



**Burwill** Holdings Limited  
寶威控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code : 24



Interim Report **2016**



The Directors of Burwill Holdings Limited (the “Company”) hereby present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 as follows:

## Condensed Consolidated Income Statement

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2016</b>	2015
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Continuing operations</b>			
Revenue	2	<b>1,526,935</b>	2,218,441
Cost of sales		<b>(1,510,352)</b>	(2,201,215)
Gross profit		<b>16,583</b>	17,226
Other income and net gains	3	<b>54,470</b>	3,039
Selling and distribution expenses		<b>(22,144)</b>	(27,601)
General and administrative expenses		<b>(27,260)</b>	(25,956)
Share option expenses		–	(5,137)
Operating profit/(loss)	4	<b>21,649</b>	(38,429)
Finance costs	5	<b>(6,983)</b>	(10,865)
Share of losses of associates		<b>(18,141)</b>	(8,426)
Share of losses of joint ventures		<b>(52)</b>	–
Loss before income tax		<b>(3,527)</b>	(57,720)
Income tax (expense)/credit	6	<b>(3,082)</b>	2,572
Loss for the period from continuing operations		<b>(6,609)</b>	(55,148)
<b>Discontinued operations</b>			
Profit for the period from discontinued operations		<b>4,431</b>	14,588
Loss for the period		<b>(2,178)</b>	(40,560)

## Condensed Consolidated Income Statement (continued)

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
(Loss)/Profit attributable to:		
Owners of the Company	<b>(3,883)</b>	(43,658)
Non-controlling interests	<b>1,705</b>	3,098
	<b>(2,178)</b>	(40,560)
(Loss)/Profit attributable to owners of the Company arises from:		
Continuing operations	<b>(5,451)</b>	(53,152)
Discontinued operations	<b>1,568</b>	9,494
	<b>(3,883)</b>	(43,658)
<b>(Loss)/Earnings per share from continuing and discontinued operations attributable to owners of the Company for the period</b>	<b>7</b>	
Basic (loss)/earnings per share		
From continuing operations (HK cents)	<b>(0.11)</b>	(1.14)
From discontinued operations (HK cents)	<b>0.03</b>	0.20
	<b>(0.08)</b>	(0.94)
Diluted (loss)/earnings per share		
From continuing operations (HK cents)	<b>(0.11)</b>	(1.14)
From discontinued operations (HK cents)	<b>0.03</b>	0.20
	<b>(0.08)</b>	(0.94)

## Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period	(2,178)	(40,560)
Other comprehensive income/(expense):		
Share of other comprehensive income of associates	7	—
<i>Items that may be reclassified subsequently to profit or loss</i>		
Release of revaluation reserve upon disposal of subsidiaries	(11,213)	—
Release of translation adjustments upon disposal of subsidiaries	(34,648)	—
Fair value change in available-for-sale financial assets	—	(19,505)
Currency translation differences	(7,230)	(1,854)
Other comprehensive expense for the period, net of tax	(53,084)	(21,359)
Total comprehensive expense for the period	(55,262)	(61,919)
Attributable to:		
Owners of the Company	(56,814)	(64,990)
Non-controlling interests	1,552	3,071
Total comprehensive expense for the period	(55,262)	(61,919)
Total comprehensive income/(expense) attributable to owners of the Company arising from:		
Continuing operations	(58,584)	(74,614)
Discontinued operations	1,770	9,624
	(56,814)	(64,990)

## Condensed Consolidated Balance Sheet

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2016</b>	2015
<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Leasehold land and land use rights	<b>8,233</b>	8,486
Property, plant and equipment	<b>187,349</b>	190,951
Investments in associates	<b>460,529</b>	231,297
Investments in joint ventures	<b>5,945</b>	–
Club debentures	<b>1,473</b>	1,473
Deferred income tax assets	<b>46,605</b>	47,914
Total non-current assets	<b>710,134</b>	480,121
<b>Current assets</b>		
Inventories	<b>35,462</b>	58,051
Financial assets at fair value through profit or loss	<b>767</b>	954
Bills and accounts receivable	<b>795,036</b>	781,836
Deposits, prepayments and other receivables	<b>155,553</b>	138,650
Due from associates	<b>116,012</b>	38,359
Income tax refundable	<b>87</b>	87
Cash and bank balances	<b>87,942</b>	347,982
	<b>1,190,859</b>	1,365,919
Assets of disposal group classified as held for sale	<b>–</b>	1,082,251
Total current assets	<b>1,190,859</b>	2,448,170
<b>Total assets</b>	<b>1,900,993</b>	2,928,291

