and segment information

	Unaudited Six months ended 31st December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods	<b>830,980</b>	582,206

The Group is principally engaged in the manufacturing and trading of plastic materials, pigments, colorants, compounded plastic resins and engineering plastic products.

The chief operating decision-maker (“CODM”) has been identified as the executive directors of the Company. Management has determined the operating segments based on the reports reviewed by the CODM that are used to assess performance and allocate resources. The CODM considers the business from the operations nature and the type of products perspective, including the trading of plastic materials (“Trading”), manufacturing and sale of colorants, pigments and compounded plastic resins (“Colorants”), manufacturing and sale of engineering plastic products (“Engineering plastic”) and other corporate and business activities (“Others”).

Each of the Group’s operating segments represents a strategic business unit that is managed by different business unit leaders. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Information provided to the CODM is measured in a manner consistent with that in the interim financial information.

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2010 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Unaudited Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
– Gross revenue	530,933	167,890	151,641	2,686	853,150
– Inter-segment revenue	(1,895)	(10,403)	(9,872)	—	(22,170)
Revenue from external customers	<u>529,038</u>	<u>157,487</u>	<u>141,769</u>	<u>2,686</u>	<u>830,980</u>
Segment results	<u>4,548</u>	<u>7,951</u>	<u>13,655</u>	<u>(2,449)</u>	23,705
Finance income	19	77	—	5	101
Finance costs	(2,394)	(637)	(534)	(11)	(3,576)
Share of profit of an associated company	—	—	—	1	<u>1</u>
Profit/(loss) before income tax	2,173	7,391	13,121	(2,454)	20,231
Income tax					<u>(3,322)</u>
Profit for the period					16,909
Non-controlling interests					<u>(2,406)</u>
Profit attributable to equity holders of the Company					<u>14,503</u>
Other information:					
Capital expenditure	486	1,834	7,710	9	10,039
Depreciation of property, plant and equipment	199	4,042	2,203	579	7,023
Amortisation of leasehold land and land use rights	53	96	16	39	204
Provision/(reversal of provision) for impairment of inventories	1,835	2,195	(697)	121	3,454
Provision for impairment of receivables	1,281	302	456	—	2,039
Unrealised gain on derivative financial instruments	<u>(1,215)</u>	<u>—</u>	<u>(49)</u>	<u>—</u>	<u>(1,264)</u>

The segment information provided to the CODM for the reportable segments at 31st December 2010 is as follows:

	Trading HK\$'000	Colorants HK\$'000	Unaudited Engineering plastic HK\$'000	Others HK\$'000	Group HK\$'000
Segment assets	327,703	257,849	186,281	52,749	824,582
Total assets					824,582
Segment liabilities	56,366	25,206	24,841	5,862	112,275
Borrowings	192,681	23,848	54,168	—	270,697
Total liabilities					382,972

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2009 is as follows:

	Trading HK\$'000	Colorants HK\$'000	Unaudited Engineering plastic HK\$'000	Others HK\$'000	Group HK\$'000
Turnover					
– Gross revenue	351,169	135,549	116,055	681	603,454
– Inter-segment revenue	(2,877)	(9,995)	(8,376)	—	(21,248)
Revenue from external customers	348,292	125,554	107,679	681	582,206
Segment results	2,950	9,402	7,438	(4,277)	15,513
Finance income	14	80	—	—	94
Finance costs	(704)	(740)	(162)	—	(1,606)
Profit/(loss) before income tax	2,260	8,742	7,276	(4,277)	14,001
Income tax					(6,320)
Profit for the period					7,681
Non-controlling interests					(168)
Profit attributable to equity holders of the Company					7,513
Other information:					
Capital expenditure	6,719	1,034	29,309	—	37,062
Depreciation of property, plant and equipment, as restated	152	4,552	2,064	552	7,320
Amortisation of leasehold land and land use rights, as restated	27	93	8	39	167
Amortisation of intangible assets	—	—	—	400	400
Impairment of available-for-sale financial assets	—	—	—	156	156
Impairment of intangible assets	—	—	—	2,000	2,000
Provision for impairment of receivables	—	—	259	—	259
Unrealised loss/(gain) on derivative financial instruments	270	—	—	(320)	(50)

