



SUNLINK INTERNATIONAL HOLDINGS LIMITED
科浪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2336)

INTERIM REPORT

2 0 1 4

* For identification purpose only

Contents

Corporate Information	3
Management Discussion and Outlook	4
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Condensed Consolidated Statement of Financial Position	9
Condensed Consolidated Statement of Changes in Equity	10
Condensed Consolidated Statement of Cash Flows	11
Notes to the Condensed Consolidated Interim Financial Statements	12
Other Information	24

Abbreviations

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

“associate(s)”	has the same meaning ascribed to it under the SFO
“Board”	the Board of Directors of the Company
“Company”	Sunlink International Holdings Limited
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” and “cents”	Hong Kong dollars and cents
“%”	per cent.

Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Mr. Feng Hailiang (馮海良先生) (*Chairman*)

Executive Directors

Mr. Cao Jianguo (曹建國先生)
(*Chief Executive Officer*)

Mr. Zhou Diyong (周迪永先生)

Ms. Ji Danyang (季丹陽女士)

Independent Non-executive Directors

Mr. Chang Tat Joel

Mr. Ho Gilbert Chi Hang

Mr. Tsui Kun Lam Ivan

AUDIT COMMITTEE

Mr. Chang Tat Joel (*Chairman*)

Mr. Ho Gilbert Chi Hang

Mr. Tsui Kun Lam Ivan

REMUNERATION COMMITTEE

Mr. Ho Gilbert Chi Hang (*Chairman*)

Mr. Zhou Diyong (周迪永先生)

Ms. Ji Danyang (季丹陽女士)

Mr. Chang Tat Joel

Mr. Tsui Kun Lam Ivan

NOMINATION COMMITTEE

Mr. Tsui Kun Lam Ivan (*Chairman*)

Mr. Feng Hailiang (馮海良先生)

Mr. Cao Jianguo (曹建國先生)

Mr. Chang Tat Joel

Mr. Ho Gilbert Chi Hang

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

AUDITOR

ZHONGHUI ANDA CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITES

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

Management Discussion and Outlook

OPERATIONS REVIEW

For the six months ended 30 June 2014, the Group continued to engage in the sale of semiconductors and related products as well as the development and provision of electronic turnkey device solution products. The Group reported a turnover of HK\$44,534,000, showing a 63% decrease from the previous period (30 June 2013: HK\$120,800,000) and gross profit of HK\$2,265,000, representing a 61% drop from the prior period (30 June 2013: HK\$5,749,000). The declines in the Group's turnover and gross profit were mainly due to the increased competition in the electronic industry and the slowdown of economic growth in the Mainland.

During the period under review, the revenue and segment profit of the Group's semiconductors and related products operation decreased by 73% to HK\$27,398,000 (30 June 2013: HK\$99,635,000) and 42% to HK\$469,000 (30 June 2013: HK\$806,000) respectively that were mainly due to the drop in sales of standardised semiconductor and related products. The operation principally performs a supply and procurement function of standardised semiconductors and related products for its customers mainly for applications in computer, consumer electronic and telecommunication products. During the review period, primarily due to the increased competition in the electronic industry and the slowdown of economic growth in the Mainland that negatively affected the electronic industry in general, the volume, price and profit margin of semiconductor products traded by the operation have all been going downtrend which led to the declines in revenue and profitability of the operation.

The revenue of the development and provision of electronic turnkey device solutions operation was HK\$17,136,000 (30 June 2013: HK\$21,165,000), decreased by 19% compared to the previous period and with its segment loss increased to HK\$1,074,000 (30 June 2013: HK\$267,000). The results of the operation comprise mainly the results of its 50.21% owned subsidiary in the PRC which is principally engaged in the manufacturing and sale of microcontrollers for home electrical appliances. During the review period, the slowdown of the Mainland economy had to a certain extent led to the drop in purchase orders from manufacturers of home electrical appliances which in turn caused the decline in sales of the subsidiary. Such decline in sales had also led to the increase in loss of the operation comparing to the previous period.

