



KIN YAT HOLDINGS LIMITED
建溢集團有限公司

website: <http://www.kinyat.com.hk>

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

Interim Report

for the six months ended 30 September 2013

The Board of Directors (the "Board") would like to report the unaudited condensed consolidated results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2013 together with the comparative figures for the corresponding period in 2012. This unaudited interim financial report has been reviewed by the Audit Committee of the Company but has not been reviewed by the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited for the six months ended 30 September	
		2013	2012
		HK\$'000	HK\$'000
REVENUE	3	1,039,384	1,031,629
Cost of sales		(893,340)	(909,291)
Gross profit		146,044	122,338
Other income and gains, net	3	10,010	34,735
Selling and distribution expenses		(21,087)	(24,243)
Administrative expenses		(99,702)	(78,756)
Finance costs		(2,434)	(2,856)
PROFIT BEFORE TAX	4	32,831	51,218
Income tax expense	5	(17,599)	(18,452)
PROFIT FOR THE PERIOD		15,232	32,766
ATTRIBUTABLE TO:			
Owners of the Company		18,591	39,367
Non-controlling interests		(3,359)	(6,601)
		15,232	32,766
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic		HK4.44 cents	HK9.40 cents
Diluted		HK4.44 cents	HK9.40 cents

Details of the dividends are disclosed in note 6 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited for the six months ended 30 September	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
PROFIT FOR THE PERIOD	<u>15,232</u>	<u>32,766</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to income statement in subsequent periods:		
Release of exchange fluctuation reserve upon disposal of subsidiaries	–	(10,611)
Exchange differences on translation of foreign operations	<u>35,340</u>	<u>(61)</u>
	35,340	(10,672)
Items not to be reclassified to income statement in subsequent periods:		
Deferred tax credited to asset revaluation reserve upon disposal of items of property, plant and equipment	–	320
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>50,572</u>	<u>22,414</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>54,557</u>	29,015
Non-controlling interests	<u>(3,985)</u>	<u>(6,601)</u>
	<u>50,572</u>	<u>22,414</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 September 2013 HK\$'000	Audited 31 March 2013 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		761,840	734,030
Prepaid land lease payments		29,656	28,063
Goodwill		4,650	4,650
Intangible assets		31,767	29,204
Deposits	9	124,787	61,911
Total non-current assets		<u>952,700</u>	<u>857,858</u>
CURRENT ASSETS			
Inventories		333,710	261,554
Accounts receivable	8	287,520	164,616
Prepayments, deposits and other receivables	9	105,261	137,609
Financial assets at fair value through profit or loss		9,480	9,706
Time deposits		87,369	89,197
Cash and bank balances		137,874	210,039
Total current assets		<u>961,214</u>	<u>872,721</u>
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	10	453,172	310,208
Interest-bearing bank borrowings	11	168,751	158,649
Due to non-controlling shareholders		38,838	37,808
Tax payable		58,279	43,118
Total current liabilities		<u>719,040</u>	<u>549,783</u>
NET CURRENT ASSETS		<u>242,174</u>	<u>322,938</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,194,874	1,180,796

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

	Unaudited 30 September 2013 <i>HK\$'000</i>	Audited 31 March 2013 <i>HK\$'000</i>
<i>Note</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES	1,194,874	1,180,796
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	11 85,385	109,519
Deferred tax liabilities	21,906	22,004
Total non-current liabilities	107,291	131,523
NET ASSETS	1,087,583	1,049,273
EQUITY		
Equity attributable to owners of the Company		
Issued share capital	41,875	41,875
Reserves	1,075,569	1,033,274
	1,117,444	1,075,149
Non-controlling interests	(29,861)	(25,876)
TOTAL EQUITY	1,087,583	1,049,273

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2013 (Unaudited)

	Attributable to owners of the Company										
	Issued share capital	Share premium account	Share option reserve	Asset revaluation reserve	Reserves				Total reserves	Non- controlling interests	Total equity
					Exchange fluctuation reserve	Contributed surplus	Other reserve	Retained profits			
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
At 1 April 2013	41,875	124,530	7,544	89,371	70,884	6,150	(8,940)	743,735	1,033,274	(25,876)	1,049,273
Exchange difference on translation of foreign operations	-	-	-	-	35,966	-	-	-	35,966	(626)	35,340
Profit/(loss) for the period	-	-	-	-	-	-	-	18,591	18,591	(3,359)	15,232
Total comprehensive income/ (expenses) for the period	-	-	-	-	35,966	-	-	18,591	54,557	(3,985)	50,572
Final 2013 dividend paid (note 6)	-	-	-	-	-	-	-	(12,562)	(12,562)	-	(12,562)
Equity-settled share option expense	-	-	300	-	-	-	-	-	300	-	300
At 30 September 2013	41,875	124,530	7,844	89,371	106,850	6,150	(8,940)	749,764	1,075,569	(29,861)	1,087,583
At 1 April 2012	41,875	124,530	6,038	60,653	83,237	6,150	(8,940)	702,858	974,526	(15,158)	1,001,243
Deferred tax credited to asset revaluation reserve upon disposal of items of property, plant and equipment	-	-	-	320	-	-	-	-	320	-	320
Release of revaluation surplus upon disposal of items of property, plant and equipment	-	-	-	(1,939)	-	-	-	1,939	-	-	-
Release of revaluation surplus upon disposal of subsidiaries	-	-	-	(8,236)	-	-	-	8,236	-	-	-
Release of exchange fluctuation reserve upon disposal of subsidiaries (note 14)	-	-	-	-	(10,611)	-	-	-	(10,611)	-	(10,611)
Exchange differences on translation of foreign operations	-	-	-	-	(61)	-	-	-	(61)	-	(61)
Profit/(loss) for the period	-	-	-	-	-	-	-	39,367	39,367	(6,601)	32,766
Total comprehensive income/ (expense) for the period	-	-	-	(9,855)	(10,672)	-	-	49,542	29,015	(6,601)	22,414
Final 2012 dividend paid (note 6)	-	-	-	-	-	-	-	(8,375)	(8,375)	-	(8,375)
Equity-settled share option expense	-	-	400	-	-	-	-	-	400	-	400
At 30 September 2012	41,875	124,530	6,438	50,798	72,565	6,150	(8,940)	744,025	995,566	(21,759)	1,015,682

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited for the six months ended 30 September	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	15,471	96,464
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(86,250)	(39,815)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(14,033)	(22,552)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(84,812)	34,097
Cash and cash equivalents at beginning of period	299,236	239,364
Effect of foreign exchange rate changes, net	10,819	(61)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	225,243	273,400
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	137,874	203,608
Non-pledged time deposits	87,369	69,792
	225,243	273,400

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for leasehold land and buildings and financial assets at fair value through profit or loss, which have been measured at fair value, as appropriate. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2013 except as described by below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2013.

