

INTERIM REPORT

2013



中國包裝集團有限公司
China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 572)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. He Jianhong
Mr. Zhang Zhantao

Independent Non-Executive Directors

Mr. Chan Yee Por Simon
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

AUDIT COMMITTEE

Mr. Tam Tak Wah (*Chairman*)
Mr. Chan Yee Por Simon
Mr. Siu Siu Ling, Robert

REMUNERATION COMMITTEE

Mr. Chan Yee Por Simon (*Chairman*)
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

NOMINATION COMMITTEE

Mr. Chan Yee Por Simon (*Chairman*)
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

COMPANY SECRETARY

Mr. Lau Cheuk Pun

SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 912, 9/F
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITORS

ZHONGLEI (HK) CPA Company Limited
Unit 313-17, 3/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank

COMPANY WEBSITE

<http://www.cpackaging.com.hk>

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “**Board**”) of China Packaging Group Company Limited (the “**Company**”) hereby presents a discussion and an outlook of the results and operations of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2013 as follows:

BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the People’s Republic of China (the “**PRC**”) as well as trading of metal business in the PRC.

The difficult operating environment of the Company’s manufacturing of tinplate cans business since 2012 persisted and further deteriorated in the six months ended 30 June 2013. Slowing down of the economic growth of the PRC and deterioration of the PRC economy affected the demand for beverages and a number of customers of the Group fall into financial difficulties continued to negatively affect the performance and liquidity of the Group for the six months ended 30 June 2013.

For the six months ended 30 June 2013, the Group’s turnover was approximately RMB4,278,000 (six months ended 30 June 2012: RMB54,835,000), representing a decrease of approximately 77.9% to the second half of 2012 and 92.2% to the corresponding period of last year. The consolidated net loss attributable to owners of the Company amounted to approximately RMB30,518,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB2,769,000). Basic loss per ordinary share was approximately RMB0.055 for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB0.0087). Such a loss was due to decrease in turnover since the failure of the Group to recover trade receivables have limited the working capital available for its business and thus its ability to receive new orders, increase in overhead and administrative expenses and the recognition of an impairment on trade receivables.

Compared with a gross profit margin of 17.01% in the corresponding period of last year, the Group recorded a gross loss during the period under review as the average fixed cost of the production per unit increased with a decrease in sales volume.

In view of the decrease in turnover, the Group continued to be cautious in controlling the cost of production and overheads of the tinsplate cans manufacturing business. However, due to office reallocation and for the purpose of preparing for the metal trading business, the Group recorded an increase in overhead and administrative expenses by approximately RMB2,280,000 to RMB9,012,000 (six months ended 30 June 2012: RMB6,732,000).

During the year ended 31 December 2012, a number of overdue debtors have financial difficulties and despite the Group's repeated requests for settlement in full, they have offered to settle their outstanding debts at a discount. The Group had followed up with the overdue debtors closely for settlement of the overdue trade receivables and negotiated on the payment schedule. During the period under review, the Group continued to follow up with the overdue debtors actively but still could not reach consensus on the payment schedule. In view of the circumstances and after taking into account of the various possible actions that can be taken, the Group has provided specific provision of approximately RMB20,570,000 for the six months ended 30 June 2013 (for the six months ended 30 June 2012: Nil). The Group does not hold any collateral over these balances. Details of the trade and other receivables of the Group at the period end date are set out in Note 12 to the condensed consolidated financial statements. As at the date of this report, the overdue trade receivables remain outstanding.

FINANCIAL REVIEW

Liquidity, Financial Resources and Funding

At 30 June 2013, the Group had net current assets of approximately RMB15,510,000 (31 December 2012: RMB45,592,000) and liquid assets comprising bank balances and cash totaled approximately RMB1,429,000 (31 December 2012: RMB11,217,000). The Group's current ratio, calculated based on current assets of approximately RMB35,814,000 (31 December 2012: RMB52,913,000) over current liabilities of approximately RMB20,304,000 (31 December 2012: RMB7,321,000) was at a ratio of 1.76 at the period ended (31 December 2012: 7.23).

