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PING SHAN

PING SHAN TEA GROUP LIMITED

坪山茶業集團有限公司

(formerly known as Huafeng Group Holdings Limited 華豐集團控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 364)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Ping Shan Tea Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 (the “Period”). The interim results for the Period are unaudited, but have been reviewed by the audit committee of the Company (the “Audit Committee”) and PKF, the auditor of the Company, in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

		Six months ended	
		30 June	31 March
		2014	2013
		HK\$'000	HK\$'000
	<i>Note</i>	(unaudited)	(unaudited)
CONTINUING OPERATIONS			
REVENUE	<i>3</i>	209,027	–
Cost of services provided and cost of sales		<u>(115,427)</u>	<u>–</u>
GROSS PROFIT		93,600	–
Changes in fair value of biological assets less costs to sell during the period		23,493	–
Other income	<i>4</i>	14,723	–
Selling and distribution expenses		(8,832)	–
Administrative expenses		(33,106)	(8,893)
Other operating expenses		<u>(12,859)</u>	<u>(2)</u>
PROFIT/(LOSS) FROM OPERATIONS		77,019	(8,895)
Finance costs	<i>5</i>	<u>(36,317)</u>	<u>(4,954)</u>
PROFIT/(LOSS) BEFORE TAX		40,702	(13,849)
Income tax expense	<i>6</i>	<u>(3,146)</u>	<u>–</u>
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	<i>7</i>	37,556	(13,849)
DISCONTINUED OPERATIONS			
(Loss)/profit for the period from discontinued operations	<i>8</i>	<u>(645,728)</u>	<u>101</u>
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>(608,172)</u>	<u>(13,748)</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Basic earnings/(loss) per share from continuing and discontinued operations:			
	<i>9</i>		
From continuing operations		0.30	(0.93)
From discontinued operations		<u>(5.23)</u>	<u>0.01</u>
		<u>(4.93)</u>	<u>(0.92)</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Diluted earnings/(loss) per share from continuing and discontinued operations:			
	<i>9</i>		
From continuing operations		N/A	N/A
From discontinued operations		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Six months ended	
	30 June	31 March
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
LOSS FOR THE PERIOD	<u>(608,172)</u>	<u>(13,748)</u>
OTHER COMPREHENSIVE LOSS		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translating foreign operations	<u>(33,432)</u>	<u>(825)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(33,432)</u>	<u>(825)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u><u>(641,604)</u></u>	<u><u>(14,573)</u></u>
Total comprehensive income/(loss) arising from:		
Continuing operations	15,112	(13,849)
Discontinued operations	<u>(656,716)</u>	<u>(724)</u>
	<u><u>(641,604)</u></u>	<u><u>(14,573)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		91,746	1,035,557
Goodwill		2,106,498	2,109,380
Other intangible assets		35,974	40,992
Biological assets		326,250	323,820
Available-for-sale financial assets		–	1,323
Deposits paid		448,437	410,445
Other receivables and prepayments		2,112	7,384
Deferred tax assets		81	738
		<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS		3,011,098	3,929,639
CURRENT ASSETS			
Inventories		173,662	209,335
Trade and bills receivables	10	39,403	173,347
Prepayments, deposits and other receivables		58,936	177,607
Pledged bank deposits		37,500	37,800
Cash and bank balances		1,527,100	978,691
		<hr/>	<hr/>
		1,836,601	1,576,780
Assets of a disposal group classified as held for sale		577,491	–
		<hr/>	<hr/>
TOTAL CURRENT ASSETS		2,414,092	1,576,780
CURRENT LIABILITIES			
Bank loans, secured		17,500	30,240
Trade and bills payables	11	83,379	102,496
Other payables and accruals		187,547	439,427
Amounts due to related parties		3,839	1,588
Debentures	13	162,793	–
Current tax liabilities		15,486	27,311
		<hr/>	<hr/>
		470,544	601,062
Liabilities of a disposal group classified as held for sale		361,491	–
		<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		832,035	601,062
NET CURRENT ASSETS		1,582,057	975,718
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,593,155	4,905,357
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2014

		At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Convertible bonds	<i>12</i>	778,322	525,151
Debentures	<i>13</i>	113,270	185,885
Deferred tax liabilities		14,773	46,566
TOTAL NON-CURRENT LIABILITIES		906,365	757,602
NET ASSETS		3,686,790	4,147,755
CAPITAL AND RESERVES			
Share capital		127,231	117,760
Reserves		3,559,559	4,029,995
TOTAL EQUITY		3,686,790	4,147,755

Notes:

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the prior year, the Company changed its financial year end date from 30 September to 31 December in order to conform to the financial year end date of its principal operating subsidiaries. Accordingly, the current interim financial period covered a six-month period from 1 January 2014 to 30 June 2014 and the comparatives covered a six-month period from 1 October 2012 to 31 March 2013.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the period from 1 October 2012 to 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings and biological assets which are carried at their fair values.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting period beginning on 1 January 2014. IFRSs comprise International Financial Reporting Standards, International Accounting Standards (“IAS”) and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s condensed consolidated financial statements and amounts reported for the current period and prior periods.

