SINOREF

SINOREF HOLDINGS LIMITED
華耐控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1020)

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

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Sinoref Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014, together with the comparative figures for the previous corresponding period, which has been reviewed and approved by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
	NOTES	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**107,389**	93,722
Cost of sales		**(119,005)**	(63,524)
Gross (loss) profit		**(11,616)**	30,198
Other income		**533**	650
Impairment loss recognised in respect of trade receivables		**(25,865)**	–
Impairment loss recognised in respect of property, plant and equipment	*9*	**(18,381)**	–
Selling and distribution costs		**(12,712)**	(10,392)
Administrative expenses		**(27,878)**	(11,783)
Finance costs		**(360)**	–
(Loss) profit before taxation	*5*	**(96,279)**	8,673
Taxation	*6*	**3,980**	(3,141)
(Loss) profit and total comprehensive (expense) income for the period attributable to owners of the Company		**(92,299)**	5,532
(Loss) earnings per share	*8*		
Basic and diluted		**(RMB6.50 cents)**	RMB0.46 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**78,263**	73,475
Goodwill		**13,740**	–
Other intangible assets	10	**12,698**	–
Deposits for property, plant and equipment		**6,327**	–
Prepaid lease payments		**15,706**	9,628
		126,734	83,103
Current assets			
Inventories		**40,253**	22,939
Trade receivables	12	**207,991**	172,365
Bills receivables	13	**34,702**	32,854
Other receivables, deposits and prepayments		**9,016**	2,254
Prepaid lease payments		**430**	235
Tax recoverable		**2,681**	2,681
Bank balances and cash		**258,656**	312,322
		553,729	545,650
Current liabilities			
Trade and bills payables	14	**43,816**	28,712
Other payables and accruals		**14,083**	17,456
Contingent consideration shares	15	**8,787**	–
Tax liabilities		**5,528**	5,528
Bank borrowing	16	**20,000**	–
		92,214	51,696
Net current assets		**461,515**	493,954
Total assets less current liabilities		**588,249**	577,057
Non-current liability			
Deferred tax liabilities		**13,825**	13,720
		574,424	563,337
Capital and reserves			
Share capital	17	**127,494**	104,201
Reserves		**446,930**	459,136
Total equity		**574,424**	563,337

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 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 ("Listing Rules") Governing the Listing 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 for certain financial instruments, which are measured at fair value.

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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Contingent consideration that will be settled by the delivery of a variable number of the Company own equity instruments is accounted for as a financial liability.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments 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 HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

The application of the above new interpretation and 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 on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Revenue represents the net amounts received and receivable for goods sold less returns and discounts in the normal course of business.

4. OPERATING SEGMENTS

HKFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the executive Directors) ("CODM") in order to allocate resources to segments and to assess their performance.

The Group's operating activities are attributable to two operating segments focusing on i) the manufacture and sale of advanced steel flow control products; and ii) the manufacture and sale of paper converting equipment and other relating equipment, which is arisen from the acquisition of Accurate Trade International Limited and its subsidiaries ("Accura Group") as set out in note 20. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that are regularly reviewed by the CODM.

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended 30 June 2014 (Unaudited)

	Manufacture and sale of advanced steel flow control products *RMB'000*	**Manufacture and sale of paper converting equipment and other relating equipment** *RMB'000*	**Consolidated** *RMB'000*
Revenue	**102,758**	**4,631**	**107,389**
Segment loss	**(88,182)**	**(1,859)**	**(90,041)**
Unallocated corporate income			**65**
Staff costs (including retirement benefit scheme contributions)			**(1,001)**
Operating lease rentals			**(425)**
Provisional fair value change on contingent consideration shares			**(1,589)**
Unallocated corporate expenses			**(3,288)**
Loss before taxation			**(96,279)**

For the six months ended 30 June 2013 (Unaudited)

	Manufacture and sale of advanced steel flow control products *RMB'000*	Manufacture and sale of paper converting equipment and other relating equipment *RMB'000*	Consolidated *RMB'000*
Revenue	93,722	–	93,722
Segment profit	14,831	–	14,831
Staff costs (including retirement benefit scheme contributions)			(989)
Operating lease rentals			(375)
Unallocated corporate expenses			(4,794)
Profit before taxation			8,673