At 30 June 2013, equity attributable to owners of the Company amounted to approximately RMB25,558,000 (31 December 2012: RMB47,173,000), representing a decrease of approximately RMB21,615,000 compared with 31 December 2012 and is equivalent to an attributable amount of approximately RMB0.03 per share (31 December 2012: RMB0.14).

At 30 June 2013, the Group's total liabilities amounted to approximately RMB20,304,000 (31 December 2012: RMB15,829,000). The Group's gearing ratio, calculated on the basis of total borrowings divided by total equity, was at 52.09% at 30 June 2013 (31 December 2012: 18.04%).

During the six months ended 30 June 2013, the entire Convertible Loan Notes of the Company in the principle amount of HKD18,000,000 were fully converted by the holders thereof and 150,000,000 shares have been issued during the period. Further details of the Convertible Loan Notes are set out in Note 15 of the condensed consolidated financial statements.

The Group's finance costs for the period under review was approximately RMB838,000 (six months ended 30 June 2012: RMB663,000).

Foreign Currency Management

The Group has minimal exposure to foreign currency risks as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi.

The Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging foreign currency exposure if necessary.

Pledge of Assets

As 30 June 2013, the Group did not have any pledged assets.

CONTINGENT LIABILITIES

At 30 June 2013, the Group did not have any significant contingent liabilities (31 December 2012: Nil).

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2013, the Group had 82 employees including executive Directors (31 December 2012: 85) situated in the PRC and Hong Kong. The Group's emoluments policies are formulated based on industry practices and performance of individual employees. For the six months ended 30 June 2013, the total staff costs including remuneration of Directors and chief executive amounted to approximately RMB4,119,000 (six months ended 30 June 2012: RMB2,103,000).

PROSPECTS

The business operation of the Group and the development of the new business for the six months ended 30 June 2013 had been adversely affected/limited by the availability of working capital. The Group is actively considering various fund raising methods which include but not limited to bank borrowings, equity and/or debt finance in order to generate additional working capital for its business operation. In addition, as announced by the Company on 26 July 2013, the Company and Guangdong Materials Group (HK) Co., Ltd., (“GMHK”) will collaborate over areas of bulk commodity trading, real estate and logistics. The Company believes that the co-operation with GMHK will facilitate the Company to diversify its income source and improve the overall profitability of the Group.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

EVENT AFTER THE END OF THE REPORTING PERIOD

To the best of the Board’s knowledge and information, and save for the information disclosed in this report, the Board is unaware of any other significant subsequent event that should be disclosed.

