



2013
INTERIM REPORT



SUNLINK INTERNATIONAL HOLDINGS LIMITED

科浪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2336)

* For identification purpose only



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Abbreviations

In this interim report, the following abbreviations have the following meanings unless otherwise specified:

“Board”	the Board of Directors of the Company
“Company”	Sunlink International Holdings Limited
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Scheme of Arrangement”	the scheme of arrangement with the Company’s creditors which became effective on 23 February 2012, details of the scheme of arrangement are set out in the circular of the Company dated 23 December 2011
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” and “cents”	Hong Kong dollars and cents
“%”	per cent.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Sue Ka Lok (*Chairman*)
Mr. Lai Ming Wai (*Chief Executive Officer*)

Non-executive Director

Mr. Suen Cho Hung, Paul

Independent Non-executive Directors

Mr. Sun Ka Ziang, Henry
Mr. Chiang Bun
Ms. Wong Wai Yin, Viola

AUDIT COMMITTEE

Mr. Sun Ka Ziang, Henry (*Chairman*)
Mr. Chiang Bun
Ms. Wong Wai Yin, Viola

REMUNERATION COMMITTEE

Mr. Chiang Bun (*Chairman*)
Mr. Sun Ka Ziang, Henry
Ms. Wong Wai Yin, Viola

NOMINATION COMMITTEE

Ms. Wong Wai Yin, Viola (*Chairman*)
Mr. Sun Ka Ziang, Henry
Mr. Chiang Bun
Mr. Sue Ka Lok

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 2336)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1502, 15th Floor
Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.,
Hong Kong Branch

AUDITOR

ANDA CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITES

<http://www.sunlinkgroup.com.hk>
<http://www.tricor.com.hk/websevice/02336>

Management Discussion and Outlook

OPERATIONS REVIEW

For the six months ended 30 June 2013, the Group continued to engage in the sale of semiconductors and related products as well as the development and provision of electronic turnkey device solution products. The Group reported a turnover of HK\$120,800,000, representing a 14% decline from the previous period (30 June 2012: HK\$140,301,000), and gross profit of HK\$5,749,000, showing a 48% drop from the prior period (30 June 2012: HK\$11,032,000). The declines in the Group's turnover and gross profit were primarily due to the decreases in revenue and profit generated from the sales of used semiconductor and computer motherboard products caused by the drop in demand from customers.

During the period under review, the revenue of the Group's semiconductors and related products operation amounted to HK\$99,635,000, showing an 8% increase when compared with the previous period (30 June 2012: HK\$92,029,000) and was mainly due to the increase in sales of standardised semiconductor products, which largely offset the effect of the drop in sales of used semiconductor products. Despite the rise of the operation's overall revenue, the profit of the operation decreased by 82% to HK\$806,000 (30 June 2012: HK\$4,584,000) that mainly represented the combined effect of the squeeze in profit margin derived from the sales of standardised semiconductor products and the drop in revenue and hence profit generated from the sales of used semiconductor products. The Group principally performs a supply and procurement function of standardised semiconductors and related products for its customers mainly for applications in computer, consumer electronic and telecommunication products. In addition, the Group sells used transmission equipment containing recyclable semiconductor components. During the review period, primarily due to the continued slowdown of the PRC economy that negatively affected the electronic industry in general, the price and profit margin of electronic products have been going downtrend which reduced the profitability of the Group's semiconductor products operation.

The revenue of the development and provision of electronic turnkey device solutions operation decreased by 56% to HK\$21,165,000 (30 June 2012: HK\$48,272,000) and its results was turnaround from profit of HK\$2,506,000 in the prior period to loss of HK\$267,000 in the current period. The rather disappointed results of the operation was mainly due to the declines in revenue and profit from the operation's engineering and design services for netbook and notebook computer motherboards, the sales orders from customers dropped significantly during the review period that was largely an indirect consequence of the increased popularity of tablet computers. As part of the measures to counter the unsatisfactory performance of the operation's computer motherboard product line, the operation has commenced the engineering services for backlight circuitry of Liquid Crystal Display (LCD) panels during the review period. This new line of business represents an extension of the operation's engineering services for turnkey device solution products and a new revenue source to the operation. The performance of the operation's other major product line, being the manufacture of microcontrollers for home electrical appliances in the PRC, has stabilised after experiencing the adverse impact of the China-Japan Diaoyu Islands Dispute event happened in August 2012. The operation has proactively solicited new non-Japanese based home electrical appliances manufacturers to reduce reliance on sales orders from Japanese based customers and the financial performance of this product line is gradually improving.