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

3. SEGMENT INFORMATION

The Group has three (2013: two) reportable segments as follows:

Principal activities of continuing operations are as follows:

- Raw teas, refined teas and other related products

Principal activities of discontinued operations are as follows:

- Provision of fabric processing services and manufacture and sale of fabrics
- Manufacture and sale of yarns and blankets

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group's consolidated financial statements for the period from 1 October 2012 to 31 December 2013. Segment profits or losses do not include unallocated other income, unallocated corporate expenses and finance costs. Segment assets do not include pledged deposits, cash and bank balances and unallocated corporate assets. Segment liabilities do not include bank loans, current tax liabilities, deferred tax liabilities, convertible bonds, debentures and unallocated corporate liabilities.

3. SEGMENT INFORMATION (CONTINUED)

Information about the Group's reportable segments are as below:

	Discontinued operations				Continuing operations		Consolidated	
	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Raw teas, refined teas and other related products		Six months ended	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 June	31 March	30 June	31 March	30 June	31 March	30 June	31 March
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE								
Revenue from external customers	<u>165,976</u>	<u>184,586</u>	<u>1,718</u>	<u>39,164</u>	<u>209,027</u>	<u>–</u>	<u>376,721</u>	<u>223,750</u>
Segment profit/(loss)	<u>(391,043)</u>	<u>14,952</u>	<u>(255,765)</u>	<u>(17,673)</u>	<u>88,398</u>	<u>–</u>	<u>(558,410)</u>	<u>(2,721)</u>
Unallocated other income							<u>16,504</u>	<u>3,356</u>
Unallocated corporate expense							<u>(26,102)</u>	<u>(8,895)</u>
Loss from operations							<u>(568,008)</u>	<u>(8,260)</u>
Finance costs							<u>(36,317)</u>	<u>(4,954)</u>
Loss before tax							<u>(604,325)</u>	<u>(13,214)</u>
Income tax expense							<u>(3,847)</u>	<u>(534)</u>
Loss for the period							<u>(608,172)</u>	<u>(13,748)</u>

3. SEGMENT INFORMATION (CONTINUED)

	Discontinued operations				Continuing operations		Consolidated	
	Provision of fabric processing services and manufacture and sale of fabrics		Manufacture and sale of yarns and blankets		Raw teas, refined teas and other related products		At	At
	At	At	At	At	At	At	At	At
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Assets								
Segment assets	<u>353,830</u>	<u>785,810</u>	<u>193,238</u>	<u>469,787</u>	<u>3,229,453</u>	<u>3,169,466</u>	<u>3,776,521</u>	<u>4,425,063</u>
Unallocated corporate assets							<u>1,648,669</u>	<u>1,081,356</u>
Consolidated total assets							<u>5,425,190</u>	<u>5,506,419</u>
Liabilities								
Segment liabilities	<u>238,999</u>	<u>229,648</u>	<u>77,103</u>	<u>75,796</u>	<u>178,849</u>	<u>120,527</u>	<u>494,951</u>	<u>425,971</u>
Unallocated corporate liabilities							<u>1,243,449</u>	<u>932,693</u>
Consolidated total liabilities							<u>1,738,400</u>	<u>1,358,664</u>

4. OTHER INCOME

	Continuing operations		Discontinued operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June	31 March	30 June	31 March	30 June	31 March
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	1,855	–	1,034	1,466	2,889	1,466
Government grants	12,868	–	727	1,660	13,595	1,660
Others	–	–	20	230	20	230
	<u>14,723</u>	<u>–</u>	<u>1,781</u>	<u>3,356</u>	<u>16,504</u>	<u>3,356</u>

5. FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)
Interest on bank loans and overdraft	927	–	–	–	927	–
Interest on cash consideration payable for business combination	219	–	–	–	219	–
Interest on convertible bonds						
– Actual interest	9,832	–	–	–	9,832	–
– Imputed interest	16,012	3,434	–	–	16,012	3,434
Interest on debentures	6,329	967	–	–	6,329	967
Amortisation of issuing costs for debentures	2,998	553	–	–	2,998	553
	36,317	4,954	–	–	36,317	4,954

6. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (unaudited)
Current tax – the People's Republic of China (the "PRC") enterprise income tax	2,922	–	701	534	3,623	534
Deferred tax	224	–	–	–	224	–
	3,146	–	701	534	3,847	534

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit derived from Hong Kong for the periods ended 30 June 2014 and 31 March 2013.

