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世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the “Board” or the “Director(s)”) of Century Sunshine Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2014 together with comparative figures as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	<i>Notes</i>	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Revenue	4	921,897	714,345
Cost of sales		(613,065)	(498,606)
Gross profit		308,832	215,739
Other income and gains		6,895	7,120
Selling and marketing costs		(56,382)	(29,526)
Administrative expenses		(35,107)	(27,828)
Realised and unrealised loss on investments held for trading		(409)	(1,523)
Change in fair value of derivative financial assets		(273)	–
Finance costs	6	(9,052)	(11,882)
Profit before income tax		214,504	152,100
Income tax expense	7	(58,651)	(45,176)
Profit for the period	8	155,853	106,924

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (CONTINUED)**

For the six months ended 30 June 2014

	<i>Notes</i>	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Items that may be reclassified subsequently to profit or loss:			
Other comprehensive income/(loss) for the period (net of income tax):			
Available-for-sale investment:			
Net gain arising on revaluation of available-for-sale investment		225,253	86,880
Exchange differences arising from translation of foreign operations		(51,877)	28,134
		<hr/>	<hr/>
Other comprehensive income for the period (net of income tax)		173,376	115,014
		<hr/>	<hr/>
Total comprehensive income for the period		329,229	221,938
		<hr/> <hr/>	<hr/> <hr/>
Profit for the period attributable to:			
Owners of the Company		126,742	86,914
Non-controlling interests		29,111	20,010
		<hr/>	<hr/>
		155,853	106,924
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:			
Owners of the Company		249,439	178,725
Non-controlling interests		79,790	43,213
		<hr/>	<hr/>
		329,229	221,938
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share:			
– basic	9	4.75 cents	3.41 cents
		<hr/>	<hr/>
– diluted	9	4.60 cents	3.31 cents
		<hr/>	<hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2014 (unaudited) <i>HK\$'000</i>	As at 31 December 2013 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Land use rights		142,718	148,003
Property, plant and equipment	<i>11</i>	956,685	936,047
Investment properties		135,995	141,323
Intangible assets		80	80
Mining rights		554,727	576,278
Payment for acquisition of patents		56,250	57,645
Deposit for acquisition of property, plant and equipment		66,768	8,538
		<u>1,913,223</u>	<u>1,867,914</u>
Current assets			
Available-for-sale investment		367,706	142,453
Inventories		164,556	93,167
Land use rights		3,401	3,485
Trade and other receivables, prepayments and deposits	<i>12</i>	408,035	302,915
Investments held for trading		6,320	7,387
Derivative financial assets		31	–
Deposits with banks		40,000	40,992
Cash and cash equivalents		773,245	381,909
		<u>1,763,294</u>	<u>972,308</u>
Less: Current liabilities			
Trade and other payables	<i>13</i>	281,283	209,782
Income tax payable		35,570	19,970
Borrowings		258,750	301,076
Convertible bonds		110,763	–
		<u>686,366</u>	<u>530,828</u>
Net current assets		<u>1,076,928</u>	<u>441,480</u>
Total assets less current liabilities		<u>2,990,151</u>	<u>2,309,394</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

	As at	As at
	30 June	31 December
	2014	2013
	(unaudited)	(audited)
<i>Notes</i>	HK\$'000	HK\$'000
Less: Non-current liabilities		
Convertible bonds	168,012	–
Deferred revenue	55,725	24,980
Borrowings	4,875	–
Deferred tax liabilities	126,467	131,452
	<u>355,079</u>	<u>156,432</u>
Net assets	<u>2,635,072</u>	<u>2,152,962</u>
Capital and reserves attributable to owners of the Company		
Share capital	67,269	61,810
Reserves	2,332,305	1,927,679
	<u>2,399,574</u>	<u>1,989,489</u>
Non-controlling interests	235,498	163,473
Total equity	<u>2,635,072</u>	<u>2,152,962</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL INFORMATION

Century Sunshine Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in magnesium product business, fertiliser business and metallurgical flux business.

The Company was incorporated in the Cayman Islands on 21 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 17 February 2004, the Company’s shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company’s shares have been listed on the Main Board of the Stock Exchange since 1 August 2008.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 were approved for issue by the Board on 27 August 2014.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of Appendix 16 to the Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013, which has been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”).

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimate uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2013.

