



2014 Interim Report

Online And Offline Operation Integration

OAO運營一體化



中國家居控股有限公司
China Household Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 692)

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

To the board of directors of China Household Holdings Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements of China Household Holdings Limited and its subsidiaries (collectively, the "Group") set out on pages 2 to 30, which comprise the condensed consolidated statement of financial position as at 30 June 2014 and the related condensed consolidated income statement and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope Of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

ELITE PARTNERS CPA LIMITED
Certified Public Accountants

Chan Wai Nam, William
Practising Certificate Number P05957

Hong Kong
26 August 2014

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	785,218	417,848
Cost of sales		(540,380)	(249,863)
Gross profit		244,838	167,985
Other income	3	13,289	855
Distribution costs		(11,527)	(5,189)
Administrative expenses		(41,571)	(29,021)
Other operating expenses		(28,407)	(1,244)
Finance costs		(52,216)	(18,006)
Profit before tax	5	124,406	115,380
Income tax expense	6	(60,027)	(39,677)
Profit for the period		64,379	75,703
Profit for the period attributable to:			
Owners of the Company		67,103	78,456
Non-controlling interests		(2,724)	(2,753)
		64,379	75,703
Earnings per share attributable to ordinary equity holders of the Company	8		
Basic			
— For profit for the period		2.4 cents	3.4 cents
Diluted			
— For profit for the period		2.4 cents	3.2 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2014*

	Six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Profit for the period	64,379	75,703
Other comprehensive (expense)/income: Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(5,741)	331
Total comprehensive income for the period, net of tax	58,638	76,034
Total comprehensive income attributable to:		
Owners of the Company	61,362	78,758
Non-controlling interests	(2,724)	(2,724)
	58,638	76,034

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		31,166	33,055
Lease premiums for land		111,828	113,808
Exploration and evaluation assets	9	1,539,000	1,539,000
Intangible assets		43,539	44,929
Loan receivables	10	91	123
Other financial assets	11	180,119	185,184
Deferred tax assets		40,207	40,207
Goodwill		588,279	588,279
Total non-current assets		2,534,229	2,544,585
CURRENT ASSETS			
Inventories		167,964	47,874
Lease premiums for land		3,959	3,959
Loan receivables	10	2,066	2,060
Trade and bills receivables	12	377,113	166,489
Prepayments, deposits and other receivables		198,002	265,089
Equity investments at fair value through profit or loss		14,796	68,214
Convertible note receivable		2,951	2,951
Conversion option embedded in convertible note receivable		1	1
Pledged deposits		1,058	1,046
Cash and cash equivalents		153,318	38,286
Total current assets		921,228	595,969
CURRENT LIABILITIES			
Bank overdrafts, secured	19	2,436	2,324
Bank loans, secured	19	44,057	45,686
Trade payables	13	146,874	39,511
Other payables and accruals		77,697	22,668
Amounts due to directors	16	18,724	18,712
Tax payable		21,199	10,256
Deferred tax liabilities		2,969	2,969
Total current liabilities		313,956	142,126
NET CURRENT ASSETS		607,272	453,843
TOTAL ASSETS LESS CURRENT LIABILITIES		3,141,501	2,998,428

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Strict bonds		265,000	223,000
Convertible bonds	14	365,016	336,494
Promissory notes	15	265,579	251,666
Total non-current liabilities		895,595	811,160
NET ASSETS		2,245,906	2,187,268
EQUITY			
Equity attributable to owners of the Company			
Issued capital	17	2,766	2,766
Reserves		2,234,774	2,173,412
		2,237,540	2,176,178
Shares to be issued		21,418	21,418
Non-controlling interests		(13,052)	(10,328)
TOTAL EQUITY		2,245,906	2,187,268

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2014*

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Employee share option reserves HK\$'000	Capital reserves HK\$'000	Equity component of CB HK\$'000	Exchange reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Shares to be issued HK\$'000	Non- controlling interest HK\$'000	Total equity HK\$'000
At 1 January 2013	2,187	1,423,801	388,084	3,587	(21)	47,503	1,343	(215,966)	1,650,518	21,418	(5,200)	1,666,736
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	340	78,456	78,796	—	(2,724)	76,072
Issue of shares upon conversion of convertible bonds	310	36,889	—	—	—	(35,342)	—	—	1,857	—	—	1,857
At 30 June 2013	2,497	1,460,690	388,084	3,587	(21)	12,161	1,683	(137,510)	1,731,171	21,418	(7,924)	1,744,665
At 1 January 2014	2,766	1,663,631	388,084	3,587	(21)	169,948	4,853	(56,670)	2,176,178	21,418	(10,328)	2,187,268
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	(5,741)	67,103	61,362	—	(2,724)	58,638
At 30 June 2014	2,766	1,663,631	388,084	3,587	(21)	169,948	(888)	10,433	2,237,540	21,418	(13,052)	2,245,906

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash flows generated from operating activities	55,253	31,899
Net cash flows generated from/(used in) investing activities	14,823	(4,085)
Net cash flows generated from/(used in) financing activities	46,204	(7,000)
Net increase in cash and cash equivalents	116,280	20,814
Cash and cash equivalents at the beginning of the period	35,962	10,821
Effect of foreign exchange rate changes	(1,360)	76
Cash and cash equivalents at the end of the period	150,882	31,711
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	153,318	36,715
Bank overdrafts, secured	(2,436)	(5,004)
	150,882	31,711

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate information

China Household Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and its registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's principal place of business in Hong Kong is located at Suite No. 1001B, 10/F., Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company and its subsidiaries (collectively, the "Group") were principally engaged in trading of wooden products and provision of interior design services, the sales of fabrics and garments and other related accessories, iron and titanium exploration, development and mining in the Peoples' Republic of China ("the PRC"), securities investment, fashion business, money lending business and provision of information and technologies services and sales of related products during the period.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014 (the "Unaudited Condensed Consolidated Interim Financial Statements") have been approved for issue by the Board of Directors on 26 August 2014.

2. Basis of preparation and significant accounting policies

The Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the Unaudited Condensed Consolidated Interim Financial Statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Unaudited Condensed Consolidated Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2013 (the "2013 Annual Financial Statements") which were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA.