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2013 have not been audited, but have been reviewed by the Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
	Notes	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Revenue	4	4,278	54,835
Cost of sales		<u>(5,504)</u>	<u>(45,509)</u>
Gross (loss) profit		(1,226)	9,326
Other revenue		1,464	80
Impairment loss recognised in respect of trade receivables		(20,570)	–
Selling and distribution expenses		(336)	(2,890)
Administrative expenses		(9,012)	<u>(6,732)</u>
Loss from operations		(29,680)	(216)
Finance costs	5	<u>(838)</u>	<u>(663)</u>
Loss before income tax	6	(30,518)	(879)
Income tax expenses	7	<u>–</u>	<u>(1,890)</u>
Loss for the period attributable to owners of the Company		(30,518)	(2,769)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translating of financial statements of foreign operation		<u>(98)</u>	<u>205</u>
Total comprehensive expenses for the period attributable to owners of the Company		<u>(30,616)</u>	<u>(2,564)</u>
Loss per share	9		
– Basic		<u>(RMB0.055)</u>	<u>(RMB0.0087)</u>
– Diluted		<u>(RMB0.055)</u>	<u>(RMB0.0087)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Non-current assets			
Prepaid lease payment	10	–	–
Property, plant and equipment	11	10,048	10,089
		<u>10,048</u>	<u>10,089</u>
Current assets			
Inventories		1,973	2,589
Trade and other receivables	12	32,412	39,107
Bank balances and cash		1,429	11,217
		<u>35,814</u>	<u>52,913</u>
Current liabilities			
Trade and other payables	13	4,904	4,911
Receipt in advance		–	324
Amount due to ultimate holding company	17(b)	9,358	–
Other borrowing	14	3,956	–
Tax payable		2,086	2,086
		<u>20,304</u>	<u>7,321</u>
Net current assets		<u>15,510</u>	<u>45,592</u>
Total assets less current liabilities		<u>25,558</u>	<u>55,681</u>
Non-current liability			
Convertible loan notes	15	–	8,508
Net assets		<u>25,558</u>	<u>47,173</u>
Capital and reserves			
Share capital	16	844	720
Reserves		24,714	46,453
Total equity		<u>25,558</u>	<u>47,173</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Share capital RMB'000 (Note 16)	Share premium RMB'000 (Note a)	Share options reserve RMB'000 (Note b)	Convertible loan notes equity reserve RMB'000 (Note 15)	Translation reserve RMB'000	Surplus reserve fund RMB'000 (Note c)	(Accumulated loss) retained profit RMB'000	Total RMB'000
At 1 January 2013 (Audited)	720	77,085	938	7,629	26	9,222	(48,447)	47,173
Loss for the period	-	-	-	-	-	-	(30,518)	(30,518)
Exchange differences arising on translating of financial statements of foreign operation	-	-	-	-	(98)	-	-	(98)
Total comprehensive expenses for the period	-	-	-	-	(98)	-	(30,518)	(30,616)
Exercise of convertible loan notes	124	16,506	-	(7,629)	-	-	-	9,001
At 30 June 2013 (Unaudited)	844	93,591	938	-	(72)	9,222	(78,965)	25,558
At 1 January 2012 (Audited)	698	72,902	2,673	7,629	150	9,222	36,359	129,633
Loss for the period	-	-	-	-	-	-	(2,769)	(2,769)
Exchange differences arising on translating of financial statements of foreign operation	-	-	-	-	205	-	-	205
Total comprehensive income (expenses) for the period	-	-	-	-	205	-	(2,769)	(2,564)
Exercise of scheme creditors options	10	1,880	(384)	-	-	-	5	1,511
At 30 June 2012 (Unaudited)	708	74,782	2,289	7,629	355	9,222	33,595	128,580

Notes:

- Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.
- Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised scheme creditors options granted under the debt restructuring as mentioned in 2011 annual report of the Company for the year ended 31 December 2011 (“**2011 Annual Report**”). For the 56,000,000 options granted during the Company’s debt restructuring in 2011 (“**Scheme Creditors Options**”), it was lapsed during the year ended 31 December 2012.
- According to the relevant enterprises regulations in the People’s Republic of China (the “**PRC**”) Shanxi Zhanpen Metal Products Co., Ltd. (“**Zhanpen**”), a subsidiary established in the PRC is required to transfer not less than 10% of their profit after taxation to surplus reserve until the balance reaches 50% of its registered capital, as determined under accounting principles generally accepted in the PRC. The surplus reserve fund can be used to make up for previous year’s losses, expand the existing operations or convert into additions capital of the subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(21,690)	(2,048)
Net cash used in investing activities	(1,314)	(6,220)
Net cash from financing activities	<u>13,314</u>	<u>1,511</u>
Net decrease in cash and cash equivalents	(9,690)	(6,757)
Cash and cash equivalents at the beginning of the period	11,217	21,877
Effect of foreign exchange rates changes, net	<u>(98)</u>	<u>205</u>
Cash and cash equivalents at the end of period	<u><u>1,429</u></u>	<u><u>15,325</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. GENERAL

China Packaging Group Company Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is Unit 912, 9/F, New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the PRC and the Group is also engaged in the trading of metal since the second half of 2012. In the opinion of the directors of the Company (the “**Directors**”), the ultimate holding company of the Group is Able Success Asia Limited (“**Able Success**”), a company incorporated in the British Virgin Islands with limited liability.

The unaudited condensed consolidated financial statements are presented in Renminbi (“**RMB**”) which is also the functional currency of the Group, unless otherwise stated.

2. BASIS OF PREPARATION

This unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The condensed consolidated financial statement is unaudited and has been reviewed by the audit committee of the Company.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's audited annual consolidated financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) and HKASs issued by the HKICPA that are relevant for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities

Except as described below, the application of the above new or revised HKFRSs and HKASs in the current interim period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosure set out in these unaudited condensed consolidated financial statements.

