



Interim Report 2010/11



CIL HOLDINGS LIMITED

華建控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code : 479



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CORPORATE INFORMATION

DIRECTORS

Ke Jun Xiang (*Chairman*)

Lo Yuen Lai

(*Deputy Chairman and Acting Chief
Executive Officer*)

Simon Ng

Chow Yeung Tuen, Richard*

Kwok Yam Sheung**

Chan Man Wai, Joman**

Chan Siu Kay**

* Non-Executive Director

** Independent Non-Executive Director

COMPANY SECRETARY

Chiu King Hoi, Anthony

PRINCIPAL BANKERS

Bank of China (Hong Kong)

DBS Bank (Hong Kong) Limited

The HSBC Corporation Limited

Industrial Bank Co. Ltd.

AUDITORS

Graham H. Y. Chan & Co.

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COMPLIANCE ADVISOR

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SHARE REGISTERS

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Hamilton HM11

Bermuda

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REGISTERED OFFICE

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Bermuda

HEAD OFFICE AND PRINCIPAL

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Kowloon, Hong Kong

STOCK CODE

00479

COMPANY WEBSITE

www.cil479.com.hk

The board of directors of CIL Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (herein collectively referred to as the "Group") for the six months ended 31 December 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010

		For the six months ended 31 December	
		2010	2009
	<i>Note</i>	Unaudited HK\$'000	Unaudited HK\$'000
Turnover	3	123,189	105,901
Cost of sales		(119,633)	(100,242)
Gross profit		3,556	5,659
Other income	4	2,787	1,382
Administrative expenses		(5,476)	(5,159)
Finance costs	5	(5,466)	(2,911)
Loss before taxation	6	(4,599)	(1,029)
Taxation	7	-	-
Loss for the period		(4,599)	(1,029)
Total comprehensive loss for the period		(4,599)	(1,029)
Total comprehensive income / (loss) attributable to:			
Owners of the Company		(4,795)	(1,029)
Minority interest		196	-
		(4,599)	(1,029)
Loss per share	8		
- Basic		(0.08) cents	(0.02) cents
- Diluted		N/A	N/A
Interim dividend	9	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

		As At	
		31 December 2010 Unaudited HK\$'000	30 June 2010 Audited HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		662	316
Available-for-sale investment		-	-
		662	316
Current assets			
Prepayments, deposits and other receivables		4,075	1,220
Inventories		6,255	15,664
Trade receivables	10	26,279	27,886
Fixed deposits – pledged		150	1,312
Bank balances and cash		27,381	24,625
		64,140	70,707
Current liabilities			
Trade and bills payables	11	8,937	13,366
Accruals, deposits received and other payables		52,752	54,444
Interest payable of borrowings		19,989	15,124
Interest-bearing borrowings		81,848	70,054
Due to related parties	12	12,666	19,578
Due to directors		2,340	7,588
		178,532	180,154
Net current liabilities		(114,392)	(109,447)
Total assets less current liabilities		(113,730)	(109,131)
Capital and reserves			
Issued capital	13	61,749	61,749
Reserves		(177,126)	(172,331)
		(115,377)	(110,582)
Minority interests		1,647	1,451
		(113,730)	(109,131)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010

	Attributable to owners of the Company					Minority interests	Total
	Issued capital	Share premium	Capital reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2009 (audited)	61,749	293,907	(100)	(465,864)	(110,308)	-	(110,308)
Total comprehensive loss for the period	-	-	-	(1,029)	(1,029)	-	(1,029)
At 31 December 2009 (unaudited)	61,749	293,907	(100)	(466,893)	(111,337)	-	(111,337)
At 30 June 2010 (audited)	61,749	293,907	(100)	(466,138)	(110,582)	1,451	(109,131)
Total comprehensive income/ (loss) for the period	-	-	-	(4,795)	(4,795)	196	(4,599)
At 31 December 2010 (unaudited)	61,749	293,907	(100)	(470,933)	(115,377)	1,647	(113,730)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2010

	For the six months ended 31 December	
	2010	2009
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(9,763)	(18,122)
Net cash generated from investing activities	725	510
Net cash generated from financing activities	11,796	16,078
Net increase / (decrease) in cash and cash equivalents	2,758	(1,534)
Cash and cash equivalents at 30 June	24,623	26,227
Cash and cash equivalents at 31 December	27,381	24,693
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	27,381	24,693

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2010

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements ("Interim Financial Statements") for the six months ended 31 December 2010 have been prepared in accordance with Hong Kong Statement of Standard Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Interim Financial Statements have been approved for issue by the board of directors of the Company on 28 February 2011.

