NHH

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 2012 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 2012 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited Six months ended 31st December 2012** *HK$'000*	2011 *HK$'000* (Restated)
Revenue	3	**923,897**	825,644
Cost of sales		**(838,293)**	(758,701)
Gross profit		**85,604**	66,943
Other income	4	**1,841**	1,815
Other gains, net	5	**5,866**	4,257
Distribution costs		**(30,221)**	(26,121)
Administrative expenses		**(47,527)**	(45,825)
Operating profit	6	**15,563**	1,069
Finance income	7	**131**	114
Finance costs	7	**(5,835)**	(5,286)
Finance costs, net		**(5,704)**	(5,172)
Profit/(loss) before income tax		**9,859**	(4,103)
Income tax expense	8	**(3,920)**	(4,062)
Profit/(loss) for the period		**5,939**	(8,165)

	Note	Unaudited Six months ended 31st December **2012** ***HK$'000***	 2011 *HK$'000* (Restated)
Attributable to:			
Equity holders of the Company		**4,594**	(8,974)
Non-controlling interests		**1,345**	809
		5,939	(8,165)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
– Basic	10	**1.24**	(2.43)
– Diluted	10	**1.24**	(2.43)

Details of dividends payable to equity holders of the Company attributable to profit/(loss) for the period are set out in Note 9.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31st December	
	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) for the period	**5,939**	(8,165)
Other comprehensive income:		
Revaluation gain of property, plant and equipment on transfer to investment properties, net of tax	**1,893**	—
Currency translation differences	**—**	7,079
Other comprehensive income for the period	**1,893**	7,079
Total comprehensive income/(loss) for the period	**7,832**	(1,086)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**6,487**	(2,385)
Non-controlling interests	**1,345**	1,299
	7,832	(1,086)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 31st December 2012** *HK$'000*	Audited 30th June 2012 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**139,027**	141,235
Leasehold land and land use rights		**15,315**	15,547
Investment properties		**57,475**	53,775
Available-for-sale financial asset		**1,317**	1,317
Deferred tax assets		**5,587**	5,428
Deposits for acquisition of properties		**8,827**	8,827
Prepayment for property, plant and equipment and renovation costs		**10,928**	4,741
		238,476	230,870
Current assets			
Inventories		**272,876**	281,501
Trade and bills receivables	11	**297,083**	280,928
Other receivables, prepayments and deposits		**28,142**	17,326
Tax recoverable		**164**	524
Derivative financial instruments		**696**	233
Cash and bank balances		**96,448**	93,349
		695,409	673,861
Total assets		**933,885**	904,731

	Note	**Unaudited** **31st December** **2012** ***HK$'000***	Audited 30th June 2012 *HK$'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**36,920**	36,920
Share premium		**62,466**	62,466
Other reserves		**73,307**	71,414
Retained earnings		**280,962**	276,368
		453,655	447,168
Non-controlling interests		**23,720**	23,613
Total equity		**477,375**	470,781
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**4,682**	5,400
Current liabilities			
Trade payables	12	**97,243**	111,032
Other payables, deposits received and accruals		**26,135**	15,046
Bank borrowings		**319,784**	294,367
Derivative financial instruments		**1,440**	2,730
Tax payable		**7,226**	5,375
		451,828	428,550
Total liabilities		**456,510**	433,950
Total equity and liabilities		**933,885**	904,731
Net current assets		**243,581**	245,311
Total assets less current liabilities		**482,057**	476,181

Notes

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2012 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 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30th June 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

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 2012, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Effect of adopting amendments to standards and interpretations

(i) In December 2010, the Hong Kong Institute of Certified Public Accountants ("HKICPA") amended HKAS 12, "Income Taxes", to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. It introduced a rebuttable presumption that an investment property measured at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held by within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Prior to the amendment, deferred taxation on investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of investment properties through use. The Group has reassessed the business models of the Group's investment properties located in Hong Kong and the People's Republic of China (the "PRC") individually. The carrying values of investment properties held by the Group are expected to be recovered through sales.

