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 2009

HIGHLIGHTS OF 2009 INTERIM RESULTS

- Turnover for the six months ended 30 June 2009 was approximately RMB282.4 million, representing an decrease of 32.2% as compared with that of the corresponding period last year
- Gross profit decreased by 24.5% to approximately RMB45.9 million
- Gross profit margin reached 16.3%, representing an increase of 1.7% as compared with that of the corresponding period last year
- Profit for the period decreased by 24.6% to approximately RMB17.8 million
- Basic earnings per share for the six months ended 30 June 2009 amounted to approximately RMB4.4 cents
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009

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 2009 together with the comparative figures for the corresponding period in 2008 and the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2009	2008
	Note	**RMB'000**	RMB'000
		(unaudited)	(unaudited)
Turnover		**282,412**	416,270
Cost of sales		**(236,476)**	(355,440)
Gross profit		**45,936**	60,830
Other income		**2,332**	3,112
Selling expenses		**(10,957)**	(15,260)
Administrative expenses		**(12,563)**	(16,345)
Change in fair value of investment properties		**–**	660
Finance costs	4	**(6,532)**	(7,037)
Profit before tax		**18,216**	25,960
Income tax expense	5	**(461)**	(2,414)
Profit for the period	6	**17,755**	23,546
Earnings per share			
- Basic	8	**RMB0.044**	RMB0.059
- Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2009	2008
	Note	**RMB'000**	RMB'000
		(unaudited)	(unaudited)
Profit for the period		**17,755**	23,546
Other comprehensive income/(expense):			
Exchange differences on translating foreign operations		**7**	(47)
Total comprehensive income for the period attributable to owners of the Company		**17,762**	23,499

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2009 RMB'000 (unaudited)**	31 December 2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**385,579**	366,755
Prepaid lease payments		**62,673**	63,371
Investment properties		**10,360**	10,360
Deposits for acquisition of property, plant and equipment		**1,139**	20,571
Deferred tax assets		**494**	826
		460,245	461,883
Current assets			
Inventories		**52,960**	39,960
Trade and bills receivable	10	**102,533**	97,477
Prepayments and other receivables		**9,598**	8,079
Current tax assets		**2,812**	1,963
Pledged bank deposits		**900**	10,000
Bank and cash balances		**23,497**	21,363
		192,300	178,842
Current liabilities			
Trade and bills payable	11	**34,187**	47,952
Accruals and other payables		**52,144**	57,621
Bank borrowings		**84,982**	110,054
Current tax liabilities		**369**	639
		171,682	216,266
Net current assets (liabilities)		**20,618**	(37,424)
Total assets less current liabilities		**480,863**	424,459
Non-current liabilities			
Bank borrowings		**93,260**	49,560
Deferred income		**22,781**	24,152
Deferred tax liabilities		**1,841**	1,816
		117,882	75,528
NET ASSETS		**362,981**	348,931
Capital and reserves			
Share capital		**4,031**	4,031
Reserves		**358,950**	344,900
TOTAL EQUITY		**362,981**	348,931

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the Group's 2008 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2008 except as stated below.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

a. Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

b. Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to the condensed financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The Group has four reportable segments as follows:

Cyanoacetic acid & its esters products	- manufacturing and sale of cyanoacetic acid & its esters products
Alcohols products	- manufacturing and sale of alcohols products
Chloroacetic acid and its derivatives products	- manufacturing and sale of chloroacetic acid and its derivatives products
Fine petrochemical products	- manufacturing and sale of fine petrochemical products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include gains or losses from investment properties, finance costs and the selling expenses and general administrative expenses which are common costs incurred for all operating segments as a whole that are not used by the chief operating decision-markers as a basis for the purpose of resource allocation and assessment of segment performance. Income tax expense is also not allocated to individual operating segments. Segment assets do not include prepaid lease payments, investment properties, deferred tax assets, current tax assets, pledged bank deposits and bank and cash balances. Segment liabilities do not include bank borrowings, deferred income and tax liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