## Condensed Consolidated Balance Sheet (continued)

		Unaudited 30 June 2016 <i>HK\$'000</i>	Audited 31 December 2015 <i>HK\$'000</i>
	<i>Notes</i>		
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	10	504,486	506,436
Other reserves		1,017,973	1,074,762
Accumulated losses		(329,469)	(326,212)
		<b>1,192,990</b>	1,254,986
Non-controlling interests		(19,554)	219,118
Total equity		<b>1,173,436</b>	1,474,104
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		57,176	56,615
Deferred income tax liabilities		3	5
Provision for land restoration and environmental costs		3,981	4,075
Total non-current liabilities		<b>61,160</b>	60,695
<b>Current liabilities</b>			
Borrowings		281,267	556,711
Bills and accounts payable	11	268,775	222,402
Other payables and accruals		113,984	233,984
Due to associates		414	–
Income tax payable		1,957	364
		<b>666,397</b>	1,013,461
Liabilities of disposal group classified as held for sale	9	–	380,031
Total current liabilities		<b>666,397</b>	1,393,492
Total liabilities		<b>727,557</b>	1,454,187
<b>Total equity and liabilities</b>		<b>1,900,993</b>	2,928,291
<b>Net current assets</b>		<b>524,462</b>	1,054,678
<b>Total assets less current liabilities</b>		<b>1,234,596</b>	1,534,799

## Condensed Consolidated Statement of Changes in Equity

	Unaudited six months ended 30 June 2016				
	Attributable to owners of the Company			Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2016	506,436	1,074,762	(326,212)	219,118	1,474,104
Total comprehensive expense for the period	-	(52,931)	(3,883)	1,552	(55,262)
Repurchase of shares	(1,950)	(3,232)	-	-	(5,182)
Vested share options forfeited	-	(626)	626	-	-
Dividends	-	-	-	(6,217)	(6,217)
Disposal of subsidiaries	-	-	-	(234,007)	(234,007)
Total transactions with owners	(1,950)	(3,858)	626	(240,224)	(245,406)
Balance at 30 June 2016	504,486	1,017,973	(329,469)	(19,554)	1,173,436

	Unaudited six months ended 30 June 2015				
	Attributable to owners of the Company			Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2015	458,671	983,580	(202,759)	243,292	1,482,784
Total comprehensive expense for the period	-	(21,332)	(43,658)	3,071	(61,919)
Issue of shares	18,950	41,350	-	-	60,300
Share issue expenses	-	(311)	-	-	(311)
Employees share option scheme: - value of employee services	-	5,137	-	-	5,137
Dividends	-	-	-	(3,836)	(3,836)
Total transactions with owners	18,950	46,176	-	(3,836)	61,290
Balance at 30 June 2015	477,621	1,008,424	(246,417)	242,527	1,482,155

## Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Net cash generated from operating activities	9,481	167,443
Net cash used in investing activities	(2,013)	(79,440)
Net cash used in financing activities	(263,132)	(64,642)
Net (decrease)/increase in cash and cash equivalents	(255,664)	23,361
Cash and cash equivalents at 1 January	340,748	142,440
Effect of exchange rate changes	281	(548)
Cash and cash equivalents at 30 June	85,365	165,253
Analysis of the balances of cash and cash equivalents		
<i>Continuing operations</i>		
Cash at bank and on hand	87,942	152,797
<i>Discontinued operations</i>		
Cash at bank and on hand	–	12,764
	87,942	165,561
Less: Pledged bank balances	–	(308)
Bank overdrafts	(2,577)	–
Cash and cash equivalents	85,365	165,253



Notes:

## (1) Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 December 2015.

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the financial statements for the year ended 31 December 2015, except that the Group has adopted the new standards and interpretations which are mandatory for financial year ending 31 December 2016. The adoption of the new standards and interpretations has no significant effect on these financial statements.

The Group has not early applied any new or revised standards or interpretations that have been issued by the HKICPA but are not yet effective.