The amendment is applicable retrospectively to annual periods beginning on or after 1st January 2012. During the second half of the financial year ended 30th June 2012, the Group has early adopted this amendment retrospectively for the financial year ended 30th June 2012. As such, the Group's condensed consolidated interim information for the six months ended 31st December 2011 had not taken into account of this change, and accordingly, the comparative figures for the period ended 31st December 2012 have been restated to reflect the change in accounting policy, as summarised below.

The effect of the adoption of HKAS 12 (Amendment) is as follows:

Effect on consolidated income statement

	For the period ended 31st December 2011 *HK$'000*
Decrease in income tax expenses	65
Decrease in loss attributable to equity holders of the Company	65
Decrease in basic loss per share for the loss attributable to equity holders of the Company (expressed in HK cent per share)	(0.02)
Decrease in diluted loss per share for the loss attributable to equity holders of the Company (expressed in HK cent per share)	(0.02)

(ii) The following amendment to standard is also mandatory for the Group's financial year beginning 1st July 2012. The adoption of this amendment to standard does not have any significant impact to the results and financial position of the Group.

HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income

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

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1st July 2012 and have not been early adopted by the Group:

HKFRS 1 (Amendment)	Government Loans [1]
HKFRS 7 (Amendment)	Disclosures - Offsetting Financial Assets and Financial Liabilities [1]
HKFRS 9	Financial Instruments [3]
HKFRS 10	Consolidated Financial Statements [1]
HKFRS 11	Joint Arrangements [1]
HKFRS 12	Disclosure of Interests in Other Entities [1]
HKFRS 13	Fair Value Measurement [1]
HKAS 19 (2011)	Employee Benefits [1]
HKAS 27 (2011)	Separate Financial Statements [1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [1]
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities [2]
Hong Kong International Financial Reporting Interpretations Committee - Int 20	Stripping Costs in the Production Phase of a Surface Mine [1]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures [3]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance [1]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment Entities [2]
HKFRSs (Amendment)	Annual Improvements 2009 - 2011 Cycle [1]

[1] Effective for the Group for annual period beginning on 1st July 2013

[2] Effective for the Group for annual period beginning on 1st July 2014

[3] Effective for the Group for annual period beginning on 1st July 2015

The Directors anticipate that the adoption of the above new standards, 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	
	2012	2011
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**923,055**	825,471
Provision of logistics services	**842**	173
	923,897	825,644

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 condensed consolidated interim financial information.

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2012 is as follows:

	Trading	Colorants	Unaudited Engineering plastic	Others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
– Gross revenue	**651,330**	**213,986**	**106,462**	**1,231**	**973,009**
– Inter-segment revenue	**(45,867)**	**(2,411)**	**(834)**	**—**	**(49,112)**
Revenue from external customers	**605,463**	**211,575**	**105,628**	**1,231**	**923,897**
Segment results	**(15,767)**	**26,522**	**7,023**	**(2,215)**	**15,563**
Finance income	**30**	**94**	**7**	**—**	**131**
Finance costs	**(3,817)**	**(946)**	**(1,020)**	**(52)**	**(5,835)**
(Loss)/profit before income tax	**(19,554)**	**25,670**	**6,010**	**(2,267)**	**9,859**
Income tax expense					**(3,920)**
Profit for the period					**5,939**
Non-controlling interests					**(1,345)**
Profit attributable to equity holders of the Company					**4,594**
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	**9,338**	**3,686**	**1,494**	**28**	**14,546**
Depreciation of property, plant and equipment	**241**	**3,656**	**4,225**	**600**	**8,722**
Amortisation of leasehold land and land use rights	**77**	**101**	**15**	**39**	**232**
Provision for/(reversal of) impairment of inventories	**1,418**	**(176)**	**(45)**	**—**	**1,197**
Unrealised fair value gain on derivative financial instruments	**(1,753)**	**—**	**—**	**—**	**(1,753)**