Management Discussion and Outlook

OPERATIONS REVIEW *(continued)*

The profit attributable to owners of the Company was HK\$1,646,000 in the current period compared to HK\$255,223,000 in the previous period; whereas basic earnings per share were HK0.15 cent compared to HK32.33 cents in the prior period. The decrease in profit earned by the Group was mainly the combined results of the absence of gains on debts discharged under the Scheme of Arrangement and group reorganisation amounted to HK\$227,219,000 and HK\$30,589,000 respectively as recorded in the previous period, and the decreases in revenue and profit generated from the Group's used semiconductor and computer motherboard products resulting from the drop in demand from customers. During the review period, as part of the Group's treasury management measures, the Group had utilised part of its surplus funds on hand placing time deposits with banks and earned bank interest income of HK\$213,000 (30 June 2012: HK\$401,000), and where considered appropriate, made advances to third parties on short term basis and earned loan interest income of HK\$1,645,000 (30 June 2012: nil). The Group's administrative expenses dropped by 54% to HK\$4,187,000 (30 June 2012: HK\$9,117,000) in the current period that was mainly due to the absence of the restructuring costs of HK\$4,926,000 recorded in the previous period. No further loss on financial guarantee liabilities was incurred by the Group during the current period as the Scheme of Arrangement with creditors of the Company had come into effect in February 2012.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the Group had current assets of HK\$187,147,000 (31 December 2012: HK\$192,273,000) comprising bank and cash balances of HK\$84,711,000 (31 December 2012: HK\$81,918,000) and net current assets of HK\$164,812,000 (31 December 2012: HK\$170,324,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$22,335,000 (31 December 2012: HK\$21,949,000), maintained at a healthy level of 8.38 times (31 December 2012: 8.76 times) at the period end. The Group's trade and bill receivables amounted to HK\$51,990,000 and dropped by HK\$16,985,000 or 25% from the previous year (31 December 2012: HK\$68,975,000) primarily due to the slowdown of the Group's business. As at 30 June 2013, there were trade debts totalling HK\$22,142,000 (31 December 2012: HK\$17,313,000) owed to the Group for over 120 days, no provision was made against these receivables as they were related to a number of independent customers with no recent history of default.

During the current period, the creditors convertible bonds in the aggregate principal amount of HK\$558,000 were converted into approximately 2,790,000 ordinary shares of the Company at a conversion price of HK\$0.2 per share, whereas certain creditors convertible bonds in aggregate principal amount of HK\$4,164,000 were redeemed by the Company. At the period end, the outstanding creditors convertible bonds were at carrying value totaling HK\$3,110,000 (31 December 2012: HK\$7,246,000), denominated in Hong Kong dollars, interest bearing at 1% per annum and will mature in February 2014.

At the period end, the Group's equity attributable to owners of the Company increased by HK\$2,352,000 to HK\$157,289,000 (31 December 2012: HK\$154,937,000). The increase in equity attributable to owners of the Company was mainly due to the combined effect of the conversion of the creditors convertible bonds into ordinary shares of the Company and the profit generated from the Group's operations during the review period.