The accounting policies adopted in the unaudited Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2010.

In preparing the Interim Financial Statements, the directors of the Company have considered the future liquidity of the Group in view of its net liabilities position as at 31 December 2010. As at that date, it had consolidated net current liabilities and consolidated net liabilities of HK\$114,392,000 and HK\$113,730,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will be able to finance its future working capital and financial requirements given that:

- (i) after prolonged suspension, trading in the shares of the Company on the Stock Exchange has resumed with effective from 19 January 2011 and the ability of Company to obtain new working capital from prospective investors is now restored;
- (ii) the Company submitted a resumption proposal on 22 January 2010 ("Resumption Proposal") which involved, among others, new shares subscription agreements, shares placing agreement (collectively referred to as "Fund Raising Exercise") and debt settlements. On 18 January 2011, all the conditions precedent to the completion of the Fund Raising Exercise and debt settlement agreements, details of which were contained in the circular of the Company dated 24 December 2010, were fulfilled and became in force. Net proceeds obtained from the shares subscription and placing was approximately HK\$76,000,000; and

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- (iii) for the purpose of the Resumption Proposal, the directors of the Company had made a statement confirming that after taking into account the present available finance resources, the banking and other facilities presently available, the estimated net proceeds from the Funding Raising Exercise and the repayment of outstanding loans of the Group due within one year, the Group has sufficient working capital for its business for the next twelve months from the date of resumption of trading in the shares of the Company on the Stock Exchange in the absence of unforeseen circumstances. After due and careful enquiry, Graham H.Y. Chan & Co., the auditor of the Company, gave their endorsement by issuing a comfort letter on 18 January 2011.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the financial statements for the six month ended 31 December 2010 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the financial statements.

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

The HKICPA issued the following new and revised standards, amendments to standards and interpretations ("**new and revised HKFRSs**") that are first effective for the current accounting period of the Group:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

The Group has not early adopted the new or revised standards and interpretations that have been issued but are not yet effective. The Group has carried out an assessment of these new or revised standards and interpretations and considered that the application of these new or revised standards and interpretations will not result in substantial effect on the Group's accounting policies.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold during the period.

Segment information reported internally was analyzed on the basis of the type of products sold and activities carried out by the Group's operating division. The Group is currently operating in one operating segment, which is providing comprehensive solutions and distribution of server storage, multi-media and communication products. The information reported to the senior management of the Group for the purposes of resource allocation and assessment of performance is focused on this operating segment. Accordingly, no segment information is presented.

Other segment information

The Group's capital expenditures are located in the People's Republic of China, including Hong Kong ("PRC")

Geographical Information

The Group's turnover was derived from Hong Kong, of which the customers are located in Hong Kong and other parts of the PRC. All the non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from a related company, AVT International Limited ("AVT International"), for the six months ended 31 December 2010 contributing 5% (2009: 4%) of the total revenue of the Group is as follows:

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
AVT International	5,916	4,002

Revenue from single external customers for the six months ended 31 December 2010 contributing over 10% of the total revenue of the Group is as follows:

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Customer A	37,891	27,198
Customer B	32,351	24,021
Customer C	14,318	18,640
	84,560	69,859

4. OTHER INCOME

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Interest income	21	47
Commission income	2,570	1,335
Written-back of other payables	196	–
	2,787	1,382

5. FINANCE COSTS

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Interests on:		
Bank loans, bills and overdrafts wholly repayable within five years	142	225
Other borrowing costs	5,324	2,686
	5,466	2,911

6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging the following:

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Cost of goods sold and services provided	119,633	100,242
Staff costs including directors' emoluments	2,664	1,938
Pension scheme contributions	39	37
Depreciation	91	166
Operating lease rentals in respect of land and buildings	357	339

7. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements since there is no estimated assessable profit derived from Hong Kong for the period (2009: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 31 December 2010 is based on the loss attributable to owners of the Company of approximately HK\$4,795,000 (2009: loss of HK\$1,029,000) and 6,174,917,000 (2009: 6,174,917,000) ordinary shares in issue during the period.

Diluted loss per share was not presented as there was no dilutive potential ordinary share in issue for the six months ended 31 December 2010 and 2009.

