



泰豐國際集團有限公司*

Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

Interim Report

2015

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Lam Yat Keung (*President*)
Mr. Huang Hanshui
Mr. Wang Zhaofeng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Ms. Liu Yanfang
Professor Ma Hongwei

AUDIT COMMITTEE

Mr. Ho Chi Fai (*Chairman*)
Ms. Liu Yanfang
Professor Ma Hongwei

REMUNERATION COMMITTEE

Professor Ma Hongwei (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

NOMINATION COMMITTEE

Ms. Liu Yanfang (*Chairman*)
Mr. Wang Zhaofeng
Professor Ma Hongwei

INVESTMENT COMMITTEE

Professor Ma Hongwei (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

COMPANY SECRETARY

Ms. Tsang Man Sze

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Times Media Centre
133 Wan Chai Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
PO Box HM1022
Hamilton HM DX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.irasia.com/listco/hk/sinotech

The board (the “Board”) of directors (the “Directors”) of Sino-Tech International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2015, together with the comparative figures for the corresponding period and selected explanatory notes as set out below.

Results Overview

During the six months ended 30 June 2015 (the “Reporting Period”), the Group reported revenue of approximately HK\$258.9 million, representing a decrease of 15.1% as compared with approximately HK\$304.8 million for the six months ended 30 June 2014 (the “Corresponding Period”).

Profit for the Reporting Period was approximately HK\$8.1 million as compared with the loss of approximately HK\$16.0 million in the Corresponding Period. The turnaround from loss to profit was mainly due to the gain on modification of terms of convertible notes, which more than offset the operating loss and the imputed interest expenses on convertible notes.

Other than the gain on modification of terms of convertible notes and the imputed interest expenses on convertible notes which arose as a result of accounting treatment under the provisions of the applicable accounting standards, the Group made a net loss of approximately HK\$13.4 million in the Reporting Period, as compared with a net loss of approximately HK\$5.3 million in the Corresponding Period.

Financial Highlights

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Revenue	258,908	304,835
Gross profit	15,269	18,975
Profit (Loss) for the period	8,114	(15,969)
Gain on modification of terms of convertible notes	27,821	–
Imputed interest expenses on convertible notes	(6,283)	(10,682)
Net loss for the period before gain on modification of terms of convertible notes and imputed interest expenses on convertible notes	(13,424)	(5,287)

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Against a backdrop of severe operating environment, the electronics products business reported a significant decrease of 15.1% in revenue to approximately HK\$258.9 million in the Reporting Period from approximately HK\$304.8 million in the Corresponding Period. A more gradual recovery in the global economy due to the continued growth slowdown in emerging markets and the transformation of economic structure in the People's Republic of China (the "PRC" or "China") together with the severe competition in the semiconductors industry affected the demand for the Group's electronic products. Despite the significant decrease in revenue during the Reporting Period, the Group imposed conservative and stringent costs controls over its product costs. As a result, the Group was able to maintain a relatively stable gross profit margin notwithstanding the fixed costs incurred as compared with the Corresponding Period.

On 9 January 2015, the ordinary resolution of the special general meeting was duly passed and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2014 ("2014 Annual Report"). Immediately following the modification of terms of convertible notes, as disclosed in the 2014 Annual Report and set out in note 13 to the condensed consolidated financial statements, the estimated financial effect of the modification was a recognition of gain of approximately HK\$27.8 million credited to profit or loss and a transfer of approximately HK\$35.3 million from the convertible notes reserve to accumulated losses during the Reporting Period.

During the Reporting Period, the convertible notes in the aggregate principal amount of HK\$42.0 million were converted into 1,199,999,998 new ordinary shares of HK\$0.01 each in the capital of the Company (the "Conversion"), as set out in note 14 to the condensed consolidated financial statements. Following the Conversion and as at 30 June 2015, the principal amount of convertible notes remained outstanding was HK\$260.4 million with a conversion price of HK\$0.035 per share and the maturity date is 31 December 2016. The Company is considering various alternatives to more permanently improve the Group's financial position. As at the date of this report, the winding-up of CITIC Logistics (International) Company Limited (in liquidation) ("CLI") is still in process. During the Reporting Period, the disposal of the entire 90% equity interest in CITIC Logistics Company Limited ("CLBJ") was completed, according to CLBJ and the liquidators of CLI.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity, Financial Resources and Capital Structure

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 30 June 2015, the Group had bank balances and cash of approximately HK\$45.3 million (31 December 2014: approximately HK\$45.1 million). The Group's current ratio (measured as total current assets to total current liabilities) was 5.7 times (31 December 2014: 1.0 time).