The Group reported loss for the period of HK\$3,850,000 in contrast to the profit of HK\$1,551,000 in the prior period. An other comprehensive expense of HK\$218,000 being exchange loss (30 June 2013: other comprehensive income being exchange gain of HK\$645,000) arising on translating foreign operations was recognised with the result that the Group recorded total comprehensive expenses for the period of HK\$4,068,000 compared to total comprehensive income of HK\$2,196,000 in the previous period. The loss attributable to owners of the Company was HK\$3,300,000 for the period under review compared to the profit of HK\$1,646,000 in the prior period; whereas basic loss per share was HK0.31 cent compared to basic earnings per share of HK0.15 cent in the previous period. The turnaround of the Group's results was mainly the combined effect of the decrease in segment profit earned by the semiconductors and related products operation and the increase in segment loss incurred by the development and provision of electronic turnkey device solutions operation.

Management Discussion and Outlook

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the Group had current assets of HK\$195,624,000 (31 December 2013: HK\$203,403,000) comprising bank and cash balances of HK\$140,240,000 (31 December 2013: HK\$121,163,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$35,143,000 (31 December 2013: HK\$39,635,000), remained at a healthy level of 5.57 times (31 December 2013: 5.13) at the period end. The Group's trade and bill receivables amounted to HK\$15,131,000 and dropped by 59% from the last year (31 December 2013: HK\$36,475,000) primarily due to slowdown of the Group's businesses.

During the current period, creditors convertible bonds in the aggregate principal amount of HK\$313,000 were converted into approximately 1,567,000 ordinary shares of the Company and creditors convertible bonds in the aggregate principal amount of HK\$2,965,000 were redeemed by the Company. At 30 June 2014, no creditors convertible bonds were outstanding (31 December 2013: HK\$3,265,000).

At the period end, the Group's equity attributable to owners of the Company decreased by HK\$3,117,000 to HK\$153,071,000 (31 December 2013: HK\$156,188,000). The decrease in equity attributable to owners of the Company was mainly due to the total comprehensive expenses incurred by the Group during the current period.

The Group's gearing ratio represented its total borrowings over the sum of equity attributable to owners of the Company and total borrowings of the Group. At the period end, the Group had no borrowings. As at 31 December 2013, the Group's borrowings comprised creditors convertible bonds at the carrying value of HK\$3,265,000 and the Group's equity attributable to owners of the Company stood at HK\$156,188,000, the Group's gearing ratio was therefore at a low level of about 2%.

On 23 February 2012, the Company completed an open offer and a share subscription the details of which were set out in the circular of the Company dated 3 February 2012 (the "Circular"). The aggregate gross proceeds from the open offer and the share subscription totalling approximately HK\$187,296,000 were used as follows: (i) HK\$43,000,000 as cash settlement to creditors with admitted claims under a scheme of arrangement with the Company in February 2012; (ii) approximately HK\$22,000,000 were used as restructuring costs (as referred to the Circular); (iii) HK\$28,000,000 were used to repay the loans from the former controlling shareholder of the Company; (iv) approximately HK\$1,225,000 were used to settled the expenses for the open offer and the share subscription mentioned above; and (v) the balance of approximately HK\$93,071,000 were used as working capital of the Group.

Management Discussion and Outlook

FINANCIAL REVIEW (continued)

Foreign Currency Management

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

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2014 (31 December 2013: nil).

Pledge of Assets

The Group had no significant assets under pledge as at 30 June 2014 (31 December 2013: nil).

Lease Commitments

As at 30 June 2014, the Group had operating lease commitments in respects of rentals for its offices and factory premises of HK\$5,233,000 (31 December 2013: HK\$5,726,000).

Capital Commitments

As at 30 June 2014, the Group had no material capital commitments (31 December 2013: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 140 employees including directors (30 June 2013: approximately 160). Total staff costs for the period, including directors' remuneration, was HK\$4,728,000 (30 June 2013: HK\$4,907,000). During the period, the Group remunerated its employees based on their performance, experience and prevailing market rate. Benefits plans provided by the Group include provident fund scheme, medical insurance, subsidised training programme, share option scheme and discretionary bonuses.