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to HKAS 34 Interim Financial Reporting (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 *Interim Financial Reporting* as part of the Annual Improvements to HKFRSs 2009-2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (“CODM”) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

4. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group’s turnover, represents the net amounts received and receivable for goods sold during the period.

Information reported to the executive directors of the Company, being the CODM, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the CODM have been aggregated in arriving at the reporting segments of the Group.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

- Manufacture and sale of tinplate cans packaging business
- Trading of metal

During the six months ended 30 June 2012, the Group has only one operating and reportable segment, represented the manufacture and sale of tinplate cans packaging business.

Trading of metal is a new reportable segment of the Group since the second half of 2012.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	Six months ended 30 June (Unaudited)					
	Manufacture and sale of tinplate cans packaging business		Trading of metal		Total	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue						
External sales	<u>4,278</u>	<u>54,835</u>	<u>-</u>	<u>-</u>	<u>4,278</u>	<u>54,835</u>
Segment (loss) profit	(22,678)	5,815	(1,704)	-	(24,382)	5,815
Unallocated corporate gain or revenue					1,315	80
Unallocated corporate expenses					(6,613)	(6,111)
Finance costs					(838)	(663)
Loss before income tax					<u>(30,518)</u>	<u>(879)</u>

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Segment assets		
Manufacture and sale of tinfoil cans packaging business	28,945	51,843
Trading of metal	15,008	10,648
	<hr/>	<hr/>
Total segment assets	43,953	62,491
Unallocated corporate assets	1,909	511
	<hr/>	<hr/>
Consolidated assets	45,862	63,002
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Manufacture and sale of tinfoil cans packaging business	6,870	7,089
Trading of metal	284	–
	<hr/>	<hr/>
Total segment liabilities	7,154	7,089
Unallocated corporate liabilities	13,150	8,740
	<hr/>	<hr/>
Consolidated liabilities	20,304	15,829
	<hr/> <hr/>	<hr/> <hr/>

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Effective interest expense on convertible loan notes	639	663
Interest expense on other borrowing	199	–
	<u>838</u>	<u>663</u>

6. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss before income tax has been arrived at after charging (crediting):		
Staff costs (including directors' remuneration)	4,119	2,103
Cost of inventories recognised as an expense	5,504	45,509
Depreciation of property, plant and equipment	1,356	3,887
Minimum lease payments in respect of:		
– Machinery and equipment	1,103	1,100
– Premises	942	–
Gain on the cancellation of new shares subscription by a potential investor	(1,315)	–
Interest income on bank deposits	<u>(1)</u>	<u>(80)</u>

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	–	1,454
Deferred tax:		
– Mainland China withholding tax	–	436
	<u>–</u>	<u>1,890</u>

Notes:

- No Hong Kong Profits Tax has been provided as the Group did not generate any assessable profits in Hong Kong for both periods. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.
- Under the Law of the PRC on EIT (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.
- Pursuant to the PRC EIT Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

8. DIVIDEND

No dividend were paid, declared or proposed during both interim periods. The Directors have determined that no dividend will be paid in respect of the interim period.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purposes of basic loss per share	<u>(30,518)</u>	<u>(2,769)</u>
	Six months ended 30 June	
	2013	2012
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>555,204,102</u>	<u>319,164,345</u>

Diluted loss per share for the six months ended 30 June 2012 and 2013 is same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2012 and 2013 does not assume the conversion of the Company's outstanding options, convertible preference shares or convertible loan notes since their exercise would result in a decrease in the loss per share.

10. PREPAID LEASE PAYMENTS

The cost of RMB12,400,000 represented the first installment paid to Fen Yang Wen Feng Street Nangan Villagers' Committee ("Villagers' Committee") for acquiring the land use right of a piece of land situated in Fenyang City, Shanxi Province ("Land") by a subsidiary of the Company, Zhanpen, in 2007.