As at 30 June 2015, the Company had outstanding zero coupon convertible notes due on 31 December 2016 (the "Convertible Notes") in the aggregate principal amount of HK\$260.4 million (31 December 2014: HK\$302.4 million) with a conversion price of HK\$0.035 (31 December 2014: an initial conversion price of HK\$0.12) per share. During the Reporting Period, the Convertible Notes in the aggregate principal amount of HK\$42.0 million were converted into 1,199,999,998 new ordinary shares of HK\$0.01 each in the capital of the Company.

As at 30 June 2015, the Group had no outstanding bank borrowings (31 December 2014: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 30 June 2015 and 31 December 2014.

As at 30 June 2015, the Group had capital expenditure contracted for but not provided in the condensed consolidated financial statements of approximately HK\$791,000 in respect of acquisition of property, plant and equipment (31 December 2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Significant Investments

The Group did not have any significant investments during the Reporting Period.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

Charge on Group's Assets

As at 30 June 2015, the Group did not have any assets pledged (31 December 2014: nil).

Foreign Exchange Exposures

The Group mainly earns revenue and incurs costs in Hong Kong dollars, U.S. dollars and Renminbi ("RMB"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

Contingent Liabilities

Details of the contingent liabilities of the Group are set out in note 16 to the condensed consolidated financial statements.

Employee and Remuneration Policy

As at 30 June 2015, the Group had 866 (30 June 2014: 966) full time employees in Hong Kong and the PRC. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK\$13.3 million (six months ended 30 June 2014: approximately HK\$18.5 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme and the central provident scheme in the PRC, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Outlook

Reflecting a setback to activity in the first quarter of 2015 mostly in North America, the International Monetary Fund (the “IMF”) has cut its global economic growth forecast for 2015 by 0.2 percentage points to 3.3%, marginally lower than 3.4% in 2014. According to the IMF, the underlying drivers for a gradual acceleration in economic activity in advanced economies remain intact, including easy financial conditions, more neutral fiscal policy in the euro area, lower fuel prices, and improving confidence and market conditions. In emerging market economies, the continued growth slowdown reflects several factors including lower commodity prices, tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors. In 2016, global growth is projected to strengthen to 3.8%.

The IMF cautioned that disruptive asset price shifts and increased financial market volatility remain an important downside risk. According to a report dated 7 July 2015 in the Financial Times (the “FT”), the IMF reiterated its advice that the U.S. Federal Reserve (the “Fed”) should delay raising interest rates until next year, partly because of a risk that a rate increase would trigger another rise in dollar with destabilising consequences globally. The IMF warned that more gains by the dollar could leave the U.S. growth significantly debilitated and have repercussions across emerging markets. According to reports dated 29 and 30 July 2015 in the FT, the Fed has signaled that it remained on track to raise interest rates from near-zero levels in place since 2008, in part because of moderately expanding economic activity, but the central bank left its options open as to when to pull the trigger as the Fed awaits more evidence on the strength of the economic recovery.

The Chinese economy expanded by 7% in the second quarter of 2015, unchanged from the first quarter and in line with the official target of around 7% for 2015. The steady growth followed four cuts in benchmark interest rates from November 2014 to June 2015 and repeatedly loosening of restrictions on bank lending. Downward pressure on the economy, however, will persist in the second half of the year as growth in infrastructure spending and exports is unlikely to pick up, according to a report dated 2 August 2015 in the South China Morning Post (the “SCMP”) quoted a senior central bank official as saying. A plunge in the country’s share markets since mid-June 2015 has added to worries about the economy, and reinforced expectations that policymakers will roll out more support measures in the coming months to avert a sharper slowdown.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Outlook *(Continued)*