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

7. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging:

	Continuing operations		Discontinued operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June 2014 <i>HK\$'000</i> (unaudited)	31 March 2013 <i>HK\$'000</i> (unaudited)	30 June 2014 <i>HK\$'000</i> (unaudited)	31 March 2013 <i>HK\$'000</i> (unaudited)	30 June 2014 <i>HK\$'000</i> (unaudited)	31 March 2013 <i>HK\$'000</i> (unaudited)
Amortisation						
Technical know-how	-	-	630	615	630	615
Trademark	2,901	-	-	-	2,901	-
	2,901	-	630	615	3,531	615
Depreciation	1,274	22	29,850	32,689	31,124	32,711
Directors' remuneration						
Fees	180	180	-	-	180	180
Salaries, allowances and benefits in kind	1,321	1,561	-	-	1,321	1,561
Equity-settled share-based payments	363	-	-	-	363	-
Defined contribution plan	8	8	-	-	8	8
	1,872	1,749	-	-	1,872	1,749

8. DISCONTINUED OPERATIONS

The shareholders of the Company passed an ordinary resolution at an extraordinary general meeting on 21 August 2014 to discontinue all the business of the provision of fabric procession services and manufacture and sale of fabric yarns and blankets.

8. DISCONTINUED OPERATIONS (CONTINUED)

(a) Loss for the period for the above discontinued businesses was as follows:–

	Six months ended	
	30 June	31 March
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue	167,694	223,750
Cost of sales and services rendered	<u>(148,112)</u>	<u>(200,630)</u>
Gross profit	19,582	23,120
Other income	1,781	3,356
Selling and distribution expenses	(8,869)	(10,962)
Administrative expenses	(11,930)	(14,803)
Other operating expenses	<u>(172)</u>	<u>(76)</u>
Operating profit	392	635
Impairment loss on assets of a disposal group classified as held for sale	<u>(645,419)</u>	<u>–</u>
(Loss)/profit before income tax	(645,027)	635
Income tax expense	<u>(701)</u>	<u>(534)</u>
(Loss)/profit for the period	<u><u>(645,728)</u></u>	<u><u>101</u></u>

(b) The net cash flows (used in)/provided by provision of fabric processing services and manufacture and sales of fabrics and manufacture and sale of yarns and blankets were as follows:–

	30 June		31 March	
	2014		2013	
	HK\$'000		HK\$'000	
Operating activities	82,151		44,906	
Investing activities	(16,171)		(5,441)	
Financing activities	(599,632)		99,940	
Effect of foreign exchange rate changes	<u>(5,435)</u>		<u>(1,724)</u>	
	<u><u>(539,087)</u></u>		<u><u>137,681</u></u>	

9. LOSS PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following:

	Continuing operations		Discontinued operations		Total	
	Six months ended		Six months ended		Six months ended	
	30 June	31 March	30 June	31 March	30 June	31 March
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic						
Earnings/(loss)						
Earnings/(loss) for the purpose of calculating basic earnings/(loss) per share	<u>37,556</u>	<u>(13,849)</u>	<u>(645,728)</u>	<u>101</u>	<u>(608,172)</u>	<u>(13,748)</u>
Number of shares						
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>12,348,655,306</u>	<u>1,491,099,873</u>	<u>12,348,655,306</u>	<u>1,491,099,873</u>	<u>12,348,655,306</u>	<u>1,491,099,873</u>

Diluted earnings/(loss) per share has not been disclosed as the effect of dilutive potential equity shares was immaterial.

10. TRADE AND BILLS RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors. The Group's bills receivables are usually due within 180 days.

An aging analysis of trade and bills receivables at the end of reporting period, based on the date of recognition of the service income or goods sold, is as follows:

	At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
0 – 30 days	6,559	41,298
31 – 60 days	6,288	41,875
61 – 90 days	21	44,664
91 – 120 days	18,766	24,769
Over 120 days	7,769	20,741
	39,403	173,347

11. TRADE AND BILLS PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers. The Group's bills payables are usually due within 180 days.

