Tiande Chemical Holdings Limited

天德化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 609)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

HIGHLIGHTS OF 2008 INTERIM RESULTS

- Turnover for the six months ended 30 June 2008 was approximately RMB416.3 million, representing an increase of 58.5% as compared with that of the corresponding period last year
- Gross profit increased by 60.8% to approximately RMB60.8 million
- Gross profit margin reached 14.6%, representing an increase of 0.2% as compared with that of the corresponding period last year
- Profit for the period under review attributable to equity holders increased by 30.6% to approximately RMB23.5 million
- Basic earnings per share for the six months ended 30 June 2008 amounted to approximately RMB5.9 cents
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008

The board (the “Board”) of directors (the “Directors”) of Tiande Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007 and the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2008	2007
	Note	**RMB'000**	RMB'000
		(unaudited)	(unaudited)
Turnover	4	**416,270**	262,710
Cost of goods sold		**(355,440)**	(224,887)
Gross profit		**60,830**	37,823
Other income	5	**3,112**	1,729
Selling expenses		**(15,260)**	(9,317)
Administrative expenses		**(16,345)**	(11,100)
Change in fair value of investment properties		**660**	1,220
Finance costs	6	**(7,037)**	(1,634)
Profit before tax		**25,960**	18,721
Income tax expense	7	**(2,414)**	(697)
Profit for the period attributable to equity holders of the Company	8	**23,546**	18,024
Earnings per share – basic	10	**RMB0.059**	RMB0.045

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2008 RMB'000 (unaudited)**	31 December 2007 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	**368,896**	369,684
Prepaid lease payments		**65,739**	66,457
Investment properties		**10,360**	9,700
Deposit for acquisition of property, plant and equipment		**18,740**	6,494
Deferred tax assets		**468**	669
		464,203	453,004
Current assets			
Inventories		**72,672**	53,172
Trade and other receivables	12	**144,125**	216,676
Pledged bank deposits		**300**	16,400
Bank and cash balances		**5,530**	29,207
		222,627	315,455
Current liabilities			
Trade and other payables	13	**125,137**	254,849
Amount due to a related company		**-**	39
Bank borrowings	14	**128,126**	82,557
Current tax liabilities		**2,000**	304
		255,263	337,749
Net current liabilities		**(32,636)**	(22,294)
Total assets less current liabilities		**431,567**	430,710

CONDENSED CONSOLIDATED BALANCE SHEET(*continued*)

	Note	**30 June 2008 RMB'000 (unaudited)**	31 December 2007 RMB'000 (audited)
Non-current liabilities			
Bank borrowings	14	**57,480**	75,200
Deferred tax liabilities		**1,790**	1,600
Deferred income		**25,521**	26,892
		84,791	103,692
NET ASSETS		**346,776**	327,018
Capital and reserves			
Share capital		**4,031**	4,031
Reserves		**342,745**	322,987
TOTAL EQUITY		**346,776**	327,018

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

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

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

After evaluating (i) the legal opinion on the Bills Law of the People's Republic of China ("PRC") for the bank acceptance bills endorsement arrangement obtained by the Group; (ii) the written irrecoverable undertaking from major creditors of the Group who have irrecoverably undertook not to make any claim and in any event to waive such claim against the Group arising from and/or in connection with the bills endorsed to them; and (iii) the fact that the Group has not experienced any claims arisen from such bills endorsement arrangement so far, the Directors are of the opinion that the risks and rewards associated with the ownership of those bank acceptance bills received by the Group and endorsed to its creditors ("Endorsed Bank Acceptance Bills") have been substantially transferred. As a result, the Endorsed Bank Acceptance Bills in the sum of approximately RMB149.2 million have been applied to set-off against the trade and other payables towards the relevant creditors for the period ended 30 June 2008.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at their fair values.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Financial Reporting Interpretations Committee ("HK(IFRIC)") interpretations that are effective for the accounting periods beginning on or after 1 January 2008:

HK(IFRIC) - Int 11	HKFRS2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these standards and interpretations has no material effect on the results and the financial position or performance of the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31 December 2008 and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellation[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[1]

[1] Effective for annual periods beginning on or after 1 July 2008.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

The Group is in the process of assessing the impact of these standards or interpretations and does not expect that there will be material impact on the Group's results of operations and financial position.

4. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents the amount received and receivables for goods sold during the period under review.

(b) Business and geographical segments

The Group's turnover and profit for the period under review attributable to equity holders of the Company are entirely derived from the manufacturing and trading of fine chemical products. The Directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

Segment information regarding the Group's turnover by location of customers, irrespective of the origin of the services, being the primary format for reporting segment information of the Group, is presented below:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Turnover		
PRC	**327,122**	197,525
Taiwan	**23,731**	23,465
United Kingdom	**9,735**	9,084
Japan	**5,243**	8,488
India	**17,642**	10,406
Others	**32,797**	13,742
	416,270	262,710
Segment results		
PRC	**47,091**	25,056
Taiwan	**3,027**	2,942
United Kingdom	**477**	1,205
Japan	**466**	1,729
India	**3,315**	2,362
Others	**4,448**	2,365
	58,824	35,659
Unallocated other corporate income	**3,772**	2,949
Unallocated corporate expenses	**(29,599)**	(18,253)
Finance costs	**(7,037)**	(1,634)
Profit before tax	**25,960**	18,721
Income tax expense	**(2,414)**	(697)
Profit for the period attributable to equity holders of the Company	**23,546**	18,024

5. OTHER INCOME

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants (*Note*)	**565**	458
Interest income	**374**	197
Release of deferred income	**1,371**	283
Rental income	**199**	270
Others	**603**	521
	3,112	1,729

Note: The amounts mainly represent the grants given by (i) Shanghai Pudong New District Government of Yangjing Branch Office 上海市浦東新區人民政府洋涇街道辦事處 to the Group as a tax subsidy to encourage the development of business located in Pudong; (ii) the Management Committee of Shandong Weifang Economic and Technology Development District 山東濰坊市經濟技術開發區管委會 (now known as the Management Committee of Shandong Weifang Economic Development District 山東濰坊市經濟開發區管委會) to the Group as a finance subsidy for production in high technology innovation products; and (iii) the Management Committee of Weifang Hanting Ocean Chemical Development Zone 濰坊市寒亭海洋化工開發區管委會 (now known as the Management Committee of Weifang Binhai Economic Development Zone 濰坊濱海經濟開發區管委會) to the Group as a finance subsidy for investment in the high technology development projects.

6. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans	**7,037**	1,634

No bank loan interest was capitalised for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB1,411,000).

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax	**2,023**	600
Deferred tax	**391**	97
	2,414	697

The provision for PRC Enterprise Income Tax is based on the estimated assessable profits for PRC taxation purposes at the rate of taxation applicable to each period.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

Taxation charge mainly consists of enterprise income tax in the PRC attributable to the assessable profits of Weifang Common Chem Co., Limited 濰坊同業化學有限公司 ("Weifang Common") and Shanghai Dehong Chemical Company Limited 上海德弘化工有限公司 ("Shanghai Dehong") charged at the preferential rate of 12% and 15% respectively in the year 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law. The applicable income tax rate under the New Tax Law and the Implementation Regulations was changed to 25% before any preferential concession from 1 January 2008.

Weifang Common, as an advance technology enterprise, was granted a tax concession for the year 2008 at a preferential rate of 12.5% pursuant to the old Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises which provides that enterprise engaging in advance technology business was entitled to 50% reduction of the applicable tax rate.

Pursuant to the relevant laws and regulations in the PRC, Weifang Parasia Chem Co., Limited 濰坊柏立化學有限公司 ("Weifang Parasia") and Weifang Binhai Petro-Chem Co., Ltd. 濰坊濱海石油化工有限公司 ("Weifang Binhai") are eligible for certain tax holidays and concessions in the PRC. The tax holiday and concessions are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. No provision for PRC income tax has been provided for Weifang Parasia in year 2007 as it was in its second profitable year and the preferential rate of 12.5% is applied for the year 2008 as that is its third profitable year. No provision for PRC income tax has been provided for Weifang Binhai for the six months ended 30 June 2008 as this year is its first profitable year.

A government grant obtained by Weifang Binhai for subsidising the construction of the production lines and ancillary facilities for manufacturing of high purity isobutylene, polyisobuylene and mono chloro acetic acid which was recognised as a deferred income in 2006. As the construction has been completed as at 31 December 2007, the deferred income commenced to release to income over the useful lives of the relevant assets. Such income is taxable for the year in which it is released to the income statement.