According to a report dated 3 August 2015 in the SCMP, China's factory activity contracted by the most in two years as new orders fell, with the Caixin/Markit China Manufacturing Purchasing Manager's index dropping to 47.8 in July 2015, the lowest since July 2013, from 49.4 in June 2015. According to a report dated 8 August 2015 in the SCMP, China reported woeful trade figures for July 2015 with exports and imports down by 8.3% and 8.1% year-on-year, respectively. On the positive side, consumer inflation on the mainland reached 1.6% in July 2015, leaving room for Beijing to further cut interest rates or take other steps to stimulate slowing economic growth, according to a report dated 10 August 2015 in the SCMP. According to a report dated 15 July 2015 in the FT, economists broadly agree that China's economy is destined to slow further from the double-digit rates seen in the past decade, due to a shrinking labour force and declining gains from catch-up growth based on the transition from agriculture to industry. But policymakers want to ensure that the slowdown is gradual as they promote new growth engines such as consumption, services and technology. The IMF has maintained its forecast for China's economic growth at 6.8% for 2015 and 6.3% for 2016.

In the face of this backdrop, the operating environment for manufacturers in the PRC is likely to remain challenging and is expected to continue to have an impact on the performance of the Group's electronic products business in the second half of the year. Economic uncertainties, severe competition and sluggish demand for the Group's electronic products will continue to weaken the Group's profit for the second half of the year. In this regard, the Group will continuously pursue our efforts on cost controls in order to improve the performance rather than on growth in turnover.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2015, 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 any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in the shares and underlying shares of the Company:

Name of Directors	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Lam Yat Keung (Note 1)	Interest of family	400,000,000	3.04%
Mr. Huang Hanshui (Note 2)	Beneficial owner	86,827,895	0.66%

Notes:

1. Mr. Lam Yat Keung, an executive Director, is deemed interested in 400,000,000 shares owned by Smart Number Investments Limited ("Smart Number"). Smart Number is incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to 66.67% by Ms. Lam Pik Wah (the spouse of Mr. Lam Yat Keung) and as to 33.33% by Mr. Lam Min Wah (the brother-in-law of Mr. Lam Yat Keung). Subsequent to the Reporting Period, Smart Number disposed the remaining 400,000,000 shares.
2. Mr. Huang Hanshui, an executive Director, has a derivative interest in 86,827,895 shares pursuant to share options granted to him on 6 December 2010.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in the shares and underlying shares of the Company: *(Continued)*

Save as disclosed above, as at 30 June 2015, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2015, the register of substantial shareholders of the Company maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and chief executive of the Company, the following shareholders of the Company ("Shareholders") had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the shares and underlying shares of the Company:

Name of substantial Shareholders	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note 1)	Beneficial owner	9,182,985,823	69.74%
Smart Number (Note 2)	Beneficial owner	400,000,000	3.04%
Ms. Lam Pik Wah	Interest of controlled corporation	400,000,000	3.04%
Mr. Lam Min Wah	Interest of controlled corporation	400,000,000	3.04%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in the shares and underlying shares of the Company: *(Continued)*

Notes:

1. Mr. Li Weimin is interested in 9,182,985,823 shares, consisting of (i) an interest in 1,742,985,823 shares beneficially owned and held in his own name; and (ii) a derivative interest in 7,440,000,000 conversion shares to be allotted and issued upon full conversion of the Convertible Notes issued to him by the Company in the principal amount of HK\$260,400,000.
2. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms. Lam Pik Wah (the spouse of Mr. Lam Yat Keung) and as to 33.33% by Mr. Lam Min Wah (the brother-in-law of Mr. Lam Yat Keung). Subsequent to the Reporting Period, Smart Number disposed the remaining 400,000,000 shares.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2015.

SHARE OPTION SCHEME

On 8 June 2012, the Company adopted a new share option scheme (the "Scheme") under which the Board may, at its discretion, grant options to eligible participants under the Scheme. The Board is able to grant options under the Scheme carrying the right to subscribe for a maximum of 1,196,669,858 shares, representing 10% of the total number of shares in issue as at the date of the annual general meeting of the Company held on 8 June 2015.