These interim results are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The condensed consolidated financial statements have been prepared on the historical cost convention, as modified by equity investments at fair value through profit or loss; conversion option embedded in convertible note receivable and other financial assets, which are carried at fair value.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2014.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Revenue and other income

Revenue, which is also the Group's turnover, represents the invoiced value of trading of wooden products, technological and intelligent products, fabrics, garments and other related accessories, after allowances for returns and trade discounts, profit/(loss) from trading of securities, interest received and receivable from money lending, and invoices value of sales of fashion designed product and services rendered, provision of information and technologies services. During the period, the Group did not generate any income from mining business.

An analysis of revenue and other income are as follows:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue		
Sales of goods	787,081	416,299
Provision of services	13,244	743
Interest income from loan receivables	106	1,264
Loss on trading of equity investment at fair value through profit or loss	(15,213)	(458)
	785,218	417,848
Other income		
Commission income	262	387
Dividend income	26	12
Exchange gain	2,219	18
Interest income	155	226
Gain on disposal of fixed assets	77	—
Reversal of impairment loss on trade and bill receivables	10,449	—
Others	101	212
	13,289	855
Total revenue and other income	798,507	418,703

4. Segment information

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

Sales of household furnitures segment — trading of household furnitures and wooden products

Sales of fabrics, garments and accessories segment — trading of fabrics, garments and other related accessories

Mining segment — mine exploitation, development and mining of iron and titanium ores

Securities segment — trading of securities

Information and technologies services segment — provision of information and technologies services and sales of related products

Other — provision of loan financing, design and related services and sales of designers products

	For the six months ended 30 June 2014						
	Sales of household furnitures HK\$'000 (Unaudited)	Sales of fabrics and garment trading HK\$'000 (Unaudited)	Mining HK\$'000 (Unaudited)	Securities HK\$'000 (Unaudited)	Information and technology services HK\$'000 (Unaudited)	Other HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue							
Sales to external customers	782,536	4,341	—	(15,213)	13,243	311	785,218
Segment results	237,133	(4,218)	(2,030)	(38,739)	2,151	(3,645)	190,652
Reconciliation:							
Interest income and unallocated gains							89
Corporate and other unallocated expenses							(14,119)
Finance costs							(52,216)
Profit before tax							124,406
Other segment information							
Capital expenditure*	41	1,653	8	—	11	—	1,713
Reconciliation:							
Unallocated capital expenditure							14
Depreciation and amortisation	2,831	291	6	—	12	579	3,719
Reconciliation:							
Unallocated depreciation and amortisation							1,781
							5,500

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

4. Segment information (Continued)

For the six months ended 30 June 2013							
	Sales of household furnitures HK\$'000 (Unaudited)	Sales of fabrics and garments trading HK\$'000 (Unaudited)	Mining HK\$'000 (Unaudited)	Securities HK\$'000 (Unaudited)	Information and technologies services HK\$'000 (Unaudited)	Other HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue							
Revenue from external customers	413,126	2,086	—	(458)	739	2,355	417,848
Segment results	156,813	(6,394)	(1,212)	2,370	(3,012)	(762)	147,803
Reconciliation:							
Interest income and unallocated gains							87
Corporate and other unallocated expenses							(54,181)
Finance costs-unallocated							(18,006)
Profit before tax							75,703
Other segment information							
Capital expenditure	16,351	2,292	—	—	14	41	18,698
Reconciliation:							
Unallocated capital expenditure							874
Depreciation and amortisation	137	387	4	—	24	585	1,137
Reconciliation:							
Unallocated depreciation and amortisation							143
							1,280

The relevant geographical information of the Group is as follows:

	For the six months ended 30 June 2014			
	PRC HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue				
Revenue from external customers	795,780	(14,516)	3,954	785,218
Capital expenditure	60	1,667	—	1,727

4. Segment information (Continued)

	For the six months ended 30 June 2013			
	PRC HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue				
Revenue from external customers	413,156	2,607	2,085	417,848
Capital expenditure	16,351	2,582	639	19,572

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

5. Profit before tax

Profit before tax is stated after crediting and charging the following:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Crediting		
Commission income	262	387
Interest income on convertible notes receivable	140	136
Exchange gain	2,219	18
Dividend income	26	12
Interest income	15	89
Fair value gain on equity investment at fair value through profit or loss	—	1,753
Gain on disposal of fixed assets	77	—
Reversal of impairment loss on trade and bill receivables	10,449	—
Charging		
Depreciation on property, plant and equipment	2,131	879
Amortisation of intangible asset	1,390	400
Amortisation of lease premiums for land	1,979	—
Loss on disposal of available-for-sale investment	—	403
Loss on disposal of equity investment at fair value through profit or loss	15,213	—
Fair value loss on equity investment at fair value through profit or loss	23,342	—
Fair value change of other financial assets	5,065	—
Operating lease rentals in respect of land and buildings	2,217	2,107
Staff costs	11,243	9,166

6. Income tax

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax		
— Hong Kong	874	—
— PRC	59,112	39,677
Under provision in respect of prior years	41	—
	60,027	39,677

Tax on overseas profits is calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

PRC income tax change represents the PRC Enterprise Income Tax paid or payable during the period. The Enterprise Income Tax in the PRC has been provided at 25%.

As at 30 June 2014, the Group has tax losses of approximately HK\$71,000,000 (31 December 2013: HK\$50,000,000) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the losses can be utilised. Except for tax losses of approximately HK\$3,000,000 (31 December 2013: HK\$2,000,000) arising in the PRC that are available for offsetting against the following five years' taxable profits of the Company, the tax losses of approximately HK\$68,000,000 (31 December 2013: HK\$48,000,000) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

7. Dividend

The board of directors does not recommend the payment of any dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

8. Earnings per share attributable to ordinary equity holders of the Company

The basis earnings per share is calculated by dividing the consolidated profit for the period attributable to owners of the Company as set out below by weighted average number of ordinary shares in issue during period.

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	67,103	78,456

8. Earnings per share attributable to ordinary equity holders of the Company (Continued)

	At 30 June 2014 (Unaudited)	At 30 June 2013 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,766,314,964	2,322,148,298

Diluted earnings per share

The 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 only one category of dilutive potential ordinary shares: convertible bonds.

During the period ended 30 June 2014, the share options which were outstanding has no dilutive effect in earnings per share for the period.