The segment information provided to the CODM for the reportable segments at 30th June 2010 is as follows:

	Trading	Colorants	Audited Engineering plastic	Others	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	357,753	238,927	160,512	55,752	<u>812,944</u>
Total assets					<u><u>812,944</u></u>
Segment liabilities	82,390	23,586	24,990	5,320	136,286
Borrowings	185,832	23,487	43,905	—	<u>253,224</u>
Total liabilities					<u><u>389,510</u></u>

The entity is domiciled in Hong Kong. The revenue from external customers attributed to Hong Kong for the six months ended 31st December 2010 is approximately HK\$531,041,000 (2009: HK\$369,936,000), and the total of its revenue from external customers from other locations (mainly the People's Republic of China) is approximately HK\$299,939,000 (2009: HK\$212,270,000).

At 31st December 2010, the total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Hong Kong is approximately HK\$104,131,000 (At 30th June 2010: HK\$94,677,000); and the total of these non-current assets located in other locations (mainly the People's Republic of China) is approximately HK\$93,281,000 (At 30th June 2010: HK\$87,577,000).

#### 4 Other income

	Unaudited	
	Six months ended	
	31st December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	<u>1,600</u>	<u>1,367</u>

**5 Other gains/(losses) – net**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31st December</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net exchange gains	<b>3,076</b>	1,581
Impairment of available-for-sale financial assets	—	(156)
Impairment of intangible assets	—	(2,000)
Gain/(loss) on disposal of property, plant and equipment	<b>28</b>	(626)
Derivative financial instruments		
– forward foreign exchange contracts and interest rate swap contracts held for trading		
– unrealised	<b>1,264</b>	50
– realised	<b>1,064</b>	(96)
Others	<b>946</b>	815
	<b>6,378</b>	(432)

**6 Operating profit**

Operating profit is stated after charging the following:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31st December</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<i>(Restated)</i>
Cost of inventories recognised as expenses included in cost of sales	<b>745,496</b>	509,731
Depreciation:		
– Owned property, plant and equipment	<b>6,738</b>	4,869
– Leased equipment	<b>285</b>	2,451
Amortisation of leasehold land and land use rights	<b>204</b>	167
Amortisation of intangible assets	—	400
Operating lease rentals in respect of land and buildings	<b>6,379</b>	5,201
Employee benefit expenses, including directors' emoluments	<b>43,831</b>	37,847
Provision for impairment of inventories	<b>3,454</b>	—
Provision for impairment of receivables	<b>2,039</b>	259

## 7 Finance income and costs

	Unaudited Six months ended 31st December	
	2010	2009
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	101	94
Finance costs:		
– Interest on bank borrowings wholly repayable within five years	(3,566)	(1,572)
– Interest element of finance leases	(10)	(34)
	<u>(3,576)</u>	<u>(1,606)</u>
Finance costs - net	<u>(3,475)</u>	<u>(1,512)</u>

## 8 Income tax

Hong Kong profits tax has been provided for at the rate of 16.5% (31st December 2009: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operating in the People's Republic of China ("PRC") has been calculated based on the estimated assessable profit for the period at the tax rates as applicable to the relevant subsidiaries.

The amount of taxation charged to the consolidated interim income statement represents:

	Unaudited Six months ended 31st December	
	2010	2009
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	2,366	1,465
– PRC corporate income tax	3,507	3,566
Deferred taxation	(2,551)	1,289
	<u>3,322</u>	<u>6,320</u>

## 9 Dividends

At a meeting held on 25th February 2011, the Directors declared an interim dividend of HK1.0 cent per share, totalling HK\$3,692,000 for the six months ended 31st December 2010. This dividend is not reflected as dividends payable in the interim financial information, but will be reflected as appropriation of retained earnings for the year ending 30th June 2011.

At a meeting held on 28th September 2010, the Directors proposed a final dividend of HK2.0 cents per share, totalling HK\$7,384,000, which was paid during the period and has been reflected as an appropriation of retained earnings for the six months ended 31st December 2010.

At a meeting held on 25th February 2010, the Directors declared an interim dividend of HK1.0 cent per share, totalling HK\$3,692,000 for the six months ended 31st December 2009.