Segment (loss) profit represents the loss incurred/profit earned by each segment without allocation of certain administration costs and other income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**117,623**	61,507
Depreciation of property, plant and equipment	**5,563**	6,251
Allowance for slow moving inventories (included in cost of sales)	**295**	–
Amortisation of prepaid lease payments	**167**	117
Amortisation of other intangible assets	**271**	–
Net exchange loss	**945**	370
Research and development costs (included in administrative expenses)	**14,803**	–
Share-based payments	**–**	2,880
Interest income	**(525)**	(650)
Gain on disposal of property, plant and equipment	**(8)**	–

6. TAXATION

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**–**	2,225
Overprovision in prior year	**–**	(247)
PRC withholding tax	**–**	407
	–	2,385
Deferred tax:		
Current period	**(3,980)**	756
	(3,980)	3,141

Provision for the PRC Enterprise Income Tax was made based on the estimated taxable profits calculated in accordance with the relevant income tax laws and regulations applicable to the Company's PRC subsidiaries.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

On 6 August 2012, one of the PRC subsidiaries obtained a Hi-tech certificate which is valid for three years. According to GuoShuiHan [2009] No.203, entities qualifying for the Hi-tech status could enjoy a PRC Enterprise Income Tax preferential treatment starting from the year of obtaining the Hi-tech certificate. As a result, this PRC subsidiary was subject to a PRC Enterprise Income Tax of 15% for three years commencing from 2012.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits of PRC entities generated after 1 January 2008 are subject to PRC Enterprise Income Tax which is withheld by the PRC entity at 5% of the dividend distributed. During the six months ended 30 June 2014, deferred tax income of RMB3,980,000 (six months ended 30 June 2013: deferred tax expense of RMB756,000) in respect of the undistributed earnings of the Company's PRC subsidiaries has been (reversed) recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

7. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the current period (six months ended 30 June 2013: nil).

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) earnings		
(Loss) earnings for the period attributable to the owners of the Company for the purpose of calculation of basic and diluted (loss) earnings per share	**(92,299)**	5,532

	Six months ended 30 June	
	2014	2013
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**1,419,792**	1,200,000

During the six months ended 30 June 2014, the computation of diluted loss per share did not assume the issue of contingent consideration shares as set out in note 15 because its effect is antidilutive.

The calculation of diluted loss per share had not taken into consideration the assumed exercise of the Company's outstanding share options during the six months ended 30 June 2014 as it would reduce the loss per share.

During the six months ended 30 June 2013, the computation of diluted earnings per share did not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price of the shares of the Company for the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group disposed of certain motor vehicles with an aggregate carrying amount of RMB80,000 for proceeds of RMB88,000, resulting in a gain on disposal of RMB8,000 (2013: nil).

During the six months ended 30 June 2014, the Group acquired plant, machinery and equipment at a cost of RMB89,000 and furniture and fixtures and office equipment at a cost of RMB14,000. (2013: Leasehold improvements at a cost of RMB30,000, plant, machinery and equipment at a cost of RMB94,000 and motor vehicle at a cost of RMB406,000). The Group also acquired building at a cost of RMB27,060,000, plant, machinery and equipment at RMB968,000, furniture and fixtures and office equipment at RMB452,000 and motor vehicle at RMB229,000, which resulted from acquisition of the Accura Group as set out in note 20. The total additions of property, plant and equipment during the six month ended 30 June 2014 were RMB28,812,000. (2013: RMB530,000)

An impairment loss of RMB18,381,000 was recognised during the current interim period in respect of the plant, machinery and equipment from the individual cash-generating unit of manufacture and sale of advanced steel flow control products segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use were 16.50%.

10. OTHER INTANGIBLE ASSETS

Other intangible assets included RMB2,236,000 technology know-how and RMB10,733,000 customer relationship which are arisen from acquisition of subsidiaries in note 20. The intangible assets are amortised over their estimated useful life of 10 years using the straight line method. Amortisation of RMB271,000 (2013: nil) had been made during the six months ended 30 June 2014.

11. IMPAIRMENT TESTING OF PROVISIONAL GOODWILL

For the purposes of impairment testing, provisional goodwill arising from acquisition of the Accura Group has been allocated to the cash generating unit ("CGU") operating under the segment "Manufacture and sale of paper converting equipment and other relating equipment". During the six months ended 30 June 2014, management of the Group determines that there are no impairment of the CGU containing provisional goodwill.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections covering a 5-year period, based on financial budgets approved by the management and a discount rate of 16.11% per annum. Cash flows beyond the 5-year period are extrapolated with 3% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations of the market development.