The segment information provided to the CODM for the reportable segments as at 31st December 2012 is as follows:

	Trading	Colorants	Unaudited Engineering plastic	Others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	**389,561**	**308,249**	**165,125**	**70,950**	**933,885**
Total assets					**933,885**
Segment liabilities	**80,848**	**25,781**	**24,638**	**5,459**	**136,726**
Borrowings	**259,226**	**22,706**	**35,664**	**2,188**	**319,784**
Total liabilities					**456,510**

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2011 is as follows:

	Trading	Colorants	Unaudited Engineering plastic	Others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Turnover					
– Gross revenue	531,387	183,602	129,008	586	844,583
– Inter-segment revenue	(1,728)	(8,955)	(8,256)	—	(18,939)
Revenue from external customers	529,659	174,647	120,752	586	825,644
Segment results	(14,677)	10,280	8,469	(3,003)	1,069
Finance income	23	90	1	—	114
Finance costs	(3,573)	(874)	(817)	(22)	(5,286)
(Loss)/profit before income tax	(18,227)	9,496	7,653	(3,025)	(4,103)
Income tax expense					(4,062)
Loss for the period					(8,165)
Non-controlling interests					(809)
Loss attributable to equity holders of the Company					(8,974)
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	259	1,940	4,357	179	6,735
Depreciation of property, plant and equipment	233	3,742	3,958	683	8,616
Amortisation of leasehold land and land use rights	—	172	—	—	172
Reversal of impairment of inventories	—	(34)	(137)	—	(171)
Unrealised fair value gain on derivative financial instruments	(620)	—	—	—	(620)

The segment information provided to the CODM for the reportable segments as at 30th June 2012 is as follows:

			Audited		
	Trading	Colorants	Engineering plastic	Others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	362,093	301,613	173,534	67,491	904,731
Total assets					904,731
Segment liabilities	80,737	33,378	21,953	3,515	139,583
Borrowings	229,435	17,284	45,727	1,921	294,367
Total liabilities					433,950

The entity is domiciled in Hong Kong. The revenue from external customers attributed to Hong Kong for the six months ended 31st December 2012 is approximately HK$500,173,000 (2011: HK$500,515,000), and the total of its revenue from external customers from other locations (mainly the People's Republic of China) is approximately HK$423,724,000 (2011: HK$325,129,000).

At 31st December 2012, 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$122,964,000 (At 30th June 2012: HK$124,514,000), and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK$108,608,000 (At 30th June 2012: HK$99,611,000).

4 Other income

	Unaudited Six months ended 31st December	
	2012	2011
	HK$'000	*HK$'000*
Rental income	**1,841**	1,815

5 Other gains, net

	Unaudited Six months ended 31st December 2012 *HK$'000*	2011 *HK$'000*
Net exchange gains	**1,518**	984
Loss on disposal of property, plant and equipment	**(38)**	(286)
Derivative financial instruments		
– forward foreign exchange contracts and interest rate swap contracts held for trading		
– unrealised	**1,753**	620
– realised	**2,356**	2,509
Others	**277**	430
	5,866	4,257

6 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Unaudited Six months ended 31st December 2012 *HK$'000*	2011 *HK$'000*
Cost of inventories recognised as expenses included in cost of sales	**801,394**	725,707
Depreciation:		
– Owned property, plant and equipment	**8,722**	8,475
– Property, plant and equipment under finance leases	**—**	141
Amortisation of leasehold land and land use rights	**232**	172
Operating lease rentals in respect of land and buildings	**3,540**	4,790
Employee benefit expenses, including Directors' emoluments	**52,017**	47,119
Provision for/(reversal) of impairment of inventories	**1,197**	(171)
Loss on disposal of property, plant and equipment	**38**	286