9. INTERIM DIVIDEND

No interim dividend was paid or proposed for the six months ended 31 December 2010 (2009: Nil), nor has any dividend been proposed since the end of the reporting period.

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are regularly reviewed by the senior management of the Company. Trade receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

An aged analysis of trade receivables, based on invoice date, at the end of the reporting period is as follows:

	As at	
	31 December	30 June
	2010	2010
	HK\$'000	HK\$'000
0-90 days	26,133	27,883
91-180 days	146	3
181-365 days	-	-
Over 1 year	2,971	2,971
	29,250	30,857
Less: allowance for doubtful debts	(2,971)	(2,971)
	26,279	27,886

There was no movement in the allowance for doubtful debts during the six months ended 31 December 2010.

10. TRADE RECEIVABLES (Continued)

Most of the trade receivables were neither past due nor impaired and have good repayment history in prior years. Included in the Group's trade receivables balance were debtors with aggregate carrying amount of HK\$173,000 (30 June 2010: HK\$4,846,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An aged analysis of trade receivables which were past due but not impaired, based on past due date is as follows:

	As at	
	31 December	30 June
	2010	2010
	HK\$'000	HK\$'000
Less than 1 month past due	173	4,680
1 to 3 months past due	-	166
	<hr/>	<hr/>
	173	4,846
	<hr/> <hr/>	<hr/> <hr/>

The trade receivables that were past due but not impaired related to customers that have good track records with the Group. The management of the Company believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable as a substantial amount of which has been received after the end of the reporting period.

At 31 December 2010, trade receivables with an aggregate carrying amount of HK\$14,632,000 (30 June 2010: HK\$23,227,000) have been charged to secure the general banking facilities of the Group.

11. TRADE AND BILLS PAYABLES

	As at	
	31 December	30 June
	2010	2010
	HK\$'000	HK\$'000
Trade payables	8,937	10,435
Bills payable, secured	-	2,931
	<hr/>	<hr/>
	8,937	13,366
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND BILLS PAYABLES (Continued)

All of the trade payables are expected to be settled within one year. An aged analysis is as follows:

	As at	
	31 December 2010 HK\$'000	30 June 2010 HK\$'000
0-90 days	8,532	10,206
91-180 days	-	32
Over 180 days	405	197
	<u>8,937</u>	<u>10,435</u>

12. DUE TO RELATED PARTIES

	As at	
	31 December 2010 HK\$'000	30 June 2010 HK\$'000
Related person		
Mr. Lee Bing Kwong (<i>Note i</i>)	3,030	3,030
Related companies		
AVT International (<i>Note ii</i>)	7,684	14,596
Nicegoal Limited ("Nicegoal") (<i>Note iii</i>)	1,298	1,298
Trade Honour Limited ("Trade Honour") (<i>Note iv</i>)	654	654
	<u>12,666</u>	<u>19,578</u>

Notes:

- i) Mr. Lee Bing Kwong ("Mr. Lee") is the spouse of Ms. Lo Yuen Lai ("Ms. Lo"), a director of the Company and a minority shareholder of AVT Electronics Limited ("AVT Electronics"), a subsidiary of the Company.
- ii) AVT International is controlled by Mr. Lee.
- iii) Nicegoal is jointly controlled by Mr. Lee and Ms. Lo.
- iv) Trade Honour is the parent and ultimate holding company of the Company and is controlled by Mr. Ke Jun Xiang ("Mr. Ke"), a director of the Company.

The amounts due to related parties are unsecured, interest-free and have no fixed repayment terms.

13. SHARE CAPITAL

	As at			
	31 December 2010		30 June 2010	
	No. of shares (<i>'000</i>)	<i>HK\$'000</i>	No. of shares (<i>'000</i>)	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each				
Authorized:	60,000,000	600,000	60,000,000	600,000
Issued and fully paid:	6,174,917	61,749	6,174,917	61,749

14. LOANS FROM A RELATED PARTY

Included in interest-bearing borrowing were loans from a related party, Mr. Lee:

	As at	
	31 December 2010 <i>HK\$'000</i>	30 June 2010 <i>HK\$'000</i>
Loans from Mr. Lee	24,877	21,137

Loans from Mr. Lee included fixed-rate borrowings repayable within one year or repayable on demand of approximately HK\$18,421,000 (30 June 2010: HK\$14,741,000) which carry effective interest rates (which is also equal to the contractual interest rate) ranging from 24.0% to 26.8% per annum as at 31 December 2010 (30 June 2010: 24.0% to 26.8%).