12. TRADE RECEIVABLES

The credit period granted by the Group to certain customers is within 180 days (2013: 180 days), while payment from other customers are due immediately when goods are delivered. The following is an aged analysis of trade receivables presented based on the goods delivery date at the end of the reporting period, which approximated the respective revenue recognition dates:

	At 30 June 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
0 – 30 days	**23,837**	18,802
31 – 60 days	**19,016**	16,124
61 – 90 days	**19,771**	19,021
91 – 120 days	**16,728**	16,301
121 – 180 days	**32,615**	24,106
Over 180 days	**96,024**	78,011
	207,991	172,365

The Group has not provided for certain trade receivables which are past due but not impaired because the directors of the Company consider that those receivables are recoverable based on the good payment record of the customers and long established trading history with these customers. The Group does not hold any collateral over these balances.

Allowance on doubtful debts of RMB25,865,000 (2013: nil) recognised during the six months ended 30 June 2014 is based on estimated irrecoverable amounts by reference to the creditability of individual customers, past default experience, subsequent settlement and payment history of the customers. Full provision has been made for individual trade receivables aged over one year with no subsequent settlement as historical evidence shows that such receivables are generally not recoverable, or individual trade receivables which has either been placed under liquidation or in severe financial difficulties.

13. BILLS RECEIVABLES

The aged analysis of bills receivables presented based on the goods delivery date at the end of the reporting period are analysed as follows:

	At 30 June 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
0 – 90 days	**1,600**	–
91 – 120 days	**1,030**	–
121 – 180 days	**2,958**	408
Over 180 days	**29,114**	32,446
	34,702	32,854

At 30 June 2014, the carrying value of bills receivables included bills endorsed to suppliers on a full recourse basis that are not yet due amounting to RMB21,310,000 (31 December 2013: RMB17,822,000). As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables as assets in the condensed consolidated financial statements. The associated trade payables secured over the bills endorsed to the suppliers which were not yet due at the end of reporting period are recognised as current liabilities in the condensed consolidated statement of financial position.

All the bills receivables are denominated in RMB.

The maturity dates of endorsed bills were less than six months from the end of the reporting period.

14. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables, presented based on the goods receipt date at the end of the reporting period.

	At 30 June 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
0 – 30 days	**19,272**	11,198
31 – 60 days	**12,441**	6,160
61 – 90 days	**2,893**	2,337
Over 90 days	**9,210**	9,017
	43,816	28,712

The credit period granted by the suppliers to the Group is within 30 days.

At 30 June 2014, included in the trade payables was RMB21,310,000 (31 December 2013: RMB17,822,000) secured over bills receivables endorsed to suppliers that were not yet due for payment.

15. CONTINGENT CONSIDERATION SHARES

As set out in note 20, as part of the consideration for the acquisition of the Accura Group, the Company was required to issue 112,508,000 new shares in two tranches as consideration shares. Consideration shares of 92,052,000 for 1st tranche of shares was issued during the period ended 30 June 2014 and measured at fair value at the date of its issuance. The remaining 20,456,000 shares, which were subject to adjustment principally based on the Accura Group's profit for the year ending 31 December 2014 (refer to note 20 for details) and are to be settled within one year from the end of current interim period, was classified as a current financial liability in the condensed consolidated statement of financial position and re-measured to provisional fair value at the end of the reporting period. A provisional fair value loss of approximately RMB1,589,000 was included in "administrative expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income accordingly.

16. BANK BORROWING

During the current interim period, the Group obtained a new bank loan amounting to RMB20,000,000 (2013: nil) through acquisition of subsidiaries in note 20. The loan carries a fixed interest at 6.9% per annum and is repayable within one year.

17. SHARE CAPITAL

	Number of shares at HK$0.10 per share *'000*	Amount *HK$'000*
Authorised:		
At 1 January 2013, 30 June 2013, 31 December 2013, 1 January 2014 and 30 June 2014	**3,000,000**	300,000
Issued and fully paid:		
At 1 January 2013, 30 June 2013, 31 December 2013 and 1 January 2014	**1,200,000**	120,000
Issue of shares on 20 January 2014 *(note a)*	**200,000**	20,000
Exercise of share options *(note b)*	**2,400**	240
Issue of shares on 16 April 2014 *(note c)*	**92,052**	9,205
At 30 June 2014	**1,494,452**	149,445
Shown in the condensed consolidated financial statements	**RMB'000**	
At 31 December 2013 (Audited)	**equivalent**	104,201
	RMB'000	
At 30 June 2014 (Unaudited)	**equivalent**	127,494

Notes:

(a) On 20 January 2014, pursuant to the placing and subscription agreement dated 10 January 2014, 200,000,000 ordinary shares of HK$0.10 each were allotted and issued at the price of HK$0.38 per share.