Management Discussion and Outlook

FINANCIAL REVIEW *(continued)*

Liquidity, Financial Resources and Capital Structure (continued)

The Group's gearing ratio represented its total borrowings over the sum of equity attributable to owners of the Company and total borrowings of the Group. At the period end, the Group's borrowings comprised the creditors convertible bonds at carrying value of HK\$3,110,000 (31 December 2012: HK\$7,246,000), as the Group's equity attributable to owners of the Company stood at HK\$157,289,000 (31 December 2012: HK\$154,937,000), the Group's gearing ratio was therefore at a low level of 2% (31 December 2012: 4%) at the period end.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimised via balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the Group's exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Contingent Liabilities

As at 30 June 2013, the Group had no significant contingent liabilities (31 December 2012: nil).

Pledge of Assets

As at 30 June 2013, the Group had no significant assets under pledge (31 December 2012: nil).

Lease Commitments

As at 30 June 2013, the Group had operating lease commitments in respects of rentals for its offices and factory premises of HK\$6,326,000 (31 December 2012: HK\$6,628,000).

Capital Commitments

As at 30 June 2013, the Group had no material capital commitments (31 December 2012: nil).

Management Discussion and Outlook

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group had approximately 160 employees including directors (30 June 2012: approximately 220). Total staff costs for the period, including directors' remuneration, was HK\$4,907,000 (30 June 2012: HK\$4,316,000). During the period, the Group remunerated its employees based on their performance, experience and prevailing market rate. Benefits plans provided by the Group include provident fund scheme, medical insurance, subsidised training programme, share option scheme and discretionary bonuses.

The Group made contributions to the Mandatory Provident Fund Scheme for its staff in Hong Kong. The employees of the Company's subsidiaries established in the PRC are members of central pension schemes operated by the local municipal governments.

PROSPECTS

Primarily owing to the slowdown of economic growth in the PRC, the Group has been operating in business environments filled with uncertainties and challenges during the review period. Against this backdrop, the Group has been managing its businesses prudently to weather the negative impact on the electronic industry in general. For the remainder of the financial year, the Group will continue its prudent and cautious approach in managing its businesses and in evaluating new business opportunities to ensure a stable prospect for shareholders of the Company.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	Notes	Six months ended	
		30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Turnover	3 & 4	120,800	140,301
Cost of sales		(115,051)	(129,269)
Gross profit		5,749	11,032
Other income	5	2,115	541
Selling and distribution expenses		(1,917)	(934)
Administrative expenses		(4,187)	(9,117)
Profit from operations		1,760	1,522
Finance costs	6	(259)	(272)
Gain on debts discharged under the Scheme of Arrangement	7	–	227,219
Gain on group reorganisation	7	–	30,589
Loss on financial guarantee liabilities	15	–	(3,766)
Profit before tax	8	1,501	255,292
Income tax credit/(expense)	9	50	(245)
Profit for the period		1,551	255,047
Other comprehensive income/(expenses) for the period, net of tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		645	(255)
Total comprehensive income for the period		2,196	254,792
Profit/(loss) for the period attributable to:			
Owners of the Company		1,646	255,223
Non-controlling interests		(95)	(176)
		1,551	255,047
Total comprehensive income/(expenses) for the period attributable to:			
Owners of the Company		1,992	255,084
Non-controlling interests		204	(292)
		2,196	254,792
Earnings per share	11		
Basic (HK cent(s) per share)		0.15	32.33
Diluted (HK cent(s) per share)		0.15	31.25

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Non-current asset			
Property, plant and equipment	12	6,170	5,606
		6,170	5,606
Current assets			
Inventories		25,399	26,855
Trade and bill receivables	13	51,990	68,975
Prepayments, deposits and other receivables		6,130	1,883
Short-term loans receivable		18,500	12,250
Current tax assets		417	392
Bank and cash balances		84,711	81,918
		187,147	192,273
Current liabilities			
Trade payables	14	11,634	14,682
Accruals, other payables and deposits received		5,569	3,560
Creditors convertible bonds	16	3,110	–
Due to a non-controlling shareholder of a subsidiary		2,022	2,694
Current tax liabilities		–	1,013
		22,335	21,949
Net current assets		164,812	170,324
Total assets less current liabilities		170,982	175,930
Non-current liabilities			
Creditors convertible bonds	16	–	7,246
Deferred tax liabilities		28	124
		28	7,370
NET ASSETS		170,954	168,560
Capital and reserves			
Share capital	17	10,725	10,697
Reserves		146,564	144,240
Equity attributable to owners of the Company		157,289	154,937
Non-controlling interests		13,665	13,623
TOTAL EQUITY		170,954	168,560