## 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\$14,503,000 (31st December 2009: HK\$7,513,000) and 369,200,000 (31st December 2009: 369,200,000) 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 2009 and 2010.

## 11 Trade and bills receivables

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

	<b>Unaudited</b> <b>31st December</b> <b>2010</b> <i>HK\$'000</i>	Audited 30th June 2010 <i>HK\$'000</i>
Below 90 days	<b>233,524</b>	224,914
91-180 days	<b>14,544</b>	10,000
Over 180 days	<b>3,598</b>	3,631
	<u><b>251,666</b></u>	<u>238,545</u>

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.

At 31st December 2010, bills of exchange amounting to HK\$5,731,000 (30th June 2010: HK\$2,285,000) were transferred to certain banks with recourse in exchange for cash. The transactions had been accounted for as collateralised bank advances.

## 12 Trade payables

The aging analysis of trade payables is as follows:

	<b>Unaudited</b> <b>31st December</b> <b>2010</b> <i>HK\$'000</i>	Audited 30th June 2010 <i>HK\$'000</i>
Below 90 days	<b>72,600</b>	97,035
91-180 days	<b>138</b>	45
Over 180 days	<b>506</b>	550
	<u><b>73,244</b></u>	<u>97,630</u>

## **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 2010 to members whose names appear on the Register of Members on 25th March 2011. The dividend will be paid on or before 8th April 2011.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 23rd March 2011 to Friday, 25th March 2011 (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, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 22nd March 2011.

## **BUSINESS REVIEW AND PROSPECTS**

For the six months ended 31st December 2010, the Group's three major businesses recorded growth with total turnover increasing by about 42.7% to approximately HK\$830,980,000 from HK\$582,206,000 in the corresponding period last year. With the Group's success in streamlined operations and cost control, profit attributable to equity holders of the Company soared substantially by 93% to HK\$14,503,000 from HK\$7,513,000 in the corresponding period last year. Basic earnings per share were HK3.93 cents (2009: HK2.03 cents). The Board of Directors recommends to pay an interim dividend of HK1.0 cent (2009: HK1.0 cent).

Benefiting from strong momentum of economic growth in Mainland China and the flourishing growth in domestic demand and driven by the reviving global economy, market demand for plastics materials (particularly quality plastics products) has continued to rise. During the period, the Group has actively optimised its sales strategy and expanded into the vast domestic consumption market in China. Consequently, sales volume of its products has increased by approximately 10%. Moreover, with the rise of international oil price, the Group has adjusted its pricing strategy in a timely fashion by transferring the higher cost of materials to its customers, managing the selling price of its products in a bid to maintain its profitability. Meanwhile, the Group has set up a taskforce to further enhance inventory control measures in order to more accurately forecast and meet the order volume of customers. As a result, gross profit has increased by 13.8% to HK\$82,030,000 from HK\$72,075,000 in the corresponding period of last year.

Since the financial turmoil broke out in 2008, the cost control measures adopted by the Group have begun to show their effectiveness. By maintaining the management and labour expenditure at a similar level to last year, the Group's rising turnover for the period began to give fuller play to the economies of scale, notably improving its profitability. Profit before income tax grew by about 44% to HK\$20,231,000 from HK\$14,001,000 last year and profit attributable to equity holders of the Company surged dramatically by around 93% during the period. In addition, as most of the Group's products were sold in Mainland China, the appreciation of the Renminbi also brought currency translation gains to the Group.



During the period, the three core business segments of the Group achieved steady growth. The plastics trading business grew strongly with turnover up about 52% to HK\$529,038,000 and profit before income tax was HK\$2,173,000. Supported by the strongly recovering economy in Mainland China, the positive effect of the national policies to boost domestic consumption combined with the rising spending power of China's consumers lifted the demand for quality plastics used in high-end daily necessities, which in turn pushed up the segment's turnover in Mainland China by approximately 80%. Besides, the Group's Tianjin sales office, which mainly engaged in the development of plastics trading in Northern China, has started operation. As a result, an additional income source was secured for the segment.