## (2) Segment information

Revenue recognised during the six months period is as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
<b>Continuing operations</b>		
Sale of goods	<b>1,526,935</b>	2,218,441
<b>Discontinued operations</b>		
Rental income	<b>13,421</b>	27,120
Service income	<b>5,376</b>	11,781
	<b>18,797</b>	38,901
	<b>1,545,732</b>	2,257,342

## (2) Segment information (continued)

The segment results are as follows:

	Unaudited Six months ended 30 June 2016				
	Continuing operations				
	Steel trading HK\$'000	Steel processing HK\$'000	Mineral resources HK\$'000	Unallocated HK\$'000	Group HK\$'000
Total segment sales	1,498,010	28,925	-	-	1,526,935
Inter-segment sales	-	-	-	-	-
Sales to external customers	1,498,010	28,925	-	-	1,526,935
Operating profit/(loss) before below items	14,482	(9,086)	(2,489)	(18,080)	(15,173)
Fair value losses on financial assets at fair value through profit or loss	-	(705)	-	(187)	(892)
Gain on disposal of subsidiaries	-	-	-	42,751	42,751
Dilution losses on associates	-	-	-	(5,037)	(5,037)
Operating profit/(loss)	14,482	(9,791)	(2,489)	19,447	21,649
Finance costs	(6,623)	(125)	-	(235)	(6,983)
Share of losses of associates	-	-	-	(18,141)	(18,141)
Share of losses of joint ventures	-	-	-	(52)	(52)
Segment results	7,859	(9,916)	(2,489)	1,019	(3,527)
Income tax expense					(3,082)
Loss for the period from continuing operations					(6,609)
Profit for the period from discontinued operations					4,431
Loss for the period					(2,178)

## (2) Segment information (continued)

	Unaudited Six months ended 30 June 2015				
	Continuing operations				
	Steel trading HK\$'000	Steel processing HK\$'000	Mineral resources HK\$'000	Unallocated HK\$'000	Group HK\$'000
Total segment sales	2,144,833	73,608	-	-	2,218,441
Inter-segment sales	-	-	-	-	-
Sales to external customers	2,144,833	73,608	-	-	2,218,441
Operating loss before below items	(16,169)	(1,285)	(3,574)	(13,929)	(34,957)
Fair value gains on financial assets at fair value through profit or loss	1,190	157	-	318	1,665
Share option expenses	-	-	-	(5,137)	(5,137)
Operating loss	(14,979)	(1,128)	(3,574)	(18,748)	(38,429)
Finance costs	(10,273)	(345)	-	(247)	(10,865)
Share of losses of associates	-	-	-	(8,426)	(8,426)
Segment results	(25,252)	(1,473)	(3,574)	(27,421)	(57,720)
Income tax credit					2,572
Loss for the period from continuing operations					(55,148)
Profit for the period from discontinued operations					14,588
Loss for the period					(40,560)

## (2) Segment information (continued)

The revenue by location of customers are as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
<b>Continuing operations</b>		
Europe	381,402	525,280
Middle East	348,783	156,853
Hong Kong	336,862	291,356
Asia (other than Mainland China and Hong Kong)	187,053	653,084
Mainland China	174,751	336,733
Others	98,084	255,135
	<b>1,526,935</b>	<b>2,218,441</b>
<b>Discontinued operations</b>		
Mainland China	18,797	38,901
	<b>1,545,732</b>	<b>2,257,342</b>

## (3) Other income and net gains

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Fair value (losses)/gains on financial assets at fair value through profit or loss	(892)	1,665
Interest income on:		
– bank deposits	102	44
– other receivables	93	84
– due from associates	131	129
Dividend income	5	5
Gain on disposal of subsidiaries	42,751	–
Dilution losses on associates	(5,037)	–
Others	17,317	1,112
	<b>54,470</b>	<b>3,039</b>

The gain on disposal of subsidiaries was attributable to releases of revaluation reserve and translation adjustments upon disposal of subsidiaries.

#### (4) Operating profit/(loss)

Operating profit/(loss) is stated after (crediting)/charging the following:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	2,620	2,974
Amortisation of prepaid operating lease payments	160	166
Operating lease rentals	903	1,052
Provision for impairment of other receivables	622	2,745
Provision for amounts due by an associate	2,405	–
Net exchange (gains)/losses	(2,296)	134

#### (5) Finance costs

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest on:		
– bank borrowings	6,934	10,857
– finance lease liabilities	49	8
	6,983	10,865