Pursuant to the Land Use Compensation Agreement (土地征用補償協議) entered between Zhanpen and Villagers' Committee dated 25 October 2007, the total consideration for the Land would be RMB24,800,000, in which the deposit of RMB12,400,000 shall be settled upon signing the Land Use Compensation Agreement and the balance of RMB12,400,000 shall be settled upon Zhanpen has obtained the ownership certificates from the relevant government authorities. According to the legal opinion issued by 山西汾州律師事務所 dated 23 February 2012, as Zhanpen has not obtained the ownership certificates from the relevant government authorities yet, Zhanpen do not have any outstanding obligation to settle the balance of RMB12,400,000 to Villagers' Committee.

10. PREPAID LEASE PAYMENTS (Continued)

The Company has received a notice from Villagers' Committee dated 5 March 2013 (the "Notice") in respect of the Land. The Notice mentioned that as the approval procedures are complicated and the usage of the Land has not yet converted from collectively owned into industrial use. In view of the above, the Villagers' Committee notified the Company that the Land Use Compensation Agreement shall be cancelled with immediate effect and the deposit of RMB12,400,000 previously paid by the Group should be treated as rental expenses for using the Land for the period from 26 October 2007 to 25 October 2014. According to the legal opinion issued by 山西晉泰律師事務所 dated 12 August 2013, the Notice is in compliance with laws of China and effective. The Group is now further negotiating with the Villagers' Committee for the extension of usage period and/or a rental arrangement after 25 October 2014.

During the year ended 31 December 2008, the provisional liquidators of the Company considered that it is uncertain about the recoverability of the deposit, impairment of RMB12,400,000 have been recognised accordingly.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired approximately RMB1.3 million (six months ended 30 June 2012: RMB12.4 million) of plant and equipment.

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
Trade receivables	62,039	60,995
Less: allowance for doubtful debts	(14,584)	(24,014)
	<hr/>	<hr/>
	17,455	36,981
Other receivables, deposits and prepayments	14,957	2,126
	<hr/>	<hr/>
	32,412	39,107
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12. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows an average credit period of 120 days to its customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
0 – 30 days	211	–
31 – 60 days	1,123	632
61 – 90 days	362	1,655
91 – 120 days	224	3,671
Over 120 days	15,535	31,023
	<u>17,455</u>	<u>36,981</u>

13. TRADE AND OTHER PAYABLES

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
Trade payables	280	1,394
Other payables and accrued charges	4,624	3,517
	<u>4,904</u>	<u>4,911</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
0 – 30 days	<u>280</u>	<u>1,394</u>

The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

14. OTHER BORROWING

During the current interim period, the Group obtained new other loan from an independent third party amounting to Hong Kong dollars (“**HKD**”) 5,000,000 (equivalent to approximately RMB3,956,000) (31 December 2012: Nil). The other borrowing is unsecured, carries fixed interest at 12% per annum and is repayable on 31 January 2014. The proceed was used to finance the working capital of the Group.

15. CONVERTIBLE LOAN NOTES

Reference is made to the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”), on 1 November 2011, the Company issued 2% convertible loan notes with a principal amount of HKD18,000,000 (the “**Convertible Loan Notes**”) to the investors of the Company (the “**Investors**”) upon the completion of restructuring of the Group, which details were set out in 2011 Annual Report.

The Convertible Loan Notes are unsecured and denominated in HKD. Pursuant to a meeting of the Board held on 1 November 2011 and a confirmation from the holders of the Convertible Loan Notes, all the interests and repayment of the principal of the Convertible Loan Notes in future shall be settled in RMB (ie: the functional currency of the Group) and notwithstanding any change in exchange rate between HKD and RMB in future, the exchange rate for conversion of any payment under the Convertible Loan Notes from HKD to RMB has been fixed at 1.21, which is the exchange rate as at 1 November 2011. As a result, although the Convertible Loan Notes are not denominated in the functional currency of the Group, the conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments.

The Convertible Loan Notes entitled the Investors to convert them into ordinary shares of the Company at any time between the date of issue of the Convertible Loan Notes and before 7 business days of their settlement date on 31 October 2016 at a conversion price of HKD0.12 per share, subject to adjustment. If the Convertible Loan Notes have not been converted, they will be redeemed on 31 October 2016 at its face value.

The Convertible Loan Notes contain two components, liability and equity elements. The equity element is presented in equity heading “convertible loan notes equity reserve”. The effective interest rate of the liability component is 17.96% per annum.