SHARE OPTION SCHEME (Continued)

The following table discloses the movements of the Company's share options for the years ended 31 December 2013 and 2014, and the Reporting Period:

Participants	Date of grant	Exercise price per share	Number of share options				
			Outstanding at 1 January 2013 and 31 December 2013 '000	Lapsed during the year '000	Outstanding at 31 December 2014 '000	Lapsed during the period '000	Outstanding at 30 June 2015 '000
Directors							
Mr. Huang Hanshui	6 December 2010	HK\$0.305	86,828	-	86,828	-	86,828
Mr. Lim Chuan Yang	30 November 2011	HK\$0.098	113,142	(113,142)*	-	-	-
Employees (in aggregate)	30 November 2011	HK\$0.098	565,711	-	565,711	(565,711)	-
Customers, suppliers and other eligible persons (in aggregate)							
	6 December 2010	HK\$0.305	86,828	-	86,828	-	86,828
	30 November 2011	HK\$0.098	226,284	-	226,284	-	226,284
			<u>1,078,793</u>	<u>(113,142)</u>	<u>965,651</u>	<u>(565,711)</u>	<u>399,940</u>
Exercisable at the end of the Reporting Period							<u>399,940</u>
Weighted average exercise price			<u>HK\$0.131</u>	<u>HK\$0.098</u>	<u>HK\$0.135</u>	<u>HK\$0.098</u>	<u>HK\$0.188</u>

* The participant, Mr. Lim Chuan Yang ("Mr. Lim"), retired as an executive Director on 9 June 2014 and stepped down as the chief executive officer of the Company on 16 June 2014. Pursuant to the provisions of the Scheme, share options granted to Mr. Lim lapsed on 16 June 2014.

The share options outstanding at 30 June 2015 had an exercisable period of ten years from the date of grant.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has applied the principles of and complied with the code provisions (the “Code Provisions”) set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing of the Company’s strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

Moreover, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the “Bye-laws”) and the Listing Rules. Under the Bye-laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. This means a director’s specific term of appointment cannot exceed three years for a total of six Directors.

The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the “Audit Committee”) has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements for the Reporting Period.

The members of the Audit Committee are Mr. Ho Chi Fai (Chairman of the Audit Committee), Ms. Liu Yanfang and Professor Ma Hongwei, the independent non-executive Directors.

APPRECIATION

On behalf of the Board, I would like to thank all employees for their hard work and dedication as well as our Shareholders and business partners for their continued support.

On behalf of the Board
Sino-Tech International Holdings Limited
Lam Yat Keung
President

Hong Kong, 28 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
	Notes		
Revenue	3	258,908	304,835
Cost of sales		<u>(243,639)</u>	<u>(285,860)</u>
Gross profit		15,269	18,975
Other income		120	7,543
Gain on modification of terms of convertible notes	13	27,821	–
Distribution costs		(8,642)	(5,353)
Administrative expenses		(21,450)	(26,447)
Share of results of joint ventures		1,279	(5)
Finance costs	4	<u>(6,283)</u>	<u>(10,682)</u>
Profit (Loss) before taxation	5	8,114	(15,969)
Taxation	6	<u>–</u>	<u>–</u>
Profit (Loss) for the period attributable to owners of the Company		<u>8,114</u>	<u>(15,969)</u>
Earnings (Loss) per share (in Hong Kong cents)	8		
Basic and diluted		<u>0.067</u>	<u>(0.133)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Profit (Loss) for the period	<u>8,114</u>	<u>(15,969)</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations		
Exchange gain arising during the period	<u>16</u>	<u>38</u>
Other comprehensive income for the period	<u>16</u>	<u>38</u>
Total comprehensive income (expenses) for the period attributable to owners of the Company	<u>8,130</u>	<u>(15,931)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	27,377	28,687
Interests in joint ventures	10	6,262	4,984
Deposits paid for acquisition of property, plant and equipment		791	–
		34,430	33,671
Current assets			
Inventories		83,367	108,239
Trade and bills receivables	11	206,000	204,778
Prepayments, deposits and other receivables		2,031	2,699
Amount due from a joint venture		–	31
Amounts due from former subsidiaries		–	–
Tax recoverable		10,127	4,910
Deposits in other financial institutions		446	446
Bank balances and cash		45,259	45,097
		347,230	366,200
Current liabilities			
Trade and bills payables	12	43,163	47,547
Other payables and accruals		10,910	13,862
Amount due to a joint venture		2,535	–
Amounts due to former subsidiaries		4,417	4,417
Obligations under finance leases		2	4
Convertible notes	13	–	302,400
		61,027	368,230
Net current assets (liabilities)		286,203	(2,030)
Total assets less current liabilities		320,633	31,641