11. TRADE AND BILLS PAYABLES (CONTINUED)

An aging analysis of the trade and bills payables at the end of reporting period, based on the date of receipt of consumables or goods purchased, is as follows:

	At 30 June 2014 <i>HK\$'000</i> (unaudited)	At 31 December 2013 <i>HK\$'000</i> (audited)
0 – 30 days	18,768	19,781
31 – 60 days	7,516	7,541
61 – 90 days	–	51,295
Over 90 days	57,095	23,879
	<u>83,379</u>	<u>102,496</u>

At 30 June 2014, bills payable of HK\$68,750,000 were secured by the Group's pledged deposits of HK\$37,500,000, certain Tea Forest of approximately HK\$50,691,000 with total cultivable area of 4,598 Mu and guarantees provided by key management personnel.

12. CONVERTIBLE BONDS

On 9 October 2009, the Company and Tanrich Capital Limited (the "Placing Agent") entered into a placing agreement in relation to the placing of convertible bonds (the "Placing Agreement"). Pursuant to the Placing Agreement, the Company issued the three-year 1% coupon convertible bonds (the "Convertible Bonds") up to an aggregate principal amount of HK\$150 million. Based upon the initial conversion price of HK\$0.28 per conversion share, a total of 535,714,277 shares (with an aggregate nominal value of approximately HK\$5,357,000) would be allotted and issued upon the exercise of all the conversion rights attached to the Convertible Bonds.

The placing of the Convertible Bonds (the "First Tranche Bonds") in the principal amount of HK\$60,000,000 under the Placing Agreement was completed on 11 February 2010. Based on the conversion price of HK\$0.28, a maximum number of 214,285,710 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the First Tranche Bonds in full.

The placing of the Convertible Bonds (the "Second Tranche Bonds") in the principal amount of HK\$90,000,000 under the Placing Agreement was completed on 20 April 2010. Based on the conversion price of HK\$0.28, a maximum number of 321,428,567 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the Second Tranche Bonds in full.

12. CONVERTIBLE BONDS (CONTINUED)

Any outstanding amount of the Convertible Bonds can be converted at any time after the date of issue of the Convertible Bonds at a conversion price of HK\$0.28.

On 10 April 2012, a supplemental deed poll was executed by the Company. Details of the modification of the First Tranche Bonds and the Second Tranche Bonds (the “modified Convertible Bonds”) are set out as follows:–

- (i) conversion price was reduced from HK\$0.28 to HK\$0.18;
- (ii) coupon rate was reduced to 0% per annum; and
- (iii) the final maturity date was extended to 11 February 2016.

The modification resulted in the extinguishment of the financial liability of First Tranche Bonds and Second Tranche Bonds and the recognition of its new financial liability and equity components. The fair value of the new liability immediately following the modification was approximately HK\$120,423,000. The financial liability was determined using an effective interest rate of 5.90%.

As a result of the modification, a loss of approximately HK\$1,943,000 was recognised during the year ended 30 September 2012, which represented the amount by which the fair value of the original liability component exceeded the carrying amount of the original liability component derecognised at the date of modification.

12. CONVERTIBLE BONDS (CONTINUED)

The following table details the exercise of conversion rights attaching to the modified Convertible Bonds.

Date of conversion	Principal amount converted <i>HK\$'000</i>	No. of shares allotted and issued
First Tranche Bonds		
25 February 2013	4,000	22,222,220
12 July 2013	20,000	111,111,110
5 August 2013	12,000	66,666,665
17 September 2013	20,000	111,111,110
8 October 2013	4,000	22,222,220
	<u>60,000</u>	<u>333,333,325</u>
Second Tranche Bonds		
21 December 2012	2,000	11,111,111
7 January 2013	11,000	61,111,110
23 January 2013	3,000	16,666,665
12 July 2013	38,000	211,111,109
5 August 2013	16,000	88,888,885
17 September 2013	20,000	111,111,110
	<u>90,000</u>	<u>499,999,990</u>
	<u>150,000</u>	<u>833,333,315</u>

All of the modified Convertible Bonds were converted into ordinary shares during the period from 1 October 2012 to 31 December 2013.