(a) Application of new and revised HKFRSs

The following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the annual period beginning 1 January 2014. A summary of the new HKFRSs are set out as below:

HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment entities
HK(IFRIC) Int – 21	Levies

The adoption of the above amendments and interpretation has had no material effect on the condensed consolidated interim financial statements of the Group for the current or prior accounting periods.

(b) Standards and amendments in issue but not yet effective

The following new HKFRSs have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation ⁵
HKAS 19 (Amendments)	Defined benefits plans: employee contributions ¹
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures ²
HKFRS 9	Financial instruments ²
HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations ⁵
HKFRS 14	Regulatory deferral accounts ⁴
HKFRS 15	Revenue from contracts with customers ⁶
HKFRS (Amendments)	Annual improvements to HKFRS 2010-2012 Cycle ³
HKFRS (Amendments)	Annual improvements to HKFRS 2011-2013 Cycle ¹

¹ effective for annual periods beginning on or after 1 July 2014.

² available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

³ effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

⁴ effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

⁵ effective for annual periods beginning on or after 1 January 2016.

⁶ effective for annual periods beginning on or after 1 January 2017.

4. REVENUE

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Sales of magnesium products	313,427	226,440
Sales of fertiliser products	555,675	458,299
Sales of metallurgical flux products	52,795	29,606
	<u>921,897</u>	<u>714,345</u>

5. SEGMENT INFORMATION

Information reported to the Company's Chief Executive Officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the operating divisions. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

- Magnesium product business
- Fertiliser business
- Metallurgical flux business

Information regarding the Group's reportable segments is presented below.

(a) Segment revenue and results

Six months ended 30 June 2014

	Magnesium product business (unaudited) <i>HK\$'000</i>	Fertiliser business (unaudited) <i>HK\$'000</i>	Metallurgical flux business (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
Segment revenue	313,427	555,675	61,305	930,407
Inter-segment revenue	–	–	(8,510)	(8,510)
Revenue from external customers	313,427	555,675	52,795	921,897
Segment results	104,539	139,990	7,921	252,450
Other income and gains				6,895
Central administrative costs				(35,789)
Finance costs				(9,052)
Profit before income tax				214,504

Six months ended 30 June 2013

	Magnesium product business (unaudited) <i>HK\$'000</i>	Fertiliser business (unaudited) <i>HK\$'000</i>	Metallurgical flux business (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
Segment revenue	226,440	458,299	34,489	719,228
Inter-segment revenue	–	–	(4,883)	(4,883)
Revenue from external customers	226,440	458,299	29,606	714,345
Segment results	74,264	107,132	4,817	186,213
Other income and gains				7,120
Central administrative costs				(29,351)
Finance costs				(11,882)
Profit before income tax				152,100

Segment revenue reported above represents revenue generated from external customers. Inter-segment revenue has been eliminated during the periods. Inter-segment transactions are entered into at arm's length.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the results from each segment without allocation of central administrative costs including directors' remuneration, other income and gains, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets

	As at 30 June 2014 (unaudited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
Magnesium product business	1,062,616	941,909
Fertiliser business	565,174	442,308
Metallurgical flux business	708,079	726,383
Unallocated	1,340,648	729,622
	<hr/>	<hr/>
Total assets	3,676,517	2,840,222
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Imputed interest expenses on convertible bonds	359	–
Interest on borrowings wholly repayable within five years	8,623	11,882
Interest on borrowings wholly repayable after five years	70	–
	<hr/>	<hr/>
	9,052	11,882
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX EXPENSE

The amount of income tax expense charged/(credited) to the unaudited condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Current tax		
– Hong Kong Profits Tax	–	–
– PRC Enterprises Income Tax	60,474	46,488
Deferred taxation	(1,823)	(1,312)
	<u>58,651</u>	<u>45,176</u>

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Depreciation and amortisation	<u>37,641</u>	<u>37,353</u>

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014 (unaudited)	2013 (unaudited)
Profit for the period attributable to owners of the Company (HK\$'000)	<u>126,742</u>	<u>86,914</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>2,670,945</u>	<u>2,548,436</u>
Basic earnings per share (HK cents per share)	<u>4.75</u>	<u>3.41</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and convertible bonds.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The Company's outstanding convertible bonds were not included in the calculation of diluted earnings per share because the effect of which were anti-dilutive.