In addition, the Group has variable-rate loans from Mr. Lee of HK\$6,456,000 (30 June 2010: HK\$6,396,000) which carry interest at HIBOR plus 1.0% per annum (30 June 2010: HIBOR plus 1.0% per annum) and the effective interest rate was 1.25% per annum as at 31 December 2010 (30 June 2010: 1.3% per annum). Interest rates are repriced monthly.

At 31 December 2010, the fixed-rate loan from Mr. Lee of HK\$9,741,000 (30 June 2010: HK\$9,741,000) was secured by personal guarantees executed by a director of the Company.

15. RELATED PARTY TRANSACTIONS

In addition to the loans from a related party and outstanding balances due to related parties and directors as disclosed in the condensed consolidated of financial position and the respective notes, the banking facilities of the Group were secured by assets of Ms. Lo and Mr. Lee, and personal guarantees executed by a director of the Company and a friend of the director of the Company which is not a related party of the Company.

15. RELATED PARTY TRANSACTIONS (Continued)

During the six months ended 31 December 2010, the Group entered into the following material related party transactions:

(a) Key management personnel remuneration

The Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees are as follows:

	For the six months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Short term employee benefits	1,557	1,237
Post-employment benefits	15	16
	<u>1,572</u>	<u>1,253</u>

(b) Other material related party transactions are as follows:

Related party	Transaction	For the six months ended 31 December	
		2010	2009
		HK\$'000	HK\$'000
AVT International (<i>Note i</i>)	Purchases	13,580	12,335
	Sales	5,916	4,002
Nicegoal (<i>Note ii</i>)	Overdue interest	211	166
Mr. Lee (<i>Note iii</i>)	Rent paid	252	252

15. RELATED PARTY TRANSACTIONS (Continued)

- (c) Motor vehicle with net book value of HK\$570,000 (30 June 2010: HK\$205,000) and fixed deposits-pledged of HK\$150,000 (30 June 2010: HK\$1,312,000) included in the condensed consolidated of financial position as at 31 December 2010 are registered in name of Ms. Lo and jointly held in name of Ms. Lo and Mr. Lee, respectively on behalf of the Group.

Notes:

- i) The above transactions were carried out at terms determined and agreed with both parties, further details are disclosed in note 16 below.
- ii) The overdue interest expenses were based on a previous tenancy agreement signed by the Group and Nicegoal.
- iii) The rental expenses were based on a tenancy agreement signed by the Group and Mr. Lee.

16. CONTINUING CONNECTED TRANSACTIONS

A master agreement dated 25 November 2010 (the "Master Agreement") was entered into between AVT Electronics, a subsidiary of the Company and AVT International, pursuant to which:

- (a) AVT Electronics has agreed to sell and AVT International has agreed to purchase the products ordered by AVT International and supplied by AVT Electronics including redundant array of independent disc card, synchronous dynamic random access memory or any other product to which AVT Electronics is an approved supplier ("Sales Transactions") during the term of the Master Agreement;
- (b) The proposed maximum aggregate annual values of the transactions contemplated under the Master Agreement for the sale of the Sales Products for the three financial years ending 30 June 2011, 30 June 2012 and 30 June 2013 are HK\$18,000,000, HK\$20,000,000 and HK\$22,000,000 respectively ("Sales Cap").
- (c) AVT Electronics has agreed to purchase and AVT International has agreed to sell the products ordered by AVT Electronics and procured by AVT International from its suppliers, including barebone system, tuner, optical pickups and any other products to which AVT International is an approved customer ("Purchase Transactions") during the term of the Master Agreement; and
- (d) The proposed maximum aggregate annual values of the transactions contemplated under the Master Agreement for the purchase of the Purchase Products for the three years ending 30 June 2011, 30 June 2012 and 30 June 2013 are HK\$30,000,000, HK\$33,000,000 and HK\$36,000,000 respectively ("Purchase Cap").

16. CONTINUING CONNECTED TRANSACTIONS (Continued)

The Sales and the Purchase Transactions have been in existence since July 2005 and will continue on a recurring basis. As set out in the annual report of the Group for the year ended 30 June 2010, AVT International was one of the top 5 customers and top 5 suppliers of the Group. The percentage of purchases from AVT International as to the total purchases of the Group for the financial year ended 30 June 2008, 30 June 2009 and 30 June 2010 were 0.11%, nil and 13.43% respectively. The percentage of sales to AVT International as to the total sales of the Group for the financial year ended 30 June 2008, 30 June 2009 and 30 June 2010 were 1.80%, 4.83% and 8.14% respectively. AVT International is engaging in other electronics related businesses that are not competing with the Group.