12. CONVERTIBLE BONDS (CONTINUED)

On 22 July 2013, the Company issued two tranches of convertible bonds with principal amount of HK\$336,820,000 (“Third Tranche Bonds”) and HK\$277,950,000 (“Fourth Tranche Bonds”) respectively, aggregated to HK\$614,770,000, for business combination. The following details the above convertible bonds issued to the bondholders:

Third Tranche Bonds

Name of bondholders	Principal amount <i>HK\$'000</i>	Coupon rate (p.a.)	Maturity date	Conversion price per share <i>HK\$</i>
Exalt Wealth Limited (“Exalt Wealth”)	65,010	0%	21 July 2017	0.1768
Smart Fujian Group Limited (“Smart Fujian”)	226,660	0%	21 July 2017	0.1768
Shine Strategy Limited (“Shine Strategy”)	45,150	0%	21 July 2017	0.1768
	<hr/>			
	<u>336,820</u>			

Fourth Tranche Bonds

Name of bondholders	Principal amount <i>HK\$'000</i>	Coupon rate (p.a.)	Maturity date	Conversion price per share <i>HK\$</i>
Teya Holdings Limited (“Teya”)	131,450	4%	31 December 2015	0.1768
Templeton Strategic Emerging Markets Fund III, LDC (“Templeton”)	65,730	4%	31 December 2015	0.1768
Great Vantage International Limited (“Great Vantage”)	54,950	4%	31 December 2015	0.1768
Ample Gold International Limited (“Ample Gold”)	25,820	4%	31 December 2015	0.1768
	<hr/>			
	<u>277,950</u>			

12. CONVERTIBLE BONDS (CONTINUED)

The Third and Fourth Tranche Bonds can be converted into ordinary shares at any time after the date of issue. The conversion price of HK\$0.1768 is subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalisation issues and rights issues. Details of the convertible bonds are set out in the circular of the Company dated 28 June 2013.

On 28 January 2014, the Company issued a tranche of convertible bonds with principal amount of HK\$253,000,000 ("Fifth Tranche Bonds") together with a tranche of warrants. The following details the above convertible bonds and warrants issued to the investor:

Fifth Tranche Bonds

Name of bondholder	Principal amount <i>HK\$'000</i>	Coupon rate (p.a.)	Maturity date	Conversion price per share <i>HK\$</i>
Asia Equity Value LTD ("Asia Equity")	253,000	4%	28 January 2017	0.21

The Fifth Tranche Bonds can be converted into ordinary shares at any time after the date of issue. The conversion price of HK\$0.21 is subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalisation issues and rights issues.

Warrants

Name of warrant holder	Expiry date	Exercise price per warrant share <i>HK\$</i>
Asia Equity	28 January 2019	0.26

The warrants can be exercised at any time after six month from the date of issue to subscribe up to a total of 506,000,000 warrant shares in aggregate of HK\$131,560,000.

Details of the convertible bonds and warrants are set out in the announcement of the Company dated 22 January 2014.

12. CONVERTIBLE BONDS (CONTINUED)

The liability component and equity component of the convertible bonds were fair valued at approximately HK\$229,740,000 and HK\$63,339,000 respectively whereas the warrants were fair valued at HK\$26,307,000. The proceeds of HK\$253,000,000 were first applied to the liability component of the convertible bonds at HK\$229,740,000 where the remaining portion were then applied to the equity component of the convertible bonds and warrants in proportioned to their respective fair values.

The movements of the liability component and equity component of the convertible bonds are as follows:

Liability component

	First Tranche Bonds HK\$'000	Second Tranche Bonds HK\$'000	Third Tranche Bonds HK\$'000	Fourth Tranche Bonds HK\$'000	Fifth Tranche Bonds HK\$'000	Total HK\$'000
At 30 September 2012 and 1 October 2012	49,329	73,994	–	–	–	123,323
Liability component at initial recognition	–	–	248,774	259,637	–	508,411
Imputed interest	2,461	3,242	8,584	3,153	–	17,440
Actual interest	–	–	–	5,003	–	5,003
Conversion of convertible bonds	(51,790)	(77,236)	–	–	–	(129,026)
At 31 December 2013 and 1 January 2014	–	–	257,358	267,793	–	525,151
Liability component at initial recognition	–	–	–	–	229,740	229,740
Imputed interest	–	–	9,838	3,607	2,567	16,012
Actual interest	–	–	–	5,590	4,242	9,832
Interest paid	–	–	–	(2,413)	–	(2,413)
At 30 June 2014 (unaudited)	<u>–</u>	<u>–</u>	<u>267,196</u>	<u>274,577</u>	<u>236,549</u>	<u>778,322</u>