(b) On 21 January 2014, 2,400,000 shares of HK$0.10 each were issued at HK$0.476 per share upon exercise of share options under the share option scheme.

(c) On 16 April 2014, 92,052,000 ordinary shares of HK$0.10 each were allotted and issued at HK$0.59 per share upon the acquisition of the Accura Group as stated in note 20.

18. CAPITAL COMMITMENTS

	At 30 June 2014 *RMB'000* (Unaudited)	At 31 December 2013 *RMB'000* (Audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**4,510**	–

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of the Directors and other members of key management for both periods was as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,296**	1,356
Retirement benefit scheme contributions	**2**	–
Share-based payments	**–**	1,639
	1,298	2,995

The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

20. ACQUISITION OF SUBSIDIARIES

On 7 March 2014, the Company entered into a sale and purchase agreement with an independent third party, Rainbow Phoenix Holdings Limited, to acquire 100% equity interest in Accurate Trade International Limited, a company engaged in investment holding whose subsidiaries are principally engaged in the manufacture and sale of paper converting equipment and other relating equipment, at an aggregate consideration of approximately RMB55,000,000 (valued using the share price of the Company of HK$0.62 per share as at the date of entering into the agreement), subject to profit guarantee and adjustments on consideration as stated below. The acquisition has been completed on 16 April 2014. The purpose of the acquisition is to broaden revenue base and it is the Group's strategy to review from time to time potential business opportunity and investment to enhance the shareholders' value.

Consideration transferred

	RMB'000 (Unaudited)
Consideration shares issued at fair value	43,139
Provisional fair value of contingent consideration shares *(note)*	7,198
	50,337

Note: Based on the sale and purchase agreement dated 7 March 2014, the purchase consideration will be satisfied by the issuance of shares in two tranches ("Consideration Shares") in the following manner:

(i) The 1st tranche, being 92,052,000 of Tranche A Consideration Shares allotted and issued on the completion date; and

(ii) The 2nd tranche, initially being 20,456,000 of Tranche B Consideration Shares, which is subject to the profit guarantee of the Accura Group of not less than RMB10,000,000 for the year ending 31 December 2014.

In case that the profit guarantee stated in above point (ii) could not be met, the number of Tranche B Consideration Shares to be issued shall be the following:

(Actual profit/Profit guarantee) x the initial number of Tranche B Consideration Shares and rounded down to the nearest board lot of the Company at the relevant time.

As at the acquisition date, the directors were of the opinion that the profit guarantee would be met and that 20,456,000 shares would be issuable under the contingent consideration share arrangement. However, as at 30 June 2014, based on the latest forecast, the directors are of the opinion that profit guarantee will not be met and adjustment to the contingent consideration is considered necessary. It is estimated that the Company will be required to issue 17,392,000 new shares as the Tranche B Consideration Shares.

As it relates to additional information obtained by the Group about facts and circumstances at acquisition date, the change in provisional fair value has been accounted for as a measurement period change and adjusted against the consideration transferred and goodwill.

The fair value of the 92,052,000 Tranche A Consideration Shares was valued using share price of HK$0.59 per share, being the share price of the Company on the date of acquisition. Whereas, the provisional fair value of contingent consideration shares on acquisition date is determined using share price of HK$0.59 per share, being the share price of the Company on the date of acquisition, 17,392,000 Tranche B Consideration Shares estimated to be issued on the date of acquisition less a discount for lock up period from the date of acquisition to the end of the reporting period. The number of shares to be issued depends on the actual profit earned by Accura Group for the year ending 31 December 2014, therefore, the provisional fair value was estimated using income approach. The contingent consideration shares was re-measured to provisional fair value as at 30 June 2014 using share price of HK$0.71 per share, being the share price of the Company at the end of the reporting period, 17,392,000 Tranche B Consideration Shares estimated to be issued at the end of the reporting period less a discount for lock up period.