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Consolidated profit attributable to owners of the Company	67,103	78,456
Interest expense on convertible bonds (net of tax)	28,580	81
	95,683	78,537

	For the six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,766,314,964	2,322,148,298
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	610,517,334	106,666,666
	3,376,832,298*	2,428,814,964

* Because the diluted earnings per share amount is increased when taking imputed interest income and number of shares contribution arising from convertible note and convertible bonds into account, those convertible notes and convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit attributable to equity owners of the Company of approximately HK\$67,103,000, and the weighted average number of ordinary shares of 2,766,314,964 in issue during the year.

9. Exploration and evaluation assets

	<i>HK\$'000</i> (Unaudited)
At 31 December 2013 and at 30 June 2014	1,539,000

In 2010, the Group has obtained a mining licence expiring on 22 September 2014 of 陝西省紫陽縣桃園 — 大柞木溝鐵礦 (the "Mine", literally translated as Shaanxi Province Ziyang County Taoyuan — Dazuomugou Taicitie Mine), an iron and titanium dioxide mine with a total mining area of 7.8892 km² located at Ziyang County, Shaanxi Province, the PRC. However, the Group has to obtain other licences to commence/continue the operations of the Mine.

The exploration and evaluation assets are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to property, plant and equipment and amortised on the units of production method (the "UOP") based on the proved and probable reserves.

The application for the PRC approval of the Mine is still in progress and the Group did not have any operation during the six months ended 30 June 2014. The directors decided to postpone the mining plan and they expected that the Group will obtain all the required licences and approvals (the "Approvals") by year 2015. Construction of facilities will start upon receiving the Approvals including but not limited to (i) the acquisition of land; (ii) construction of the mining factories; (iii) acquisition and construction of mining machineries/infrastructure; and (iv) production testing. The construction is divided into 3 stages and will take about 24 to 36 months to finish. Pilot production will commence after the first stage of construction work.

During the period ended 30 June 2014, the Group has not carried out any topography survey and feasibility study. The Group has not carried out any development nor production activity during the period. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of reporting period.

10. Loan receivables

The Group's loan receivables arose from the money lending business during the period.

Loan receivables bear interest at rates, and with credit periods, mutually agreed between the contracting parties. Each customer has a credit limit. Loan receivables are secured by the pledge of debtors' assets or personal guarantees by the debtors/certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
Loan receivables	2,157	2,183
Classified as non-current assets	(91)	(123)
Current assets	2,066	2,060

10. Loan receivables (Continued)

The loan receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	At 30 June 2014 HK\$'000 (Unaudited)	At 31 December 2013 HK\$'000 (Audited)
Repayable:		
Within 3 months	2,018	15
3 months to 1 year	48	2,045
Over 1 year	91	123
	2,157	2,183
Classified as current assets	(2,066)	(2,060)
Non-current assets	91	123

The aged analysis of the loan receivables that are not individually nor collectively considered to be impaired is as follows:

	At 30 June 2014 HK\$'000 (Unaudited)	At 31 December 2013 HK\$'000 (Audited)
Neither past due nor impaired	2,157	2,183
1 to 3 months past due	—	—
	2,157	2,183

Loan receivables that were neither past due nor impaired relate to certain debtors for whom there was no recent history of default.

11. Other financial assets

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Profit guarantee, at fair value	180,119	185,184

The fair value of other financial assets represents profit guarantee arising from acquisition of Red Hero International Limited ("Red Hero"), together with its subsidiaries, collectively the ("Red Hero Group") and Chang Ye Holdings Limited ("Chang Ye"), together with its subsidiaries, collectively the ("Chang Ye Group") respectively.

- (a) On 3 January 2013, the Group acquired 100% equity interest of Chang Ye Group ("Chang Ye Acquisition"). The total consideration would be satisfied by way of the issue of a promissory note with principal value of HK\$60,000,000, subject to an adjustment of the amount of profit guarantee for the relevant profit generated period.

Pursuant to the sales and purchase agreement, the profit guarantee for Chang Ye Group's total net profit after tax for the years ended/ending 31 December 2013, 2014 and 2015 shall not be less than HK\$15,000,000 per year. In the event of guaranteed profit cannot be met, the shortfall amount will set off against the principal amount of promissory note with a cap of HK\$15,000,000 each year (the "Shortfall").

The fair value of the profit guarantee of Chang Ye Group was nil on 30 June 2014 (31 December 2013: nil).

- (b) On 31 December 2013, the Group acquired 100% equity interest of Red Hero Group ("Red Hero Acquisition"). The total consideration would be satisfied by way of the issue of convertible bonds with an aggregate nominal value of HK\$480,000,000 subject to an adjustment of the amount of profit guarantee for the relevant profit generated period.

Pursuant to the sales and purchase agreement, the profit guarantee for Red Hero Group's total net profit after tax for the years ending 31 December 2014, 2015 and 2016 shall not be less than HK\$2,600,000 and HK\$76,000,000 and HK\$162,000,000 respectively. In the event of guaranteed profit cannot be met, the shortfall amount will set off against the principal amount of convertible bonds.

The fair value of profit guarantee of Red Hero Group was HK\$180,119,000 on 30 June 2014 (31 December 2013: HK\$185,184,000).

The fair value of the aforementioned profit guarantee is based on valuation performed by Roma Appraisals Limited, an independent professional qualified valuer, by using a probabilistic model.

12. Trade and bills receivables

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
Trade and bills receivables	377,113	177,285
Less: Impairment	—	(10,796)
	377,113	166,489

Details of the aging analysis of trade and bills receivables, based on the invoice date, are as follows:

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
0 — 30 days	120,530	126,640
31 — 60 days	98,215	26,097
61 — 90 days	83,567	10,891
91 — 180 days	74,788	2,800
Over 180 days	13	10,857
	377,113	177,285

The Group's credit policies for each of its principal activities are as follows:

- (i) Trading of garments and accessories are with credit terms of 30 to 90 days
- (ii) Trading of wooden products are with credit terms of 120 to 180 days

The movements in the provision for impairment of trade and bills receivables are as follows:

	<i>HK\$'000</i> (Unaudited)
At 1 January 2013	129
Impairment losses recognised	10,796
Amount written off as uncollectible	(129)
At 31 December 2013 and 1 January 2014	10,796
Reversal of impairment loss	(10,449)
Amount written off as uncollectible	(347)
At 30 June 2014	—

13. Trade payables

Details of the aging analysis of trade payables, based on the invoice date, are as follows:

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
0 — 30 days	60,106	5,565
31 — 60 days	16,118	3,653
61 — 90 days	8,167	6,270
Over 90 days	62,483	24,023
	146,874	39,511

14. Convertible bonds

The liabilities component of convertible bonds are as follows:

	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Audited)
CB1	13,194	11,192
CB3	351,684	325,115
CN1	138	187
Total	365,016	336,494

14. Convertible bonds (Continued)**Convertible Bonds issued in 2013**

On 10 July 2013, the Company issued 2% convertible bonds with an aggregate nominal value of HK\$71,916,160 (the "CB 1"). The maturity date of the CB 1 is at the end of 30th months of the date of issue of the convertible bonds. The rights to convert into approximately 97,184,000 conversion shares at initial conversion price of HK\$0.74 per conversion share. During the year of 2013, the CB1 with nominal value of HK\$51,800,000 have been converted, at a conversion price of HK\$0.74 into 70,000,000 ordinary shares, respectively, of HK\$0.001 each. The outstanding principal amounts of the CB1 as at 30 June 2014 was HK\$20,116,160 (31 December 2013: HK\$20,116,160).

	Liability component HK\$'000	Equity Component HK\$'000	Total HK\$'000
At 1 January 2013 (Audited)	—	—	—
Issue of convertible bonds	38,445	33,471	71,916
Conversion of share during the period	(27,795)	(24,109)	(51,904)
Imputed Interest expense	781	—	781
Interest payable	(239)	—	(239)
At 31 December 2013 and at 1 January 2014 (Audited)	11,192	9,362	20,554
Imputed Interest expense	2,002	—	2,002
At 30 June 2014 (Unaudited)	13,194	9,362	22,556

14. Convertible bonds (Continued)**Convertible Bonds issued in 2013** (Continued)

On 31 December 2013, the Company issued 2% convertible bonds with principal value of HK\$480,000,000 (the "CB 3") as a consideration for the acquisition of subsidiaries. The maturity date of the CB 3 is the 3rd anniversary of the date of the issue of the CB 3. The CB 3 carries interest at a rate of 2% per annum which is payable annually in arrears after the date of issue. The rights to convert the CB 3 into ordinary shares of the Company on or before the third anniversary from the issue date of the CB 3 with the conversion price of HK\$0.90 per share, subject to adjustments. The Company is entitled to early redeem the CB 3 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon. The CB 3 has been split into the liability component and equity component upon initial recognition by recognising the liability component at its fair value and attributing to the equity component by the residual amount. The liability component is subsequently carried at amortised cost. The equity component was presented in equity heading "equity component of convertible bonds".

The convertible bonds have been split into the liability and equity components as follows:

	Liability component HK\$'000	Equity Component HK\$'000	Total HK\$'000
At 1 January 2013 (Audited)	—	—	—
Issue of convertible bonds	325,115	154,885	480,000
At 31 December 2013 and at 1 January 2014 (Audited)	325,115	154,885	480,000
Imputed Interest expense	26,569	—	26,569
At 30 June 2014 (Unaudited)	351,684	154,885	506,569

14. Convertible bonds (Continued)**Convertible Note issued in 2012**

On 3 September 2012, the Company issued 2% convertible note with principal value of HK\$50,000,000 (the "CN1") as a partial consideration for the acquisition of subsidiaries. The maturity date of the CN1 is the 3rd anniversary of the date of the issue of the CN1. The CN1 are convertible into ordinary shares of the Company during the period from 3 months after the date of issue of the CN1 and expiring on the business day immediately preceding the maturity date at the initial conversion price of HK\$0.12 per share, subject to adjustments. The CN1 carries interest at a rate of 2% per annum which is payable semi-annually in arrears of the last day of June and December each year after the date of issue. The Company is entitled to early redeem the CN1 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon. The CN1 has been split into the liability component and equity component upon initial recognition by recognising the liability component at its fair value and attributing to the equity component by the residual amount. The liability component is subsequently carried at amortised cost. The equity component was presented in equity heading "equity component of convertible bonds".

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 January 2013 (Audited)	2,591	47,503	50,094
Conversion into share during the year	(1,760)	(41,802)	(43,562)
Imputed interest expense	129	—	129
Interest payable	(773)	—	(773)
At 31 December 2013 and at 1 January 2014 (Audited)	187	5,701	5,888
Imputed Interest expense	10	—	10
Interest payable	(59)	—	(59)
At 30 June 2014 (Unaudited)	138	5,701	5,839

15. Promissory notes

	At 30 June 2014 HK\$'000 (Unaudited)	At 31 December 2013 HK\$'000 (Audited)
At beginning of period/year	251,666	321,914
Promissory notes issued at fair value	—	60,000
Fair value change on issuance of promissory notes	—	(9,192)
Shortfall of guaranteed revenue	—	(41,852)
Early redemption	—	(106,894)
Imputed interest expenses	13,913	36,450
Interest paid/payables	—	(8,760)
	265,579	251,666

15. Promissory notes (Continued)

1. On 3 September 2012, Sky Treasure Worldwide Limited ("Sky Treasure"), an indirect wholly-owned subsidiary of the Group, issued an unsecured promissory note with principal value of HK\$228,000,000 (the "PN1"). The PN1 bears interest at 3% per annum and is payable on 3 September 2015 (the "PN1 Maturity Date").

Sky Treasure has the right to redeem in full or in part of the principal amount of the PN1 prior to the PN1 Maturity Date ("the PN1 Early Redemption Right"). The fair values of the PN1 and PN1 Early Redemption Right at the date of issue were approximately HK\$179,581,000 and HK\$ Nil, respectively. Pursuant to the Deed of Variation, there was a shortfall of guaranteed revenue of m3 Group in 2012 and 2013 of approximately HK\$13,379,000 and HK\$46,094,781 respectively, which was deducted from the principal amount of PN1.

As at 30 June 2014, the carrying amount of PN1 was approximately HK\$161,755,000. The PN1 is subsequently measured at amortised cost, using effective interest rate of 11.52%.