During the six months ended 30 June 2013, all of the Convertible Loan Notes have been converted into a total number of 150,000,000 ordinary shares.

15. CONVERTIBLE LOAN NOTES (Continued)

The movement of the liability component of the Convertible Loan Notes during the year/period is set out below:

	<i>RMB'000</i>
Liability component at 1 January 2012 (Audited)	7,405
Interest charged	1,380
Interest paid	(277)
	<hr/>
Liability component at 31 December 2012 (Audited)	8,508
Interest charged	639
Interest paid	(146)
Conversion into ordinary shares	(9,001)
	<hr/>
Liability component at 30 June 2013 (Unaudited)	–
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16. SHARE CAPITAL

	Par value per share <i>HKD</i>	Number of ordinary shares <i>(Note a)</i>	Number of convertible preference shares <i>(Note b)</i>	Amount <i>HKD'000</i>
<i>Authorised:</i>				
At 31 December 2012 and 30 June 2013	0.001	249,480,000,000	520,000,000	250,000
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Par value per share <i>HKD</i>	Number of ordinary shares <i>(Note a)</i>	Number of convertible preference shares <i>(Note b)</i>	Amount <i>HKD'000</i>	Equivalent to <i>RMB'000</i>
<i>Issued and fully paid:</i>					
At 1 January 2012 (Audited)	0.001	313,207,957	520,000,000	833	698
Exercise of creditors' option <i>(Note c)</i>	0.001	27,454,709	–	27	22
		<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012 (Audited)	0.001	340,662,666	520,000,000	860	720
Exercise of convertible preference shares <i>(Note d)</i>	0.001	460,000,000	(460,000,000)	–	–
Exercise of convertible loan notes <i>(Note 15)</i>	0.001	150,000,000	–	150	124
		<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2013 (Unaudited)	0.001	950,662,666	60,000,000	1,010	844
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. SHARE CAPITAL (Continued)

Notes:

- a) All the ordinary shares which were issued by the Company rank pari passu with each other in all respects.
- b) All the convertible preference shares which were issued by the Company rank pari passu with each other in all respects. The principal terms of the convertible preference shares on the date of issue include the following:

- i) **Dividend**

- The holders of the convertible preference shares of HKD0.001 each shall not be entitled to any dividend or distribution.

- ii) **Capital**

- On a return of capital on liquidation, the assets of the Company available for distribution among the members shall be applied in repaying to the holders of the preference shares the nominal amount paid up on the preference shares. The paid-up preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue while the non-paid-up preference shares shall rank pari passu with the new shares for the time being in issue.

- iii) **Redemption**

- The preference shares are non-redeemable.

- iv) **Conversion rights**

- The convertible preference shares of HKD0.001 each are convertible into new shares of HKD0.001 each (“**New Share**”) after the date of their issuance, subject to an adjustment, at a conversion rate of issue price of the convertible preference shares divided by the initial conversion price of the convertible preference shares, subject to adjustment provisions which are standard terms for convertible securities of similar type.

- v) **Transferability**

- The convertible preference shares are freely transferable by the holders thereof after the date of issue of the convertible preference shares, subject to the requirement of the Listing Rules.

- vi) **Voting**

- The convertible preference shares holders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if pass would vary or abrogate the rights or privileges of the convertible preference shares.

16. SHARE CAPITAL (Continued)

Notes: (Continued)

- c) On 1 November 2011, as part of the Company's debt restructuring, the Company granted a total of 56,000,000 Scheme Creditors Options to Mr. Fok Hei Yu and Mr. Roderick John Sutton (collectively known as the "Scheme Administrators") for the benefits of the creditors with an admitted claims. The Scheme Creditors Options are exercisable for a period of one year commencing from the date of grant at an initial exercise price of HKD0.15 per Scheme Creditors Options, subject to adjustment.

During the year ended 31 December 2012, 27,454,709 Scheme Creditors Options was exercised and 28,545,291 Scheme Creditors Options was expired. At 30 June 2013, there was no (31 December 2012: Nil) outstanding Scheme Creditors Options.