3. SEGMENT INFORMATION (CONT'D)

	Cyanoacetic acid & its esters products RMB'000 (unaudited)	Alcohols products RMB'000 (unaudited)	Chloroacetic acid and its derivatives products RMB'000 (unaudited)	Fine petrochemical products RMB'000 (unaudited)	Total RMB'000 (unaudited)
Six months ended 30 June 2009:					
Revenue from external customers	**242,474**	**20,966**	**134**	**18,526**	**282,100**
Intersegment revenue	**3**	**10,736**	**45,314**	**-**	**56,053**
Segment profit/(loss)	**27,906**	**1,073**	**9,271**	**(180)**	**38,070**
As at 30 June 2009:					
Segment assets	**289,234**	**19,163**	**38,826**	**54,377**	**401,600**
Six months ended 30 June 2008:					
Revenue from external customers	340,337	51,257	27	21,401	413,022
Intersegment revenue	8	11,492	64,560	-	76,060
Segment profit/(loss)	30,292	7,518	19,725	(1,919)	55,616
As at 31 December 2008:					
Segment assets	285,818	14,277	35,841	43,562	379,498

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Reconciliations of segment profit or loss:		
Total profit of reportable segments	**38,070**	55,616
Elimination of intersegment profits	**(922)**	(7,457)
Unallocated amounts:		
Revenue	**312**	3,248
Cost of sales	**(60)**	(4,482)
Other income	**544**	1,340
Change in fair value of investment properties	**-**	660
Selling expenses	**(1,285)**	(913)
Administrative expenses	**(11,911)**	(15,015)
Finance costs	**(6,532)**	(7,037)
Consolidated profit for the period before tax	**18,216**	25,960

4. FINANCE COSTS

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans	**6,532**	7,037

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
The People's Republic of China (“PRC”) Enterprise Income Tax	**103**	2,023
Deferred tax	**358**	391
	461	2,414

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 provided as the Group's income neither arises in nor is derived from Hong Kong (2008: Nil).

Weifang Common Chem Co., Ltd. 濰坊同業化學有限公司(“Weifang Common”), as an advance technology enterprise, was granted a tax concession since 2004 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. Weifang Common was charged at a preferential rate of 12.5% in the year 2008 and such tax concession was expired on 31 December 2008. Weifang Common is subject to the PRC Enterprise Income Tax at the rate of 25% for the year 2009.

Shanghai Dehong Chemical Company Limited 上海德弘化工有限公司(“Shanghai Dehong”) is subject to the PRC Enterprise Income Tax at the rate of 20% for the year 2009, (2008: 18%) being the preferential tax rate in Shanghai Pudong New District.

Pursuant to the relevant laws and regulations in the PRC, Weifang Parasia Chem Co., Ltd. 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. The preferential rate of 12.5% on PRC Enterprise Income Tax is applied to Weifang Parasia in the year 2008 and 2009 as those are the third and forth profitable year respectively. No provision for PRC Enterprise Income Tax has been provided for Weifang Binhai for the year 2008 and 2009 as these years are the first and second profitable year respectively and tax being exempted.

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 chloroacetic 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.

6. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**(248)**	(374)
Directors' remuneration		
Fees	**140**	143
Others emoluments	**1,140**	1,136
Pension costs	**25**	17
	1,305	1,296
Other staff costs	**12,032**	12,640
Pension costs	**840**	713
Total staff costs	**14,177**	14,649
Depreciation	**17,422**	16,307
Prepaid lease payments charged to income statement	**718**	718
Bad debts written off	**187**	-
Allowance for inventories	**113**	606
Reversal of allowance for inventories	**(2,117)**	-
Loss on disposal of property, plant and equipment	**373**	-
Cost of inventories recognised as expenses	**234,347**	351,133

Because of the change in the market conditions of the Group's products during the period, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of approximately RMB2,117,000 was reversed during the period under review.

7. DIVIDENDS

A final dividend for 2008 amounting to HK$5,000,000 (dividends per share: HK1.25 cents) was approved in annual general meeting of the Company held on 8 May 2009 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 2009 (six months ended 30 June 2008: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period	**17,755**	23,546
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**400,000,000**	400,000,000

There were no dilutive potential ordinary shares for the six months ended 30 June 2009 and 2008.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment of approximately RMB36.6 million (six months ended 30 June 2008: RMB15.5 million).

10. TRADE AND BILLS RECEIVABLE

The Group normally allows credit terms to customers ranging from one month to six months. The bills receivable are non-interest bearing bank acceptance bills and of the age within six months at both balance sheet dates. Overdue balances are reviewed regularly by the management of the Company.