2. In October 2012, the Company early redeemed the convertible bonds issued in 2010 (CB1) with principal value of approximately HK\$217,123,000 by way of issuing a promissory note with principal value of approximately HK\$173,698,000 ("PN2"), which represents 80% of the outstanding principal amount of the remaining principal value of CB2010. The promissory note bears interest at 4% per annum and payable in the 31st day of December each year. The first payment shall be made on 31 December 2013. The maturity date of the promissory note is 9 October 2015 (the "PN2 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount together with interest accrued thereon at any time prior to the PN2 Maturity Date (the "PN2 Early Redemption Right"). During the year ended 31 December 2013, certain amount of PN2 with principal amount of approximately HK\$123,073,000 with carrying amount of approximately HK\$106,894,000 have been redeemed by (i) cash of approximately HK\$43,049,000; (ii) offsetting of the aggregate amount of the loan receivable of approximately HK\$8,108,000; and (iii) issuing of convertible bonds in the principal amount of approximately HK\$71,916,000 with the rights to convert into approximately 97,184,000 conversion shares at initial conversion price of HK\$0.74 per conversion share (the "CB 1") respectively. The convertible bonds bear interest 2% per annum and payable at the end of 30th months of the date of issue of the convertible bonds.

As at 30 June 2014, the carrying amount of the PN2 was approximately HK\$47,563,000. The PN2 is subsequently measured at amortised, using effective interest of 11.04%.

3. On 3 January 2013, the Company issued a promissory note with principal value of HK\$60,000,000 (the "PN3"). The PN3 bears interest at 4% per annum and fall due on 31 March 2016 (the "PN3 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount of the PN3 prior to the PN3 Maturity Date ("the PN3 Early redemption Right"). The fair values of the PN3 at the date of issue were approximately HK\$50,808,000 and HK\$ Nil, respectively.

As at 30 June 2014, the carrying amount of the PN3 was approximately HK\$56,261,000. The PN3 is subsequently measured at amortised cost, using effective interest rate of 10.18%.

16. Amounts due to directors

The balance is unsecured, interest free and repayable on demand. In the opinion of directors the balance is approximates to its fair value.

17. Share capital

	Authorized Ordinary shares	
	No. of shares	HK\$
As at 1 January 2013 and 30 June 2014	1,500,000,000,000	1,500,000,000
	Issued and fully paid ordinary shares	
	No. of shares	HK\$
As at 1 January 2013	2,186,648,298	2,187
Issue of shares upon conversion of convertible bonds (note)	579,666,666	579
As at 31 December 2013 and 30 June 2014	2,766,314,964	2,766

Notes:

Certain Convertible Bonds and Convertible Notes with an aggregate principal amount of HK\$238,800,000 were converted into 579,666,666 ordinary shares of the Company as set out as below:

- i. CN 1 with aggregate principal amount of HK\$44,000,000 were converted into 366,666,666 ordinary shares of the Company at a conversion price of HK\$0.12 each.
- ii. CB 1 with aggregate principal amount of HK\$51,800,000 were converted into 70,000,000 ordinary shares of the Company at a conversion price of HK\$0.74 each.
- iii. CB 2 with aggregate principal amount of HK\$143,000,000 were converted into 143,000,000 ordinary shares of the Company at a conversion price of HK\$1.00 each.

18. Share-based payment transactions***Equity-settled share option scheme of the Company***

The Company has a share option scheme (the "2002 Share Option Scheme") which was adopted on 27 May 2002, valid and effective for a period of 10 years from that date. The 2002 Share Option Scheme was expired on 27 May 2012. No further options could thereafter be offered under the 2002 Share Option Scheme but provision of the 2002 Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2002 Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the 2002 Share Option Scheme.

18. Share-based payment transactions (Continued)**Equity-settled share option scheme of the Company** (Continued)

A new share option scheme (the "2013 Share Option Scheme") of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2013 whereby the Directors of the Company are authorized, to invite the eligible person including but not limited to any directors (whether executive or non-executive and whether independent or not) and any employee (whether full time or part time) of the Group or any other person, who, at the sole discretion of the Board, has contributed to the Group, to take up options, to take up options to subscribe the ordinary shares of the Company (the "Shares") as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. The 2013 Share Option Scheme shall be valid and effective for a period of 10 years ending on 28 June 2023, after which no further options will be granted.

The exercise price of options is determined by the board of Directors at its sole discretion, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (c) the nominal value of the Share.

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible person in any twelve-month period is limited to 1% of the issued share capital of the Company.

A 2013 Share Option Scheme of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2013, which is valid and effective for a period of 10 years commencing on 28 June 2013.

On 25 June 2014, the Company has offered share options (the "Options"), subject to acceptance of the grantees ("Grantees"), to certain eligible persons under the share option scheme of the Company adopted on 28 June 2013, to subscribe for a total of 216,000,000 ordinary shares of HK\$0.001 each of the Company, of which 215,200,000 Options were accepted in July 2014 and the balance was not accepted.

At 30 June 2014, a total of 260,547 (31 December 2013: 260,547) share options were still outstanding under the Share Option Scheme as follows:

	Grant date	At 1 January 2014	At 30 June 2014	Exercise period	Exercise price per share HK\$
Director	26.9.2006	48,238	48,238	30.11.2007 - 25.9.2016	4.66
	11.6.2008	57,917	57,917	11.6.2008 - 10.6.2018	33.19
Other eligible employees	26.9.2006	96,476	96,476	30.11.2007 - 25.9.2016	4.66
	11.6.2008	57,916	57,916	11.6.2008 - 10.6.2018	33.19
		260,547	260,547		

19. Bank overdraft and Bank loan

At 30 June 2014, the Group's credit facilities amounting to approximately HK\$23,000,000 (31 December 2013: HK\$43,141,000) granted by banks and a credit company were secured by the followings:

- (i) (a) Bank deposit of the Group of approximately HK\$1,058,000 (31 December 2013: HK\$1,046,000); and
- (b) Certain listed equity investment of the Group of approximately HK\$4,311,000 (31 December 2013: HK\$4,309,000).

In addition, such loan is supported by the following guarantees:

- (a) (a) guarantee given by a director of a subsidiary of HK\$13,000,000 (31 December 2013: HK\$13,000,000); and
 - (b) personal guarantee of HK\$6,500,000 (31 December 2013: HK\$6,500,000) and HK\$28,000,000 (31 December 2013: HK\$15,000,000) given by a former director and a non-executive director of the Company respectively.
- (ii) The bank loan of RMB35,000,000 (approximately equivalent to HK\$44,057,000) are personal guarantee of RMB35,000,000 (approximately equivalent to HK\$44,057,000) by a director of the Company and his spouse; secured by certain land and buildings held by 中山嘉冠實業有限公司, a related company controlled by a director and his spouse.