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

Management Discussion and Outlook

PROSPECTS

The Group has been managing its existing businesses prudently in view of the slowdown of economic growth in the Mainland which has posed negative impact on the electronic industry in general. In fact, the business environment in which the Group is operating has become increasingly competitive and profit margin is getting slim. As announced by the Company previously, the Board of the Company is now chaired by Mr. Feng Hailiang and under the leadership of the newly appointed directors in May 2014. The Board is now reviewing the operations of the Group and considering new business opportunities that can add significant value and bring long-term prosperity to the Group. At present, the Board is considering some property projects in Sydney, Australia with good development potential although concrete arrangements have not been finalized. Further announcements will be made by the Board in accordance with the Listing Rules if such projects materialize. It is the intention of the Board that long-term business plan and strategy for the Group will be formulated in light of the Group's existing businesses and new business opportunities with the view to enhance growth potential of the Group and return to shareholders.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3 & 4	44,534	120,800
Cost of sales		(42,269)	(115,051)
Gross profit		2,265	5,749
Other income	5	519	2,115
Selling and distribution expenses		(750)	(1,917)
Administrative expenses		(5,840)	(4,187)
(Loss)/profit from operations		(3,806)	1,760
Finance cost	6	(1)	(259)
(Loss)/profit before tax	7	(3,807)	1,501
Income tax (expense)/credit	8	(43)	50
(Loss)/profit for the period		(3,850)	1,551
Other comprehensive (expenses)/income for the period, net of tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(218)	645
Total comprehensive (expenses)/income for the period		(4,068)	2,196
(Loss)/profit for the period attributable to:			
Owners of the Company		(3,300)	1,646
Non-controlling interests		(550)	(95)
		(3,850)	1,551
Total comprehensive (expenses)/income for the period attributable to:			
Owners of the Company		(3,417)	1,992
Non-controlling interests		(651)	204
		(4,068)	2,196
(Loss)/earnings per share	10		
Basic (HK cent per share)		(0.31)	0.15
Diluted (HK cent per share)		(0.31)	0.15

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Non-current asset			
Property, plant and equipment	11	5,359	5,842
Current assets			
Inventories		36,426	41,683
Trade and bill receivables	12	15,131	36,475
Prepayments, deposits and other receivables		2,413	2,830
Current tax assets		1,414	1,252
Bank and cash balances		140,240	121,163
		195,624	203,403
Current liabilities			
Trade payables	13	31,596	31,501
Accruals, other payables and deposits received		1,701	4,567
Creditors convertible bonds	14	–	3,265
Due to a non-controlling shareholder of a subsidiary		1,846	302
		35,143	39,635
Net current assets		160,481	163,768
Total assets less current liabilities		165,840	169,610
Non-current liability			
Deferred tax liabilities		–	2
NET ASSETS		165,840	169,608
Capital and reserves			
Share capital	15	10,741	10,725
Reserves		142,330	145,463
Equity attributable to owners of the Company		153,071	156,188
Non-controlling interests		12,769	13,420
TOTAL EQUITY		165,840	169,608

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the Company									
	Notes	Share capital	Share premium	Creditors convertible bonds reserve	Statutory reserve	Foreign currency translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2013		10,697	184,306	1,055	89	278	(41,488)	154,937	13,623	168,560
Total comprehensive income for the period		-	-	-	-	346	1,646	1,992	204	2,196
Conversion of creditors convertible bonds	14	28	559	(74)	-	-	-	513	-	513
Transaction costs related to conversion of creditors convertible bonds		-	(6)	-	-	-	-	(6)	-	(6)
Redemption of creditors convertible bonds	14	-	-	(549)	-	-	240	(309)	-	(309)
Gain on deemed disposal of a subsidiary		-	-	-	-	-	6	6	(6)	-
Gain on equity transaction with a non-controlling shareholder of a subsidiary		-	-	-	-	-	156	156	(156)	-
At 30 June 2013		10,725	184,859	432	89	624	(39,440)	157,289	13,665	170,954
At 1 January 2014		10,725	184,859	432	89	820	(40,737)	156,188	13,420	169,608
Total comprehensive expenses for the period		-	-	-	-	(117)	(3,300)	(3,417)	(651)	(4,068)
Conversion of creditors convertible bonds	14	16	340	(41)	-	-	-	315	-	315
Redemption of creditors convertible bonds	14	-	-	(391)	-	-	376	(15)	-	(15)
At 30 June 2014		10,741	185,199	-	89	703	(43,661)	153,071	12,769	165,840

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash generated from operating activities	22,061	5,548
Net cash generated from investing activities	184	886
Net cash used in financing activities	(2,993)	(4,170)
Net increase in cash and cash equivalents	19,252	2,264
Effect of foreign exchange rates changes, net	(175)	529
Cash and cash equivalents at the beginning of the period	121,163	81,918
Cash and cash equivalents at the end of the period	140,240	84,711
Analysis of cash and cash equivalents		
Bank and cash balances	140,240	84,711