An aged analysis of the Group's trade and bills receivable is as follows:

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
0 - 90 days	**94,131**	80,513
91 - 180 days	**4,878**	16,025
181 - 365 days	**2,607**	939
Over 365 days	**917**	-
	102,533	97,477

11. TRADE AND BILLS PAYABLE

The Group normally obtains credit terms ranging from 30 to 365 days from its suppliers.

An aged analysis of the Group's trade and bills payable is as follows:

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
0 - 90 days	**31,994**	19,674
91 - 180 days	**1,311**	19,762
181 - 365days	**851**	7,732
Over 365 days	**31**	784
	34,187	47,952

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF OPERATING RESULTS

Turnover and net profit of the Company for the six months ended 30 June 2009 were approximately RMB282.4 million and RMB17.8 million respectively, representing an decrease of approximately RMB133.9 million and RMB5.7 million or 32.2% and 24.6%, as compared with approximately RMB416.3 million and RMB23.5 million recorded in the corresponding period of last year. The decrease was mainly caused by the global economic downturn since the forth quarter of 2008. The gross profit margin of the Company, however, was increased by 1.7% to 16.3% as compared with 14.6% recorded in the corresponding period of last year. Likewise, the net profit margin of the Company was also increased by 0.6% to 6.3% as compared with 5.7% recorded in the corresponding period of last year. The improvement of the profit margins of the Group was primarily resulted from (i) effective upward vertically integrated production and the advantage of economies of scale in production that enhanced its products competitiveness; (ii) higher profit margin of some newly developed products; and (iii) implementation of effective cost control measures during the period under review.

Selling expenses decreased by approximately RMB4.3 million from approximately RMB15.3 million in the corresponding period of last year to approximately RMB11.0 million, which was mainly due to the decrease of sales commission and transportation costs that in line with the decline of turnover. The selling expenses as a percentage of turnover was 3.9% (six months ended 30 June 2008: 3.7%) during the period under review.

The administrative expenses also decreased by approximately RMB3.7 million from approximately RMB16.3 million in the corresponding period of last year to approximately RMB12.6 million mainly due to the reduction of exchange loss and the decrease of other local tax expenses during the period under review. The percentage of turnover was increased to 4.5% (six months ended 30 June 2008: 3.9%) whilst most of the fixed expenses were remain constant.

The finance costs were comprised of interest on bank borrowings and discounted bank acceptance bills, which were slightly decreased by approximately RMB0.5 million from approximately RMB7.0 million in the corresponding period of last year to approximately RMB6.5 million. The decrease was mainly due to the decreased bank borrowing interest rates and the decrease in discounted bank acceptance bills during the period under review.

Basic earnings per share decreased to approximately RMB4.4 cents from approximately RMB5.9 cents in corresponding period last year.

BUSINESS REVIEW

The global financial turmoil caused economies downturn around the world and the Group faced a sharp decline of market demand since the fourth quarter of 2008. In light of the various economic stimulus measures promoted by the PRC government in the early of 2009, a positive economic growth was recorded in the PRC. The Group has seen that the economy of the PRC was in the process of gradual recovery and the local market demand was rebounded slowly in the second quarter of 2009. Since the turnover of the Group was generated mostly from the PRC market, the proportion of contribution from the PRC market increased 9.2%, reaching 87.8% from 78.6% in the corresponding period of last year.

Even though the turnover and net profit of the Group in the first half of 2009 were declined when compared with those recorded in the correspondence period of last year, the gross profit margin and net profit margin of the Group were well maintained as a result of the implementation of various cost control measures including those on the selling and administrative expenses during the period under review. Furthermore, the operating results of the Group were also improved notably in the second quarter of 2009 due to the slowly rebounded in the PRC market demands.

The Group has broadly categorised its products into four major product groups based on the product nature, namely: (i) cyanoacetic acid & its esters products; (ii) alcohols products; (iii) chloroacetic acid and its derivatives products; and (iv) fine petrochemical products. The Group will concentrate its effort and resources on the further development of these product groups.

The production of cyanoacetic acid & its esters products and alcohols products were the core and mature business of the Group, which the Group has been engaged since its incorporation and has already established foothold on the markets successfully. Whereas, the production of chloroacetic acid & its derivatives products and fine petrochemical products are newly started up business of the Group which are being carried out in the key production plant, Weifang Binhai, of the Group.

The Group continued to pursue proactive product development, some newly introduced esters products have been well received by the market and contributed relatively higher profit margin to the Group during the period under review. The Group planned to expand the production capacities of these new products promptly to tap such market opportunities in the second half of this year.