20. Commitments

(a) Operating lease commitments

As lessee

At 30 June 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	4,399	3,804
In the second to fifth years, inclusive	546	2,003
	4,945	5,807

(b) Other commitments

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Acquisition of subsidiaries	310,040	480,000

As detailed in note 23(b)(c), the Group had commitment in relation to the acquisition of Kassade Group and Polar Sunshine Group of HK\$100,000,000 and HK\$210,040,000 respectively as at 30 June 2014.

20. Commitments (Continued)**(c) Capital commitments**

In addition to the above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Contracted, but not provided for:		
Injection of capital	66,632	54,452
	66,632	54,452
Authorised, but not contracted for:		
Construction cost for the mining infrastructure	630,611	641,000

As at 30 June 2014, the Group had commitment in relation to injection of capital to the subsidiaries, Zhongshan City Prado Style Household Company Limited, Zhongshan Wei Xin Household Limited and Shaanxi Tai Sheng Da Mining Company Limited approximately HK\$39,494,000 (equivalent to approximately US\$5,000,000), approximately HK\$23,400,000 (equivalent to approximately US\$3,000,000) and approximately HK\$3,738,000 (equivalent to approximately RMB3,000,000) respectively.

21. Related party transactions and balances

During the period, the Group entered into the following material transactions with its related parties in the normal course of business:

	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Six months ended 30 June		
(a) Revenue/income from related parties		
Sales of goods to a related company (note (i))	152,433	—
	152,433	—
Purchase/expenses paid to related parties		
Commission paid/payable to a related company (note (i))	153	—
Management expenses paid/payable to a related company (note (ii))	420	420
Rental expenses paid to a related company (note (iii))	526	—
	1,099	420

(b) Members of key management during the period comprised 5 (six months ended 30 June 2013: 5) executive directors and 3 non-executive directors (six months ended 30 June 2013: 3) whose remuneration is approximately to HK\$965,000 (six months ended 30 June 2013: 909,000).

21. Related party transactions and balances (Continued)

Notes:

- (i) New Oasis was previously owned by an executive director of the Company Mr. Kuang Yuanwei until April 2013.

On 23 April 2013, the Group's wholly-owned subsidiary Zhongshan Prado have entered into strategic cooperation agreement with New Oasis (the "Cooperation Agreement") for the sales of goods to New Oasis and the agency fee paid to New Oasis. Details of the Cooperation Agreement can be found in the circular of the Company dated 9 August 2013.

Such transactions carried out by Zhongshan Prado with New Oasis were in accordance with the terms of the Cooperation Agreement.

- (ii) A non-executive director of the Company Mr. Yiu Kwok Ming, Tommy is also a director of Ching Hing Weaving Dyeing and Printing Factory Limited.
- (iii) An executive director of the Company Mr. Li Zhixiong and his spouse are beneficial owner and director of Jindao.

22. Fair Value Measurement

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, Fair Value Measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

Assets measured at fair value

As at 30 June 2014 (Unaudited)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Equity investments at fair value through profit or loss	14,796	—	—	14,796
Conversion option embedded in convertible note receivable	—	1	—	1
Other financial assets: Profit guarantee	—	—	180,119	180,119
	14,796	1	180,119	194,916

22. Fair Value Measurement (Continued)**Assets measured at fair value** (Continued)

As at 31 December 2013 (Audited)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Equity investments at fair value through profit or loss	68,214	—	—	68,214
Conversion option embedded in convertible note receivable	—	1	—	1
Other financial assets: Profit guarantee	—	—	185,184	185,184
	68,214	1	185,184	253,399

All of the Group's fair value measurement were revalued at the end of financial reporting date. The valuations were carried out by Roma Appraisals Limited, an independent professional qualified valuer. The Group's management have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

During the six months ended 30 June 2014 and year ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers into and out of Level 3 as at the end of the reporting date.

Reconciliation of Level 3 fair value measurement of other financial assets as below:

	2014 HK\$'000 (Unaudited)
At Beginning of the reporting period	185,184
Changes in fair value	(5,065)
At the end of the reporting period	180,119

Description of the valuation techniques in Level 2 fair value measurement

The conversion option embedded in convertible note receivable was valued by binomial tree option pricing model.

Description of the valuation techniques and inputs used in Level 3 fair value measurement

The fair value of other financial assets are measured at fair value under probabilistic model and take into consideration of whether the profit guarantee is probable to be met. The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs.

If the actual performance was 10% higher/lower than the respective expected performance, the fair value of other financial assets would have been decreased/increased by approximately HK\$21,141,000 and HK\$31,058,000 respectively with the corresponding loss/gain recognised in other gains or losses.

22. Fair Value Measurement (Continued)

Fair value measurements and valuation processes

The Directors have engaged independent professional qualified valuer, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages the independent qualified valuer to perform the valuation. The Directors of the Company works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model. The financial controller reports the findings to the board of directors of the Company every year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

23. Events after the reporting period

- (a) On 30 March 2014, Zhongshan City Prado Style Household Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party in relation to the proposed acquisition of Target Company ("Zhongshan City Banfu Town Dingli Trading Company") with a consideration of HK\$230,000,000. Pursuant to the agreement, the relevant condition precedent is not fulfilled, therefore, the Company has decided to terminate the agreement and not to proceed with the completion of the acquisition.
- (b) On 13 May 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Kassade Investment Limited and its subsidiaries (the "Kassade Group") at a consideration of HK\$100,000,000. The Kassade Group will be principally engages in manufacturing of floor tiles, various wood frames and other household wood products. The consideration would be satisfied by way of the issue of promissory note of with principal value of HK\$100,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. On 13 March 2014, the Company has entered into a second Supplemental agreement. Pursuant to the second supplemental agreement, the long stop date shall be amended to 12 months upon signing of the agreement dated 13 May 2013. The acquisition was subsequently completed on 11 July 2014.
- (c) On 26 July 2013, Kingstown Development Limited, a wholly-owned subsidiary of the Company, has entered into the agreement with an independent third party for the acquisition 100% issued share capital of Polar Sunshine Wood Holdings Company Limited and its subsidiary (the "Polar Sunshine Group") at the consideration of HK\$380,000,000. The Polar Sunshine Group will be principally engaged in trading of heating wooden household products and other basic materials for heating wooden household products. The consideration would be satisfied by way of the issue of convertible bond of HK\$380,000,000, subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. On 27 January 2014, the Company has entered into a second supplemental agreement. Pursuant to the second supplemental agreement, the long stop date shall be amended to 12 months upon signing the agreement dated 26 July 2013. On 9 April 2014, the Company has entered into a third supplemental agreement to amend certain terms of the Agreement. Pursuant to the third supplemental agreement, the Company acquires 100% issued share capital of the Polar Sunshine Group at the consideration of HK\$210,040,000. The acquisition subsequently completed on 17 July 2014.
- (d) On 25 June 2014, the Company has offered share options (the "Options"), subject to acceptance of the grantees ("Grantees"), to certain eligible persons under the share option scheme of the Company adopted on 28 June 2013, to subscribe for a total of 216,000,000 ordinary shares of HK\$0.001 each of the Company, of which 215,200,000 Options were accepted in July 2014 and the balance was not accepted.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the sales of household furniture, sales of fabrics, garments and accessories, fashion design, iron and titanium exploration, development and mining in the PRC, securities investment, money lending and the information and technologies services during the period under review.