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Directors' remuneration		
Fees	**143**	157
Others emoluments	**1,136**	1,260
Pension costs	**17**	12
	1,296	1,429
Other staff costs	**12,640**	9,881
Pension costs	**713**	466
Total staff costs	**14,649**	11,776
Depreciation	**16,307**	10,197
Prepaid lease payments charged to income statement	**718**	744
Allowance for bad and doubtful debts	**-**	1
Allowance for inventories	**606**	-
Cost of inventories recognised as expenses	**351,133**	222,180

9. DIVIDEND

A final dividend for 2007 amounting to HK$5,000,000 (dividends per share: HK1.25 cents) was approved in the Annual General Meeting of the Company held on 9 May 2008 and paid during the period under review. The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period attributable to equity holders of the Company	**23,546**	18,024

	Number of ordinary shares as at	
	30 June 2008	30 June 2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	**400,000,000**	400,000,000

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2008 and there was no potential ordinary shares for the period ended 30 June 2007.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired property, plant and equipment of approximately RMB15.5 million (six months ended 30 June 2007: RMB65.9 million).

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables include trade and bills receivable of approximately RMB128,226,000 (31 December 2007: RMB207,174,000). The Group allows a credit period normally ranging from one month to six months to its trade customers. The bills receivable are non-interest bearing bank acceptance bills and of the age within six months at both balance sheet dates. An aged analysis of the Group's trade and bills receivable is as follows:

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
0 - 90 days	**121,260**	146,513
91 - 180 days	**5,693**	58,443
181 - 365 days	**1,268**	1,862
Over 365 days	**5**	356
	128,226	207,174

Note: As at 31 December 2007, the outstanding bills receivable of approximately RMB141,975,000 have been endorsed to certain creditors of the Group but continue to be recognised as bills receivable until maturity.

13. TRADE AND OTHER PAYABLES

Trade and other payables include trade and bills payable of approximately RMB64,635,000 (31 December 2007: RMB164,158,000). An aged analysis of the Group's trade and bills payable is as follows:

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
0 - 90 days	**54,791**	110,978
91 - 180 days	**8,373**	50,511
181 - 365 days	**729**	2,652
Over 365 days	**742**	17
	64,635	164,158

Note: As at 31 December 2007, the Group has endorsed a sum of bank acceptance bills of approximately RMB 115,676,000 to certain trade creditors but have not yet been applied to reduce the amounts of trade payables until the relevant bills have been matured.

14. BANK BORROWINGS

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Bank loans repayable:		
On demand or within one year	**128,126**	82,557
In the second year	**12,220**	25,640
In the third to fifth year inclusive	**45,260**	49,560
	185,606	157,757
Less: Amount due within one year shown as current liabilities	**(128,126)**	(82,557)
Amount due after one year	**57,480**	75,200

All bank borrowings are denominated in Renminbi. Short-term and long-term bank borrowings are arranged at floating interest rates ranged from 6.33% to 8.96% (31 December 2007: 6.33% to 8.22%) exposing the Group to cash flow interest rate risks and are secured by the Group's property, plant and equipment, investment properties and the Group's interest in leasehold land under prepaid lease payments.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF OPERATING RESULTS

Turnover and net profit attributable to equity holders of the Company for the six months ended 30 June 2008 was approximately RMB416.3 million and RMB23.5 million respectively, representing an increase of 58.5% and 30.6%, as compared with approximately RMB262.7 million and RMB18.0 million recorded in the corresponding period last year.

During the period under review, the Group recorded a considerable growth of the turnover as a result of its effective market strategy and the sales growth of sodium cyanide, cyano acetic acid and diethyl malonate etc., which were launched to the market in the past few years, the sales of these products was the most outstanding growth products of the Group during the period under review.

Despite the increase in market uncertainty and continuing heavy cost pressure, the overall gross profit margin of the Group was slightly increased by 0.2% to 14.6% as compared with 14.4% recorded in the corresponding period last year, which is attributable to the product price rebounded, well controlled cost of production, the continuous expansion of production scales strengthened the advantages of economic of scales and the synergy of the vertical upstream integrated production of the Group that alleviated the pressure on steadily rising raw material price substantially. The overall gross profit was also increased by approximately RMB23.0 million from approximately RMB37.8 million in corresponding period last year to approximately RMB60.8 million, representing an increase of 60.8%.