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
Profit for the period attributable to owners of the Company (HK\$'000)	<u>126,742</u>	<u>86,914</u>
Weighted average number of ordinary shares in issue (thousand shares)	2,670,945	2,548,436
Adjustment for share options (thousand shares)	<u>81,894</u>	<u>77,489</u>
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	<u>2,752,839</u>	<u>2,625,925</u>
Diluted earnings per share (HK cents per share)	<u>4.60</u>	<u>3.31</u>

10. DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the six months ended 30 June 2014 (2013: HK\$Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group had acquired property, plant and equipment amounting approximately to HK\$70,062,000 (2013: HK\$76,442,000).

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$44,000 for cash proceeds of HK\$244,000, resulting in a gain on disposal of HK\$200,000 (2013: the Group disposed of certain property, plant and equipment with a carrying amount of HK\$25,000 for cash proceeds of HK\$118,000, resulting in a gain on disposal of HK\$93,000).

12. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 30 June 2014 (unaudited) <i>HK\$'000</i>	As at 31 December 2013 (audited) <i>HK\$'000</i>
Trade receivables	372,635	228,618
Bills receivables	15,022	37,657
Prepayments and deposits	9,037	27,952
Other receivables	9,342	7,223
Deposits placed with financial institutions	1,999	1,465
	<u>408,035</u>	<u>302,915</u>

As at the reporting date, the ageing analysis of the trade receivables of the Group presented based on the invoice date was as follows:

	As at 30 June 2014 (unaudited) <i>HK\$'000</i>	As at 31 December 2013 (audited) <i>HK\$'000</i>
Within 30 days	163,088	107,063
31 to 60 days	144,833	92,143
61 to 90 days	52,969	22,546
Over 90 days	11,745	6,866
	<u>372,635</u>	<u>228,618</u>

The Group allows a credit period normally not more than 180 days (2013: not more than 180 days) to its trade customers.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2014 (unaudited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
Trade payables	188,598	69,197
Bills payables	15,000	15,372
Receipts in advance	27,722	79,487
Accruals and other payables	49,963	45,726
	<u>281,283</u>	<u>209,782</u>

As at the reporting date, the ageing analysis of trade payables of the Group presented based on the invoice date was as follows:

	As at 30 June 2014 (unaudited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
Within 30 days	87,670	41,518
31 to 60 days	76,201	21,514
61 to 90 days	20,332	4,878
Over 90 days	4,395	1,287
	<u>188,598</u>	<u>69,197</u>

14. CHANGE IN OWNERSHIP INTEREST IN A SUBSIDIARY

During the six months ended 30 June 2014, the Group further acquired 8.52% equity interest in 連雲港綠滴肥料有限公司, which then become wholly owned subsidiary of the Group. As a result of the transaction, the Group recognised a decrease in non-controlling interests and an increase in other reserve of approximately HK\$7,765,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2014, each business segment of the Group maintained strong growth momentum. As a result, the total revenue of the Group increased by 29.1% to HK\$921,897,000 (2013: HK\$714,345,000), and the gross profit margin recorded an increase of 3.3 percentage points, reaching 33.5% during the period. Profit attributable to owners of the Company for the period amounted to HK\$126,742,000, representing a year-on-year increase of 45.8%.

The two principal businesses of the Group both achieved outstanding performance. The revenue of the magnesium product business amounted to HK\$313,427,000 during the first half of 2014 (2013: HK\$226,440,000), representing a year-on-year increase of 38.4%, and accounted for 34.0% of the total revenue of the Group. The revenue of the fertiliser business amounted to HK\$555,675,000 during the first half of 2014 (2013: HK\$458,299,000), representing a year-on-year increase of 21.2%, and accounted for 60.3% of the total Group's revenue.

MAGNESIUM PRODUCT BUSINESS

The Group's magnesium product business covers research and development, production and sales of basic magnesium products and rare earth magnesium alloys. Given their superb performance on applications and advanced technological requirements, rare earth magnesium alloys are categorised as high-end products and therefore their average pricing and gross profit margins are significantly higher than basic magnesium products. During the first half of 2014, rare earth magnesium alloys contributed a revenue of HK\$203,824,000 (2013: HK\$145,598,000), accounting for 65.0% (2013: 64.3%) of magnesium product segment revenue with a gross profit margin as high as 40.3% (2013: 38.7%); basic magnesium products generated a revenue of HK\$91,743,000 (2013: HK\$71,428,000), accounting for 29.3% (2013: 31.5%) of magnesium product segment revenue. The proportion of revenue derived from the high margin rare earth magnesium alloys continued to increase during the period, resulting in substantial growth of the overall magnesium product business.