FINANCIAL RESULTS

For the first half of financial year of 2014, the Group recorded a profit attributable to owners of the Company approximately HK\$67,103,000, representing a decrease of 15% compare with the previous corresponding period. The Group turnover increased to approximately HK\$785,218,000 as compared to HK\$417,848,000 to the corresponding period 30 June 2013. The increase was mainly due to the increase in turnover for the household business which reported approximately HK\$782,536,000, representing a growth of approximately 89% from that of approximately HK\$413,126,000 for the corresponding period in 2013. In spite of the slower growth momentum of China's economy, the Group recorded a satisfactory growth in household furniture sales, which was mainly driven by the continuous enhancement of PRC retail network. The trading network represented the Group's most significant source of turnover and core operating profits.

The Group's distribution expenses incurred for the six months ended 30 Jun 2014 was amounted to approximately HK\$11,527,000, representing an increase of 122% compare with the previous corresponding period, such increase was mainly caused by the increase in transportation costs and the commission paid and the general increase of expenses which were in line with the increase in turnover.

The administrative expenses increased substantially by approximately HK\$12,550,000 from approximately HK\$29,021,000 for the six months ended 30 June 2013 to approximately HK\$41,571,000 for the six months ended 30 June 2014. The increase was mainly reflected by the related expenses for issuances of strict bond and the legal and professional fees incurred for the acquisitions carried out during 2014.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

REVIEW OF OPERATION

Home furnishing

The home furnishing segment recorded a turnover of approximately HK\$782,536,000 for the six months ended 30 June 2014, accounted of approximately 99.6% of the total revenue and an increase of approximately 89% over the same period last year. Although the market environment in China remained challenging, the Group has a solid business foundation and continued to closely monitor the costs, the Group endeavored to continue to maintain a steady business growth in the first half of 2014. The Group will continue to strengthen its position in the medium to high-end household furnishing market with its plan to explore more opportunities on distribution network expansion, as well as collaboration with property developers for household projects to seek for steady business growth in the second half of 2014.

Information and technologies business

Despite of the challenging economic environment and competitive rivalry within the industry, the information and technologies segment recorded an income approximately HK\$13,244,000, the increase in turnover was mainly due to an increase from the provision of technical support and maintenance services. In spite of the challenging economic environment, the Group is confident in overcoming all possible challenges ahead by leveraging its strong technological and intelligent products capabilities. The Group will continue to focus on the development of information technology related services in the People's Republic of China and strive to maintain stability of operation in the second half of 2014.

Mining Business

During the period under review, the application for the PRC approval of the Mine is still in progress and the Group did not have any operation in mining business. Meanwhile, the Group has submitted the application for the licence to the relevant authorities in order to commence the production in the upcoming future. The directors decided to postpone the mining plan and the Group expected all the required licences and approvals will be obtained by year of 2015. The Group will stay close to the market and move quickly to capture any advantage opportunities of its mining business.

The Group owns the mining rights with a total area of 7.89 square km. During the period under review, details of the resources and reserves are shown below:

(a) Resource summary (includes reserves)

	Tonnage (Mt)	Grades		Contained metals	
		TFe (%)	TiO ₂ (%)	TFe (Kt)	TiO ₂ (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,655
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage (Mt)	Grades		Contained metals	
		TFe (%)	TiO ₂ (%)	TFe (Kt)	TiO ₂ (Kt)
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	2,996
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

There has been no material change in the estimated coal reserves and resources of the Group's iron and titanium dioxide mines as of 30 June 2014, and the estimated iron and titanium dioxide as at 31 December 2013 are set out in the table above.

Sales of Fabrics, Garments and Accessories

During the period reviewed, the recovery of the global economy remained extremely slow. The persistent sovereign debt crisis and shrinking economy in the Euro Zone continued to hinder consumer confidence and consumption. The business conditions are remained difficult due to the economic growth revealed a sign of slowdown which worsened the consumer demand in general. The business environment was unexpectedly tough in the first half of 2014. Under these circumstances, the garment business recorded a loss of approximately HK\$4,240,000, representing a decrease of 40% compare to the same period last year.

Fashion design

Fashion business in particular, which is comparatively sensitive to economic conditions and consumer confidence continued to adversely impact by the difficult economic climate. Coupled with the keen competition from both the renowned foreign and local brand, the business condition became particularly thorny. The overall sales performance was attributable to decline in retail turnover amid challenging operation environment. In these challenging circumstances, the fashion business has been operating under a very tough environment in both aspects of income and expenses in the first half of 2014.

The Group has recorded a loss of approximately HK\$2,301,000, which was mainly attributable to administrative expenses.

Trading in securities

In view of the global investment environment, a number of issues have contributed to market volatility. The prices of listed companies become undervalued. Such crisis in the financial and investment markets accelerate the trading volume of stock market decreasing and investment portfolio of the Group was affected in a certain degree. The Group suffered a loss on trading of securities of approximately HK\$15,213,000 for the six months ended 30 June 2014. The loss was mainly attributable to realized losses on disposal of financial assets at fair value during the period.

Money lending business

The money lending business segment generated interest income of approximately HK\$106,000 for the period ended 30 Jun 2014, representing a 91.6% decrease over the corresponding figure of approximately HK\$1,264,000 in the previous corresponding period. The decrease of the interest income is due to the more cautious approach taken by the management in the lending policy.