HKFRS 1 Amendments	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	Fair Value Measurement
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investment in Associates and joint Venture
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements <i>2009-2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

The adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments as follows:

- (a) the electrical and electronic products segment consists of the manufacture and sale of artificial intelligence products, electrical appliances, electronic toys and related products;
- (b) the motors segment consists of the manufacture and sale of motors;
- (c) the resources development segment consists of the manufacture and sale of mining products and materials primarily for use in panel display, mine exploration and ore processing; and
- (d) others segment consists of the manufacture and sale of feature plush, wooden toys, encoder film and real estate development.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated financial statements.

Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

2. SEGMENT INFORMATION *(continued)*

(a) Operating segments

The following table presents revenue and result for the Group's operating segments for the six months ended 30 September 2013 and 2012.

	Unaudited for the six months ended 30 September											
	Electrical and electronic products		Motors		Resources development		Others		Eliminations		Consolidated	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Segment revenue:												
Revenue from external customers	735,074	710,212	278,267	254,695	7,562	23,480	18,481	43,242	-	-	1,039,384	1,031,629
Intersegment sales	1,079	826	5,442	6,080	-	-	6,578	1,426	(13,099)	(8,332)	-	-
Other income and gains, net	1,264	1,132	6,978	6,340	572	57	110	81	-	-	8,924	7,610
Total	737,417	712,170	290,687	267,115	8,134	23,537	25,169	44,749	(13,099)	(8,332)	1,048,308	1,039,239
Segment results	96,679	102,267	(18,909)	(29,854)	(30,262)	(33,810)	(3,585)	1,399	-	-	43,923	40,002
Interest and unallocated gains											1,086	27,125
Unallocated expenses											(9,744)	(13,053)
Finance costs											(2,434)	(2,856)
Profit before tax											32,831	51,218

(b) Geographical information

	Unaudited for the six months ended 30 September											
	United States of America		Europe		Asia		Others		Consolidated			
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000		
Segment revenue:												
Revenue from external customers	314,799	289,967	203,913	251,994	433,646	384,289	87,026	105,379	1,039,384	1,031,629		

The revenue information above is based on the location of the customers.

3. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-group transactions. An analysis of revenue, other income and gains, net is as follows:

	Unaudited for the six months ended 30 September	
	2013 HK\$'000	2012 HK\$'000
Revenue		
Manufacture and sale of:		
Electrical and electronic products	735,074	710,212
Motors	278,267	254,695
Materials and products from resources development	7,562	23,480
Products from other manufacturing activities	18,481	43,242
	<u>1,039,384</u>	<u>1,031,629</u>
Other income and gains, net		
Bank interest income	765	1,361
Gross rental income	433	705
Sale of scrap materials	7,188	6,349
Gain on disposal of items of property, plant and equipment, net	20	2,584
Fair value (loss)/gain on financial assets at fair value through profit or loss, net	(226)	1,898
Gain on disposal of subsidiaries (<i>note 14</i>)	–	20,760
Others	1,830	1,078
	<u>10,010</u>	<u>34,735</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Unaudited for the six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Depreciation	42,518	38,879
Amortisation of prepaid land lease payments	383	287
Amortisation of deferred development costs	3,252	3,223
Gain on disposal of items of property, plant and equipment, net	(20)	(2,584)
Impairment of items of property, plant and equipment	11,869	–
Write-off of items of property, plant and equipment	3,661	–
Gain on disposal of subsidiaries (<i>note 14</i>)	–	(20,760)
Fair value loss/(gain) on financial assets at fair value through profit or loss, net	226	(1,898)
Bank interest income	(765)	(1,361)
	_____	_____

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates.

Pursuant to the Enterprise Income Tax Law (the "New PRC Tax Law") of the People's Republic of China (the "PRC") being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Under an implementation guidance note of the New PRC Tax Law, enterprises established before the publication of the New PRC Tax Law were entitled to preferential treatments of a reduced corporate income tax rate (the "CIT rate") granted by the relevant tax authorities. The new CIT rate would be gradually increased from the preferential rate to 25% within 5 years after the effective date of the New PRC Tax Law on 1 January 2008.

	Unaudited for the six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	7,349	7,660
Elsewhere	10,596	10,740
Deferred	(346)	52
	_____	_____
Total tax charge for the period	17,599	18,452
	_____	_____

6. DIVIDENDS

Unaudited for the six months ended 30 September

Dividends paid during the period

Final in respect of the financial year ended
31 March 2013 – HK3.0 cents per ordinary
share (2012: final dividend of HK2.0 cents per
ordinary share, in respect of the financial year
ended 31 March 2012)

2013 HK\$'000	2012 HK\$'000
<u>12,562</u>	<u>8,375</u>

The directors resolve not to pay an interim dividend for the six months ended 30 September 2013. (2012: Nil)

7. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to equity holders of the Company of HK\$18,591,000 (2012: HK\$39,367,000) and the weighted average of 418,748,000 (2012: 418,748,000) ordinary shares in issue during the period.

For the period ended 30 September 2013 and 2012, as the exercise price of the Company's outstanding share options were higher than the average market price of the Company's ordinary shares, the outstanding share options had no dilutive effect on the earnings per share.

8. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale or payment in advance is normally required. The credit period is generally for a period of one to two months, extending up to three months for certain well-established customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has imposed tightened control to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable mainly relate to recognised and creditworthy customers, there is no significant credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

8. ACCOUNTS RECEIVABLE *(continued)*

An aged analysis of the Group's accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	Unaudited 30 September 2013 HK\$'000	Audited 31 March 2013 HK\$'000
0 – 30 days	174,790	116,872
31 – 60 days	92,101	27,344
61 – 90 days	16,498	12,016
Over 90 days	5,013	9,226
	288,402	165,458
Less: Impairment allowance	(882)	(842)
	287,520	164,616

The substantial increase in the accounts receivable is owing to the seasonal factor where usually September (30 September 2012: HK\$223,003,000) is the high season and March (31 March 2012: HK\$217,137,000) is the low season. The Group considered such balances are normal and healthy.

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Unaudited 30 September 2013 HK\$'000	Audited 31 March 2013 HK\$'000
Deposits for mining projects	26,582	25,301
Deposits for land use rights	46,582	17,268
Deposits for property, plant and equipment	51,623	19,342
Prepayments	89,825	90,453
Other deposits	4,279	3,591
Other receivables	10,391	42,956
Prepaid land lease payments	766	609
	230,048	199,520
Less: Current portion	(105,261)	(137,609)
Non-current portion	124,787	61,911

10. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

An ageing of the Group's accounts and bills payable as at the end of the reporting period, based on the invoice date, and the balance of accrued liabilities and other payables are as follow:

	Unaudited 30 September 2013 HK\$'000	Audited 31 March 2013 HK\$'000
0 – 30 days	100,058	80,201
31 – 60 days	100,060	25,738
61 – 90 days	44,400	32,940
Over 90 days	18,921	12,162
	<hr/>	<hr/>
Accounts and bills payable	263,439	151,041
Accrued liabilities	166,520	139,759
Other payables*	23,213	19,408
	<hr/>	<hr/>
	453,172	310,208
	<hr/> <hr/>	<hr/> <hr/>

The accounts and bills payable and other payables are non-interest-bearing and are normally settled within credit terms of two months, extending up to three months.

- * As at 30 September 2013, included in other payables, was an amount of RMB5,000,000 (31 March 2013: RMB5,000,000), approximately HK\$6,329,000 (31 March 2013: HK\$6,024,000), received since 2009 in respect of subsidies from the Department of Information Industry of Guangdong Province, the PRC, for the research and development costs incurred by the Group for its resources development project.

11. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	Unaudited 30 September 2013 HK\$'000	Audited 31 March 2013 HK\$'000
Current				
Bank loans – unsecured	Hong Kong Interbank Offered Rate ("HIBOR") +1.75% to 1.88%	2014	70,490	67,990
Bank loans – unsecured	HIBOR+1% to 2%	2014	98,261	90,659
			<hr/>	<hr/>
			168,751	158,649
Non-current				
Bank loans – unsecured	HIBOR+1.88%	2015-2016	85,385	109,519
			<hr/>	<hr/>
			254,136	268,168
			<hr/> <hr/>	<hr/> <hr/>

11. INTEREST-BEARING BANK BORROWINGS *(continued)*

The Group's banking facilities are supported by corporate guarantees given by the Company and certain subsidiaries of the Company. The carrying amounts of the Group's bank borrowings approximate to their fair values. All bank borrowings are in Hong Kong dollars.

12. COMMITMENTS

- (i) At the end of the reporting period, the Group had contracted for capital commitments amounting to HK\$133,404,000 (31 March 2013: HK\$56,821,000) in respect of subsidiaries in the PRC and Lao People's Democratic Republic (the "Lao PDR").
- (ii) At the end of the reporting period, the Group had contracted for capital commitments of approximately HK\$81,803,000 (31 March 2013: HK\$28,157,000) in respect of the acquisition of property, plant and equipment and land use rights. *(Note)*
- (iii) At the end of the reporting period, the Group had contracted for capital commitments of approximately HK\$21,519,000 (31 March 2013: HK\$20,482,000) in respect of the investment in mining projects.

Note: As at 30 September 2013, the Group had contracted for capital commitments of HK\$57,246,000 in respect of the acquisition of the land use rights and its related contracts in Guizhou Province, the PRC, which was also included in the above capital commitments in respect of its wholly-owned subsidiaries in the PRC.

The Company did not have any other significant commitments at the end of the reporting period (31 March 2013: Nil).

13. CONTINGENT LIABILITIES

At the end of the reporting period, the Company had provided guarantees of HK\$432,460,000 (31 March 2013: HK\$320,140,000) in respect of banking facilities granted to certain of its subsidiaries, of which HK\$98,261,000 (31 March 2013: HK\$90,659,000) had been utilised as at the end of the reporting period.

14. DISPOSAL OF SUBSIDIARIES

On 26 April 2012, Kin Yat (HK) Holdings Limited (“KYHK”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “Agreement”) with an independent third party (the “Purchaser”) in respect of the disposal of the entire equity interests by KYHK in its wholly owned subsidiary, Newway Electrical Industries Limited (the “Disposal”), whose principal assets were the investment in a wholly-owned foreign enterprise incorporated in the PRC which in turn owned certain investment properties, to the Purchaser for a consideration of HK\$55,000,000 in cash.

Detailed information of the Disposal was announced in the Company’s announcement dated 7 May 2012.

	2012 HK\$’000
Net assets disposed of:	
Assets classified as held for sale	50,482
Deferred tax liabilities	(5,631)
	<hr/>
	44,851
Release of exchange fluctuation reserve	(10,611)
	<hr/>
	34,240
Gain on disposal of subsidiaries	20,760
	<hr/>
	55,000
	<hr/> <hr/>

Subsequently, on 21 May 2013, KYHK reached an written agreement with the Purchaser that the final consideration would be reduced by an amount of RMB1,620,000 (equivalent to HK\$2,044,000) for the Purchaser to accept partial vacant possession of the investment properties in question. Further detailed information in relation to the final settlement of the Disposal was announced in the Company’s announcements dated 8 February 2013 and 3 June 2013 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

To serve operational functions and long-term development goals, the Group is organised into four business segments: the research-and-development-based manufacturing disciplines of electrical and electronic products, micro electric motors, and other activities, as well as the resources development operations.

This multi-pillar business platform supports progressive long-term growth while helping to safeguard the Group against sector and market risks by forming a more balanced business mix.