## (6) Income tax (expense)/credit

The Company is exempted from taxation in Bermuda until 2035. The Company's subsidiaries established in the British Virgin Islands are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the six months period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax of 25% (2015: 25%) on their taxable income determined according to Mainland China tax laws. Taxation on other overseas profits has been calculated on the estimated assessable profit for the six months period at the rates of taxation prevailing in the countries in which the Group operates.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax:		
– Mainland China taxation	<b>151</b>	252
– overseas taxation	<b>1,600</b>	–
	<b>1,751</b>	252
Adjustments in respect of prior years:		
– Mainland China taxation	<b>36</b>	71
Deferred tax:		
– Origination and reversal of temporary differences	<b>1,295</b>	(2,895)
Income tax expense/(credit)	<b>3,082</b>	(2,572)

## (7) (Loss)/Earnings per share

Basic and diluted (loss)/earnings per share are calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2016	2015
Loss from continuing operations attributable to owners of the Company (HK\$'000)	(5,451)	(53,152)
Profit from discontinued operations attributable to owners of the Company (HK\$'000)	1,568	9,494
Loss attributable to owners of the Company (HK\$'000)	<b>(3,883)</b>	(43,658)
Weighted average number of ordinary shares in issue (thousands)	<b>5,060,853</b>	4,643,182
Basic and diluted (loss)/earnings per share (HK cents)		
From continuing operations	<b>(0.11)</b>	(1.14)
From discontinued operations	<b>0.03</b>	0.20
	<b>(0.08)</b>	(0.94)

The outstanding share options during the six months ended 30 June 2015 and 2016 have an anti-dilutive effect on the basic loss per share.

## (8) Bills and accounts receivable

The Group normally grants to its customers credit periods for sale of goods ranging from 30 days to 180 days.

Ageing analysis of bills and accounts receivable is as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Within three months	655,774	746,181
Over three months but within six months	139,262	35,655
	<b>795,036</b>	781,836

## (9) Assets and liabilities of disposal group classified as held for sale

The disposal of the disposal group to the associate was completed on 23 March 2016 and a gain on disposal of subsidiaries of approximately HK\$42,751,000 was recorded.

## (10) Share capital

	Unaudited	
	Number of shares <i>(thousands)</i>	Nominal value <i>HK\$'000</i>
<i>Authorised</i>		
Ordinary shares of HK\$0.1 each As at 1 January 2016 and 30 June 2016	6,800,000	680,000
<i>Issued and fully paid</i>		
Ordinary shares of HK\$0.1 each As at 1 January 2016	5,064,360	506,436
Repurchase of shares	(19,502)	(1,950)
As at 30 June 2016	5,044,858	504,486

## (11) Bills and accounts payable

Ageing analysis of bills and accounts payable is as follows:

	Unaudited 30 June 2016 <i>HK\$'000</i>	Audited 31 December 2015 <i>HK\$'000</i>
Within three months	248,024	202,244
Over three months but within six months	178	51
Over six months but within twelve months	921	560
Over twelve months	19,652	19,547
	<b>268,775</b>	<b>222,402</b>

## (12) Related party transactions

The following transactions were carried out with related parties during the period:

	Unaudited Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Rental income received from an associate	978	2,362
Service income received from an associate	173	363
Interest income received from associates	1,322	129
Key management compensation	12,039	11,388

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).



## REVIEW AND OUTLOOK

During the first half of 2016, the Group's turnover decreased by 31% to approximately HK\$1,527 million compared to the same period last year. Gross profits dropped by 3.7% to approximately HK\$16.6 million. The Group recorded a loss attributable to shareholders of approximately HK\$4 million.

### Steel Trading

In the first half of 2016, steel prices in China remained volatile. While negative sentiments have continued to linger since the end of 2015, a certain number of steel production was suspended in January and February, keeping market inventories at a relatively low level. However, due to mismatch of demand and supply in imminent peak season, the steel market experienced a general rebound. Together with a large amounts of capital flowing into the steel futures market, spot prices surged substantially and reached a peak at the end of April with some product prices soaring more than 65%. As a result, steel manufacturers resumed production which then led to a sharp reversal of demand and supply, therefore steel prices shrunk significantly. By the end of June, steel prices were moving sluggishly.

Compared to the steel industry, iron ore price fluctuations were even more pronounced. The Platts 62% Fe IODEX jumped dramatically from US\$39.25/tonne to US\$70.5/tonne during January to April, an increase of 79.6%. Whereas by the end of June, following a drop in steel prices, iron ore prices fell as well to their lowest levels since early March.