The inputs on the discount for lock up period were as follows:

Expected volatility	35.12%
Expected life	0.71 year
Risk-free rate	0.20%

Acquisition-related costs amounting to RMB767,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the "administrative expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

The net assets of Accura Group at the date of acquisition are as follows:

	Provisional fair value *RMB'000* (Unaudited)
Property, plant and equipment	28,709
Prepaid lease payment	6,440
Other intangible assets	12,969
Inventories	12,263
Trade and other receivables *(Note)*	7,903
Bank balances and cash	220
Trade and other payables	(7,822)
Short-term bank borrowing	(20,000)
Deferred tax liabilities	(4,085)
	36,597

The fair value of property, plant and equipment, prepaid lease payment and other intangible assets at the date of acquisition was valued by Assets Appraisals Limited, an independent qualified valuer not connected to the Group, by reference to market evidence of transaction price for similar properties for building and prepaid lease payment, depreciated replacement cost approach for remaining categories of property, plant and equipment and the income approach based on the expected future cash flows generated from the related intangible assets, respectively.

Note: The trade and other receivables acquired with a fair value of RMB7,903,000 at the date of acquisition had gross contractual amounts of RMB9,142,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB1,239,000.

	RMB'000
	(Unaudited)
Provisional goodwill arising on acquisition	
Consideration shares issued	43,139
Provisional fair value of contingent consideration shares *(note 15)*	7,198
Less: provisional fair value of identifiable net assets acquired	(36,597)
Provisional goodwill arising on acquisition	13,740

Provisional goodwill arose on the acquisition of the Accura Group because the acquisition included the assembled workforce and foreseeable revenue growth and further market development. These assets could not be separately recognised from provisional goodwill because they do not meet the recognition criteria for identifiable intangible assets.

	RMB'000
Net cash inflow arising on acquisition	
Bank balances and cash acquired	220

Impact of acquisition on the results of the Group

During the period ended 30 June 2014, the Accura Group contributed approximately RMB4,631,000 to the Group's revenue and loss of approximately RMB1,859,000 to the Group's results in aggregate for the period from the date of acquisition to 30 June 2014.

If the acquisition of the Accura Group had been completed on 1 January 2014, the Group's revenue for the period ended 30 June 2014 would have been approximately RMB110,141,000 and loss for the period ended 30 June 2014 would have been RMB93,572,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been archived had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

21. EVENTS AFTER THE REPORTING PERIOD

(a) On 7 July 2014, the Company allotted and issued 110,000,000 ordinary shares at a price of HK$0.57 per placing share pursuant to the placing and subscription agreement dated 25 June 2014 entered between the Company, the placing agent and the vendor, Mr. Chen Hong. The net proceeds from the subscription are approximately HK$61 million.

(b) On 24 July 2014, the Company entered into a memorandum of understanding with Abundant Day Limited, a company which is wholly owned by a substantial shareholder of the Company, Mr. Chen Hong, in respect of the possible acquisition of the entire equity interest in Brilliant King Global Limited and its subsidiaries ("Brilliant King Global Group"). The consideration for the possible acquisition of Brilliant King Global Group will be determined after further negotiation between the Company and vendor and may be satisfied by a combination of cash, promissory notes, shares and/or convertible securities. As at the date of the issuance of the report, the formal sale and purchase agreement has not yet been signed.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In the first half of 2014, while the global economy continued its mild recovery, the Chinese economy remained on the path of moderation, with GDP growth rate at about 7.4%. In view of this, the state government has from April 2014 onwards introduced the "Mini Stimulus" policy to stabilise economic growth, which included advancing the railway construction and other supportive economic policies.

In the period under review, the steel market was generally faltering in a weak state brought over from 2013. The oversupply condition remained unresolved as total industry output rose to a new record. According to the data from the National Development and Reform Commission of the PRC, national crude steel production reached 411.91 million tonnes for the first half of 2014, increasing by 3% from the same period last year. Total steel product inventory level in China remained high and reached 13.44 million tonnes as at the beginning of the year 2014. The above unfavourable factors have put huge pressure on and posted harsh challenges to the production and operation of steel enterprises.

Throughout the same period, steel prices have been in an incessant decline. According to the China Iron and Steel Association (CISA), the China Steel Price Index (CSPI), after over 10 weeks of decline since April 2014, dropped to 92.99 in the second half of June, the lowest level since July 2003. The decline of cost of raw material, iron ore, lent no support to the weakness of steel prices and therefore steel enterprises were not able to reap any benefits from the lower raw material prices. The business of the Company was adversely affected because the steel flow control product business is a steel-related industry.