During the six months ended 30 September 2013 ("1H FY2014"), the Group reported a profit attributable to owners of the Company of HK\$18,591,000, as compared with that of HK\$39,367,000 for the six months ended 30 September 2012 ("1H FY2013"). This 52.8% year-on-year decline was mainly attributable to the absence of a one-off gain on disposal of subsidiaries of HK\$20,760,000 (before tax) as recorded in 1H FY2013; as well as the inclusion in 1H FY2014 of the expense of HK\$15,530,000 (1H FY2013: Nil) for the write-off of obsolete assets in relation to the manufacturing business and the impairment of property, plant and equipment in relation to the slower-than-expected materials development business.

With segment losses incurred by the motors and resources development operations narrowing, the overall operating results for the period showed a moderate improvement.

The Group's turnover remained stable at HK\$1,039,384,000 for 1H FY2014 (1H FY2013: HK\$1,031,629,000), as a result of steady revenues from core manufacturing activities and sales generated from our natural resources development business.

The total turnover of the Group was accounted for by the segmental external turnover of:

- HK\$735,074,000 from the electrical and electronic products segment, contributing 70.7% of the Group's consolidated turnover for 1H FY2014 (1H FY2013: HK\$710,212,000, 68.8%);
- HK\$278,267,000 from the motors segment, accounting for 26.8% of the total (1H FY2013: HK\$254,695,000, 24.7%);
- HK\$18,481,000 from the other activities, or 1.8% of the total (1H FY2013: HK\$43,242,000, 4.2%); and
- HK\$7,562,000 from the resources development segment, representing 0.7% of the total (1H FY2013: HK\$23,480,000, 2.3%).

During 1H FY2014, the electrical and electronic products segment reported a segment profit of HK\$96,679,000 (1H FY2013: HK\$102,267,000), while the segments of motors, resources development and others incurred segment losses of HK\$18,909,000 (1H FY2013: \$29,854,000), HK\$30,262,000 (1H FY2013: HK\$33,810,000) and HK\$3,585,000 (1H FY2013: profit of HK\$1,399,000) respectively.

OPERATIONAL REVIEW

Electrical and Electronic Products Business Segment

The segment is engaged in the development, design and manufacture of (i) electronic and electrical toys; (ii) artificial intelligence (AI) products; and (iii) small home electrical appliances.

Despite economic headwinds, the segment reported a stable level of external turnover at HK\$735,074,000 (1H FY2013: HK\$710,212,000), delivering a segment profit of HK\$96,679,000 (1H FY2013: HK\$102,267,000). The first half saw an increase in orders for the robotic vacuum cleaner business lines, whereas there was a drop in toys sales due to weak market sentiments in the toys sector.

The increase in orders for AI products, leading to a change in the sales mix within this segment, has exerted pressure on the capacity dedicated to production of robotic products. This has resulted in an uneven utilisation of different factories and therefore the segment cannot maximise the efficiency of the facilities as a whole.

The commencement of operation of the new factory building in Shenzhen in September 2013 is expected to ease the capacity shortfall and support further sales increases for the robotic business line. However, higher operating costs were recorded at the initial stage of operation of the new facilities. Segment results hence showed a slight decrease by 5.5% in the first half.

One major business development of the segment during the period was its admission as a manufacturer under Apple's MFi program, enabling it to develop electronic accessories for iDevices using licensed technology. The licensing validates the capability of our staff team and the technical competence of our production facilities. The management believes that this program can advance our production technology into more high-end devices and to signify and mark the progress of the achievement of the Group's new levels of capability.

The toys unit remains a core business line and revenue generator for the Group. Building on our high-value-adding manufacturing and research-and-development strengths, our marketing team has continued its efforts in working with toys clients to explore new market opportunities.

The electronic products line kick-started some new projects for newly engaged customers in 1H FY2014 with satisfactory results. While the scale of orders from these new customers was relatively small during the first half, the segment is confident of deriving more fruitful results from these projects in the second half. We also expect to see the commencement of sales for more new customers within this financial year.

Apart from the vacuum cleaner product line, the segment is expanding into other robotic products with deliveries scheduled to begin in the second half. The segment is working with its client to develop new product series for 2014 and 2015. Development work is currently actively under way.

With a robust order book and highly positive business developments, we are optimistic about the second half and the coming few years. This segment will continue to be a key source of cash flow contribution to the Group.

Motors Business Segment

The motors segment is engaged in the development, design, manufacture and sale of a wide range of micro-electric motors and related products, ranging from direct-current (DC) alternative-current (AC) and brushless motors to motor encoder systems.

During 1H FY2014, segment external turnover grew 9.3% year-on-year to HK\$278,267,000 (1H FY2013: HK\$254,695,000). While the segment was under the negative impact of rising wages and the appreciation of the Renminbi, it was able to offset part of the pressure with an improvement in the efficiency of AC motors operations following the completion of relocation of all facilities from higher-cost sites to the more cost-effective facility base in Shaoguan and Shixing, Guangdong Province, the PRC.

As a result, the segment's interim loss narrowed to HK\$18,909,000 (1H FY2013: HK\$29,854,000). The segment expects to sustain the path of performance improvement into the second half, but has yet to achieve a turnaround for the whole year.

The efforts put into automation and efficiency enhancement were partly reflected in the first-half results. Going forward, the segment plans to continue to improve the performance by expanding sales thereby achieving economies of scale. To this end, the segment is actively expanding business volume, mainly from the automobile and precision instruments sectors.

The segment is also optimistic about the ongoing development of the encoder system business. Its marketing team has gained initial success in approaching some market-leading customers.

We remain committed to turning around the segment's performance. Management will hence continue with prudent cost management, including renewed initiatives in the second half to control wage increases, while furthering its efforts in the exploration of new avenues of business growth.

Others

This segment comprises the development, design, manufacture and sales of a broad range of feature plush and wooden toys, on both original design manufacturing (ODM) and original equipment manufacturing (OEM) bases, as well as an encoder film manufacturing production facility based in Malaysia. The newly set up real estate development business has also been included under this segment and the operation of which is discussed separately in the sub-section entitled "Real Estate Development Business" below.

As discussed in our previous financial report, more plush and wooden product items have been upgraded with the incorporation of a significant amount of electronic components, thus leading to the re-classification of business related to these products to the electrical and electronic products business segment. As a result, the segment's external turnover therefore decreased during 1H FY2014 by 57.3% year-on-year to HK\$18,481,000 (1H FY2013: HK\$43,242,000).