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Non-current liabilities			
Convertible notes	13	241,974	–
Employee benefits		143	143
		<u>242,117</u>	<u>143</u>
Net assets		<u>78,516</u>	<u>31,498</u>
Capital and reserves			
Share capital	14	131,667	119,667
Reserves		(53,151)	(88,169)
		<u>78,516</u>	<u>31,498</u>
Total equity		<u>78,516</u>	<u>31,498</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2015 (audited)	119,667	2,210,494	5,800	40,046	(33)	92,707	(2,437,183)	31,498
Profit for the period	-	-	-	-	-	-	8,114	8,114
Other comprehensive income for the period	-	-	-	-	16	-	-	16
Total comprehensive income for the period	-	-	-	-	16	-	8,114	8,130
Derecognition upon modification of terms of convertible notes	-	-	-	-	-	(92,707)	92,707	-
Recognition upon modification of terms of convertible notes	-	-	-	-	-	57,442	(57,442)	-
Issue of shares upon conversion of convertible notes	12,000	34,866	-	-	-	(7,978)	-	38,888
Share options lapsed	-	-	-	(18,378)	-	-	18,378	-
At 30 June 2015 (unaudited)	131,667	2,245,360	5,800	21,668	(17)	49,464	(2,375,426)	78,516

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014 (audited)	119,667	2,210,494	5,800	43,722	(55)	92,707	(2,400,425)	71,910
Loss for the period	-	-	-	-	-	-	(15,969)	(15,969)
Other comprehensive income for the period	-	-	-	-	38	-	-	38
Total comprehensive expenses for the period	-	-	-	-	38	-	(15,969)	(15,931)
Share options lapsed	-	-	-	(3,676)	-	-	3,676	-
At 30 June 2014 (unaudited)	119,667	2,210,494	5,800	40,046	(17)	92,707	(2,412,718)	55,979

Note: The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	3,388	(24,081)
Net cash (used in) from investing activities		
Repayment from a former subsidiary	–	6,662
Other investing cash flows	(3,229)	(4,315)
	(3,229)	2,347
Net cash used in financing activities		
Repayment to a former subsidiary	–	(2,948)
Other financing cash flows	(2)	(2)
	(2)	(2,950)
Net increase (decrease) in cash and cash equivalents	157	(24,684)
Cash and cash equivalents at beginning of the period	45,097	80,462
Effect of foreign exchange rate changes	5	60
Cash and cash equivalents at end of the period, representing bank balances and cash	45,259	55,838

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

The condensed consolidated 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 (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

The Group has not applied any new or revised HKFRSs that are not yet effective for the current interim period.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

3. REVENUE AND SEGMENT INFORMATION

As set out in the Company's annual report for the year ended 31 December 2014 (the "2014 Annual Report"), the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. Accordingly, the Group's continuing operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components.

4. FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Imputed interest expenses on convertible notes	6,283	10,682

5. PROFIT (LOSS) BEFORE TAXATION

Profit (Loss) before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Bank interest income	(3)	(5)
Depreciation of property, plant and equipment	6,433	13,265
Insurance compensation received	(11)	–
Net exchange loss	304	58
Net gain on disposals of property, plant and equipment	(106)	(204)
Impairment loss on trade receivables	1	–
Reversal of impairment loss on amount due from a former subsidiary	–	(6,662)
Reversal of impairment loss on other receivables	–	(14)
Write-offs of property, plant and equipment	2	9

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

6. TAXATION

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2015 and 2014 as the Group either has no assessable profits arising in Hong Kong or has sufficient tax losses brought forward from previous years to offset the estimated assessable profits for both reporting periods. The tax rate of Hong Kong Profits Tax is 16.5% (2014: 16.5%).