The market of alcohols products is matured and stable. The Group will strive to maintain its market share.

Currently, chloroacetic acid products produced by the Group were mainly used for its internal consumption. The Group is working towards the enhancement of such production capacities aiming to launch the sale of these products in the open market in the near future.

The petrochemical products of the Group were still in the infancy stage of development and the production of these products was adversely affected by several market factors. As a new market player, the Group has realigned its production and operations to meet the ever changing market conditions during the period under review. Despite these products failed to achieve the targeted results in current stage, the Group will continue to step up efforts to operate such products group at low cost with high efficiency. With the solid experience and advanced production technologies, the Group expects that such products group can bring better return to the Group in future.

The Group has well established different sales channels including direct sales offices, sales representatives, distributors and sales agents, which facilitate to capture the business opportunities arising from ever changing market conditions during the gradual economic recovery. The Group will adopt appropriate marketing strategies to gain further market shares, explore and identify potential markets and products proactively.

The Group has implemented tight measures on new capital expenditure to improve its working capital level amid tough economic environment. All proposed capital investments were suspended temporary other than those removal and relocation related projects during the period under review. In light of the improving signs of the PRC economic conditions, the Group will consider expansion of the production of the products with great potential according to the market dynamics and that can seize business opportunities in the process of market rebound in the second half of this year.

Resumption and Relocation

Weifang Common is required to surrender the vacant possession of one plot of land (the “Land”) on or before 30 June 2009 according to the Compensation Agreement dated 6 November 2008. On 25 June 2009, the postponement for the surrender of the vacant possession of the Land was approved by Shandong Weifang Economic Development Zone Sub-Bureau of the Weifang Municipal State Land Resources Bureau (please refer to the announcements of the Company dated 18 November 2008 and 26 June 2009 for details), Weifang Common is allowed to use the Land for production and surrender the vacant possession of the Land before 30 June 2010. The postponement will not have any material impact on the operation and finance to the Group. On the other hand, the Group has additional time to organise the removal and relocation works.

Although the amount of compensation and the terms of resumption have not been finalised with the relevant local authorities for the remaining two plots of land (the “Remaining Land”) up to the date of this announcement, the Group has planned the removal and relocation of the structures erected on the Remaining Land simultaneously with the removal and relocation of the Land since it will be more cost effective and enhance operational efficiency. Hence, the removal and relocation works will cover the three plots of land which are expected to be completed by the end of June 2010 according to the tentative time schedule of the Group.

The Group planned the removal and relocation works to be conducted by several phases. The back-up production capacity was available in another nearby production plant of the Group in order to sustain the production demands in the transitional of each phase. Hence, the Board anticipated that the removal and relocation will not have any adverse and material effect to the Group as a whole. The first phase of the works have been already been commenced by the Group as at the date of this announcement.

Furthermore, in order to achieve a higher degree of production cost-efficiency, the current production capacity of Weifang Common will be modified according to the foreseeable market demands and opportunities of the Group. The production capacities for some higher profit margin and potential products will be expanded through the removal and relocation event. The Board believed that the resumption and relocation can strengthen and improve the products competitiveness, operational efficiency and future business development of the Group.

OUTLOOK

The PRC government rolled out a 4 trillion yuan stimulus package in November last year for increased infrastructure spending and expanded social safety net. China continues to retool its own economy to stimulate growth. The common consensus that the global economy is poised for recovery, especially in China, where the Group has extensive and stabilised market that put the Group in an advantageous position facilitates its future development. The Group believes that its foreseeable results can still be sustained as its core businesses are still strong with the markets being highly mature and competitive. The Group remains its focus on Mainland China for its business expansion.

The Group will capture business opportunities during reviving economy and an improving consumption confidence by adopting appropriated operating strategies. The product diversification, cost-efficiency production and enrichment of products range will be pursued by the Group continuously that can improve its competitiveness so as to boost its revenue and profit. Meanwhile, the Group will continue to focus on fostering new products and potential market for exploring new business growth opportunities. Last but not least, stringent cost and quality control measures will continue to carry out to improve the operation efficiency of the Group.