The segment returned a loss of HK\$3,585,000 for the period under review, as compared with a profit of HK\$1,399,000 for 1H FY2013. Despite a profit derived from the encoder film manufacturing business in Malaysia, included in the segment results were administrative costs incurred by our real estate development business.

Real Estate Development Business

The Group is currently engaged in the real estate development business in the PRC, in relation to the development of residential and commercial properties in a project located at Dushan Economic Development Zone (獨山經濟開發區), Dushan County, Guizhou Province, the PRC.

On 7 July 2013, the Group was awarded a bid for three parcels of land (the "Land") with an area of approximately 136,502.4 square metres in total. Following the entering into of the relevant Land Use Rights Grant Contracts (dated 8 July 2013) by the Group on 23 July 2013, the design and planning stage of the project has commenced.

During the period under review, we have been working closely with professional firms and government authorities to carry out preparatory work for the real estate development on the Land including the formation of local project companies to undertake the development on the Land, formulating an overall project plan, and inviting tenders for service providers including the main contractor. At the time of this report, certain government approvals regarding the formation of local project companies were still in the process of being obtained, and we have been given consent to delay the payment of the remaining portion of the consideration of the acquisition of the Land.

The first stage of the project will be the development of a residential development in phases. In parallel with the finalisation of the preparatory work, based on the analysis of market conditions and the regulatory environment, as well as the advice of our professional consultants, we are positioning the phased residential development on the Land as a top-end residential project in Dushan County, as we believe maximum value can be realised from the project using this development strategy. Our "*The Royale Cambridge Residences*" is planned to be a low-density residential project with an expected saleable floor area of approximately 57,810 square metres (excluding underground structures) for residential units and approximately 15,377 square metres for the auxiliary commercial properties.

A reputable architectural firm was retained for the project design. In particular, the relevant architectural design for the residential development has been largely completed and will be submitted to the relevant government authority for approval in due course. We are committed to working diligently to obtain the required permits in relation to the project, aiming at launching the pre-sale of the phased residential units next year.

This project marks a pilot step for the Group's real estate development business and the Group aims at utilising this project to form a foundation for the Group to build a brand for its real estate development business.

Resources Development Business Segment

During the period under review, the segment comprised (i) materials development business – the development, manufacture and sale of Indium Tin Oxide (ITO) Targets; and (ii) natural resources development and related processing business with respect to mainly copper, zinc, gold, silver, antimony and iron.

Given the various uncertainties and challenges facing the progress of our natural resources development projects lately, the Group has to continue the strategy of controlling funds allocated to the segment in order to reduce the Group's financial exposure to this business. One of the measures is to share costs and risks with the related geological engineering teams with respect to certain carefully selected geological exploration work.

Our key objective in the natural resources development business is, hence, to preserve our rights to the projects on the one hand and to look for breakthroughs via various manoeuvres to successfully obtain the related exploitation licence for the projects, or failing this, even exiting certain projects.

ITO target business has been slower than expected, mainly owing to the oversupply of LCD panels in the market, which causes a ripple effect up the supply chain where prices for major market products are generally under pressure. At the stage of building up our brand in the large size ITO target business arena, the performance of our ITO target business is particularly vulnerable to such market challenges. The Group strives to improve its performance through measures including but not limited to product diversification, while it will closely monitor the progress of this business in order to devise appropriate and feasible strategies going forward.

The segment's external turnover in 1H FY2014 decreased 67.8% year-on-year to HK\$7,562,000 (1H FY2013: HK\$23,480,000) with a segment loss of HK\$30,262,000 (1H FY2013: HK\$33,810,000). The decrease in turnover was mainly attributable to reduced processing and trading activities for antimony mineral products in the natural resources development business. However, the segment's operating loss significantly narrowed before the inclusion of an expense of HK\$11,869,000 (1H FY2013: Nil) for the impairment of property, plant and equipment in relation to the materials development business.

Materials Development Business

During the period under review, the segment went through a number of time-consuming sample product testing and trial processes as a prerequisite for being qualified by our target customers. To this end, qualification for our ITO target tablets for LED illumination and large size ITO targets for ITO glass and thin film industries was finally obtained from a number of respectable customers.

Commercial sales orders started to kick in, although the sales quantity fluctuated from month to month. Sales were slow as a whole owing to unstable repeat sales orders from existing customers and soft international market prices of major market products aggravated by the appreciation of the Renminbi. As a result, the business volume was not able to cover its fixed operating costs during the period under review.

Going forward, the segment will continue to enhance marketing efforts to promote the "Sigma" brand in the industry and to explore new customers for large size ITO targets in terms of both major market products and products with various dopant ratios, to start with, in order to expand the customer base. Product quality management and cost efficiency will be further improved, as achieving sustainable product quality at low production cost is a key to staying profitable and competitive in this business. The management had taken actions with an effort to revive the business and thereby minimising further financial losses to the Group.

Natural Resources Development Business

Exploration

(i) The Jinshi Exploration Area

During the period under review, an appropriate scope of geological exploration work, infrastructure and auxiliary construction work was designed and commenced within the area in preparation for the successful renewal of the relevant exploration licence, which will expire in April 2014. The said exploration work is expected to be carried out throughout the financial year ending 31 March 2014.

Pursuant to the strategy of controlling funds allocated to this business segment, an independent geological engineering team was retained to carry out certain exploration work on a cost-and-risk sharing basis. By shifting part of the investment risks to the independent geological engineering team, the Group is expected to reduce substantially the amount of investment to be allocated to this project in the coming future.

(ii) The Wengyuan Exploration Area

During 1H FY2014, exploration work was largely suspended as the Group decided to control the amount of investment on this project. An independent geological engineering team was identified and retained shortly after the period end to continue to carry out the exploration work on a cost-and-risk sharing basis.

The said exploration work would be for the preparation for the successful renewal of the relevant exploration licence which will expire in June 2014.

(iii) The Saiyabouly Exploration Area

Following all designed geological drilling work completed during the period under review, the anticipated reconnaissance survey work planned, including the geochemical and geophysical prospecting work, was largely concluded with respect to the whole tenement area of 324 square kilometres.