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

Notes	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Creditors convertible bonds reserve	Statutory reserve	Foreign currency translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2012	186,478	15,409	(64,907)	-	89	321	(440,685)	(303,295)	16,021	(287,274)
Total comprehensive income/ (expenses) for the period	-	-	-	-	-	(139)	255,223	255,084	(292)	254,792
Capital restructuring	(185,546)	(15,409)	-	-	-	-	200,955	-	-	-
Share subscription	7,500	142,500	-	-	-	-	-	150,000	-	150,000
Transaction costs related to the share subscription	-	(75)	-	-	-	-	-	(75)	-	(75)
Open offer	1,865	35,431	-	-	-	-	-	37,296	-	37,296
Transaction costs related to the open offer	-	(1,150)	-	-	-	-	-	(1,150)	-	(1,150)
Issue of shares to creditors	400	7,600	-	-	-	-	-	8,000	-	8,000
Issue of creditors convertible bonds	-	-	-	1,264	-	-	-	1,264	-	1,264
Deferred tax arising from issue of creditors convertible bonds	-	-	-	(209)	-	-	-	(209)	-	(209)
Group reorganisation	-	-	64,907	-	-	-	(64,907)	-	-	-
At 30 June 2012	10,697	184,306	-	1,055	89	182	(49,414)	146,915	15,729	162,644
At 1 January 2013	10,697	184,306	-	1,055	89	278	(41,488)	154,937	13,623	168,560
Total comprehensive income for the period	-	-	-	-	-	346	1,646	1,992	204	2,196
Conversion of creditors convertible bonds	16 & 17	28	559	-	(74)	-	-	513	-	513
Transaction costs related to conversion of creditors convertible bonds	-	(6)	-	-	-	-	-	(6)	-	(6)
Redemption of creditors convertible bonds	16	-	-	(549)	-	-	240	(309)	-	(309)
Gain on deemed disposal of a subsidiary	-	-	-	-	-	-	6	6	(6)	-
Gain on equity transaction with non-controlling interests of a subsidiary	-	-	-	-	-	-	156	156	(156)	-
At 30 June 2013	10,725	184,859	-	432	89	624	(39,440)	157,289	13,665	170,954

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	5,548	(29,952)
Net cash generated from/(used in) investing activities	886	(1,710)
Net cash (used in)/generated from financing activities	(4,170)	115,071
Net increase in cash and cash equivalents	2,264	83,409
Effect of foreign exchange rates changes, net	529	(208)
Cash and cash equivalents at the beginning of the period	81,918	10,365
Cash and cash equivalents at the end of the period	84,711	93,566
Analysis of cash and cash equivalents		
Bank and cash balances	84,711	93,566

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim 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 (the “HKICPA”) and the applicable disclosures required by the Listing Rules on the Stock Exchange.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the 2012 annual financial statements. The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the audited consolidated annual financial statements for the year ended 31 December 2012 except as stated in note 2 below.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis and are presented in Hong Kong dollars (“HK\$”) which is the functional currency of the Company.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; HKASs; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years except as stated below.

Amendments to HKAS 1 “Presentation of Financial Statements”

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income 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.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

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

(continued)

Amendments to HKAS 1 "Presentation of Financial Statements" (continued)

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income of the Group.

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

3. SEGMENT INFORMATION

The Group has two reportable segments as follows:

- Sale of semiconductors and related products business
- Development and provision of electronic turnkey device solutions business

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately for the purpose of resources allocation and performance assessment.