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Listing Rules on the Stock Exchange.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2013.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair values, and are presented in Hong Kong dollars ("HK\$") which is the functional currency of the Company.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards; HKASs; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

3. SEGMENT INFORMATION

The Group has two reportable segments as follows:

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

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

3. SEGMENT INFORMATION (continued)

The accounting policies of the operating segments are the same as those adopted in the consolidated financial statements of the Company for the year ended 31 December 2013. Segment profits or losses do not include intercompanies income and expenses, unallocated corporate other income, unallocated corporate expenses, finance cost and income tax expense and credit. Segment assets do not include intercompanies assets and unallocated corporate assets.

Information about reportable segment profit or loss and assets:

	Sale of semiconductors and related products		Development and provision of electronic turnkey device solutions		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue from external customers	27,398	99,635	17,136	21,165	44,534	120,800
Segment profit/(loss)	469	806	(1,074)	(267)	(605)	539
Depreciation	16	16	453	426	469	442
Capital expenditure	-	11	29	879	29	890

	Sale of semiconductors and related products		Development and provision of electronic turnkey device solutions		Total	
	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
	Segment assets	105,079	152,397	42,757	56,123	147,836

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

3. SEGMENT INFORMATION (continued)

Reconciliation of reportable segment profit or loss is as follows:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit or loss		
Total (loss)/profit of reportable segments	(605)	539
Unallocated amounts:		
Unallocated corporate other income	1	1,863
Unallocated corporate expenses	(3,202)	(642)
(Loss)/profit from operations	(3,806)	1,760
Finance cost	(1)	(259)
(Loss)/profit before tax	(3,807)	1,501

4. TURNOVER

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
The Group's turnover is as follows:		
Sale of semiconductors and related products	27,398	99,635
Development and provision of electronic turnkey device solution products	17,136	21,165
	44,534	120,800

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

5. OTHER INCOME

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
The Group's other income is as follows:		
Bank interest income	213	213
Interest income from short-term loans receivable	–	1,645
Sundry income	306	257
	519	2,115

6. FINANCE COST

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest expenses on creditors convertible bonds	1	259

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

7. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Staff costs including directors' remuneration		
Salaries, bonus and allowances	4,536	4,734
Retirement benefits scheme contributions	192	173
	4,728	4,907
Cost of inventories sold	42,254	114,915
Depreciation of property, plant and equipment	469	442
Operating lease charges on land and buildings	1,025	1,129

Cost of inventories sold included staff costs, depreciation and operating lease charges totalling approximately HK\$3,103,000 (six months ended 30 June 2013: HK\$3,182,000) which are included in the amounts disclosed separately above.

8. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax – Hong Kong Profits Tax provided for the period	45	47
Deferred tax	(2)	(97)
	43	(50)

Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 30 June 2013: 16.5%) on the estimated assessable profit for the six months ended 30 June 2014.

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

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
(Loss)/earnings:		
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	(3,300)	1,646
Finance cost saving on conversion of creditors convertible bonds outstanding	1	259
Deferred tax relating to creditors convertible bonds	(2)	(97)
(Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share	(3,301)	1,808

	Six months ended 30 June	
	2014 '000 (Unaudited)	2013 '000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	1,073,615	1,071,690
Effect of dilutive potential ordinary shares arising from creditors convertible bonds outstanding	4,800	38,027
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	1,078,415	1,109,717

Basic and diluted loss per share for the six months ended 30 June 2014 were the same because conversion of creditors convertible bonds would decrease the loss per share, therefore, is anti-dilutive.

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired property, plant and equipment of approximately HK\$29,000 (six months ended 30 June 2013: HK\$890,000).

12. TRADE AND BILL RECEIVABLES

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

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
30 days or less	3,350	20,822
31 days to 60 days	3,903	11,628
61 days to 90 days	1,147	1,577
91 days to 120 days	1,802	882
Over 120 days	4,929	1,566
	15,131	36,475

The balance of trade and bill receivables included an amount of approximately HK\$1,198,000 (31 December 2013: HK\$3,136,000) in relation to bill receivables as at 30 June 2014.