The engineering plastics business also registered a satisfactory performance with turnover up about 32% to HK\$141,769,000 and profit before income tax up 80% to HK\$13,121,000. The boost was mainly attributable to the Group's effective cost control measures, more versatile manpower allocation, lower tariffs incurred as a result of avoiding production during the electricity peak hours, thus enhancing overall operational efficiency in the factories. During the period, the Group has strived to strengthen its R&D capability, in order to provide tailor-made plastics products to customers for industries including toys, electrical appliances and home appliances. These types of products possess unique advantages, hence offering less competition and higher gross margins, so in the long run it will become one of the Group's growth drivers.

In colorant and compounded plastic resin business, turnover increased by 25% to HK\$157,487,000 while profit before income tax was HK\$7,391,000. In light of the intense competition among existing major customers, that was home appliances producers, the Group sought to secure other higher margin customers. After months of dedicated effort, the Group obtained orders from new exporting customers last December. Thus, it is expected the performance of this segment to improve noticeably in the second half of 2011.

Looking ahead, the Group has strong confidence in its prospects within the China market. With a unique plastics R&D and processing capability leveraging a strong distribution network, the Group is well positioned to fully capture the opportunities in China. The management expects the crude oil and raw material prices to rise moderately which will favour the Group's pricing strategy and deliver stable profitability.

The Group continues to focus on opportunities and boost market penetration rate in Mainland China. Following the opening of the sales office in Tianjin last June, the Group plans to expand its office in Chengdu in the second half of 2011. As the Chinese Government is boosting the construction of infrastructure in the western region, the Group believes that this sales office will facilitate exploring potential customers in western China. In addition, the Group intends to expand its Guangzhou office and evaluate the feasibility of establishing sales points for trading business in key cities such as Chongqing and Wuhan. These moves would help expanding the sales network throughout Mainland China.

In Hong Kong, the Group strives to expand production capacity for meeting increasing market demand. The management expects the new plant in Taipo to commence production in April 2011, increasing the Group's production lines for engineering plastics from currently five to six. The Group is also transferring the colorant and compounded plastic resin production lines in the old Taipo plant to the new Taipo plant. This should help enhance production efficiency, save long term rental costs, and create synergies through sharing resources among manufacturing operations. Besides, we proactively expand the production capacity of the plant in Hong Kong with an aim of meeting market demands for quality plastics products. Furthermore, the Group not only enjoys the preferential tariff treatment offered under The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") but will also increase the protection of intellectual property related to production and processing procedures.

Generally speaking, the Group's strategy is to focus on expanding the huge Mainland market, fully utilising the advantages in law and commercial policy in Hong Kong and actively expanding production capacity for achieving future growth. We have strong confidence in the economic development in China and the prospects of the plastics industry. We believe that the Group will achieve great progress in China's high quality plastics market and generate satisfactory return for its shareholders.

Last but not least, the Board wishes to take this opportunity to thank our 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 2010, the Group has available aggregate bank loan facilities of approximately HK\$390,926,000 of which HK\$270,697,000 have been utilised and were secured by corporate guarantee issued by the Group and legal charges on certain leasehold land and buildings, investment properties and machinery and equipment in the PRC and Hong Kong owned by the Group. The Group's cash and cash equivalents as at 31st December 2010 amounted to approximately HK\$87,079,000. The Group's gearing ratio as at 31st December 2010 was approximately 65%, based on the total bank borrowings of approximately HK\$270,231,000, together with obligations under finance leases of approximately HK\$466,000 and the shareholders' funds of approximately HK\$419,088,000.

## **FOREIGN EXCHANGE RISK**

The Group's bank borrowings and cash and cash equivalents 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 manages its exchange risk by entering into forward exchange contracts from time to time.

As at 31st December 2010, the Group had outstanding forward foreign exchange contracts mainly to sell/purchase US dollars and purchase EURO. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2010 were as follows:

	<b>2010</b> <b>HK\$'000</b>
Sell HK dollars for US dollars	<b>2,531,100</b>
Sell US dollars for HK dollars	<b>436,800</b>
Sell HK dollars for EURO	<b>2,870</b>

## **EMPLOYEE INFORMATION**

As at 31st December 2010, the Group employed a total of approximately 638 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 "Stock Exchange"). 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 2010, 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 auditor 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 CHAN Dit Lung and Mr CHING Yu 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 2010 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 CHAN Dit Lung and Mr CHING Yu 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, 25th February 2011

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