In 2013, the Hong Kong Inland Revenue Department (the “IRD”) enquired Hong Kong Profits Tax of a subsidiary of the Company in respect of the years of assessment 2006/07 to 2011/12 (the “Tax Enquiries”). As the assessment would be statutorily time-barred within 7 years from the beginning of the year of assessment which the assessment is related, during the six months ended 30 June 2014, a protective assessment of approximately HK\$2,395,000 in respect of the year of assessment 2007/08, was raised by the IRD on 18 March 2014. The subsidiary lodged an objection against the assessment and the IRD held over the payment of the profits tax and an equal amount of tax reserve certificates were purchased and recorded as tax recoverable as at 31 December 2014 and 30 June 2015 respectively.

During the six months ended 30 June 2015, in respect of the Tax Enquiries, as the assessment for the year of assessment 2008/09 would be statutorily time-barred by 31 March 2015, a protective assessment of approximately HK\$5,217,000 was raised by the IRD on 18 March 2015. The subsidiary lodged an objection against the assessment and the IRD had held over the payment of the profits tax and an equal amount of tax reserve certificate was purchased and recorded as tax recoverable as at 30 June 2015. As at the date of this report, no replies have been received from the IRD.

As at 30 June 2015, the aggregate amount of protective profits tax assessment issued by the IRD to the Group amounted to approximately HK\$9,167,000 (31 December 2014: approximately HK\$3,950,000).

Under the Law of the People’s Republic of China (the “PRC”) on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% for the six months ended 30 June 2015 and 2014. No provision for the Enterprise Income Tax have been made for the six months ended 30 June 2015 and 2014 as the subsidiary of the Company has no assessable profits.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the period attributable to owners of the Company of approximately HK\$8,114,000 (six months ended 30 June 2014: loss of approximately HK\$15,969,000) and the weighted average number of approximately 12,145,704,000 (six months ended 30 June 2014: approximately 11,966,699,000) ordinary shares in issue during the reporting period.

For the six months ended 30 June 2015 and 2014, the diluted earnings (loss) per share is the same as the basic earnings (loss) per share.

The computation of diluted earnings (loss) per share for the six months ended 30 June 2015 and 2014 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted earnings (loss) per share for the six months ended 30 June 2015 and 2014 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in an increase in earnings per share and a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group spent approximately HK\$5,112,000 on the addition of plant and machinery and leasehold improvements and others (six months ended 30 June 2014: approximately HK\$5,214,000 on the addition of leasehold improvement and others).

Property, plant and equipment with a net carrying value of approximately HK\$nil were disposed of by the Group during the six months ended 30 June 2015 (six months ended 30 June 2014: approximately HK\$235,000) for cash proceeds of approximately HK\$106,000 (six months ended 30 June 2014: approximately HK\$439,000), resulting in a net gain on disposals of approximately HK\$106,000 (six months ended 30 June 2014: approximately HK\$204,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2015

10. INTERESTS IN JOINT VENTURES

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Cost of unlisted investments in joint ventures	5,998	5,998
Less: Impairment loss	(998)	(998)
Share of post-acquisition profit (loss) and other comprehensive expenses	1,262	(16)
	6,262	4,984

Details of each of the Group's joint ventures, which are accounted for using the equity method in the condensed consolidated financial statements, as at 30 June 2015 and 31 December 2014, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2015		2014		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	-	50%	-	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	-	50%	-	50%	Trademark holding

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

11. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days (31 December 2014: 30 to 120 days) to its trade customers.

The following is an aged analysis of trade and bills receivables, net of impairment, presented based on the due date at the end of the reporting periods:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Current	180,672	157,245
Overdue:		
– within 3 months	19,698	35,405
– 4 – 6 months	5,091	10,393
– 7 – 12 months	130	1,735
– over 12 months	409	–
	25,328	47,533
	206,000	204,778

12. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the due date at the end of the reporting periods:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Current	37,042	42,577
Overdue:		
– within 3 months	6,014	3,876
– 4 – 6 months	–	905
– 7 – 12 months	–	4
– over 12 months	107	185
	43,163	47,547

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

13. CONVERTIBLE NOTES

As at 31 December 2014, the principal amount of convertible notes that remained outstanding was HK\$302,400,000. The Company and the convertible notes holder entered into the deed of variation dated 14 November 2014, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes in the principal amount of HK\$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK\$0.12 per share would be adjusted to the conversion price of HK\$0.035 per share. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the 2014 Annual Report.