At	At
30 June	31 December
2014	2013
HK\$'000	HK\$'000
(unaudited)	(audited)

Analysed as:

Non-current liabilities

778,322

525,151

12. CONVERTIBLE BONDS (CONTINUED)

Equity component

	First Tranche Bonds <i>HK\$'000</i>	Second Tranche Bonds <i>HK\$'000</i>	Third Tranche Bonds <i>HK\$'000</i>	Fourth Tranche Bonds <i>HK\$'000</i>	Fifth Tranche Bonds <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 September 2012 and 1 October 2012	9,331	13,995	–	–	–	23,326
Equity component at initial recognition	–	–	155,178	123,721	–	278,899
Conversion of convertible bonds	(9,331)	(13,995)	–	–	–	(23,326)
At 31 December 2013 and 1 January 2014	–	–	155,178	123,721	–	278,899
Equity component at initial recognitions	–	–	–	–	16,434	16,434
At 30 June 2014 (unaudited)	<u>–</u>	<u>–</u>	<u>155,178</u>	<u>123,721</u>	<u>16,434</u>	<u>295,333</u>

The interest charged of First Tranche Bonds for the last period before modification is calculated by applying an effective interest rate of 7.847% per annum to the liability component.

The interest charged of Second Tranche Bonds for the last period before modification is calculated by applying an effective interest rate of 7.317% per annum to the liability component.

The interest charged of the modified Convertible Bonds for the period/year is calculated by applying an effective interest rate of 5.90% per annum to the liability component.

The interest charged of Third Tranche Bonds for the period is calculated by applying an effective interest rate of 7.709% per annum to the liability component.

The interest charged of Fourth Tranche Bonds for the period is calculated by applying an effective interest rate of 7.058% per annum to the liability component.

The interest charged of Fifth Tranche Bonds for the period is calculated by applying an effective interest rate of 7.071% per annum to the liability component.

13. DEBENTURES

During the six months ended 30 June 2014, the Company issued unlisted debentures of HK\$92,000,000 (for the six months ended 31 March 2013: HK\$101,000,000) to independent third parties at face value with issuing costs of HK\$4,820,000 (for the six months ended 31 March 2013: HK\$6,060,000). The debentures are interest bearing ranging from 5% to 6% (At 31 December 2013: 6%) per annum, unsecured and repayable on the second to eighth anniversary (At 31 December 2013: second anniversary) of the respective dates of issue. The debentures were initially recognised at HK\$92,000,000 less issuing costs of HK\$4,820,000 and subsequently measured at amortised cost using the effective interest method.

14. DIVIDENDS

No dividend has been paid or declared by the Company during the period (six months ended 31 March 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

As a result of two transactions (acquisition of tea business and proposed disposal of textile business) in the Period and last year and the financial result of the Period changed significantly from the six months period ended 31 March 2013, the corresponding 1st interim result for last year. We have completed the acquisition of China Natural Tea Holdings Company Limited (“Natural Tea”) and thus enter into the tea market with significant growth potential in July 2013. There is no contribution from the tea business of Natural Tea and its subsidiaries in the corresponding period last year while full contribution of tea business was accounted for in the Period. In addition, we have entered into the disposal agreement on 30 June 2014 to dispose of the subsidiaries with principal activities in textile business. As a result, the financial results of these subsidiaries with principal activities in textile business is accounted for as discontinued operation and only net result shown in the consolidated statement of profit or loss as discontinued operations–(loss)/profit for the period from discontinued operation and corresponding period in last year also need to restate.

Due to the impact for the above two transactions, the Group’s revenue of approximately HK\$209.0 million for the Period is 100% contributed by the tea business of Natural Tea and its subsidiaries and there is no revenue for last year corresponding period. The gross profit of approximately HK\$93.6 million and gross profit margin of approximately 44.8% for the Period are also 100% contributed by the tea business of Natural Tea and its subsidiaries and there is no gross profit and gross profit margin for last year corresponding period. During the Periods, there was profit from continuing operations of approximately HK\$37.6 million (2013: Loss of HK\$13.8 million) as a result of tea business contribution. The loss for the Period increased by approximately 44 times to HK\$608.2 million (2013: HK\$13.8 million) mainly due to the significant loss from discontinued operations of HK\$645.7 million (2013: profit of HK\$0.1 million).