The directors of the Company are of the view that the Master Agreement and the transactions contemplated thereunder (including the Purchase Caps and the Sales Caps) are (i) negotiated on an arm's length basis and on normal commercial terms; and (ii) fair and reasonable and in the best interests of the Company and the shareholders of the Company as a whole.

17. PLEDGE OF ASSETS

At 31 December 2010, the Group's fixed deposits of HK\$150,000 and trades receivables of HK\$14,632,000 were pledged to banks to secure banking facilities granted to the Group (30 June 2010: HK\$1,312,000 and HK\$23,227,000 respectively).

18. LITIGATIONS AND CONTINGENT LIABILITIES

The Group had a number of pending litigations as at 31 December 2010:

- (a) China Gold Finance Limited claims against the Company for outstanding loan in the total sum of HK\$69.3 million on 27 June 2001 (whereas HK\$40 million being the alleged principal loan and HK\$29.3 million being alleged outstanding interest up to 27 June 2001) plus interest and legal cost.

The amount of HK\$69.3 million had been provided for in the financial statements in prior years.

In the opinion of legal counsel, it is premature to predict the outcome of the claim against the Company by China Gold Finance Limited. The Board is of the opinion that the outflow of economic benefits cannot be reliably estimated and accordingly no interest and legal cost are provided in the consolidated financial statements since 27 June 2001. With reference to the legal opinion, the Company is confident that the outcome of the legal proceedings will be in its favour. If the court rules in the Company's favour, it will only need to pay RMB10 million to 廣東中凌科技有限公司 (Guangdong Zhongling Technology Co., Limited) and will write back the remaining balance to the income statement of the Company.

18. LITIGATIONS AND CONTINGENT LIABILITIES (Continued)

- (b) Hom Fu Lee Company Limited ("Hom Fu") claimed against Pilot Apex Development Limited, a subsidiary of the Company for outstanding rent, rates and management fee.

On 31 July 2007, Interlocutory Judgment and Order was granted in Hom Fu's favour. The Group should pay Hom Fu the outstanding rent, rates, management fee and the interest on the amount of outstanding rent at the rate of 3% above the HSBC's best lending rate for the period from 1 January 2007 to the date of payment. The Group had settled part of the judgment sum and the balance had been provided for in the financial statements.

As the result of the Group's breach of the provision of the tenancy agreement, Hom Fu would have suffered the loss and damages upon recovery of possession of the premises from the Group. Such loss and damages are still liable to be paid by the Group to Hom Fu upon the amount being assessed and/or quantified. No provision has been made in this regard.

- (c) The Company claims against Kwok Han Qiao (formerly known as Kwok Wai Tak Edward) in 2001 for an account from Kwok Han Qiao of principal total sum of HK\$98 million and the profit deprived therefrom and payment of such sums so found to the Company plus interest and legal costs.

Full provision for impairment had been provided in the financial statement in prior year.

- (d) On 22 June 2010, a winding-up order was served on the Company by Wealth Full Limited to repay the amount due to a director, Mr. Ke Jun Xiang ("Mr. Ke"), which amounted to HK\$2.6 million.

Full amount has been provided in the financial statement in prior years. Subsequent to the end of the reporting period of the financial year ended 30 June 2010, the amount has been fully settled and the winding-up petition has been withdrawn.

Saved as disclosed above, the Group and the Company did not have any material contingent liabilities as at 31 December 2010.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

Since the publication of the latest annual report, there have been no material changes in respect of the business and development of the Company. During the six months ended 31 December 2010, the Company's principal activity continued to be investment holding whilst its major subsidiary, AVT Electronics, was mainly engaged in providing comprehensive solutions and distribution of server storage, multi-media and communication products by running two principal business divisions, namely server solution division and integrated circuit solution division.

Meanwhile, the directors of the Company and the management of the Company had devoted their focus and efforts on the works relating to the Resumption Proposal aiming at resuming the trading of the company's shares on the Stock Exchange no later than end of January 2011.