Regarding the import and export sector, according to statistics released by the General Administration of Customs of the PRC, the total volume of exported steel products amounted to 57.12 million tonnes in the first half of 2016, up 31.3% year-on-year while imported steel products hit 6.46 million tonnes, down 2.9% year-on-year. The growth in exported products alleviated supply side pressures, which served as an important remedy to reduce overcapacity and excessive inventories. In addition, total imported iron ore volume amounted to 494 million tonnes, an increase of 9.1% year-on-year.

The Group's steel trading was also impacted by the previously noted complicated and volatile market environment. To reduce market risks, the Group swiftly adjusted its operational direction and adopted a relatively conservative and cautious trading approach. Although trading volume decreased compared to the same period last year, the Group recorded a profit in its overall operation.

## **REVIEW AND OUTLOOK (continued)**

### **Steel Trading (continued)**

Looking toward the second half of the year, the slow economy recovery in the U.S., lack of growth momentum in the Eurozone, and the impact of the Brexit referendum will increase uncertainties for the market. The sluggish economic growth in Japan, weak demand from emerging markets and widespread capital outflows as well will certainly not help to drive economic growth. China's major export markets such as the European Union, the U.S., India and Southeast Asian countries reinforced their anti-dumping investigations against China's steel products, exerting additional pressure on general Chinese steel export business.

With respect to domestic demand, the Chinese Government will press ahead with infrastructure investments, particularly in public transportation such as railways, highways, airports and large-scale berthing areas along rivers and coasts, which will facilitate the growth of steel consumption. At the same time, an increase in overall construction, plus the unexpected production and sales growth of automobiles and machinery all of which will aid in the rise of steel prices. On a less positive note, the momentum of soaring steel prices will be hard to sustain during the second half of the year given the stagnant domestic economy in China. Instead of adopting strong stimulus measures to boost economic recovery, the Chinese Government advocates supply-side structural reforms, implying a reduction in excess production capacity and deleveraging, which will constitute the future macroeconomic direction in China. Those steel mills that had shut down for maintenance to reduce losses gradually resumed production after the rise in steel prices, which will definitely add pressure to market supply for the remainder of 2016.

In the second half of the year, the Group's trading department will continue its prudent approach and carry out strict risk control measures. Leveraging our marketing network over the years as well as utilising strong marketing channels and long-term support from suppliers, we are confident of maintaining stable sales volumes and achieving higher revenues.

## **REVIEW AND OUTLOOK (continued)**

### **Steel Processing**

This particular business segment has recorded continued losses over recent years, and management, despite its best efforts, has not been able turnaround the negative results. This coupled with a decrease in overseas sales orders, fluctuations in steel prices and a decline in sales volume and profit margin in the first half of year has prompted the Group to suspend the processing and sales operations of its steel processing plant in Dongguan, Guangdong Province. The Group will now begin to clear out and downsize inventories, equipment and personnel. The entire project is expected to be completed within the second half of the year.

### **Commercial Property Investment**

The disposal of Yangzhou Times Square was completed in the first half of the year. Details of the transaction are specified on the announcement dated 23 March 2016.

The Group currently holds 45% of the share capital of China Land Assets Limited (“China Land Assets”), while China Land Assets holds share capital of Yangzhou Times Square and Wuxi Sunshine Plaza. The operational results of Yangzhou Times Square remained satisfactory while Wuxi Sunshine Plaza actively adjusted its tenant mix to achieve better returns during the first half of the year.

### **Potash in Kazakhstan**

Since 5 May 2015 to the end of December 2015, the Group announced to subscribe and acquire currently over 26% of the share capital of Kazakhstan Potash Corporation Limited (“KPC”), a listed company on the Australian Securities Exchange (ASX), for an accumulated consideration of approximately HK\$240 million, making the Group the single largest shareholder of KPC.

As a potash mining company, KPC is principally engaged in the exploration and development of potash resources in the Republic of Kazakhstan (“Kazakhstan”) as well as the production of agricultural potassium chloride, potassium sulfate and potassium magnesium sulfate fertiliser. KPC owns 95% equity shares in Zhilyanskoe and Chelkar, two quality potash mines in western Kazakhstan, and is now acquiring the Satimola mine in Kazakhstan, which contains borates resources in addition to potash.

## REVIEW AND OUTLOOK (continued)

### Potash in Kazakhstan (continued)

Potash is the raw material used in the production of potash fertilisers. China is an agricultural country with inadequate potash resources in which over 50% of its potash fertilisers must be imported. Therefore, potash is regarded as China's national strategic resource for food safety.