Being the lightest metallic structural material to be developed so far, magnesium alloys are broadly used in transportation, consumer electronics, aerospace and chemical industries. The vigorous promotion of energy savings and emission reduction measures in numerous countries worldwide and the release of policies supporting the development of related industries will continue to fuel demand both at home and abroad for magnesium alloys, which are known as the eco-friendly lightweight structural materials for the 21st Century.

The Group maintains its leading position in terms of technological level in the magnesium industry. In addition to its 21 patented technologies for the production of high-performance rare earth magnesium alloys, the Group's production base has been designated as a Demonstration Base for Applications of Mining Resources by the Ministry of Finance and the Ministry of Land and Resources of the PRC since 2011, being the first to receive such an honor in the magnesium industry. The abundant and premium dolomite resources obtained by the Group also help secure the

provision of high-quality raw materials for its magnesium products. Its leading technological level and stable supply of high-quality materials are the key factors distinguishing the Company from its peers in a fiercely competitive market yet to maintain its high profit margin, resulting in rapid growth of sales and profit for the Company.

Addressing a high global demand in new environmentally-friendly and energy-saving materials, the Group exerts itself to enhance production capacity. Upon the completion of Phase II expansion, the Group's annual capacity of magnesium production will be elevated to 75,000 tonnes from its current 25,000 tonnes. Meanwhile, the Group will further expand its market share by capitalising on its strengths in resources and technology to focus on the research and development of various high-end magnesium alloys.

FERTILISER BUSINESS

The Group's fertiliser business covers two product categories – compound fertilisers and organic fertilisers. During the period, compound fertilisers contributed a revenue of HK\$404,626,000, accounting for 72.8% of the segment revenue with a gross profit margin of 24.1%; and organic fertilisers contributed a revenue of HK\$150,336,000, accounting for 27.1% of the segment revenue with a gross profit margin of 37.7%. Addressing a situation in which over 50% and around 20% of rice fields in China are deficient in silicon and magnesium respectively, the Group launched the new series of compound Silicon Magnesium fertilisers which facilitated the overall growth of fertiliser business by contributing a revenue of HK\$144,192,000 during the period, representing a year-on-year increase of 38.1% and accounting for 25.9% of the total segment revenue with a gross profit margin of 37.7%.

In addition to the expansion of new business, the Group also focused on research and development of new high-margin specialty products with a particular emphasis on product differentiation to avoid homogeneous competition among traditional fertiliser products. The distribution network covering 20 provinces and the high-quality upstream serpentine resources of the new compound Silicon Magnesium fertilisers both secured the sustainable development of the Group.

The annual production capacity of the Group's fertiliser production is expected to reach 750,000 tonnes at the end of 2014. The Group will be progressive in implementing its capacity expansion plan. It is expected that the total annual capacity of the fertiliser business will break through 1 million tonnes by 2016. In the meantime, the Group will maintain its focus on product and technological advancement to develop new ecological fertilisers tailored to meet the different nutritional needs of soil in various regions of China with an aim to further increase the market share and boost the Group's fertiliser.

OTHER BUSINESS

Metallurgical flux is the Group's secondary business. The Group has an abundant with superb quality serpentine reserve which is not only used as a key raw material to produce Silicon Magnesium fertilisers but also an indispensable source of auxiliary material for iron and steel smelting. The metallurgical flux business has been a secure and stable source of income for the Group. During the period, revenue from the metallurgical flux business amounted to HK\$52,795,000, representing 5.7% of the total revenue.

OUTLOOK

The Group's marketing strategy emphasising product differentiation has proved to be effective. Rare earth magnesium alloys and silicon magnesium compound fertilisers have helped the Group secure market share in the high-end market and improve the overall profitability. Blending its industry-leading patented and proprietary technologies with its strengths in upstream resources, the Group secures a favourable position in the new materials and ecological fertiliser sectors through its dual-business portfolio.