As currently assessed by our in-house geological experts, based on the findings of the reconnaissance survey work undertaken, the tenement area suggests a potential small scale gold metal project with a gold content of low to medium as compared to projects commonly found in the PRC. With this estimated return in mind, the Group is of the view that this project, in such a remote location, may not be economically justified for us to allocate substantial additional funds for further reconnaissance work and hence may not warrant us to advance into the exploration stage. As such, as at the time of this report, the segment is finalising the prospecting report and may apply for an extension of the prospecting stage. The Company is endeavour to devise the best business strategies going forward.

Exploitation

(i) The designated Jinshi Exploitation Area

Although we have been working with advisers, consultants and our local project partner for some time, no apparent progress has been made in obtaining the relevant exploitation licence for the designated Jinshi Exploitation Area. Judging from the currently available information, the management could not form a reliable view as to when the relevant exploitation licence for the designated Jinshi Exploitation Area could be obtained. As such, the management is seriously considering the options that are realistically available to progress the project should the process of obtaining the exploitation licence continue to stall.

(ii) The designated Wengyuan Exploitation Area

The relevant environmental protection assessment report was submitted to the relevant government authority for approval before the time of this report. The submission and the subsequent approval of the environmental protection assessment report is the most crucial step in obtaining the exploitation licence process of this project. Given the experience acquired, the management cannot form a view with certainty as to the timing of obtaining the exploitation licence. The management shall update the shareholders of the Company on the progress as appropriate.

Ore Processing

During 1H FY2014, the utilisation of our ore processing plant located in Dushan County, Guizhou Province, the PRC and near the Wengyuan Exploration Area was low due to the lack of appropriate feedstock for processing. In order to better utilise this revenue-generating asset, part of the plant has been utilised for contract processing mineral ores for independent parties after the end of the period under a medium term contract.

The strategic alliances with parties who have control over antimony mineral resources in Dushan County have borne fruits. Around the period end, some 2,000 metric tonnes of antimony ores were supplied for processing in our ore processing facility in Dushan County. Based on the current forecast, a further 5,000 to 8,000 metric tonnes of antimony ores will be supplied before the end of the financial year 2014.

Cash flow and revenue are expected to be generated from our ore processing operations for the financial year ending 31 March 2014.

Refining

Completion of the conditional sale and purchase agreement pursuant to which the Company agreed to acquire an effective 60% interest in the smelting plant has further been delayed. However, we were informed by the seller that the conditions precedent would be fulfilled during the first half of 2014. We will update the shareholders of the Company as appropriate.

OUTLOOK

We will continue on our pathway to building a sustainable business for shareholders. The Board and the management will constantly seek promising opportunities ahead, and proactively devise appropriate strategies and actions in response to emerging challenges.

To implement our growth strategies in practice, we have established a series of concrete targets for the coming years, aligned with our short-term to long-run objectives. The Board will regularly review the results of the implementation of these strategies, and will maintain checks on the investments of the Group to prudently manage our overall risk exposure.

As an industrial enterprise with a strong research-and-development and production platform, we will seek to further our niche position in electronic and mechanical production. Our inclusion in Apple's MFi program for expansion into iProducts signifies the result of decades-long commitment and constant reinvention in the arena of high-value-adding manufacturing.

To cement our technical and cost leaderships, we have committed continuous investments in capacity and capability expansion. New facilities have been opened in Shenzhen to support further growth of our robotic cleaner business and our expansion into new AI products. The management is greatly encouraged by the promising prospects of this segment ahead.

The upgrading of our production lines is being closely monitored and managed in an effort to turn around our motor manufacturing operations through both increasing their production efficiency and lowering labour costs. Success in this is of great importance to the overall performance of the Group, and a variety of measures including technical enhancements and strengthening of management competencies has been implemented to ensure the achievement of the planned goals.

We confidently look ahead to an optimistic outlook for the core manufacturing business for FY2014 and the following few years. Consequently, we believe the manufacturing segment will continue to be a key source of contribution to the cash flow of the Group.

The non-manufacturing unit remains a strategic platform for the Group to achieve long-term growth and performance by rebalancing the business portfolio away from the cyclical economic and industry fluctuations of our manufacturing operations.

However, as the natural resources development projects have been faced with various uncertainties and challenges, the Group will remain prudent in further investments in these projects.

On the other hand, the new business initiatives in real estate development are expected to provide an opportunity for the Group to leverage on its existing established business network and relationships in the PRC to further diversify its business. The acquisition is also in line with the Group's development strategy of securing sources of income in Renminbi in an effort to mitigate possible adverse impacts on the Group from the escalating Renminbi exchange rate.

Cost surges will continue to be a threat to the Group, as they are to other manufacturers. Cost control and intensified automation to reduce labour input will continue to be the guiding principles ahead.

Meanwhile, we maintain our balance sheet in good shape to enable us to take advantage of new growth opportunities which may arise from time to time. In this regard, the Group maintains a healthy cash position and our core businesses are continuing to contribute strong cash flows. We also apply well-defined and stringent risk control principles, while the Group's strong risk management policy is further reinforced by clearly-defined financial objectives.

Overall, the Board is confident of the long-term prospect of the Group's business development on various fronts.

LIQUIDITY AND FINANCIAL POSITION

The Group adopts a prudent and conservative policy in its financial management. During the first half of 2013, the Group consistently employed its internally generated cash flow and banking facilities to finance its operations and business development. At the end of the reporting period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$225,243,000 (31 March 2013: HK\$299,236,000). Currently, the Group maintains aggregate composite banking facilities of approximately HK\$452,260,000 (31 March 2013: HK\$371,349,000) with various banks, of which HK\$254,136,000 (31 March 2013: HK\$268,168,000) has been utilised.

As at 30 September 2013, current ratio of the Group (current assets divided by current liabilities) was maintained at a healthy position of 1.3 times (31 March 2013: 1.6 times), with gearing ratio (interest bearing bank borrowings divided by total shareholders' equity) at 23.4% (31 March 2013: 25.6%). Based on the above, the Group continued to enjoy a healthy financial position with sufficient financial resources to support its future development.