The accounting policies of the operating segments are the same as those adopted in the consolidated financial statements of the Company for the year ended 31 December 2012. Segment profits or losses do not include intercompanies income and expenses, unallocated corporate other income, unallocated corporate expenses, gain on debts discharged under the Scheme of Arrangement and on group reorganisation, loss on financial guarantee liabilities, finance costs and income tax credit and expense. Segment assets do not include intercompanies assets and unallocated corporate assets.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

3. SEGMENT INFORMATION (continued)

Information about reportable segment profit or loss and assets:

	Sale of semiconductors and related products business		Development and provision of electronic turnkey device solutions business		Total	
	Six months ended		Six months ended		Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Revenue from external customers	99,635	92,029	21,165	48,272	120,800	140,301
Segment profit/(loss)	806	4,584	(267)	2,506	539	7,090
Depreciation	16	9	426	315	442	324
Capital expenditure	11	110	879	2,001	890	2,111

	Sale of semiconductors and related products business		Development and provision of electronic turnkey device solutions business		Total	
	As at		As at		As at	
	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Segment assets	118,394	128,026	56,174	57,291	174,568	185,317

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

3. SEGMENT INFORMATION (continued)

Reconciliation of reportable segment profit or loss is as follows:

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Profit or loss		
Total profit of reportable segments	539	7,090
Unallocated amounts:		
Unallocated corporate other income	1,863	–
Unallocated corporate expenses	(642)	(5,568)
Profit from operations	1,760	1,522
Finance costs	(259)	(272)
Gain on debts discharged under the Scheme of Arrangement (note 7)	–	227,219
Gain on group reorganisation (note 7)	–	30,589
Loss on financial guarantee liabilities (note 15)	–	(3,766)
Profit before tax	1,501	255,292

4. TURNOVER

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
The Group's turnover is as follows:		
Sale of semiconductors and related products	99,635	92,029
Development and provision of electronic turnkey device solution products	21,165	48,272
	120,800	140,301

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

5. OTHER INCOME

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
The Group's other income is as follows:		
Bank interest income	213	401
Interest income from short-term loans receivable	1,645	–
Sundry income	257	140
	2,115	541

6. FINANCE COSTS

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Interest expenses on:		
Loans from the investor under the working capital facility and the additional working capital facility	–	40
Creditors convertible bonds (note 16)	259	232
	259	272

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

7. GAIN ON DEBTS DISCHARGED UNDER THE SCHEME OF ARRANGEMENT/GROUP REORGANISATION

Gain on debts discharged under the Scheme of Arrangement

On 23 February 2012, the majority of the scheme creditors approved the Scheme of Arrangement under which all indebtedness owed by the Company to the scheme creditors on the date for determination of entitlement of such scheme creditors were released, discharged and fully settled.

The Scheme of Arrangement was sanctioned by the Grand Court of the Cayman Islands and the High Court of Hong Kong Special Administrative Region on 19 January 2012 and 2 February 2012, respectively. The total indebtedness admitted by the scheme administrators under the Scheme of Arrangement was discharged and settled in full by way of a combination of cash payment of HK\$43,000,000, issuance of 40,000,000 Company's shares at the issue price of HK\$0.20 per share with the par value of HK\$0.01 each, and issuance of creditors convertible bonds in the aggregate principal amount of HK\$8,000,000. As a result, a gain on debts discharged under the Scheme of Arrangement of approximately HK\$227,219,000 was recognised during the six months period ended 30 June 2012, being calculated as follows:

	Six months ended 30 June 2012 HK\$'000 (Unaudited)
Debts discharged:	
Financial guarantee liabilities (<i>note 15</i>)	285,007
Current tax liabilities	60
Due to deconsolidated subsidiaries	679
Accruals, other payables and deposits received	473
	<hr/>
	286,219
Satisfied by:	
Cash consideration	(43,000)
Issue of shares to creditors	(8,000)
Issue of creditors convertible bonds	(8,000)
	<hr/>
	(59,000)
	<hr/>
Gain on debts discharged under the Scheme of Arrangement	227,219

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

7. GAIN ON DEBTS DISCHARGED UNDER THE SCHEME OF ARRANGEMENT/GROUP REORGANISATION (continued)

Gain on group reorganisation

On 23 February 2012, the Group completed the restructuring agreement (details of which are set out in the circular of the Company dated 23 December 2011) pursuant to which Sunlink Technologies Holdings Limited (the former immediate subsidiary of the Company) together with its subsidiaries and associate were transferred out of the Group to the nominee of the administrators of the Scheme of Arrangement.