Looking forward, management remains optimistic regarding sustainable high growth in the second half of 2014. With the continued support of favourable national policies, the Group will continue to expand its production capacity in a proactive manner, uphold its concept of continuous innovation focusing on the research and development of differentiated high-performance products with high profit margins, and increase the proportion of high-margin products in its product mix, with an aim to scale new heights in business excellence and maximise shareholder value.

KEY OPERATIONAL DATA

Unaudited key operational data for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013, is as follows. Main businesses listed below contributed over 94% of the Group's total revenue for the six-month period ended 30 June 2014.

(a) Sales volume of major products:

	Six months ended 30 June		Increase/ (Decrease) %
	2014 <i>Tonnes</i>	2013 <i>Tonnes</i>	
Magnesium product business			
Rare earth magnesium alloys	4,837	3,555	36.1
Basic magnesium products	4,721	3,522	34.0
Fertiliser business			
Compound fertilisers	168,801	130,606	29.2
Organic fertilisers	69,959	56,059	24.8

(b) Average selling prices of major products:

	Six months ended 30 June		Increase/ (Decrease) %
	2014 <i>HK\$</i>	2013 <i>HK\$</i>	
Magnesium product business			
Rare earth magnesium alloys	42,137	40,961	2.9
Basic magnesium products	19,432	20,283	(4.2)
Fertiliser business			
Compound fertilisers	2,397	2,627	(8.8)
Organic fertilisers	2,149	2,033	5.7

(c) **Gross profit margins of major products:**

	Six months ended 30 June		Increase/
	2014	2013	(Decrease)
	%	%	Basis points
Magnesium product business			
Rare earth magnesium alloys	40.3	38.7	1.6
Basic magnesium products	17.3	19.2	(1.9)
Fertiliser business			
Compound fertilisers	24.1	22.0	2.1
Organic fertilisers	37.7	37.9	(0.2)
The Group's gross profit margin	33.5	30.2	3.3

FINANCIAL REVIEW

Revenue

Total revenue of the Group for the six months ended 30 June 2014 amounted to approximately HK\$921,897,000 (2013: approximately HK\$714,345,000), representing a year-on-year growth of about 29.1%. This is mainly due to increase in sales volume. During the period, aggregate sales volume for magnesium product business and fertiliser business recorded a growth of approximately 35.1% and 27.9% respectively.

Cost of Sales

Cost of sales for the six months ended 30 June 2014 amounted to approximately HK\$613,065,000 (2013: HK\$498,606,000), an increase of approximately 23.0%. Among which, approximately 32.8%, 65.4% and 1.8% are attributable to magnesium product business, fertiliser business and metallurgical flux business respectively (2013: approximately 30.3%, 68.1% and 1.6% respectively). Cost of sales mainly comprised of material cost and utilities cost, that accounted for approximately 90.9% of total cost of sales.

Gross Profit

Consolidated gross profit for the six months ended 30 June 2014 was approximately HK\$308,832,000 (2013: HK\$215,739,000), surged by approximately 43.2%. The gross profit margin also raised from 30.2% to approximately 33.5%. This is mainly due to the change and improvement in product mix, increasing sales proportion of products with high profit margin, thereby enhancing the Group's overall gross profit margin.

Selling and Marketing Costs

Selling and marketing costs for the six months ended 30 June 2014 were approximately HK\$56,382,000 (2013: HK\$29,526,000), which mainly comprised of transportation costs of approximately 76.3% and salaries and commission of approximately 18.7% (2013: approximately 66.2% and 24.1% respectively). Selling and marketing cost accounted for approximately 6.1% (2013: approximately 4.1%) of total revenue.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2014 was approximately HK\$35,107,000 (2013: HK\$27,828,000), which mainly comprised of staff costs, depreciation and amortisation expenses, audit and professional fees and occupancy costs, accounting for approximately 31.3%, 16.3%, 9.4% and 3.3% (2013: approximately 37.5%, 26.9%, 5.3% and 3.4%) respectively of the total administrative expenses for the period.

Increase in administrative expenses was mainly resulted from expenses incurred for coping with expansion of our businesses, yet, the Group was still able to minimise such expenses as it only represented approximately 3.8% (2013: approximately 3.9%) of total revenue for the period.

Other Income and Gains

Other income and gains for the six months ended 30 June 2014 amounted to approximately HK\$6,895,000 (2013: HK\$7,120,000), mainly comprised of interest income and rental income amounting to approximately HK\$3,906,000 and HK\$2,642,000 (2013: approximately HK\$3,950,000 and HK\$2,556,000) respectively.