CAPITAL STRUCTURE

As at 30 September 2013, the total issued share capital of the Company was HK\$41,875,000 (31 March 2013: HK\$41,875,000), comprising 418,748,000 (31 March 2013: 418,748,000) ordinary shares of HK\$0.1 each.

MATERIAL ACQUISITION

Acquisition of land use rights

On 7 June 2013, the Company, through its indirect wholly-owned subsidiaries, succeeded in bidding for the land use rights of the land offered for sale by Dushan County Land and Resources Bureau ("Dushan Land Bureau"), a governmental authority of the PRC and the seller of the land, at the bid price of RMB122,020,000 (equivalent to approximately HK\$154,111,260) and executed the auction confirmation with the Dushan Land Bureau (the "Acquisition").

Pursuant to the price arrangement entered into between the Company and the People's Government of the Dushan County, Guizhou Province, the PRC ("Dushan County Government") on 7 June 2013, the Dushan County Government agreed to grant the Company a monetary reward equivalent to the consideration for the Acquisition in excess of RMB75,000,000 (equivalent to approximately HK\$94,725,000). Accordingly, the Company is not required to pay the portion of RMB47,020,000 (equivalent to approximately HK\$59,386,000) of the consideration for the Acquisition. As such, the remaining balance of the consideration for the Acquisition to be satisfied by the Group shall amount to RMB75,000,000 (equivalent to approximately HK\$94,725,000) which will be funded by internal resources of the Group.

In addition, as a reward to the Group's support in the form of continuing investment, the Dushan County Government agreed under the Price Arrangement Agreement to unconditionally pay RMB58,620,000 (equivalent to approximately HK\$77,037,060) to the Group within 7 working days upon the Group's payment of the remaining balance of RMB75,000,000 (equivalent to approximately HK\$94,725,000) of the consideration to the Dushan Land Bureau.

On 23 July 2013, the Group entered into the relevant land use rights grant contracts (dated 8 July 2013) and as at the date of the report, the Company has paid a sum of RMB36,800,000 (equivalent to approximately HK\$46,582,000) to Dushan Land Bureau as deposits.

The detailed information of the Acquisition is set out in the announcement and the circular of the Company dated 7 June 2013 and 21 August 2013 respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2013, the Group employed over 10,000 full-time employees, of which less than 90 of them were stationed in Hong Kong headquarters with the remaining working in the PRC and Malaysia.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In the PRC and Malaysia, the Group provides its employee's staff welfare and allowances in accordance with prevailing labour laws in the respective countries. The Group

has also put in place a share option scheme to motivate and reward staff with outstanding performance. At the discretion of the Board, the Group's employees will be granted the options, of which the number of options granted is determined by individual performance and level of responsibilities.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2013, the interests of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company and 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 pursuant to 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"), were as follows:

(A) Share

Name	Long position/ short position	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued shares
Mr. Cheng Chor Kit	Long position	Founder of a trust	282,920,000	67.56
			<i>(Note)</i>	
		Beneficial owner	3,300,000	0.79
		Interests held by spouse	1,200,000	0.29
Mr. Fung Wah Cheong, Vincent	Long position	Beneficial owner	6,900,000	1.65

Note: These shares are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands (the "BVI"). Padora Global Inc. ("Padora") is the beneficial owner of all the issued share capital of Resplendent. Padora is a company incorporated in BVI and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustee of a discretionary trust established by Mr. Cheng Chor Kit for his family.

(B) Underlying shares

Name of director	Long position/ short position	Capacity	Number of underlying shares in respect of share options held and approximate percentage of shareholding	Date of share options granted	Exercise period	Exercise price per share HK\$
Mr. Fung Wah Cheong, Vincent	Long-position	Beneficial owner	500,000 (0.12%)	23/7/2009	1/8/2010- 22/7/2019	1.426
Mr. Liu Tat Luen	Long-position	Beneficial owner	2,000,000 (0.48%)	4/1/2010	4/1/2013- 3/1/2020	2.102
Mr. Chui Pak Shing	Long-position	Beneficial owner	1,000,000 (0.24%)	29/3/2011	29/3/2014- 28/3/2021	2.792
		Beneficial owner	1,000,000 (0.24%)	19/3/2013	29/3/2014- 18/3/2023	0.974
Prof. Chung Chi Ping, Roy <i>BBS JP</i>	Long-position	Beneficial owner	650,000 (0.16%)	29/3/2011	29/3/2011- 28/3/2021	2.792
		Beneficial owner	950,000 (0.23%)	19/3/2013	19/3/2013- 18/3/2023	0.974
Mr. Wong Chi Wai	Long-position	Beneficial owner	300,000 (0.07%)	29/3/2011	29/3/2011- 28/3/2021	2.792
		Beneficial owner	500,000 (0.12%)	19/3/2013	19/3/2013- 18/3/2023	0.974
Ms. Sun Kwai Yu, Vivian	Long-position	Beneficial owner	300,000 (0.07%)	29/3/011	29/3/2011- 28/3/2021	2.792
		Beneficial owner	500,000 (0.12%)	19/3/2013	19/3/2013- 18/3/2023	0.974

Save as disclosed above, as at 30 September 2013, none of the Directors and Chief Executive of the Company had registered an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations 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 Company operates share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s Directors, including Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group, the Company’s shareholders and any non-controlling interests in the Company’s subsidiaries.

The Scheme adopted on 20 August 2002 (the “Old Share Option Scheme”) was terminated on 19 August 2012, the Company adopted a new Scheme (the “New Share Option Scheme”) at the Company’s Annual General Meeting held on 20 August 2012. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for 10 years from that date.