Currently, KPC is actively developing its trading and warehousing businesses in China. Its core businesses will cover trading, storage and transportation of potash fertilisers, phosphate fertilizers and other agricultural products. With its establishment in China, KPC is able to generate new stream of cash flow and potential profit for the company, as well as exploit market channels and accumulate customers for its future potash products.

The "One Belt, One Road" initiative advocated by China has been gradually integrated with the "Bright Road" new economic policy implemented by Kazakhstan at Sino-Kazakhstan level. KPC's investment in and construction of potash fertilisers production plant in Kazakhstan have been listed in China's substantial investment projects in Kazakhstan. A number of preferential policies such as 10-year income tax exemption and investment rebate have been granted to KPC's potash fertilisers production plant by the Government of Kazakhstan.

## LIQUIDITY AND FINANCIAL RESOURCES

The total equity of the Group decreased to approximately HK\$1,173 million as at 30 June 2016. The decrease was mainly attributable to the drop in non-controlling interests upon the completion of the disposal of subsidiaries to the associate. The Group's gearing ratio and current ratio were 0.22 (31 December 2015: 0.28) and 1.79 (31 December 2015: 1.76) respectively as at 30 June 2016.

The total borrowings of the Group decreased to approximately HK\$338 million (31 December 2015: HK\$748 million) as at 30 June 2016 and their maturity profile as agreed with the lenders was as follows:

	<i>HK\$ million</i>
Within one year	182
Between one and two years	7
Between two and five years	77
Over five years	72
	<hr/> <b>338</b> <hr/>

## **FOREIGN EXCHANGE RISK EXPOSURE**

The Group's receipts, payments, assets and liabilities are principally denominated in US Dollar, Euro, Renminbi and Hong Kong Dollar. The Group considers that its exposure to exchange rate risk is modest except for Euro. To minimise the exchange rate risk, forward exchange contracts are used when required, in particular for Euro.

## **CONTINGENT LIABILITIES**

There has been no material change in the Group's contingent liabilities since 31 December 2015.

## **CAPITAL COMMITMENTS**

The Group had no capital commitments as at 30 June 2016.

## **CHARGE ON ASSETS**

As at 30 June 2016, the following assets of the Group were pledged: (i) certain leasehold land, land use rights and buildings with a net book amount of approximately HK\$71,385,000; (ii) a motor vehicle with a net book amount of approximately HK\$1,515,000; (iii) certain bills and accounts receivable of approximately HK\$75,799,000; and (iv) certain inventories of approximately HK\$24,934,000.

## **STAFF**

As at 30 June 2016, the Group employed 316 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

## SHARE OPTION SCHEME

As at 30 June 2016, there were options for 218,200,000 shares granted by the Company pursuant to the share option scheme adopted by the Company on 8 June 2011 (the “Option Scheme”) which were valid and outstanding.

Movements of option shares under the Option Scheme during the six months ended 30 June 2016 were as follows:

	Date of grant	Exercise price per share HK\$	Exercise period		Number of option shares						
			from	until	outstanding as at 01/01/2016	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	balance as at 30/06/2016	
<b>(i) Directors</b>											
CHAN Shing	07/11/2014	0.3	01/12/2014	30/11/2016	2,250,000	-	-	-	-	-	2,250,000
			01/12/2015	30/11/2016	2,250,000	-	-	-	-	-	2,250,000
SIT Hoi Tung	07/11/2014	0.3	01/12/2014	30/11/2016	10,000,000	-	-	-	-	-	10,000,000
			01/12/2015	30/11/2016	11,000,000	-	-	-	-	-	11,000,000
KWOK Wai Lam	07/11/2014	0.3	01/12/2014	30/11/2016	11,000,000	-	-	-	-	-	11,000,000
			01/12/2015	30/11/2016	11,000,000	-	-	-	-	-	11,000,000
SHAM Kai Man	07/11/2014	0.3	01/12/2014	30/11/2016	10,000,000	-	-	-	-	-	10,000,000
			01/12/2015	30/11/2016	11,000,000	-	-	-	-	-	11,000,000
CUI Shu Ming	07/11/2014	0.3	01/12/2014	30/11/2016	-	-	-	-	-	-	-
			01/12/2015	30/11/2016	2,250,000	-	-	-	-	-	2,250,000
HUANG Shenglan	07/11/2014	0.3	01/12/2014	30/11/2016	-	-	-	-	-	-	-
			01/12/2015	30/11/2016	2,250,000	-	-	-	-	-	2,250,000
CHAN Ming Fai	07/11/2014	0.3	01/12/2014	30/11/2016	1,000,000	-	-	-	-	-	1,000,000
			01/12/2015	30/11/2016	2,250,000	-	-	-	-	-	2,250,000
<b>(ii) Continuous contract employees</b>	07/11/2014	0.3	01/12/2014	30/11/2016	52,450,000	-	-	-	(2,250,000)	-	50,200,000
			01/12/2015	30/11/2016	96,200,000	-	-	-	(4,450,000)	-	91,750,000
<b>Total</b>					<b>224,900,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,700,000)</b>	<b>-</b>	<b>218,200,000</b>