Looking forward, the market position of the Group still remains strong. The momentum of the PRC market recovery is expected to keep in the rest of this year, the Group has confidence to maintain positive operating results for the whole year even though the first half results were not as promising as the corresponding period of last year. Nevertheless, the Group will exert utmost efforts to seek its on going year-on-year results growth by taking various measures to improve the return to shareholders of the Company.

FINANCIAL REVIEW

Liquidity and Financial Resources

For the six months ended 30 June 2009, the Group’s primary source of funding included the net cash inflow generated from operating activities of approximately RMB5.7 million (six months ended 30 June 2008: RMB4.6 million); newly raised bank borrowings of approximately RMB 104.0 million (six months ended 30 June 2008: RMB88.0 million) and interest income of approximately RMB0.3 million (six months ended 30 June 2008: RMB0.4 million). With the financial resources obtained from the Group’s operations, the Group had invested approximately RMB21.2 million (six months ended 30 June 2008: RMB61.0 million) in the acquisition of the property, plant and equipment, bank borrowing repayments of approximately RMB85.4 million (six months ended 30 June 2008: RMB60.1 million); interest expenses of approximately RMB6.0 million (six months ended 30 June 2008: RMB7.0 million) and dividends paid of approximately RMB4.4 million (six months ended 30 June 2008: RMB4.5 million) during the year under review.

As at 30 June 2009, the Group had bank and cash balances and pledged bank deposits of approximately RMB24.4 million (31 December 2008: RMB31.4 million). The total amount of outstanding borrowings was approximately RMB178.2 million (31 December 2008: RMB159.6 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 42.4% (31 December 2008: 36.8%) as a result of the capital expenditure spent on the advancement of production facilities and removal and relocation related projects during the period under review. Besides, the Group recorded net current assets of approximately RMB20.6 million (net current liabilities as at 31 December 2008: RMB37.4 million). The liquidity position of the Group was improved since the Group has maintained a low level capital expenditure and obtained a new bank borrowing in mid-long term basis during the period under review. With the positive cash inflow from the Group's operations, existing cash resources 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 implement tight measures on capital expenditure continuously and will dedicate to keep a sound liquidity position to optimise the equity return to its shareholders.

During the period under review, the Group did not use any financial instruments for any hedging purposes.

Pledge of assets

As at 30 June 2009, the Group had bank deposit of approximately RMB0.9 million (31 December 2008: RMB10.0 million) pledged for letter of credit and bank acceptance bills facility. Certain properties of the Group with an aggregate net book value of approximately RMB23.7 million (31 December 2008: RMB30.4 million), investment properties of the Group with an aggregate fair value of approximately RMB10.4 million (31 December 2008: nil), prepaid lease payments of approximately RMB64.1 million (31 December 2008: RMB62.3 million) and leasehold land and building in the PRC provided by a related party of the Group with an aggregate net book value of approximately RMB5.4 million (31 December 2008: RMB5.5 million) were pledged to secure the Group's bank borrowings.

Contingent Liabilities

As at 30 June 2009, the Group had no material contingent liabilities.

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 risk was caused by the fluctuation 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. 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 to cope with future foreign currency transactions when appropriate.

HUMAN RESOURCES

As at 30 June 2009, the Group has 748 full-time employees (31 December 2008: 906 full-time employees) of which 650 were production and warehouse, 24 were sales and marketing, 10 were research and development centre, and 64 were back-office supportive employees. The number of employees was reduced due to the enhancement in operation efficiency.

The Group has established its human resources policies and procedures with a view to deploying the incentives and rewards of the remuneration system which include a wide range of training and personal development programs to the employees. The remuneration package offered to the staff was in line with the duties and the prevailing market terms. Staff benefits, including medical coverage and provident funds, have also been provided to employees of the Group.

Employees would receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals of the Group. The Group also offered rewards or other incentives to the employees in order to motivate their personal growth and career development, such as ongoing training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. All new staffs of the Group are required to attend an introductory course and there are also various types of training courses available to all the Group's employees.

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. The Company has granted 4,000,000 share options to eligible employees and a supplier to recognise their contribution to the Group so far. No share option of the Company was granted during the period under review.

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

During the six months ended 30 June 2009, 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 2009.

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 2009.

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 and approved the remuneration package of all Directors and senior management of the Company for the year ending 31 December 2009 by reference to the scope duties and responsibilities of the Directors of the Company, corporate goals and objectives of the Group, after taking into account also the comparable market conditions. 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 independent auditor relating to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2009. 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, 29 August 2009

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