- d) On 1 November 2011, the Company issued 520,000,000 convertible preference shares with a par value of HKD0.001 each at a price of HKD0.12 each to raise a total of HKD62,400,000 (equivalent to approximately RMB50,971,000). The Directors considered that as the convertible preference share is not entitled to any dividend and it is non-redeemable, the convertible preference shares are equity instrument containing equity element only and are presented in equity. During the six months ended 30 June 2013, 460,000,000 of the ordinary shares were issued pursuant to the conversion of the convertible preference shares.

17. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these unaudited condensed consolidated financial statements, the Group had the following transactions with related parties during the period.

Name	Nature of transaction	Six months ended 30 June	
		2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Business Giant Limited ("Business Giant")	– Interest paid for Convertible Loan Notes (Note i)	23	45
Able Success	– Interest paid for Convertible Loan Notes (Note ii)	123	–

Notes:

- i) An interest expenses on Convertible Loan Notes has been paid to Business Giant, the shareholder of the Company, during the period ended 30 June 2013 and 2012.
- ii) An interest expenses on Convertible Loan Notes has been paid to Able Success, the ultimate holding company, during the period ended 30 June 2013, in which Mr. He Jianhong, the director of the Company, is the sole director and shareholder of Able Success.

17. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balance with related party

As disclosed in the unaudited condensed consolidated statement of financial position, the Group had an outstanding balance due to its ultimate holding company, Able Success, of RMB9,358,000 (31 December 2012: Nil) as at the end of the reporting period. This balance is unsecured, interest free and has no fixed terms of repayment.

18. CONTINGENT LIABILITIES

At 30 June 2013, the Group did not have any significant contingent liabilities (31 December 2012: Nil).

19. COMMITMENTS

Operating lease commitment – the Group as lessee

At 30 June 2013, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	3,416	3,689
In the second to the fifth year inclusive	4,549	6,182
	<u>7,965</u>	<u>9,871</u>

Operating lease payments represent rentals payable by the Group for certain of its premises, plant and machinery, and office equipment. Leases are negotiated for an average term of 5 years (31 December 2012: 5 years) and no arrangements have been entered into for contingent rental payments.

Other commitment

Except for the capital contribution to the PRC subsidiary's registered capital of HKD12,000,000 (equivalent to approximately RMB9,500,000) which shall be paid within two years after the date of issuance of business license of a PRC subsidiary, the Group does not have any other significant commitment for the six months period ended 30 June 2013 (31 December 2012: Nil).

20. EVENTS AFTER THE END OF REPORTING PERIOD

To the best of the Board's knowledge and information, and save for the information disclosed in this report, the Board is unaware of any other significant subsequent event that should be disclosed.

ADDITIONAL INFORMATION

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long position in shares and underlying shares of the Company:

Name of director	Capacity and nature of interest	Shares	Approximate percentage of the Company's issued share capital
Mr. He Jianhong (" Mr. He ")	Interest in a controlled corporation	670,131,644 (<i>Note a</i>)	70.49

Notes:

- The entire issued share capital of Able Success Asia Limited ("**Able Success**") is beneficially owned by Mr. He. Mr. He is therefore deemed to be interested in the shares and underlying shares held by Able Success under the SFO.

Save as disclosed above, as at 30 June 2013, none of the directors or chief executive of the Company had registered an interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section “Directors’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above and in the “Share Option Scheme” below, at no time during the six months ended 30 June 2013 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company has a share option scheme for eligible directors of the Company and eligible employees of the Group and other participants. Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years.

At the extraordinary general meeting of the Company held on 22 February 2012, ordinary resolutions were passed for the adoption of a new share option scheme and the termination of the existing share option scheme adopted by the Company on 2 June 2003.

Details of the share options outstanding at the end of the reporting period are as follows:

	Date of grant	Exercise price <i>HKD</i>	Exercisable period	Outstanding at 31 December 2012 (Audited) and 30 June 2013 (Unaudited)
Senior management	2 May 2007	7.2024	2 May 2007 to 1 May 2017	189,937
Employees	10 February 2004	6.3968	10 February 2004 to 9 February 2014	481,175
	2 May 2007	7.2024	2 May 2007 to 1 May 2017	126,625
	30 January 2008	4.9911	30 January 2008 to 29 January 2018	633,125
				1,430,862
Weighted average exercise price (HKD)				5.95

The weighted average remaining contractual life of these outstanding share options is approximately 3.08 years (31 December 2012: 3.58 years).