7 Finance income and costs

	Unaudited Six months ended 31st December 2012 HK$'000	2011 HK$'000
Finance income:		
– Interest income from bank deposits	**131**	114
Finance costs:		
– Interest on bank borrowings wholly repayable within five years	**(5,403)**	(5,284)
– Interest element of finance leases	**—**	(2)
– Net exchange loss on financing activities	**(432)**	—
	(5,835)	(5,286)
Finance costs, net	**(5,704)**	(5,172)

8 Income tax

Hong Kong profits tax has been provided for at the rate of 16.5% (31st December 2011: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in the PRC has been calculated on the estimated assessable profit for the period at the rates of taxation as applicable to the relevant subsidiaries.

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

	Unaudited Six months ended 31st December 2012 HK$'000	2011 HK$'000 (Restated)
Current income tax		
– Hong Kong profits tax	**1,371**	1,576
– PRC corporate income tax	**3,113**	1,634
– Under-provision in previous years	**313**	—
Deferred income tax	**(877)**	852
	3,920	4,062

9 Dividends

At a meeting held on 25th February 2013, the Directors declared an interim dividend of HK1.0 cent per share, totalling HK$3,692,000 for the six months ended 31st December 2012. This dividend is not reflected as dividend payable in the interim financial information, but will be reflected as appropriation of retained earnings for the year ending 30th June 2013.

At a meeting held on 21st September 2012, the Directors resolved not to declare any final dividend for the year ended 30th June 2012.

At meetings held on 27th February 2012, the Directors resolved not to declare any interim dividend for the six months ended 31st December 2011.

10 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to equity holders of the Company for the period of HK$4,594,000 (31st December 2011 (restated): a loss of HK$8,974,000) and 369,200,000 (31st December 2011: 369,200,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share equals basic earnings/(loss) per share as the exercise of the outstanding share options would be anti-dilutive for the six months ended 31st December 2012 and 2011.

11 Trade and bills receivables

	Unaudited 31st December 2012 *HK$'000*	Audited 30th June 2012 *HK$'000*
Trade receivables	**274,033**	259,492
Bills receivables	**23,050**	21,436
	297,083	280,928

At 31st December 2012, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited 31st December 2012 *HK$'000*	Audited 30th June 2012 *HK$'000*
Below 90 days	**252,257**	239,254
91-180 days	**19,370**	15,609
Over 180 days	**2,406**	4,629
	274,033	259,492

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.

Bill receivables are mainly with maturity period of within 180 days.

At 31st December 2012, bills of exchange amounting to HK$5,422,000 (30th June 2012: HK$2,083,000) were transferred to certain banks with recourse in exchange for cash. The transactions had been accounted for as collateralised bank advances.

12 Trade payables

At 31st December 2012, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited 31st December 2012 *HK$'000*	Audited 30th June 2012 *HK$'000*
Below 90 days	**95,789**	109,536
91-180 days	**691**	715
Over 180 days	**763**	781
	97,243	111,032

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 2012 to members whose names appear on the Register of Members on 22nd March 2013. The dividend will be paid on or before 9th April 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 20th March 2013 to Friday, 22nd March 2013 (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 Registrar Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 19th March 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the global economy was still clouded by uncertainties. However, the Group's well-planned market expansion coupled with a strict cost control strategy enabled the improvement in business performance to continue. For the six months ended 31st December 2012, the Group's total turnover rose by 12% to HK$923,897,000 from approximately HK$825,644,000 in the corresponding period last year. In the overseas markets, the introduction of the third round of quantitative easing by the US Government had a positive impact on the global economy, particularly the US market. The peak holiday sales season from US Thanksgiving Day to Christmas has also driven demand from the export market for products of certain business segments of the Group. In addition, spurred by the Chinese Central Government's policy to stimulate domestic consumption, the Group has managed to further expand its market in Mainland China, which accounted for approximately 46% of the Group's overall turnover, up from 39% in the same period last year.