Selling expenses increased by approximately RMB6.0 million from approximately RMB9.3 million in corresponding period last year to approximately RMB15.3 million. Such an increase was principally as a result of the increase in sales commission and transportation costs which were in line with the growth in turnover. Selling expenses as a percentage of turnover was slightly increased to 3.7% (six months ended 30 June 2007: 3.5%) during the period under review.

As the expansion in the operation of the Group, administrative expenses were also increased from approximately RMB11.1 million in corresponding period last year to RMB16.3 million, which was mainly due to the increase in other local tax, exchange loss, depreciation and amortization and the share-based payment expenses incurred as a result of the granted share options for the period under review. However, the percentage of turnover was slightly reduced to 3.9% (six months ended 30 June 2007: 4.2%).

The finance costs mainly comprised interest on bank borrowings and discounted bank acceptance bills, which were increased by approximately RMB5.4 million from approximately RMB1.6 million in corresponding period last year to approximately RMB7.0 million. The increase was mainly due to the rising of bank borrowing interest rates and increase in discounted bank acceptance bills interests during the period under review.

The profit for the period under review attributable to the equity holders of the Company has increased by approximately RMB5.5 million from approximately RMB18.0 million in corresponding period last year to approximately RMB23.5 million, representing an increase of 30.6% and exceed the whole year profit of 2007.

BUSINESS REVIEW

During the period under review, the adverse impact on the keen market competition which affected some of the products price in the second half of last year was improved and returned to the normal level, and the Group recorded a considerable growth of turnover and gross profit, particularly in the second quarter of this year. Despite the various factors causing the rise of operation cost to all manufacturers in the PRC, such as the continuously increasing price of raw materials, the constantly rising overheads caused by the high inflation rate, the heavier staff costs burden under the new labour contract laws, the reducing export value-added-tax refund and the unfavourable exchange rate and interest rate movement, the profit for the period under review attributable to the equity holders of the Company was still recorded appreciable growth when compared with that recorded in the corresponding period last year.

The Group focused its efforts on its new products development and the market promotion in the past few years that was driven the growth of turnover and profit of the Group during the period under review. Given the success of the newly launched products, the Group will continue its product development to sustain its future business growth.

In the new production plant of Weifang Binhai ("Binhai plant"), the commercial production of isobutylene and mono chloro acetic acid has been successfully launched. With such commercial production, the operation efficiency was improved and Binhai plant has reached its break even currently. Besides, the production of polyisobutylene is expected to be enhanced gradually in the second half of the year that will further uplift the profitability of Binhai plant.

The Group implemented vertical upstream integrated production over the years through self supplying of core raw materials to ensure steadier supply, better quality control of raw materials and to release the reliance on the external supply that in turn reduces production costs and shortens the production cycle. During the period under review, the extension of the production line of mono chloro acetic acid, one of the core raw materials of the Group, was completed that enhanced its annual production capacity. The advantage of economic of scale will further be uplifted in coming future.

During the period under review, the Group has entered into a Framework Supply Agreement with a brandname corporation in adhesive industry for the supply of Ethyl cyanoacetate and Methyl cyanoacetate for three years. With the Framework Supply Agreement, not only it will steady the turnover of the Group and improve the Group's future results, and also reinforce the market position of the Group in the industry.

In order to ensure a healthy and sustainable growth of the Group, the environmental protection issues were proactively addressed. The Group has invested approximately RMB8.0 million in the construction of waste water treatment facilities for promoting the safety and environmental protection management of the Group and meeting the stringent environmental protection policy requirements issued by the State. During the period under review, the construction of the waste water treatment facilities was nearly completed and they will put into the operation in the second half of the year.