Margin

Profit for the period amounted to approximately HK\$155,853,000 (2013: HK\$106,924,000), representing a year-on-year increase of approximately 45.8%. Profit attributable to owners of the Company amounted to HK\$126,742,000 (2013: HK\$86,914,000), representing a year-on-year increase of approximately 45.8%.

Liquidity, Liabilities and Financial Resources

The Group's liquidity was mainly derived from cash generated from operating activities and financing activities. As at 30 June 2014, total amount of cash and bank balances of the Group was approximately HK\$813,245,000 (As at 31 December 2013: approximately HK\$422,901,000).

As at 30 June 2014, the Group's total borrowings and net current assets increased by approximately 80.2% and 143.9% when comparing to that at 31 December 2013. The Group's gearing ratio (calculated by total borrowings over total equity) was approximately 20.6% as at 30 June 2014 (As at 31 December 2013: approximately 14.0%).

The Group's existing cash resources together with the steady cash flows generated from business activities are sufficient to meet its business needs. Net cash generated from operating activities and financing activities for the period under review amounted to approximately HK\$108,654,000 and HK\$416,532,000 respectively.

Exchange Rate Risk Management

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk primarily with respect to HK\$, Renminbi and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's management does not expect the net foreign currency risk from these activities to be significant and hence, the Group does not presently hedge the foreign exchange risks. The Group periodically reviews liquid assets and liabilities held in currencies other than HK\$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

Pledge of Assets

As at 30 June 2014, the Group had pledged its property, plant and equipment, land use rights, investment properties and mining right with carrying amount of approximately HK\$158,519,000, HK\$128,839,000, HK\$135,995,000 and HK\$496,126,000 (As at 31 December 2013, approximately HK\$165,546,000, HK\$146,815,000, HK\$141,323,000, and HK\$515,314,000) respectively to secure bank borrowings.

Significant Transactions

On 28 January 2014, the Company and International Finance Corporation ("IFC") entered into a Share Subscription Agreement, pursuant to which, IFC has agreed to subscribe for an aggregate of 155,077,000 fully paid Subscription Shares at HK\$0.75 each. The relevant subscription was completed on 24 February 2014.

On 30 May 2014, the Company's indirect subsidiary, 白山市天安金屬鎂礦業有限公司 (Baishan City Tianan Magnesium Resources Co., Ltd), entered into a loan agreement with IFC in respect of a loan granted by IFC for the principal amount of US\$25 million for 7 years. The relevant proceeds was drawn down by the subsidiary on 21 August 2014.

On 17 June 2014, the Company entered into the Subscription Agreement with Gem Power International Limited ("Gem Power"), pursuant to which, Gem Power has agreed to subscribe for Convertible Bonds of an aggregate principal amount of HK\$115,000,000. The relevant subscription was completed on 27 June 2014.

On 20 June 2014, the Company entered into the Subscription Agreement with Greenhouse Century Limited ("Greenhouse"), pursuant to which, Greenhouse has agreed to subscribe for Convertible Bonds of an aggregate principal amount of HK\$180,000,000. The relevant subscription was completed on 27 June 2014.

Contingent Liabilities

As at 30 June 2014 and 31 December 2013, the Group did not have any significant contingent liabilities.

Capital Structure

As at 30 June 2014, the issued share capital of the Company were HK\$57,471,771, divided into 2,873,588,537 shares of HK\$0.02 each. (As at 31 December 2013, the issued share capital of the Company were HK\$52,013,417, divided into 2,600,670,868 shares of HK\$0.02 each).

Human Resources

The number of employees of the Group was approximately 1,260 as at 30 June 2014 (As at 31 December 2013: 1,250). The remuneration of employees was determined by the Group with reference to their performance, work experience and current market conditions. Employee benefits include medical insurance, defined contribution retirement plans, discretionary bonus and employee share option scheme. There has been no labour dispute or significant change in the number of employees that affect the normal operations of the Group. The Directors believe that the Group maintains admirable relations with its employees.

PROJECT OVERVIEW

Dolomite mine

The Group's dolomite mine is situated in Baishan City, Jilin Province, the PRC. The mine is operated by open-pit method. During the period, there was no exploration activities, but development and mining production activities.