The extension of the maturity date and the adjustment of the conversion price resulted in the extinguishment of the financial liability of the convertible notes and the recognition of new financial liability and equity components. On 9 January 2015, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK\$302,400,000 and HK\$92,707,000 respectively. According to a valuation report issued by an independent professional valuer not connected with the Group, the fair value of the new liability component and equity component immediately following the modification are approximately HK\$274,579,000 and HK\$57,442,000 respectively. The estimated financial effect of the above was a recognition of gain of approximately HK\$27,821,000 credited to profit or loss and a transfer of approximately HK\$35,265,000 from the convertible notes reserve to accumulated losses during the six months ended 30 June 2015.

The imputed interest charged on the convertible notes for the six months ended 30 June 2015 amounted to approximately HK\$6,283,000 (six months ended 30 June 2014: approximately HK\$10,682,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

14. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised ordinary shares of HK\$0.01 each: At 1 January 2014, 31 December 2014 and 30 June 2015	<u>30,000,000</u>	<u>300,000</u>
Issued and fully paid ordinary shares of HK\$0.01 each: At 1 January 2014 and 31 December 2014	11,966,699	119,667
Issue of shares upon conversion of convertible notes (note)	<u>1,200,000</u>	<u>12,000</u>
At 30 June 2015	<u>13,166,699</u>	<u>131,667</u>

Note:

During the six months ended 30 June 2015, convertible notes of the Company with aggregate principal amount of HK\$42,000,000 were converted into 1,199,999,998 new ordinary shares of HK\$0.01 each at a conversion price of HK\$0.035 per share. These new shares issued ranked pari passu with other shares then in issue in all respects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

15. RELATED PARTY TRANSACTIONS

During the current interim period, the Group had the following transactions with related parties:

- (a) The following balances were outstanding at the end of the reporting periods:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
A joint venture (note i)	–	31	2,535	–
Directors' emoluments payable (included in other payables)	–	–	1,776	1,681
Former subsidiaries (note ii)	–	–	4,417	4,417

Notes:

- (i) The amount due from a joint venture was unsecured, interest-free and repayable on demand.
- (ii) The amounts due from (to) former subsidiaries were unsecured, interest-free and repayable on demand.

During the six months ended 30 June 2014, the Group has recovered partial amount from a former subsidiary of approximately HK\$6,662,000 from liquidators of CITIC Logistics (International) Company Limited (in liquidation) (six months ended 30 June 2015: nil).

Included in the impairment on amounts due from former subsidiaries are individually impaired amounts due from former subsidiaries with an aggregate balance of approximately HK\$172,244,000 (31 December 2014: HK\$172,244,000) which have been placed under liquidation.

- (b) As set out in note 10, Semtech Electronics is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2015

15. RELATED PARTY TRANSACTIONS (Continued)

- (c) The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Short-term benefits	4,541	5,995
Loss of office compensation	–	4,119
Post-employment benefits	238	359
	4,779	10,473

16. CONTINGENT LIABILITIES AND COMMITMENTS

- (a) On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US\$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the condensed consolidated financial statements.

- (b) As at 30 June 2015, the Group had capital expenditure contracted for but not provided in the condensed consolidated financial statements of approximately HK\$791,000 in respect of acquisition of property, plant and equipment (31 December 2014: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2015

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's financial instruments, including the loans and receivables (including trade and bills receivables, deposits and other receivables, amount due from a joint venture, amounts due from former subsidiaries, deposits in other financial institutions and bank balances and cash) and financial liabilities (including trade and bills payables, other payables and accruals, amount due to a joint venture, amounts due to former subsidiaries, obligations under finance leases and convertible notes), are recorded at amortised cost. The Directors consider that the carrying amounts of current portion of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values due to their immediate or short-term maturities. The fair value of non-current portion of finance lease equals its carrying amounts, as the impact of discounting is not significant.