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) 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) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Interests in Shares and Underlying Shares of the Company

Name of Director	Number of ordinary shares & underlying shares				Approximate percentage in the Company's issued share capital
	Personal Interests	Family Interests	Corporate Interests	Total	
CHAN Shing	151,286,521 (L) (Note 1)	108,542,601 (L) (Note 1)	1,042,782,149 (L) (Note 2)	1,302,611,271 (L)	25.82% (L)
CHEUNG Kwan	559,532,000 (L)	–	123,000,000 (L) (Note 3)	682,532,000 (L)	13.53% (L)
SIT Hoi Tung	26,413,869 (L) (Note 4)	–	–	26,413,869 (L)	0.52% (L)
KWOK Wai Lam	22,000,000 (L) (Note 5)	–	–	22,000,000 (L)	0.44% (L)
SHAM Kai Man	22,000,000 (L) (Note 4)	–	–	22,000,000 (L)	0.44% (L)
CUI Shu Ming	4,500,000 (L) (Note 6)	–	–	4,500,000 (L)	0.09% (L)
HUANG Shenglan	4,500,000 (L) (Note 6)	–	–	4,500,000 (L)	0.09% (L)
CHAN Ming Fai	4,500,000 (L) (Note 7)	–	–	4,500,000 (L)	0.09% (L)

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**

### **Interests in Shares and Underlying Shares of the Company (continued)**

*Notes:*

1. Among these interests, 4,500,000 underlying shares were option shares.
2. 830,415,336 shares were held by Glory Add Limited ("Glory Add"), a wholly-owned subsidiary of Favor King Limited ("Favor King"). 211,900,848 shares were held by Strong Purpose Corporation ("Strong Purpose"). Favor King and Strong Purpose are wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, the spouse of Mr. CHAN Shing. 465,965 shares were held by Hang Sing Overseas Limited, a wholly-owned subsidiary of Orient Strength Limited (a company which is wholly-owned by Ms. LAU Ting).
3. 123,000,000 shares were held by The Internet of Things Investment Ltd. which is wholly-owned by Ms. CHEUNG Kwan.
4. Among these interests, 21,000,000 underlying shares were option shares.
5. These underlying shares were option shares.
6. Among these interests, 2,250,000 underlying shares were option shares.
7. Among these interests, 3,250,000 underlying shares were option shares.
8. The letter "L" denotes long position and the letter "S" denotes short position.

Save as otherwise disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, 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) which were required to be recorded in the register 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.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

### Interests in Shares and Underlying Shares

Name of shareholder	Nature of interest	Number of ordinary shares & underlying shares	Approximate percentage in the Company's issued share capital	Note
LAU Ting	Personal, Family & Corporate	1,302,611,271 (L)	25.82% (L)	1
Favor King	Corporate	830,415,336 (L)	16.46% (L)	2

Notes:

- 108,542,601 shares/underlying shares were directly held by Ms. LAU Ting among which 4,500,000 underlying shares were option shares. 151,286,521 shares/underlying shares were directly held by Mr. CHAN Shing, the spouse of Ms. LAU Ting, among which 4,500,000 underlying shares were option shares. 830,415,336 shares were held by Glory Add, a wholly-owned subsidiary of Favor King. 211,900,848 shares were held by Strong Purpose. Favor King and Strong Purpose are wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 465,965 shares were held by Hang Sing Overseas Limited, a wholly-owned subsidiary of Orient Strength Limited (a company which is wholly-owned by Ms. LAU Ting). As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
- These interests were held by Glory Add, a company which is wholly-owned by Favor King. Favor King is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.
- The letter "L" denotes long position and the letter "S" denotes short position.