As at 30 June 2014, trade and bill receivables of approximately HK\$4,929,000 (31 December 2013: HK\$1,566,000) were past due but not impaired. These related to a number of independent customers with no recent history of default. The aging analysis of these trade receivables is as follows:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Over 120 days	4,929	1,566

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

13. TRADE PAYABLES

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
30 days or less	11,534	25,527
31 days to 60 days	2,017	3,137
61 days to 90 days	9,591	1,143
91 days to 120 days	633	731
Over 120 days	7,821	963
	31,596	31,501

14. CREDITORS CONVERTIBLE BONDS

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

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

In March 2013, certain creditors convertible bond holders had exercised their conversion options and converted creditors convertible bonds in the aggregate principal amount of approximately HK\$558,000 into approximately 2,790,000 ordinary shares of the Company, whereas in March and May 2013, certain creditors convertible bonds in the aggregate principal amount of approximately HK\$4,164,000 were redeemed by the Company with the consideration paid being allocated to the liability and equity components of such creditors convertible bonds as to approximately HK\$3,506,000 (excluding the gain on redemption of the creditors convertible bonds of approximately HK\$349,000) and HK\$658,000 (before net-off deferred tax liability of approximately HK\$109,000) respectively by using the same method as adopted on initial recognition of such creditors convertible bonds. The amount of consideration allocated to the equity component of such creditors convertible bonds was recognised in equity. As at 31 December 2013, the aggregate principal amount of creditors convertible bonds outstanding was approximately HK\$3,278,000.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

14. CREDITORS CONVERTIBLE BONDS (continued)

During the period ended 30 June 2014, creditors convertible bonds in the aggregate principal amount of approximately HK\$313,000 were converted into approximately 1,567,000 ordinary shares of the Company and creditors convertible bonds in the aggregate principal amount of approximately HK\$2,965,000 were redeemed by the Company with the consideration paid being allocated to the liability and equity components of such creditors convertible bonds as to approximately HK\$2,497,000 (excluding the gain on redemption of the creditors convertible bonds of approximately HK\$450,000) and HK\$468,000 (before net-off deferred tax liability of approximately HK\$77,000) respectively by using the same method as adopted on initial recognition of such creditors convertible bonds. The amount of consideration allocated to the equity component of such creditors convertible bonds was recognised in equity. As at 30 June 2014, all creditors convertible bonds were fully redeemed or converted.

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

	HK\$'000 (Unaudited)
Liability component at 1 January 2013	7,246
Interest charged for the year ended 31 December 2013 calculated at an effective interest rate of 10.12% per annum	430
Interest payable for the year ended 31 December 2013	(43)
Conversion of creditors convertible bonds during the year ended 31 December 2013	(513)
Redemption of creditors convertible bonds during the year ended 31 December 2013	(3,855)
Liability component at 31 December 2013 and 1 January 2014	3,265
Interest charged for the six months ended 30 June 2014 calculated at an effective interest rate of 10.12% per annum (<i>note 6</i>)	1
Interest payable for the six months ended 30 June 2014	(4)
Conversion of creditors convertible bonds during the period ended 30 June 2014	(315)
Redemption of creditors convertible bonds during the period ended 30 June 2014	(2,947)
Liability component at 30 June 2014	–

As at 31 December 2013, the carrying amount of the creditors convertible bonds was approximate to their fair values. The fair values had been determined by using discounted cash flow method at the market interest rate.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

15. SHARE CAPITAL

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid: 1,074,073,845 ordinary shares of HK\$0.01 each (31 December 2013: 1,072,507,275 ordinary shares of HK\$0.01 each)	<u>10,741</u>	<u>10,725</u>

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

	Number of shares issued '000	Share Capital HK\$'000
At 1 January 2014	1,072,507	10,725
Issue of shares upon conversion of creditors convertible bonds (<i>note</i>)	<u>1,567</u>	<u>16</u>
At 30 June 2014	<u>1,074,074</u>	<u>10,741</u>

Note: During the six months ended 30 June 2014, creditors convertible bonds in the aggregate principal amount of approximately HK\$313,000 were converted into approximately 1,567,000 ordinary shares of the Company at a conversion price of HK\$0.2 per share.

16. CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: nil).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

17. PLEDGE OF ASSETS

As at 30 June 2014, the Group did not have significant assets under pledge (31 December 2013: nil).