	Six months ended 30 June 2012 HK\$'000 (Unaudited)
Net liabilities at the date of deconsolidation were as follows:	
Accruals, other payables and deposits received	(2,330)
Current tax liabilities	(1,528)
Due to deconsolidated subsidiaries	(26,731)
	<hr/>
	(30,589)
Gain on group reorganisation	30,589
	<hr/>
Total consideration satisfied by cash	–
	<hr/>
Net cash effect arising on group reorganisation	–
	<hr/>

As a result of the group reorganisation, the special reserve included in the condensed consolidated statement of changes in equity of approximately HK\$64,907,000 was transferred to the accumulated losses of the Company during the six months period ended 30 June 2012.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

8. PROFIT BEFORE TAX

The Group's profit before tax for the period is arrived at after charging:

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Staff costs including directors' remuneration		
Salaries, bonus and allowances	4,734	4,030
Retirement benefits scheme contributions	173	286
	4,907	4,316
Cost of inventories sold	114,915	126,508
Depreciation of property, plant and equipment	442	324
Operating lease charges on land and buildings	1,129	1,076

Cost of inventories sold included staff costs, depreciation and operating lease charges totalling approximately HK\$3,182,000 (2012: HK\$3,134,000) which are included in the amounts disclosed separately above.

9. INCOME TAX (CREDIT)/EXPENSE

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Current tax – Hong Kong Profits Tax provided for the period	47	230
Current tax – Corporate Income Tax in the PRC provided for the period	–	49
Deferred tax	(97)	(34)
	(50)	245

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

9. INCOME TAX (CREDIT)/EXPENSE *(continued)*

Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 30 June 2012: 16.5%) on the estimated assessable profit for the six months ended 30 June 2013.

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

10. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

11. EARNINGS PER SHARE

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

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share	1,646	255,223
Finance costs saving on conversion of creditors convertible bonds outstanding	259	232
Deferred tax relating to creditors convertible bonds	(97)	(34)
Earnings for the purpose of calculating diluted earnings per share	1,808	255,421

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

11. EARNINGS PER SHARE (continued)

	Six months ended	
	30 June 2013 '000 (Unaudited)	30 June 2012 '000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,071,690	789,325
Effect of dilutive potential ordinary shares arising from creditors convertible bonds outstanding	38,027	28,132
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,109,717	817,457

Basic and diluted earnings per share for the six months ended 30 June 2013 were the same because conversion of creditors convertible bonds would increase the earnings per share, therefore, is anti-dilutive.

The weighted average number of ordinary shares for the six months ended 30 June 2012 for the purpose of calculating the basic earnings per share has been adjusted to account for the effect of the share consolidation and open offer of the Company conducted during the period ended 30 June 2012.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment of approximately HK\$890,000 (six months ended 30 June 2012: approximately HK\$2,111,000).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

13. TRADE AND BILL RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 15 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade and bill receivables, based on the invoice date, and net of allowance, is as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
30 days or less	16,852	33,010
31 days to 60 days	9,340	10,662
61 days to 90 days	2,759	6,392
91 days to 120 days	897	1,598
Over 120 days	22,142	17,313
	51,990	68,975

No bill receivables was included in the balance of trade and bill receivables as at 30 June 2013 (31 December 2012: approximately HK\$873,000).