BUSINESS REVIEW

During the Period, the Company continued to concentrate management effort in more profitable tea business with significant growth and entered into the disposal agreement to dispose of subsidiaries with principal activities in textile business on 30 June 2014. As such, full contribution from tea business during the Period contributed to revenue of approximately HK\$209.0 million and profit from continuing operations of approximately HK\$37.6 million. The result is due to the good harvest of our cultivation bases and strong market demand for our raw teas, refined teas and other related products during the Period. For the discontinued operation of textile business, the Company still faced a very complex and volatile environment both domestically and overseas during the Period which the management decided to dispose of the whole textile business. The Company has loss from this discontinued operation of approximately HK\$645.7 million during the Period which is mainly due to the impairment loss of approximately HK\$645.4 million as the disposal price is much lower than the net asset value of the subsidiaries disposal of.

BUSINESS PROSPECTS

During the Period, as the textile business still faced many uncertainties in the domestic and global economy, the domestic and international demand for textile exports will be weakened and therefore bring a more critical textile market condition. As such, the management decided to disposal of the textile business and entered into the disposal agreement on 30 June 2014. The disposal is expected to complete in the second half of 2014.

The Group will therefore dedicate all efforts to focus on newly acquired tea business in last year, which have generated good profit contribution and have great potential. In the meantime, the Group is proactively searching for potential favourable expansion, merger and acquisition opportunities in the tea business, so as to realise the long-term business potential of the tea business, and to further enhance its revenue sources and profitability, bring maximised returns to the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2014, the Group had current assets of approximately HK\$2,414.1 million (31 December 2013: approximately HK\$1,576.8 million) and current liabilities of approximately HK\$832.0 million (31 December 2013: approximately HK\$601.1 million). The current ratio (calculated as current assets to current liabilities) increased from 2.62 as at 31 December 2013 to 2.90 as at 30 June 2014. The gearing ratio (calculated as the total borrowings, debentures and convertible bonds to total shareholders' equity) had increased from 0.18 as at 31 December 2013 to 0.29 as at 30 June 2014. These ratios were at reasonably adequate levels as at 30 June 2014 while the Group had sufficient resources in meeting its short-term and long-term obligations.

The Group principally met its funding requirements by cash flows from operations and financing activities. During the Period, the net cash generated from operating activities and net cash generated from financing activities were approximately HK\$162.0 million (2013: approximately HK\$44.9 million) and approximately HK\$459.4 million (2013: approximately HK\$99.9 million), respectively. The total bank borrowings decreased to approximately HK\$17.5 million (31 December 2013: HK\$30.2 million). The bank loan were repayable within one year with weighted interest rate of 7.5% per annum. The Group's bank borrowings were denominated in RMB.

During the Period, the Group issued unlisted debentures of approximately HK\$92 million (31 December 2013: approximately HK\$101 million) at face value with issuing costs of approximately HK\$4.8 million. The debentures are interest bearing ranging from 5%-6% of the face value per annum, unsecured and repayable on the second to eighth anniversary of the respective date of issue. As at 30 June 2014, the carrying value of the debentures were approximately HK\$276.1 million (31 December 2013: HK\$185.9 million).

During the Period, none of the original convertible bonds were converted to ordinary shares of the Company and principal amount of approximately HK\$614.8 million original convertible bonds remained outstanding as at 30 June 2014. The Company also issued new convertible notes and warrants with principal amount of approximately HK\$253.0 million and approximately HK\$131.6 million respectively to be used for potential acquisition activities and general working capital. As at 30 June 2014, the carrying value of convertible bonds amounted to approximately HK\$778.3 million (31 December 2013: approximately HK\$525.2 million).

CAPITAL STRUCTURE

The total number of issued share capital of the Company as at 30 June 2014 was 12,723,234,798 shares.

FOREIGN EXCHANGE EXPOSURE

Most assets, liabilities and transactions of the Group are denominated in RMB and HKD, except overseas sales which are denominated in USD. In view of the currency peg between HKD and USD and a relatively strong RMB at HK\$1.00 equal to RMB1.25 (as at 30 June 2014), the fluctuations of foreign currencies did not have a significant impact on the performance of the Group.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group (including deposits paid) for acquisition of property, plant and equipment was approximately HK\$66.6 million (2013: approximately HK\$5.9 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On 27 June 2014, 茂庸股權投資基金管理(天津)有限公司 (Mao Yong Equity Investment Fund Management (Tianjin) Limited*) (as the General Partner), 福建省安溪縣大坪綠色食品工程有限公司 (Fujian Anxi Daping Green Food Technology Company Limited*) (an indirect wholly-owned subsidiary of the Company) and 中信信託有限責任公司 (Citic Trust Limited*) (both as Limited Partners) entered into a partnership agreement pursuant to which the parties agreed to form the partnership, a limited partnership to be established under the laws of the PRC pursuant to the partnership agreement dated 27 June 2014 and entered into among Mao Yong Equity Investment Fund Management (Tianjin) Limited* as the General Partner, and Citic Trust Limited* and Fujian Anxi Daping Green Food Technology Company Limited* as the Limited Partners.