The Group has maintained constant communication with its clients in relation to the sales review in the past and expects to enhance these relationships continuously. The Group has several strategies in the coming year, and in the view of new working capital raised from the Fund Raising Exercise relating to the Resumption Proposal which has just completed in January 2011, the Group is expecting to engage new customers within the same industries it is engaging in and to take on new businesses from existing customers that it neglected due to lack of working capital previously. The Group expects to incur no more than three new customers within the same industries it is engaging in since the order size of each customer could be substantial and therefore, the Company can concentrate resources on them. In relation to the expansion, the Group has already employed one additional engineer, who bases in the PRC to meet with the growth. The Group believes that with the new staff and its existing labour force, there will be sufficient ability to meet with the increase of the sales target. Further personnel planning will be conducted in July 2011 if necessary.

Regarding new product development, the Group has no immediate plan to introduce or initiate new products for the year ending 30 June 2011. The Group's engineers are constantly engaging in research and development of new models and specifications on existing products, regardless of the growth (or decrease) in sales. Research and development planning is not material and is subject to fluctuation in sales. The Group expects to continue its existing dedication into research and development.

The Company believes that the growth in the Group's sales is mainly attributable to the general growth and sentiment in the economy towards the end products of the Group's businesses. Since the Group is not involved in end products, its overall strategy is maintaining good working relationship with its key customers, which shall also establish itself as a market leader in its sector, and as a market leader, approach new customers with good reputation and expand the business onwards.

In parallel with the strategies mentioned above, the Company will continue its main financial objective, and to maintain both prudent financial management and healthy liquidity position.

Financial results

The Group's consolidated turnover for the six months ended 31 December 2010 was HK\$123,189,000, showing an increase of 16.3% over the corresponding figure of HK\$105,901,000 of last period. Nevertheless, inflating cost of sales squeezed profit margin which led to a 37.2% drop of gross profit to HK\$3,566,000 (2009: HK\$5,659,000). Financial performance was further weakened by the increase in financial interests on other borrowings amounting to HK\$5,324,000 (2009: 2,686,000). Despite commission income contributed HK\$2,570,000 (2009: HK\$1,335,000) to other income but total comprehensive loss attributable to owners of the Company still widened to HK\$4,795,000 (2009: loss of HK\$1,029,000), representing loss per share of HK0.08 cents (2009: loss per share of HK0.02 cents). Improving profitability of the Group continues to be the primary target of the management.

Liquidity and financial resources

As at 31 December 2010, the Group had net liabilities of HK\$113,730,000 (30 June 2010: HK\$109,131,000) comprising total assets of HK\$64,802,000 and total liabilities of HK\$178,532,000 (30 June 2010: HK\$71,023,000 and HK\$180,154,000 respectively). The Group's non-current assets consisted solely of fixed assets of HK\$662,000 (30 June 2010: HK\$316,000). The current ratio, representing by current assets divided by current liabilities, was 0.36 (30 June 2010: 0.39). Total bank deposits and cash at 31 December 2010 amounted to HK\$27,531,000 (30 June 2010: HK\$25,937,000) and were denominated in Hong Kong Dollars.

As at 31 December 2010, The Group had short-term borrowings of HK\$81,848,000 (30 June 2010: HK\$70,054,000). The loans were denominated in Hong Kong Dollars and were subject to interest at prevailing commercial lending rates. Calculation of the gearing ratio, which is based on the total borrowings and the shareholders' funds of the Group, would not be appropriate as the shareholders' funds were negative as at 31 December 2010.

Subsequent to completion of the Fund Raising Exercise in January 2011, the Group's working capital has been improved by maximum of approximately HK\$76,000,000 as a result of the cash inflow from the aggregate net proceeds from the respective share placing and subscription.

The Directors are of the opinion that, after taking into account the present available financial resources, the banking and other facilities presently available, the estimated net proceeds from the Fund Raising Exercise and the repayment of outstanding loans of the Group due within one year, the Group is now having sufficient working capital for its business for the next twelve months in the absence of unforeseen circumstances.

Foreign currency exposure

All sales and purchases are denominated in United States Dollars ("USD"). The foreign currency exposure to USD is minimal on the ground that Hong Kong Dollars is pegged to USD. The Group mainly exposes to foreign currency risk that is denominated in Chinese Renminbi ("RMB") and currently does not have hedging policy against RMB. However, the management of the Company monitors the Group's foreign currency exposure and will consider hedging significant foreign exchange rate exposure should the need arise.

Material acquisitions and disposals of investments

During the six months ended 31 December 2010, there was no material acquisition or disposal of subsidiaries or affiliated companies.