As at 30 June 2013, trade and bill receivables of approximately HK\$22,142,000 (31 December 2012: HK\$17,313,000) were past due but not impaired. These related to a number of independent customers with no recent history of default. The aging analysis of these trade receivables is as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Over 120 days	22,142	17,313

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

14. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
30 days or less	6,677	9,675
31 days to 60 days	2,471	2,372
61 days to 90 days	853	916
91 days to 120 days	344	557
Over 120 days	1,289	1,162
	11,634	14,682

15. FINANCIAL GUARANTEE LIABILITIES

The Company provided corporate guarantees for all the bank loans and certain payables maintained by its former subsidiaries which were deconsolidated from the consolidated financial statements of the Group since 1 July 2008, details of the deconsolidation were disclosed in notes 2 and 10 to the consolidated financial statements of the Company for the year ended 31 December 2008. During the six months ended 30 June 2013, there was no loss on financial guarantee liabilities charged to the consolidated profit or loss (six months ended 30 June 2012: approximately HK\$3,766,000). The Company was liable to financial guarantee liabilities of approximately HK\$285,007,000 immediately before completion of the Scheme of Arrangement. These liabilities of the Company had been discharged under the Scheme of Arrangement of the Company which became effective on 23 February 2012.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

16. CREDITORS CONVERTIBLE BONDS

Upon the coming into effect of the Scheme of Arrangement on 23 February 2012, the creditors convertible bonds in the aggregate principal amount of HK\$8,000,000, convertible into 40,000,000 ordinary shares of the Company at the initial conversion price of HK\$0.20 per share, were issued by the Company to the nominee of the scheme administrators of the Scheme of Arrangement. The creditors convertible bonds will mature on 23 February 2014 and are interest bearing at 1% per annum.

The effective interest rate used to measure the liability component of the creditors convertible bonds is 10.12% per annum.

In March 2013, certain creditors convertible bond holders had exercised their conversion options and converted creditors convertible bonds in the aggregate principal amount of approximately HK\$558,000 into approximately 2,790,000 ordinary shares of the Company (note 17), whereas in March and May 2013, certain creditors convertible bonds in the aggregate principal amount of approximately HK\$4,164,000 were redeemed by the Company with the consideration paid being allocated to the liability and equity components of such creditors convertible bonds as to approximately HK\$3,855,000 and HK\$309,000 respectively by using the same method as adopted on initial recognition of such creditors convertible bonds. The amount of consideration allocated to the equity component of such creditors convertible bonds was recognised in equity. As at 30 June 2013, the aggregate principal amount of creditors convertible bonds outstanding was approximately HK\$3,278,000.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

16. CREDITORS CONVERTIBLE BONDS (continued)

The nominal value of creditors convertible bonds issued have been split between the liability component and equity component as follows:

	HK\$'000 (Unaudited)
Nominal value of creditors convertible bonds issued	8,000
Equity component	(1,264)
Liability component at date of issue	6,736
Interest charged for the year ended 31 December 2012 calculated at an effective interest rate of 10.12% per annum	578
Interest payable for the year ended 31 December 2012	(68)
Liability component at 31 December 2012 and 1 January 2013	7,246
Interest charged for the six months ended 30 June 2013 calculated at an effective interest rate of 10.12% per annum (note 6)	259
Interest payable for the six months ended 30 June 2013	(27)
Conversion of creditors convertible bonds	(513)
Redemption of creditors convertible bonds	(3,855)
Liability component at 30 June 2013	3,110

The carrying amount of the creditors convertible bonds approximates to their fair values.

17. SHARE CAPITAL

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid: 1,072,507,275 ordinary shares of HK\$0.01 each (31 December 2012: 1,069,717,000 ordinary shares of HK\$0.01 each)	10,725	10,697

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

17. SHARE CAPITAL (continued)

Movement of the number of shares issued and the share capital during the current period is as follows:

	Number of shares issued '000	Share Capital HK\$'000
At 1 January 2013	1,069,717	10,697
Issue of shares upon conversion of creditors convertible bonds (note)	2,790	28
At 30 June 2013	1,072,507	10,725

Note:

During the current period, creditors convertible bonds in the aggregate principal amount of approximately HK\$558,000 were converted into approximately 2,790,000 ordinary shares of the Company at a conversion price of HK\$0.2 per share.