Prices of oil and plastic materials maintained stable during the period under review, enabling the Group to better manage product pricing. These positive factors boosted the Group's gross profit by 28% to HK$85,604,000 (2011: HK$66,943,000) and gross profit margin by 1.2 percentage point to 9.3%. As a result, the Group has successfully turned around its business during the period under review and recorded a profit attributable to equity holders of HK$4,594,000 (2011 (restated): loss attributable to equity holders of HK$8,974,000). Basic earnings per share were HK1.24 cents (2011 (restated): basic loss per share of HK2.43 cents).

In recognition of shareholders' continuous support, the Board of Directors recommended payment of an interim dividend of HK1.0 cent per share (2011: Nil).

The Group has always been committed to controlling costs and managing risk. In view of stringent money supply and implementation of tighter credit policy in Mainland China, the Group has strived to reduce interest costs through negotiating with Mainland banks for entrusted loan arrangement. As at 31st December 2012, the Group's cash on hand was maintained at a reasonable level of HK$96,448,000 and the gearing ratio was approximately 70%, underscoring the Group's solid financial position.

Among the three major businesses of the Group, the colorants, pigments and compound plastic resin business segment enjoyed the most satisfactory performance during the period. Turnover from this business increased by 21% to HK$211,575,000 year-on-year, mainly attributable to the sustained growth of the market in Eastern China. Apart from enhancing its penetration in the food packaging and automobile markets, the Group's Shanghai subsidiary has successfully entered the international personal healthcare brand market by providing packaging products. This along with the ongoing efforts of its Dongguan subsidiary to expand the business in markets in Southern China has boosted sales performance significantly. Moreover, under the Group's strict cost control measures, gross profit margin increased by approximately one percentage point. In line with sales growth, the Group was able to achieve greater economies of scale, leading to a surge in profit before taxation of 1.7 times to HK$25,670,000. The booming Chinese economy and increased awareness of health issues is stimulating consumer demand for personal care products. As such, this business is expected to become one of the Group's growth drivers.

On the other hand, since the ongoing weak demand of the market in Europe has exerted pressure on the engineering plastics business which targets local, and US export customers as well as those in Europe, turnover from this business dropped by 13% to HK$105,628,000 from the corresponding period last year. Nevertheless, the Group's new manufacturing base in Shanghai has commenced production during the period under review, which can effectively lower fixed costs such as rental expenses. Therefore, gross profit margin stood at a similar level to the corresponding period last year and profit before taxation amounted to HK$6,010,000. On top of cost reduction measures, the Group continued to extend its business reach and explored the earphone and watches segments of the electronic product market. The Group also enhanced its technology in automobile application by developing sound proof and heat insulation materials. As the new Shanghai manufacturing base begins full production in phases, the additional capacity should ensure there is sufficient output to capture the enormous opportunities in Mainland China, particularly in the southern and eastern parts. In the future, the engineering plastics business intends to maintain its prudent yet proactive measures, and boost its performance in the second half of the year by optimising operational structures, enhancing cost controls and opening new distribution channels.

The plastics trading business has suffered from weak export markets in Europe and the US, and orders have not yet recovered to a level sufficient for the segment to achieve profitability. Nonetheless, the Group has strived to promote the brands of its licensed products. Thus, it managed to increase turnover by 14% to HK$605,463,000, and gross profit margin also improved. Including the provision for inventory of approximately HK$1,418,000, loss attributable to equity holders increased slightly from HK$18,227,000 in the same period last year to HK$19,554,000. The Group's Tianjin sales office mainly targets clients from heavy industry. Through devoted efforts, that operation has built a solid business foundation, and the Group is pleased that it is starting to contribute satisfactory sales. The Chongqing sales office targeting the Western China market also started service in the first half of 2013. Capitalising on the synergies created between the new offices and current ones, the Group expects to continue to develop this market segment with great potentials in Mainland China.