Employees and remuneration policy

The Group employed a staff of 36 persons as at 31 December 2010 (2009: 30). They were remunerated according to the prevailing manpower conditions and individual performance. There was no change on the staff policy during the period.

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Existing Shares:

Name of director	Number of Existing Shares beneficially held	Nature of interest	<i>Notes</i>	Approximate percentage of total shareholding (%)
Mr. Ke	3,530,000,000	Interest in corporation	1	96.56
	2,432,800,000	Family interest		
Ms. Lo	11,196,822	Beneficial owner	2	78.33
	4,827,962,000	Family interest		

Notes:

- Mr. Ke had a controlling interest in Global Work Management Limited and Trade Honour Limited which held 30,000,000 and 3,500,000,000 ordinary shares of the Company respectively. Pursuant to one of the Debt Settlement Agreements, the Company agreed to issue 5,800,000 Settlement Shares (equivalent to 116,000,000 Existing Shares) to Honest Ventures Limited which is beneficially owned by Madam Wang Jian Ping ("Madam Wang"), spouse of Mr. Ke. Pursuant to two of the Subscription Agreements, the Company agreed to issue 57,920,000 Subscription Shares (equivalent to 1,158,400,000 Existing Shares) to each of State Thrive Limited and Shine Fill Limited, both of which are beneficially owned by Madam Wang. Accordingly, Mr. Ke is deemed under the SFO to have interests in 5,962,800,000 Existing Shares.

2. Ms. Lo and her spouse Mr. Lee, held 11,196,822 Existing Shares and 7,162,000 Existing Shares respectively. Pursuant to two of the Debt Settlement Agreements, the Company agreed to issue 115,020,000 Settlement Shares (equivalent to 2,300,400,000 Existing Shares) and 10,140,000 Settlement Shares (equivalent to 202,800,000 Existing Shares) to Mr. Lee and his ultimate beneficially owned company, Nicegoal Limited respectively. Pursuant to one of the Subscription Agreements, the Company agreed to issue 115,880,000 Subscription Shares (equivalent to 2,317,600,000 Existing Shares) to Ample Key Limited which is beneficially owned by Mr. Lee. Accordingly, Ms. Lo is deemed under the SFO to have interests in 4,839,158,822 Existing Shares.
3. Meanings of the capitalized terms "Existing Shares", "Debt Settlement Agreements", "Settlement Shares", "Subscription Agreements" and "Subscription Shares" are same as those defined in the circular of the Company dated 24 December 2010.

Long position in associated corporation of the Company:

Name of director	Name of company	Number of shares	Nature of interest	Approximate percentage of total shareholding (%)
Ms. Lo	AVT Electronics Limited	450,010	Beneficial owner	10

Save as disclosed above, as at 31 December 2010, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as was known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Long position in the Existing Shares:

Name of shareholders	Notes	Nature of interest	Number of Existing Shares held	Approximate percentage of total shareholding (%)
Trade Honour Limited	1	Beneficial owner	3,500,000,000	56.68
Madam Wang	1	Interest in corporation	2,432,800,000	96.56
		Family interest	3,530,000,000	
Mr. Lee	2	Beneficial Owner	2,307,562,000	78.33
		Interest in Corporation	2,520,400,000	
		Family interest	11,196,822	

Notes:

- Pursuant to one of the Debt Settlement Agreements, the Company has agreed to issue 5,800,000 Settlement Shares (equivalent to 116,000,000 Existing Shares) to Honest Ventures Limited which is beneficially owned by Madam Wang, the spouse of Mr. Ke. Pursuant to two of the Subscription Agreements, the Company has agreed to issue 57,920,000 Subscription Shares (equivalent to 1,158,400,000 Existing Shares) to each of State Thrive Limited and Shine Fill Limited, both of which are beneficially owned by Madam Wang. Mr. Ke had a controlling interest in Global Work Management Limited and Trade Honour Limited which held 30,000,000 Existing Shares and 3,500,000,000 Existing Shares respectively. Accordingly, Madam Wang is deemed under the SFO to have interests in 5,962,800,000 Existing Shares.