18. CONTINGENT LIABILITIES

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

19. PLEDGE OF ASSETS

As at 30 June 2013, the Group did not have significant assets under pledge (31 December 2012: nil).

20. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases and are payable as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Within one year	1,324	1,255
In the second to fifth years inclusive	4,896	4,697
Over five years	106	676
	6,326	6,628

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

20. LEASE COMMITMENTS (continued)

The Group as lessee (continued)

Operating lease payments represent rentals payable by the Group for its offices and factory premises. Leases are negotiated for terms from six months to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

21. RELATED PARTY TRANSACTIONS

The related party transactions of the Group during the period are as follows:

	Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	30 June 2012 HK\$'000 (Unaudited)
Compensation of key management personnel		
Short-term benefits	606	419
Post-employment benefits	23	16
	629	435
Operating lease charges on land and building to a related company in which two Directors of the Company have significant influence	390	260

During the six months ended 30 June 2013, the Group purchased raw materials from a non-controlling shareholder of a subsidiary totalling approximately HK\$321,000 (six months ended 30 June 2012: approximately HK\$807,000) which are considered as continuing connected transactions under the Listing Rules.

22. EVENTS AFTER THE REPORTING PERIOD

There is no significant event happened after the end of the reporting period.

23. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements are approved and authorised for issue by the Board on 28 August 2013.

Other Information

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).

DIRECTORS' INTERESTS 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 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long positions in the shares of the Company:

Name of director	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	750,000,000 (Note)	69.93%

Note: These shares were held by Brilliant Capital International Limited ("Brilliant Capital"), which was a wholly-owned subsidiary of Grace Able Limited ("Grace Able") which in turn was wholly owned by Mr. Suen. Mr. Suen is a director of Brilliant Capital and the sole director of Grace Able. Accordingly, Mr. Suen was deemed to be interested in 750,000,000 shares of the Company under the SFO.

Save as disclosed above, as at 30 June 2013, none of the directors or 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) 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.

SHARE OPTION SCHEME

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 28 June 2012 and the previous share option scheme of the Company adopted on 12 February 2003 (the "Old Share Option Scheme") was terminated on the same date. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Group to attract, retain and motivate talented key management and employees to strive for future development and expansion of the Group. The Share Option Scheme shall provide incentive to encourage participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

Other Information

SHARE OPTION SCHEME *(continued)*

No share options were granted or exercised during the six months ended 30 June 2013 and 2012 and no share options were outstanding as at 30 June 2013 and 2012.

Further details of the Old Share Option Scheme and the Share Option Scheme are set out in the Company's 2011 Annual Report and 2012 Annual Report respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" above, at no time during the six months ended 30 June 2013 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

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 the shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Suen	Interest of controlled corporation	750,000,000 <i>(Note)</i>	69.93%
Grace Able	Interest of controlled corporation	750,000,000 <i>(Note)</i>	69.93%
Brilliant Capital	Beneficial owner	750,000,000 <i>(Note)</i>	69.93%

Note: These shares were held by Brilliant Capital, which was a wholly-owned subsidiary of Grace Able which in turn was wholly owned by Mr. Suen. Mr. Suen is a director of Brilliant Capital and the sole director of Grace Able. Accordingly, Mr. Suen and Grace Able were deemed to be interested in 750,000,000 shares of the Company under the SFO.

The interests of Mr. Suen, Grace Able and Brilliant Capital in the 750,000,000 shares of the Company referred to in the note above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any 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.

Other Information

CORPORATE GOVERNANCE

The Company has 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 deviation with reason as explained:

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Deviation

Mr. Suen Cho Hung, Paul, a non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 10 June 2013 as he had other important business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the Directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2013.

AUDIT COMMITTEE

The unaudited condensed consolidated interim 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 of the Company and are duly approved by the Board under the recommendation of the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

On behalf of the Board

Sue Ka Lok

Chairman

Hong Kong, 28 August 2013