18. LEASE COMMITMENTS

The Group as lessee

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Within one year	1,316	1,305
In the second to fifth years inclusive	3,917	4,421
	5,233	5,726

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

19. CAPITAL COMMITMENT

As at 30 June 2014, the Group had no material capital commitments (31 December 2013: nil).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2014

20. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Compensation of key management personnel		
Short-term benefits	515	606
Post-employment benefits	19	23
	534	629
Operating lease charges on office premises to a related company in which two former directors of the Company have significant influence	293	390

During the six months ended 30 June 2014, the Group purchased raw materials from a non-controlling shareholder of a subsidiary totalling approximately HK\$118,000 (six months ended 30 June 2013: HK\$321,000) which are considered as continuing connected transactions under the Listing Rules.

21. EVENTS AFTER THE REPORTING PERIOD

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

22. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements are approved and authorised for issue by the Board on 29 August 2014.

Other Information

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long positions in the shares of the Company:

Name of director	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Feng Hailiang (馮海良先生) ("Mr. Feng")	Interest of controlled corporation	832,804,866 (Note)	77.54%

Note: These shares were held by Rich Pro Investments Limited ("Rich Pro"), which was a wholly-owned subsidiary of Hailiang Group Co., Ltd. (海亮集團有限公司) ("Hailiang Group") which in turn was owned as to approximately 98.29% by Mr. Feng and Mr. Feng's associates. Accordingly, Mr. Feng was deemed to be interested in 832,804,866 shares of the Company under the SFO.

literal translation of the Chinese company name

Save as disclosed above, as at 30 June 2014, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

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

Other Information

SHARE OPTION SCHEME (continued)

No share options were granted or exercised during the six months ended 30 June 2014 and 2013 and no share options were outstanding as at 30 June 2014 and 2013.

Further details of the Share Option Scheme are set out in the Company's 2013 Annual Report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" above, at no time during the six months ended 30 June 2014 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2014, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Feng	Interest of controlled corporation	832,804,866 (Note)	77.54%
Shanghai Weize Investment Holdings Limited# (上海維澤投資控股有限公司) ("Shanghai Weize")	Interest of controlled corporation	832,804,866 (Note)	77.54%
Hailiang Group	Interest of controlled corporation	832,804,866 (Note)	77.54%
Rich Pro	Beneficial owner	832,804,866 (Note)	77.54%

Note: These shares were held by Rich Pro, which was a wholly-owned subsidiary of Hailiang Group which in turn was owned as to approximately 98.29% by Mr. Feng and Mr. Feng's associates (including Shanghai Weize which owned 40.26% equity interest in Hailiang Group). Accordingly, Mr. Feng, Shanghai Weize and Hailiang Group were deemed to be interested in 832,804,866 shares of the Company under the SFO.

literal translation of the Chinese company name

Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

The interests of Mr. Feng, Shanghai Weize, Hailiang Group and Rich Pro in 832,804,866 shares of the Company referred to in the note above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 30 June 2014 as required pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014 except for the following deviations with reasons as explained:

Code Provision A.2.1

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Deviation

Prior to 3 June 2014, the Company segregates the role of chairman and the chief executive. Mr. Sue Ka Lok was the Chairman of the Board until his resignation on 3 June 2014 and Mr. Lai Ming Wai was the Chief Executive Officer until his resignation on 3 June 2014. On 3 June 2014, Mr. Feng Hailiang (馮海良先生), a Non-executive Director of the Company, has been appointed as the Chairman of the Company but the Company has not appointed a chief executive since 3 June 2014. Since then, the role and functions of chief executive have been performed by all the executive directors of the Company collectively. However, the aforesaid deviation was rectified and code provision A.2.1 has been complied with commencing from 29 August 2014 as Mr. Cao Jianguo (曹建國先生), an Executive Director of the Company, has been appointed as the Chief Executive Officer of the Company with effect from 29 August 2014.

Code Provision A.4.1

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Other Information

CORPORATE GOVERNANCE (continued)

Deviation

There has been a deviation from the code provision since the appointment of the existing independent non-executive directors of the Company on 12 May 2014 (the "INEDs"). The INEDs are not appointed for a specific term but shall retire from office by rotation at least once every three years as referred to in Article 87 of the Articles of Association of the Company which provides that at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. However, the aforesaid deviation was rectified and code provision A.4.1 has been complied with commencing from 29 August 2014 as the Company has entered into service contracts with each of the independent non-executive directors and the non-executive director of the Company as at 29 August 2014 and the service contracts set out the term of service of each of the independent non-executive directors and the non-executive director be fixed at a term of three years but subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Code Provision A.6.7

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

Deviation

Three INEDs were unable to attend the annual general meeting of the Company held on 30 June 2014 (the "AGM") as they had other important business engagements. However, there were three executive directors and one non-executive director of the Company present at the AGM to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

Code Provision D.1.4

Code provision D.1.4 of the CG Code stipulates that the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

Deviation

There has been a deviation as the Company has not entered into any letters of appointment with the existing directors of the Company since their respective appointment on 12 May 2014. However, the aforesaid deviation was rectified and code provision D.1.4 has been complied with commencing from 29 August 2014 as the Company has entered into service contracts with each of the directors of the Company on 29 August 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the Directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2014.