Relocation of production plant

According to the notice of revised new development of land use and town planning of Weifang City issued by the Government of Weifang City in June 2008 ("Revised Town Planning"), three plots of land having a total site area of 56,121 sq.m. situated at 88 East Beihuan Road, Weifang Economic and Technology Development Zone, Weifang City, Shandong Province, which have been granted by Weifang Economic and Technology Development Zone State Land and Resources Bureau (濰坊經濟技術開發區國土資源局) to Weifang Common Chem Co., Ltd. ("Weifang Common"), one of the operating subsidiaries of the Company, for a term expiring on 6 November 2047, 16 September 2047 and 25 June 2054 respectively, were falling within the boundary of the Revised Town Planning that will be evicted and changed from industrial use to commercial use. The existing production and operations of Weifang Common including its production plants, machinery and equipment erected upon these plots of land will be relocated to the production plant of Weifang Parasia Chem. Co., Ltd. ("Weifang Parasia") and Weifang Binhai Petro-chem Co., Ltd. ("Weifang Binhai") upon the Group accepted the terms and conditions of relocation offered by the relevant authorities.

The Board anticipated that the relocation will not constitute any adverse and material effect to the Group overall. As a result of the relocation, the Group can centralize the resources for realizing the strategy of large-scale operation, magnifying the synergistic effect of vertical upstream integration and facilitating the management of future business development of the Group.

OUTLOOK

The current market competition is still very keen where the operation conditions remains restrained, especially given the uncertainties economic development across the world, the impact to the fine chemical products manufacturing is still uncertain. A major competitor of the Group in Germany in the production of Ethylcyanoacetate and Methylcyanoacetate closed its production plants located in United States provided excellent opportunities for the Group to expand its business and its market share in such products. The Group will devote extensive efforts and resources to take full advantage of this opportunity to further consolidate its leading market position. In order to further extend the overseas markets, the Group has planned to participate in a series of overseas promotion fairs in second half of the year.

Meanwhile, in order to enhance the competitiveness of the Group's products, the Group will continuously pursue the advancement of production facilities and production effectiveness to achieve a further low cost and high efficiency operation. The Group will also concentrate on its productivity enhancement to meet the foreseeable growing market demand so as to capture an extensive market share.

Binhai plant began to run in norm and achieved higher cost-efficiency. It is anticipated that both isobutylene and mono chloro acetic acid will go into a rapid growth stage, and the Binhai plant will commence generating profit during the second half of the year.

In respect of the strengthening safety and environmental protection, the Group will also continue actively deploy resources to further improve the operation system and facilities involving safety and environmental protection, staff training and workplace protection, besides the investment in upgrading the hardware for anti-pollution.

Looking forward, following the Group's considerable turnover and appreciable profit growth in the first half of 2008, the Directors have confidence that the turnover of the Group will be continuous its growth momentum in the second half of this year, and expect that if there are no unforeseen circumstances and the future market demand will not be deteriorating, the Group can maintain its profit growth in the second half of the year and will substantially exceed the results of 2007. Nevertheless, the Group will take various measures to improve the return to shareholders of the Company.

FINANCIAL REVIEW

Liquidity and Financial Resources

For the six months ended 30 June 2008, the Group's primary source of funding was derived from the cash generated from its operating activities and newly raised bank borrowings. The Group's cash has principally been used to pay for the acquisition of fixed assets and repayment of bank borrowings.

The net cash inflow from operating activities decreased from approximately RMB49.1 million of corresponding period last year to approximately RMB4.6 million which was primarily resulted from the increase in inventory and trade and other receivables and decrease in trade and other payables. Besides, the newly raised bank borrowings amounted to approximately RMB88.0 million (six months ended 30 June 2007: RMB20.3 million) generated cash inflow from financing activities.

With the financial resources obtained from the Group's operations, the Group had invested approximately RMB61.0 million (six months ended 30 June 2007: RMB72.2 million) in the acquisition of the property, plant and equipment, and repaid approximately RMB60.1 million (six months ended 30 June 2007: approximately RMB 10.2 million) bank borrowings.

As at 30 June 2008, the Group had bank and cash balances and pledged bank deposits of approximately RMB5.8 million (31 December 2007: RMB45.6 million). The total amount of outstanding borrowings was approximately RMB185.6 million (31 December 2007: RMB157.8 million). The Group's gearing ratio which is represented by the ratio of net debts (total borrowings net of cash and cash equivalents) to total shareholders' equity increased to 51.8% (31 December 2007: 34.3%) as a result of the capital expenditure spent on the infrastructure of new production plant and the advancement of production facilities during the period under review.