Directors' Interest in Securities

As at 30 June 2014, the directors or their associates have the following interest or short position in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code"):

Share — long position

The Company:

Name of director	Personal interests	Number of shares held			Total
		Family interests	Corporate interests	Other interests	
Mr. Li Zhixiong	293,670,000	43,430,000	—	—	337,100,000
Mr. Yiu Kwok Ming, Tommy	51,812	—	—	—	51,812

Interest in underlying share

The directors of the company have been granted options under the Company's share option scheme, details of which are set out in note 18 to the condensed consolidated interim financial statements.

Save as disclosed above and note 18 to the interim financial statements, at no time during the period had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any right to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders and other persons interests in shares and underlying shares

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register are required to be kept by the Company pursuant to Section 336 of the SFO. As at 30 June 2014, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company:

Share — long position

The Company:

Name		Number of underlying shares interested	Percentage of issued share capital at 30 June 2014
Wu Guanwen	Beneficial owner	43,430,000	1.57%
	Held by spouse (Note 1)	293,670,000	10.62%

Interest in underlying shares

Name		Number of underlying shares interested	Percentage of issued share capital at 30 June 2014
Noble Wonderland Limited	Beneficial owner (Note 2)	533,333,333 (Note 3)	19.28%

Notes:

- Ms. Wu Guanwen is the spouse of Mr. Li Zhixiong, whose interest was disclosed in previous section.
- Noble Wonderland Limited is legally and beneficially owned as to 60% by Mr. Chen Yaxing and 40% by Mr. Cai Zhisen. As at 30 June 2014, it held HK\$480,000,000 convertible bonds of the Company.
- The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the conversion price HK\$0.9 per share.

Liquidity and Financial Resources

At 30 June 2014, the Group had total assets of HK\$3,455,457,000 which were financed by total liabilities of HK\$1,209,551,000 and total equity of HK\$2,245,906,000. Accordingly, the Group's ratio of debts to total assets and debts to equity are 35% (31 December 2013: 30%) and 54% (31 December 2013: 44%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and bond issuance. As at 30 June 2014, the Group had cash on hand, bank deposits and bank balances for aggregate amount of about HK\$154,376,000 (of which about HK\$1,058,000 was pledged with banks for trade finance facilities for the Group) and unutilised banking facilities for a total amount of about HK\$20,564,000.

During the period under review, the Group issued the bonds with an aggregate principal amount of HK\$42,000,000. At 30 June 2014, the Group issued the bonds with an aggregate principal amount of HK\$265,000,000. The coupon rate of these bonds is ranged from 5% to 7.5% per annum with maturity date from September 2015 to December 2021.

Capital Structure

There was no change in the capital structure of the company during the period under review.

PLEDGE OF ASSETS

As at 30 June 2014, the Group's bank deposits of approximately HK\$1,058,000 were pledged with banks for banking facilities of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRADING SCHEMES

As at 30 June 2014, the Group employed about 573 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the six months ended 2014 were approximately HK\$12,513,000. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 13 May 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Kassade Investment Limited at a consideration of HK\$100,000,000. The deal was completed on 11 July 2014. Upon the completion, the Group issued the promissory note in principal amount of HK\$100,000,000 as consideration and the principal amount of promissory note is subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. The Kassade Group will be principally engaged in manufacturing of floor tiles, various wood frames and other household wood products.

On 26 July 2013, Kingston Development Limited, a wholly-owned subsidiary of the Company entered into an agreement with the independent third party for the acquisition of the entire issued share capital of the Polar Sunshine Wood Holdings Company Limited and its subsidiary (the "Polar Sunshine Group") at a consideration of HK\$210,040,000. The deal was completed on 17 July 2014. Upon the completion, the Group issued the consideration share in sum of HK\$210,040,000 as consideration and the sum amount of consideration share is subject to the adjustment of the amount of profit guarantee for the relevant profit generated period. The Polar Sunshine Group will be principal engaged in trading of heating wooden household products and other basis materials for heating wooden household products.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

For the period under review, the company has complied with all the applicable code provisions in the code on Corporate Governance Practices and the CG code as set out in Appendix 14 of the Listing Rules during the period from 1 January 2014 to 30 June 2014, except for the deviation discussed below:

In respect of Code Provision A6.7 of the CG code, Mr. Yiu Kwok Ming, Tommy, the non-executive director, was unable to attend the annual general meeting of the Company held on 30 June 2014 (the "AGM") due to other crucial business commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its Listed Securities during the six months ended 30 June 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the six months ended 30 June 2014.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Dr. Loke Yu (Chairman of the Committee), Mr. To Yan Ming, Edmond and one executive director, namely Dr. Kaneko Hiroshi (re-designated from an independent non-executive director and appointed as CEO on 7 May 2014). The Audit Committee has reviewed the Unaudited Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2014. The Audit Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

REMUNERATION COMMITTEE

The Remuneration Committee is established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises two independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Committee) and Mr. Lin Xuebin (appointed on 7 May 2014) and one executive director, namely Dr. Kaneko Hiroshi (re-designated as executive director and appointed as CEO on 7 May 2014). The Remuneration Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

NOMINATION COMMITTEE

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Nomination Committee identifies individuals suitably qualified to become or continue to be the Board members by taking into considerations criteria like expertise, experience and commitment and makes recommendations to the Board on the selection of individuals nominated for directorship. The Committee currently comprises two independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Committee), and Dr. Loke Yu and one executive director, namely Dr. Kaneko Hiroshi (re-designated from independent non-executive director and appointed as CEO on 7 May 2014). The Nomination committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

MEMBERS OF THE BOARD

Executive Directors:

Dr. Kaneko Hiroshi (*re-designated as executive director and appointed as CEO on 7 May 2014*)

Mr. Wong Man Pan (*resigned on 30 April 2014*)

Mr. Li Zhixiong

Mr. Fu Zhenjun

Mr. Kuang Yuanwei

Non-executive Directors:

Mr. Xie Jianming

Mr. Zhu Qi

Mr. Yiu Kwok Ming, Tommy (*retired on 30 June 2014*)

Independent Non-executive Directors:

Mr. To Yan Ming, Edmond

Dr. Loke Yu

Mr. Lin Xuebin