2. Pursuant to two of the Debt Settlement Agreements, the Company has agreed to issue 115,020,000 Settlement Shares (equivalent to 2,300,400,000 Existing Shares) and 10,140,000 Settlement Shares (equivalent to 202,800,000 Existing Shares) to Mr. Lee and his ultimate beneficially owned company, Nicegoal Limited respectively. Pursuant to one of the Subscription Agreements, the Company has agreed to issue 115,880,000 Subscription Shares (equivalent to 2,317,600,000 Existing Shares) to Ample Key Limited which is beneficially owned by Mr. Lee. Ms. Lo, spouse of Mr. Lee, and Mr. Lee personally held 11,196,822 Existing Shares and 7,162,000 Existing Shares respectively. Accordingly Mr. Lee is deemed under the SFO to have interests in 4,839,158,822 Existing Shares.
3. Meanings of capitalized terms "Existing Shares", "Debt Settlement Agreements", "Settlement Shares", "Subscription Agreements" and "Subscription Shares" are same as those defined in the circular of the Company dated 24 December 2010.

Save as disclosed above, as at 31 December 2010, so far as was known to any Director or chief executive of the Company, no person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Debt Settlement Agreements and the Subscription Agreements, which meanings are same as those defined in the circular of the Company dated 24 December 2010, at no time during the six months ended 31 December 2010 was the Company or its subsidiaries, a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors' or chief executives or their spouses or children under 18 years of age, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2010.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-Laws of the Company or the laws of Bermuda in relation to issues of new shares by the Company.

CORPORATE GOVERNANCE

Commencing from 1 July 2005, the Company has adopted and complied with the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 of the Listing Rules, except for the code provisions as shown below:

- (a) Under Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ke, the chairman of the Company, had performed both roles until Ms. Lo, deputy chairman of the Company, was appointed as acting chief executive officer with effect from 23 December 2010. Meanwhile, the Company is actively recruiting a qualified candidate to act as a permanent chief executive office of the Company.
- (b) Under Code provision A.3.2, the Company should appoint independent non-executive directors representing at least one-third of the board of directors. Also rule 3.10 of the Listing Rules requires the board of directors of the Company must include at least three independent non-executive directors. Both requirements had not been met by the Company as only one independent non-executive director was on board of directors since May 2008. In April 2010, the Company appointed two more independent non-executive directors. At the annual general meeting of the Company held on 14 October 2010, a board of directors comprising seven directors was elected and three of them are independent non-executive directors, including one with financial management expertise.
- (c) Under Code provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election. Subsequent to the last annual general meeting of the Company held on 14 October 2010, non-executive directors of the Company were appointed for specific terms but are subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Law.

- (d) Under Code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All directors of the Company are currently only subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Law.
- (e) Under Code provisions B.1.1 to B.1.5, remuneration committee has to be set up by the Company. The Company has set up a remuneration committee on 13 December 2010 with three independent non-executive directors as the members of the committee.

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors of the Company, all of them confirmed that they had complied with the code throughout the period ended 31 December 2010.

REVIEW OF RESULTS BY AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") in compliance with Rule 3.21 of the Listing Rules. The Audit Committee of the Company, comprising all three independent non-executive directors of the Company, has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the figures in respect of the unaudited consolidated results of the Group for the six months ended 31 December 2010.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange had been suspended since 1 April 2004 pending an announcement in relation to clarification of certain information of the Company's results announcement dated 31 March 2004 for the year ended 30 June 2003.

The Company submitted the Resumption Proposal to the Stock Exchange on 22 January 2010 and had subsequently submitted other related replies. On 21 April 2010, the Company received a letter from the Listing Committee of the Stock Exchange which stated that the Listing Committee of the Stock Exchange decided to allow the Company to proceed with the Resumption Proposal if it fulfilled certain conditions (“Resumption Conditions”) to the Stock Exchange’s satisfaction within six months from 16 April 2010. On 25 October 2010, the Company announced that the Stock Exchange agreed to grant an extension of time for fulfillment of the Resumption Conditions to 31 October 2010. The Company subsequently applied to the Stock Exchange which agreed to grant a further extension of the deadline for the fulfillment of the Resumption Conditions to 18 January 2011. On 24 December 2010, the Company announced and dispatched a circular to its shareholders setting out all particulars of the Resumption Proposal in details together with notices of convening special general meetings for the purpose of approving all the important agreements in relation to the Resumption Proposal.

On 18 January 2011, the Company announced that all the Resumption Conditions had been fulfilled and an application had been made to the Stock Exchange for the resumption of trading in the shares of the Company, which became effective on 19 January 2011 after the Stock Exchange gave its acceptance.

By Order of the Board
CIL Holdings Limited
Ke Jun Xiang
Chairman

Hong Kong, 28 February 2011