Save as disclosed above, as at 30 June 2016, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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

During the six months ended 30 June 2016, the Company via Hillot Limited, a wholly-owned subsidiary of the Company, repurchased a total of 19,502,000 shares of the Company on the Stock Exchange pursuant to the general mandates granted by the shareholders at the annual general meetings held on 10 June 2015 and 22 June 2016, details of which were as follows:

Month/Year	Number of shares repurchased	Price per share		Total consideration (before expense) HK\$'000
		Highest HK\$	Lowest HK\$	
04/2016	6,448,000	0.280	0.265	1,778
06/2016	13,054,000	0.260	0.250	3,319

All shares repurchased were subsequently cancelled and accordingly the Company's issued share capital was reduced by the nominal value of these shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the net assets and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

## DISPOSAL OF INTEREST IN A SUBSIDIARY

The disposal of the entire issued share capital of Burwill China Portfolio Limited ("BCPL") was completed on 23 March 2016. BCPL is now indirectly held as to 45% by the Company and 55% by Charm Best Investments Inc. through China Land Assets Limited, an associated company of the Company. Details of the above disposal were set out in the Company's circular dated 15 October 2014 and announcement dated 23 March 2016.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee which comprises three Independent Non-Executive Directors of the Company, Mr. CUI Shu Ming, Mr. HUANG Shenglan and Mr. CHAN Ming Fai. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 June 2016 have been reviewed by the Audit Committee.

## **REMUNERATION COMMITTEE**

The Company has established a Remuneration Committee which comprises the Executive Director and Deputy General Manager, Mr. SIT Hoi Tung, and two Independent Non-Executive Directors, Mr. CUI Shu Ming and Mr. HUANG Shenglan. The Remuneration Committee is responsible for considering and reviewing the remuneration packages of the Directors and the senior management of the Company.

## **NOMINATION COMMITTEE**

The Company has established a Nomination Committee which comprises the Chairman and Managing Director, Mr. CHAN Shing, the Executive Director and Deputy General Manager, Mr. SIT Hoi Tung, and three Independent Non-Executive Directors of the Company, Mr. CUI Shu Ming, Mr. HUANG Shenglan and Mr. CHAN Ming Fai. The Nomination Committee reviews the structure, size and composition of the Board and make recommendations on any proposed changes to the Board.

## **ESTABLISHMENT OF RISK COMMITTEE**

The Risk Committee with written terms of reference has been established on 30 August 2016. Mr. CHAN Shing, the Chairman and the Managing Director of the Company, be appointed as the chairman of the Risk Committee; and Mr. SIT Hoi Tung, Mr. KWOK Wai Lam, Mr. SHAM Kai Man, Executive Directors of the Company, and Mr. NG Man Fai, Matthew, Deputy Financial Controller of the Company, be appointed as the members of the Risk Committee with effect from 30 August 2016.

## CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2016, except for the following deviations:

- Code provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals with active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. As the Company did not announce its quarterly results, one regular board meeting was held during the period for reviewing and approving the annual financial performance of the Group for the year 2015, which the relevant Code provision had not been fully complied with. Board meetings will be held on other occasions when board decisions are required.
- Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Chairman and Managing Director of the Company, Mr. CHAN Shing, currently assumes the role of the chairman and also the chief executive. Given the nature of the Group’s businesses which require considerable market expertise, the Board believed that the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.
- Code provision A.4.2 stipulates, inter alia, that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors have not been required by the Bye-laws of the Company (the “Bye-laws”) to retire by rotation at least once every three years. However, in accordance with Bye-law 85 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third), other than the Director holding office as Chairman or Managing Director, shall retire from office by rotation. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provision A.4.2. The Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

The Board reviews the corporate governance structure and practices from time to time and makes necessary arrangements when the Board considers appropriate.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

On behalf of the Board  
**CHAN Shing**  
*Chairman*

Hong Kong, 30 August 2016

*As at the date of this report, the Board of Directors of the Company comprises Mr. Chan Shing, Ms. Cheung Kwan, Mr. Wei Jiafu, Mr. Sit Hoi Tung, Mr. Kwok Wai Lam and Mr. Sham Kai Man as executive directors; and Mr. Cui Shu Ming, Mr. Huang Shenglan and Mr. Chan Ming Fai as independent non-executive directors.*