PROSPECTS

Going forward, as the global economy starts to stabilise, the management anticipates that materials costs will increase moderately. Stable oil prices will benefit the Group's pricing policy and improve the overall profitability.

As the Chinese leadership underwent smooth transition last year, the domestic economy has demonstrated the signs of stronger growth. The management believes that the China market still offers promising opportunities, so the Group will continue to focus there, with the aim to lift the proportion of its total revenue from China to 50%. As for the overall business strategy, the Group will further enhance the expansion of its sales network in Mainland China, and will replicate its successful operational model in Shanghai to other sales operations in order to boost the market penetration rate in other major cities. The Chongqing sales office will serve as the important focus of brand promotion in the western China market. With a clear direction in concert with the Chengdu sales office, both offices will strive to develop the market in Western China, the traditional heavy industries hub, and tap the potential opportunities there.

In addition, the Group has established close ties with the International Colour Alliance. Through this global platform, in recent years the Group has captured the opportunities in automobile parts and personal healthcare product industries. In the future, the Group aims to actively secure more new customers with an enhanced product mix via different channels, so as to amplify its business growth.

As for cost controls, the Group targets to streamline its operations and strengthen operational efficiency by analyzing possible resource re-allocation options among different areas while optimising the supply chain and operational structure. At the same time, it will also continue to adopt prudent financial management policies, and actively explore possibilities for other loan and financing arrangements so as to maintain stable financial conditions to support the Group's long-term development.

In the long run, the management believes that the demand from the Mainland China market will continue to grow, and the Group will continue to leverage its strength, march forward under the leadership of the outstanding, professional and pragmatic management team, with an aim of delivering the best returns to its shareholders.

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 2012, the Group has available aggregate bank loan facilities of approximately HK$532,896,000 of which HK$314,362,000 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 bank balances as at 31st December 2012 amounted to approximately HK$96,448,000. The Group's gearing ratio as at 31st December 2012 was approximately 70%, based on the total bank borrowings of approximately HK$319,784,000 and the shareholders' funds of approximately HK$453,655,000.

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 2012, the Group had outstanding forward foreign exchange contracts mainly to sell/purchase US dollars and purchase Renminbi. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2012 were as follows:

	2012 ***HK$'000***
Sell HK dollars for US dollars	**1,677,000**
Sell US dollars for HK dollars	**36,731**
Sell US dollars for Renminbi	**410,700**

EMPLOYEE INFORMATION

As at 31st December 2012, the Group employed a total of approximately 692 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 all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report to the Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 31st December 2012, except for the deviation as mentioned below.

According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive 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 any individual to be the chief executive. The roles of the chief executive 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 when it thinks appropriate.

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.

NOMINATION COMMITTEE

The Company has formulated written terms of reference for the nomination committee of the Company (the "Nomination Committee") in accordance with the requirements of the Stock Exchange. The Nomination Committee consists of all 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 Nomination Committee is responsible for reviewing the structure, size and composition of the Board (including the skills, knowledge and experience) on a regular basis and make recommendations to the Board regarding any proposed changes; identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee meets at least once a year to assess the structure, size and composition of the Board.

AUDIT COMMITTEE

The Company has formulated written terms of reference for the audit committee of the Company (the "Audit Committee") in accordance with the requirements of the Stock Exchange. The Audit Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The principal duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company. The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and Listing Rules.

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 2012 with the Directors.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the remuneration committee of the Company (the "Remuneration Committee") 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 making recommendations to the Board on the remuneration packages of the individual executive Director and senior management. This includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. 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.

CORPORATE GOVERNANCE COMMITTEE

The Company has formulated written terms of reference for the corporate governance committee of the Company (the "Corporate Governance Committee") in accordance with the CG Code. The Corporate Governance Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The Corporate Governance Committee is responsible for developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report of the Company. The Corporate Governance Committee meets at least once a year to review the corporate governance functions.

On behalf of the Board
HUI Sai Chung
Chairman

Hong Kong, 25th February 2013

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.