As at 30 June 2008, the Group recorded the net current liabilities of approximately RMB32.6 million (31 December 2007: RMB22.3 million), which was mainly caused by all newly raised borrowings in short-term basis, the additional of capital expenditure on production facilities advancement, the infrastructure of new production plant and its ancillary facilities during the period under review. As all approved infrastructure for the production plant of the Group was nearly completed, except for the capital expenditure related to relocation of production plant, all new capital investment has been suspended for the time being, and together with the positive cash inflow from the Group's operations and its available banking facilities obtained from its bankers, the Group has sufficient financial resources to meet its commitments and working capital requirements in foreseeable future. Nevertheless, the Group will dedicate to maintain its operation well and generate sufficient sources of fund enable to meet its operation requirements and improve the equity return to its shareholders as a whole.

Pledge of assets

As at 30 June 2008, the Group had no bank deposit (31 December 2007: RMB16.4 million) pledged for bank acceptance bills facility. Certain property, plant and equipment of the Group with an aggregate net book value of approximately RMB31.7 million (31 December 2007: RMB77.7 million), investment properties of the Group with an aggregate fair value of approximately RMB10.4 million (31 December 2007: RMB9.7 million), and prepaid lease payments of approximately RMB63.2 million (31 December 2007: RMB44.1 million) were pledged to secure the Group's bank borrowings.

Contingent Liabilities

As at 30 June 2008, the Group had no material contingent liabilities (31 December 2007: nil).

Exposure to Fluctuations in Exchange Rates

The Group's operation is mainly in the PRC and its assets, liabilities, revenues and transactions are mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The Group's foremost exposure to the foreign exchange fluctuations was caused by the revaluation of Renminbi during the period under review. Most of the Group's income and expenses are denominated in Renminbi except those for the Group's export sales which were, in majority, denominated in United States dollars. However, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the period under review. Besides, the Group will consider cost-efficient hedging methods in future foreign currency transactions when appropriate.

HUMAN RESOURCES

As at 30 June 2008, the Group has 737 full-time employees (31 December 2007: 821 full-time employees) of which 653 were in production and warehouse, 20 were in sales and marketing, 7 were in research and development centre, and 57 were in back-office supportive employees. The decrease in the number of employees was mainly due to the enhancement in operation efficiency. The remuneration package offered to employees was appropriate for their duties, performances, qualifications, and in line with the prevailing market terms. Staff benefits including medical coverage and provident funds were also provided to employees. Employee would receive discretionary bonuses and monetary rewards based on their ratings in the annual performance appraisals. The Group also offered rewards or other incentives to motivate personal growth and career development of the employees. During the period under review, the Group had run programs including occupational safety and health protection, information technology in-house training, enterprise management course and various types of on-job training etc. provided to employees. All new staffs of the Group are required to attend an introductory course.

The Group has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. During the period under review, 4,000,000 options were granted to eligible employees and the supplier of the Group.

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

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed shares.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provision of the Corporate Governance Practices (the "CG Code") as set out in the Listing Rules during the six months ended 30 June 2008.

MODEL CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted a code of conduct with standards not lower than those prescribed under the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2008.

The senior management, who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises an executive director of the Company, Mr. Liu Hongliang (Chairman of the Remuneration Committee) and three independent non-executive directors of the Company, Mr. Leung Kam Wan, Mr. Guo Baoyu and Mr. Liu Chenguang. During the period under review, the Remuneration Committee has reviewed the approved the remuneration package of all Directors and senior management of the Company for the year ending 31 December 2008 by reference to the scope duties and responsibilities of the Directors of the Company, corporate goals and objectives of the Group. No Director shall participate in any discussion and decision about his own remuneration.

AUDIT COMMITTEE

The Audit Committee of the Company comprises the three independent non-executive directors of the Company, namely Mr. Leung Kam Wan (Chairman of the Audit Committee), Mr. Guo Baoyu and Mr. Liu Chenguang. The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with our management and external auditor relating to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2008. There is no disagreement raised by the Audit Committee on the accounting treatment adopted by the Company during the period under review.

By Order of the Board
Liu Hongliang
Chairman

Hong Kong, 22 August 2008

As at the date of this announcement, the executive Directors are Mr. Liu Hongliang, Mr. Wang Zijiang, Mr. Guo Xitian and Mr. Guo Yucheng; whilst the independent non-executive Directors are Mr. Leung Kam Wan, Mr. Liu Chenguang and Mr. Gao Baoyu.