* For identification purposes only

The Disposal

On 30 June 2014, Treasure Wealth Assets Limited, a wholly-owned subsidiary of the Company, entered into the disposal agreement with Northeast Knittex Mfg, Inc. whereby Northeast Knittex Mfg, Inc. have conditionally agreed to purchase and Treasure Wealth Assets Limited, has conditionally agreed to sell 100% of the ordinary shares of United Glory Development Ltd, Huafeng Technical Services Ltd and Huafeng Trading Macao Commercial Offshore Ltd for a total consideration of HK\$216 million.

The disposal was approved by the shareholders in the extraordinary general meeting on 21 August 2014 and the disposal was detailed in the circular dated 31 July 2014.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries during the Period.

Proposed Increase in Authorised Share Capital of the Company

As at 11 April 2014, the authorised share capital of the Company was HK\$200,000,000 divided into 20,000,000,000 Shares of HK\$0.01 each. At the annual general meeting of the Company to be convened (the “AGM”) for the purpose of considering and, if thought fit, approving the Company to seek the approval of the Shareholders to increase the authorised share capital of the Company to HK\$800,000,000 divided into 80,000,000,000 Shares of HK\$0.01 each so that it would increase the Company’s flexibility in issuing shares for any future investments and developments. The resolution was duly passed at the AGM.

EMPLOYMENT INFORMATION

At 30 June 2014, the Group had a total of 1,240 (2013: 1,355) employees in Hong Kong, Macau and the PRC. The Group’s emoluments policies are based on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the Period, the total staff costs including directors’ emoluments amounted to approximately HK\$40.7 million (2013: approximately HK\$26.4 million). The Company maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (2013: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CONVERTIBLE NOTES AND WARRANTS

During the Period, the convertible notes have been issued in an aggregate principal amount of HK\$253,000,000 and warrants in an aggregate value equal to the HK\$131,560,000 conferring rights to subscribe for the shares to Asia Equity Value Ltd.

On 17 January 2014, the Company completed the placing of 600,000,000 shares to no fewer than six places at the issue price of HK\$0.18 per share. The net proceeds were for potential acquisition activities as identified by the Group from time to time and as the general working capital of the Group.

Save as disclosed above and disclosed in the above section headed "Material Acquisition or Disposal of Subsidiaries", the Company did not issue any Shares and convertible bonds during the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code during the Period.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as stated in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules except for the deviation from the code provision A.2.1 and the Board is committed to complying with the CG Code to the extent that the Directors consider it to be practical and applicable to the Company.

The corporate governance principles of the Company emphasise an effective Board, sound internal control, appropriate independence policy, transparency and accountability to the shareholders of the Company. The Board will continue to monitor and revise the Company’s corporate governance policies in order to ensure that such policies may meet the general rules and standards required by the Listing Rules. The Company had complied with the CG Code throughout the Period except for the following deviation:

Code Provision A.2.1

Up to the date of this announcement, no individual was appointed as chief executive of the Company. The role of the chief executive has been performed collectively by all the executive Directors, including the chairman of the Company. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company’s policies and strategies and the interest of the shareholders of the Company as a whole.

Code Provision E.1.2

The Chairman of the Board did not attend the AGM held on 16 May 2014 because of other business engagement. The directors present thereat conducted the AGM in a duly constituted and proper manner.

AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control. The Audit Committee comprises three independent non-executive Directors. The interim results for the Period are unaudited, but have been reviewed and approved by the Audit Committee. PKF, the auditor of the Company, has also reviewed the interim results for the Period, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". During the Period, a regular meeting of the Audit Committee has been held.

On behalf of the Board
Ping Shan Tea Group Limited
Cai Zhenrong
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the executive Directors are Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Cai Zhenying, Mr. Cai Yangbo and Mr. Choi Wing Toon. The independent non-executive Directors are Mr. Lawrence Gonzaga, Ms. Choy So Yuk, BBS, JP and Mr. Yuen Chun Fai.