For the six months ended 30 June 2014, the Group completed a dolomite output of 220,889 tonnes (2013: 134,023 tonnes). As compared with the state as at 31 December 2013, there was no material change in the resource estimate and ore reserve of the dolomite mine.

The expenditure incurred in development and mining production activities of dolomite for the six months ended 30 June 2014 were approximately HK\$30,280,000 and HK\$8,739,000 respectively (2013: approximately HK\$Nil and HK\$8,906,000 respectively) while the expenditure incurred in exploration was HK\$Nil (2013: HK\$Nil).

Serpentine mine

The Group's serpentine mine is situated in Donghai County, Jiangsu Province, the PRC. The mine is operated by open-pit method. During the period, there was no exploration and development activities, but mining production activities.

For the six months ended 30 June 2014, the Group completed a serpentine output of 328,573 tonnes (2013: 237,207 tonnes). As compared with the state as at 31 December 2013, there was no material change in the resource estimate and ore reserve of the serpentine mine.

The expenditure incurred in mining production activities of serpentine for the six months ended 30 June 2014 were approximately HK\$17,493,000 (2013: approximately HK\$5,818,000 respectively) while the expenditure incurred in exploration and development activities were both HK\$Nil (2013: HK\$Nil).

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

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

CODE OF CORPORATE GOVERNANCE PRACTICES

Throughout the period under review, the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report under Appendix 14 to the Listing Rules, with the following deviations:

- (a) Under the code provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Chi Wen Fu, the founder of the Group, currently holds a dual role as the Chairman and the CEO. The Board is of the view that it is for the best interests of the Group to adopt a single leadership structure, as Mr. Chi possesses extensive experience and knowledge in the PRC market and he is playing a significant role in establishing the strategic decisions and overall management of the Group. This structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board considers that there is no suitable professional or expertise in the market to fill the position of CEO at this stage. In light of the single leadership structure, sufficient safeguards are established to ensure that the management is accountable to the Board as a whole. The Chairman/CEO ensures that Board meetings are held regularly and when necessary. The Chairman/CEO ensures that Board members are provided with complete, adequate, accurate and timely information on a regular basis to enable them to be fully cognisant of the affairs of the Group. The Chairman/CEO ensures that all Directors have unrestricted access to the document or information kept by the Group and professional advice when necessary.

(b) Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Guo Mengyong (being a non-executive Director) and Mr. Liu Hoi Keung and Mr. Sheng Hong (being independent non-executive Directors) were unable to attend the annual general meeting held on 28 April 2014 as they were obliged to be away for business trips.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct of the Company regarding Directors' securities transactions. The Company made specific enquiries to all Directors and all Directors have confirmed in writing that they have complied with the required standards set out in the code of conduct during the period under review.

AUDIT COMMITTEE

The Audit Committee was established in January 2004. As at 30 June 2014, the Audit Committee has three members, namely Mr. Kwong Ping Man, Mr. Sheng Hong and Mr. Lau Chi Kit. Mr. Kwong Ping Man is the chairman of the Audit Committee.

The Audit Committee is to review the Group's financial reporting, the effectiveness of both the internal and external audit and internal controls and to make recommendations to the Board. During the six months ended 30 June 2014, the Audit Committee held two meetings for the purpose of reviewing the Company's reports and accounts, and providing advices and recommendations to the Board.

The Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 has been reviewed by the Audit Committee, which was of the opinion that the preparation of such financial statements were complied with the applicable accounting standards and adequate disclosures had been made.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises four members, namely Mr. Kwong Ping Man, Mr. Shum Sai Chit, Mr. Sheng Hong and Mr. Lau Chi Kit, the majority of whom are independent non-executive Directors. The functions of the Remuneration Committee are to formulate transparent procedures for set up remuneration policies and packages for Directors and the senior management of the Group.

By the Order of the Board
Shum Sai Chit
Executive Director

Hong Kong, 27 August 2014

As at the date of this announcement, the directors of the Company are:

Executive directors: Mr. Chi Wen Fu, Mr. Shum Sai Chit, Ms. Chi Bi Fen and Mr. Yang Yuchuan

Non-executive director: Mr. Guo Mengyong

Independent non-executive directors: Mr. Kwong Ping Man, Mr. Sheng Hong and Mr. Lau Chi Kit