Subsequent to the termination of the Old Share Option Scheme, no further option can be granted thereunder but in all other respects, the provisions of the Old Share Option Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The following share options were outstanding under the Scheme during the period:

	Date of share options granted	Number of share options				At 30 September 2013	Exercise period	Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
		At 1 April 2013	Granted during the period	Exercised during the period	Lapsed during the period				
Directors									
Mr. Fung Wah Cheong, Vincent	23/7/2009	500,000	-	-	-	500,000	1/8/2010-22/7/2019	1.426	1.40
Mr. Liu Tat Luen	4/1/2010	2,000,000	-	-	-	2,000,000	4/1/2013-3/1/2020	2.102	2.06
Mr. Chui Pak Shing	29/3/2011	1,000,000	-	-	-	1,000,000	29/3/2014-28/3/2021	2.792	2.77
	19/3/2013	1,000,000	-	-	-	1,000,000	29/3/2014-18/3/2023	0.974	0.95
Prof. Chung Chi Ping, Roy BBS JP	29/3/2011	650,000	-	-	-	650,000	29/3/2011-28/3/2021	2.792	2.77
	19/3/2013	950,000	-	-	-	950,000	19/3/2013-18/3/2023	0.974	0.95
Mr. Wong Chi Wai	29/3/2011	300,000	-	-	-	300,000	29/3/2011-28/3/2021	2.792	2.77
	19/3/2013	500,000	-	-	-	500,000	19/3/2013-18/3/2023	0.974	0.95
Ms. Sun Kwai Yu, Vivian	29/3/2011	300,000	-	-	-	300,000	29/3/2011-28/3/2021	2.792	2.77
	19/3/2013	500,000	-	-	-	500,000	19/3/2013-18/3/2023	0.974	0.95
Other employees									
In aggregate	14/11/2003	382,000	-	-	-	382,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	220,000	-	-	-	220,000	4/10/2009-3/10/2016	1.03	1.03
	14/3/2008	500,000	-	-	-	500,000	14/3/2009-13/3/2018	1.99	1.99
	19/10/2009	500,000	-	-	-	500,000	19/10/2012-18/10/2019	1.55	1.55
	29/3/2011	650,000	-	-	-	650,000	29/3/2011-28/3/2021	2.792	2.77
	19/3/2013	950,000	-	-	-	950,000	19/3/2013-18/3/2023	0.974	0.95
		<u>10,902,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,902,000</u>			

* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing prices on the trading day immediately prior to the date of the grant of the options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures" and "Share option scheme" above, at no time during the six months ended 30 September 2013 period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Directors 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 or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

Name	Capacity of interest and nature	Number of ordinary shares held	Approximate percentage of the Company's issued shares	Number of share options held
Mr. Cheng Chor Kit	Through a controlled corporation, beneficial owner and interests held by spouse	287,420,000 <i>(Notes 1, 2 and 4)</i>	68.64	–
Hallgain Management Limited ("Hallgain")	Through its controlled corporations	29,384,000 <i>(Note 3)</i>	7.02	–

Note 1: Among these share, 282,920,000 shares were held through Resplendent and 1,200,000 shares were held by the spouse of Mr. Cheng Chor Kit.

Note 2: The spouse of Mr. Cheng Chor Kit is deemed to be interested in these ordinary shares in which Mr. Cheng Chor Kit is deemed or taken to be interested for the purpose of the SFO.

Note 3: Kingboard Investments Limited (“KIL”) and Kingboard Chemical Holdings Limited (“KCHL”) is beneficially interested in 25,128,000 shares and 4,256,000 shares in the Company respectively. Jamplan (BVI) Limited (“Jamplan”) is the beneficial owner of all the issued share capital of KIL while Jamplan is wholly-owned by KCHL, which is owned as to approximately 34.42% of the entire issued share capital of KCHL by Hallgain.

Note 4: This refers to the same block of shareholding of Mr. Cheng Chor Kit mentioned in the section headed “Directors’ and Chief Executive’s interests and short positions in shares, underlying shares and debentures” above.

Saved as disclosed above, as at 30 September 2013, no person, other than Mr. Cheng Chor Kit, whose interests are set out in the section headed “Directors’ and Chief Executive’s interests and short positions in shares, underlying shares and debentures” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2013 (2012: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In May 2011, the Company, as a borrower, entered into two different term loan facility agreements of HK\$100 million each with two different banks (the “Lenders”) for a term of 60 months and a term of 42 months respectively.

Each of the term loan facility agreement imposes, inter alia, a condition that Mr. Cheng Chor Kit, a director and the controlling shareholder of the Company, and the discretionary trust set up by him for the benefit of his family; collectively shall beneficially or directly maintain a shareholding of not less than 50% of the issued share capital of the Company. A breach of the above-mentioned condition will constitute an event of default under the relevant facility letter. Upon the occurrence of such event, each of loans shall become immediately due and repayable on demand.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopt a high standard of corporate governance which is crucial to the long-term development of the Group and to safeguard the interests of the Company's shareholders. In the opinion of the Board, the Company has complied with the Corporate Governance Code (the "CG Code") as stated in the Appendix 14 of the Listing Rules throughout the period under review, except for the following deviation:

Under the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer ("CEO") shall be separated and should not be performed by the same individual. The roles of the chairman and CEO of the Company are not separated and performed by the same individual, Mr. Cheng Chor Kit. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals, with a high independent element in the Board, who meets regularly to discuss issue affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code on terms no less exacting than the required standard set out in the Model Code regarding securities transactions by the Directors.

Having made specific enquiry of the Company's Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2013. The relevant employees who, because of their office in the Group, are likely to be in possession of unpublished price sensitive information have been requested to comply with the provisions of the Model Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30 September 2013.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(B)(1) OF THE LISTING RULES

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in the information of directors of the Company required to be disclosed are set out as below:

- (1) On 26 August 2013, Mr. Fung Wah Cheong, Vincent, formerly the Deputy Chairman and executive director of the Company has been re-designated to an executive director of the Company at his request so as to enable him to concentrate his efforts on managing our core business.
- (2) On 16 September 2013, Mr. Wong Chi Wai was appointed as an independent non-executive director of China Ludao Technology Company Limited (Stock Code: 2023), whose shares are listing on the Main Board of the Stock Exchange on 11 October 2013.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

BOARD OF DIRECTORS

As at the date of this report, the Board consists of four executive directors, namely Mr. Cheng Chor Kit, Mr. Fung Wah Cheong, Vincent, Mr. Liu Tat Luen and Mr. Chui Pak Shing, and three independent non-executive directors, namely Prof. Chung Chi Ping, Roy *BBS JP*, Mr. Wong Chi Wai and Ms. Sun Kwai Yu, Vivian.

By order of the Board

Cheng Chor Kit

Chairman and Chief Executive Officer

Hong Kong, 28 November 2013