No share options were lapsed and no share option has been granted during the six months period ended 30 June 2013 (year ended 31 December 2012: Nil).

During the current period, no expenses was recognised by the Group (year ended 31 December 2012: Nil) in relation to share options granted by the Company.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2013, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name of Shareholder	Capacity and nature of interest	Shares	Underlying Shares	Total interests	Approximate percentage of the Company's issued share capital
Able Success	Beneficial owner	670,131,644	–	670,131,644 <i>(Note a)</i>	70.49
Business Giant Limited ("Business Giant")	Beneficial owner	55,720,000 <i>(Note b)</i>	60,000,000 <i>(Note c)</i>	115,720,000 <i>(Note d)</i>	12.17
Mr. Leung Heung Ying, Alvin ("Mr. Leung")	Interest in a controlled corporation	55,720,000 <i>(Note b)</i>	60,000,000 <i>(Note c)</i>	115,720,000	12.17
	Beneficial owner	6,680,000	–	6,680,000	0.70

Notes:

- The entire issued share capital of Able Success is beneficially owned by Mr. He. Mr. He is therefore deemed to be interested in the Shares held by Able Success under the SFO.
- Business Giant is holding such 14,220,000 shares via its trustee, Market Giant Investments Limited.
- 60,000,000 underlying shares represent the 60,000,000 convertible preference shares owned by Business Giant which are convertible into 60,000,000 shares.
- The entire issued share capital of Business Giant is beneficially owned by Mr. Leung.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 30 June 2013 as required pursuant to section 336 of the SFO.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with all Directors, the directors have confirmed that he have complied with the required standards set out in the Model Code during the six months ended 30 June 2013.

For the six months ended 30 June 2013, the Company was not aware of any non-compliance of the standards on securities transactions by directors of the Company as set out in the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED 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 30 June 2013.

CORPORATE GOVERNANCE

The Company had adopted the principles and complied with all the applicable provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013 except for the following deviations:

- (a) Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer (“**CEO**”) should be separate and should not be performed by the same individual.

During the period from 1 January 2013 to 31 January 2013, the Company did not have any officer with chairman title. The roles and duties of chairman were shared by the Directors. On 1 February 2013, Mr. He was appointed as chairman of the Company. During the period under review, the Company did not have any office with CEO title. The roles and duties of CEO were shared by the Directors. In view of the size of operation of the Group, the Board considered that this structure is more suitable for the Company as it can promote the efficient formulation and implementation of the Company’s strategies.

- (b) Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive Directors are not appointed for a specific term but shall retire from office by rotation at least once every three years as referred to in article 108A of the Company's articles of association which provides that at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation. The reason for the deviation is that the Company does not believe that arbitrary limits on term of non-executive directorship are appropriate given that Directors ought to be committed to representing the long time interest of the Company's shareholders and the retirement and re-election requirements of independent non-executive Directors have given the Company's shareholders the right to approve continuation of independent non-executive Directors' offices.

- (c) Code Provision A.6.7 of the CG Code stipulates that non-executive directors, including independent non-executive directors, should attend general meetings.

One of the independent non-executive directors, namely Mr. Chan Yee Por Simon, was unable to attend the annual general meeting (the "AGM") of the Company held on 21 June 2013 as he had other business engagements. However, he subsequently requested the company secretary of the Company to report to him on the views of the shareholders of the Company in the AGM. As such, the Board considers that the development of a balanced understanding of the views of shareholders of the Company among the independent non-executive directors was ensured.

UPDATES ON DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Non-executive Director

On 2 April 2013, Mr. Chan Yee Por Simon was appointed as independent non-executive director, a member of audit committee and chairman of nomination and remuneration committee.

Mr. Tam Tak Wah has resigned as an independent non-executive director of Goldenway, Inc (a company the common stock of which are traded in OTCQB of USA) with effect from 16 August 2013.

By Order of the Board

He Jianhong

Chairman

Hong Kong, 29 August 2013