Other Information

UPDATE ON DIRECTORS' INFORMATION

The following is updated information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. There is a service contract entered into between the Company and Mr. Cao Jianguo (曹建國) ("Mr. Cao"), an Executive Director and the Chief Executive Officer of the Company on 29 August 2014. According to the service contract, Mr. Cao's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Cao will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Cao is entitled to receive a director's remuneration of HK\$520,000 per annum (pro-rata adjusted for any period shorter than a year). The director's remuneration of Mr. Cao has been approved by the Remuneration Committee of the Company.
2. There is a service contract entered into between the Company and Mr. Zhou Diyong (周迪永) ("Mr. Zhou"), an Executive Director of the Company on 29 August 2014. According to the service contract, Mr. Zhou's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Zhou will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Zhou is entitled to receive a director's remuneration of HK\$195,000 per annum (pro-rata adjusted for any period shorter than a year). The director's remuneration of Mr. Zhou has been approved by the Remuneration Committee of the Company.
3. There is a service contract entered into between the Company and Ms. Ji Danyang (季丹陽) ("Ms. Ji"), an Executive Director of the Company on 29 August 2014. According to the service contract, Ms. Ji's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Ms. Ji will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Ms. Ji is entitled to receive a director's remuneration of HK\$195,000 per annum (pro-rata adjusted for any period shorter than a year). The director's remuneration of Ms. Ji has been approved by the Remuneration Committee of the Company.
4. There is a service contract entered into between the Company and Mr. Feng Hailiang (馮海良) ("Mr. Feng"), a Non-executive Director of the Company and the Chairman of the Board on 29 August 2014. According to the service contract, Mr. Feng's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Feng will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Feng is entitled to receive a director's fee of HK\$650,000 per annum (pro-rata adjusted for any period shorter than a year). The director's fee of Mr. Feng has been recommended by the Remuneration Committee of the Company and approved by the Board.

Other Information

UPDATE ON DIRECTORS' INFORMATION (continued)

5. There is a service contract entered into between the Company and Mr. Chang Tat Joel ("Mr. Chang"), an Independent Non-executive Director of the Company on 29 August 2014. According to the service contract, Mr. Chang's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Chang will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Chang is entitled to receive a director's fee of HK\$100,000 per annum (pro-rata adjusted for any period shorter than a year). The director's fee of Mr. Chang has been recommended by the Remuneration Committee of the Company and approved by the Board.
6. There is a service contract entered into between the Company and Mr. Ho Gilbert Chi Hang ("Mr. Ho"), an Independent Non-executive Director of the Company on 29 August 2014. According to the service contract, Mr. Ho's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Ho will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Ho is entitled to receive a director's fee of HK\$100,000 per annum (pro-rata adjusted for any period shorter than a year). The director's fee of Mr. Ho has been recommended by the Remuneration Committee of the Company and approved by the Board.
7. There is a service contract entered into between the Company and Mr. Tsui Kun Lam Ivan ("Mr. Tsui"), an Independent Non-executive Director of the Company on 29 August 2014. According to the service contract, Mr. Tsui's term of service is fixed at a term of three years period unless and until terminated by either party by giving to the other three months' prior notice in writing. The directorship of Mr. Tsui will be subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. Mr. Tsui is entitled to receive a director's fee of HK\$100,000 per annum (pro-rata adjusted for any period shorter than a year). The director's fee of Mr. Tsui has been recommended by the Remuneration Committee of the Company and approved by the Board.

Other Information

AUDIT COMMITTEE

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2014 have not been audited, but have been reviewed by the Audit Committee of the Company and are duly approved by the Board under the recommendation of the Audit Committee.

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board

Feng Hailiang (馮海良)

Chairman

Hong Kong, 29 August 2014