Business Review

The Group is engaged in the manufacture and sale of advanced steel flow control products including subentry nozzle, stopper, tundish nozzle and ladle shroud. The production and operation of steel manufacturers were under tremendous pressure and faced stiff challenges amidst the deteriorating global market and fluctuating iron ore prices. That in turn lower the average selling price of the products and profitability of the Group. Moreover, while the Group incurred higher research and development costs, selling and distribution costs also increased due to higher sales volume. The business and financial performances of the Group for the six months ended 30 June 2014 were therefore negatively affected. Nevertheless, the Group strived to maintain its leading positions in the market for the period under review by solidifying the foothold of its existing steel flow control products business, and at the same time developing new businesses and adopted a diversification strategy to explore opportunities for new sources of income.

Consolidated Customer Base

The Group maintains good reputation in the industry as it applies advanced technology in the design and manufacture of advanced steel flow control products. Therefore, we enjoyed a concrete client base in the PRC market even under weak market conditions. The Group maintains good relations with its clients and works together with them to get through the hard times. Our leadership status remains intact and is recognised by our clients. We are still key suppliers of the top 10 steel manufacturers in the PRC, including Maanshan Steel, Baosteel Group, Shougang Group and Wuhan Steel.

Expanded Growth in Overseas Markets

During the period under review, the global economy has seen a moderate recovery. The management understands the importance of diversifying its customer base and has devoted its efforts to further expand the overseas market while consolidating Chinese market. The Group has built up the reputation of the brand "Sinoref" among the steel industry over the years and has successfully gained good reputation among many of the world's most renowned steel manufacturers, including the world's largest manufacturer, processer and distributor of special long steel products, Carboref GmbH. The Group continues to expand the overseas market and has devoted its efforts to expand the high-end market in mainland China, Asia and Europe. During the period under review, overseas revenue increased from approximately RMB11.4 million to approximately RMB16.9 million over the same period in 2013. The management of the Group is committed to raise the Group's brand awareness overseas aiming at becoming an influential leader in the international market.

Developing Diversified Business

It is the Company's strategy to review from time to time of the potential business opportunity and investments, aiming at seizing development opportunities and providing a sustainable stream of cash flow and profit in the long run, so as to enhance the shareholders' value. The Group made an announcement on 7 March 2014 in relation to its acquisition of the entire issued share capital of Accurate Trade International Limited. The principal subsidiary of Accurate Trade International Limited, namely 雅高機械（太倉）有限公司 (Accura Machinery & Manufacturing (Taicang) Co. Ltd) in Taicang City, Jiangsu Province is principally engaged in sale and production of paper converting equipment and other relating equipment. In view of the profit guarantee of the Accura Group for the year ending 31 December 2014, the Directors consider that the acquisition will provide an excellent opportunity for the development of future business of the Group and broaden its revenue base.

Enhanced Research and Development

As at 30 June 2014, the Group has a total of 18 registered patents. The strong research and development capability is a core competitive edge of the Group that has helped the Group become China's second largest advanced steel flow control product manufacturer just a few years after its founding. Apart from further developing its steel flow control products business, the Group has also been seeking potential opportunities in steel-related as well as non-steel related businesses. During the period under review, the Group further boosted its investment in research and development to further diversify its business. For the six months ended 30 June 2014, the Group's research and development team has 32 professionals, and the expenses on research and development amounted to approximately RMB14.8 million, representing approximately 14% of the Group's total revenue. As a result, the Group has adopted a number of leading self-developed technologies which enable the Group to enjoy a preferential tax rate as a Chinese High-tech Enterprise, supporting future earnings to record new heights.

Financial Review

Revenue

Advanced Steel Flow Control Products

For the six months ended 30 June 2014, the Group's revenue from steel flow control products was approximately RMB102.8 million, representing an increase of approximately 9.7% as compared with approximately RMB93.7 million for the same period in 2013. The revenue increase was mainly due to (i) expand our overseas market from RMB11.4 million for the six months ended 30 June 2013 to RMB16.9 million for the same period in 2014; and (ii) the significant drop in our average selling price to boost our sales. Total sale volume increased by approximately 72.1% from 3,629 tonnes for the six months ended 30 June 2013 to 6,245 tonnes for the same period in 2014.

Paper Converting Equipment and Other Relating Equipment

The Group's had acquired paper converting equipment business in April 2014. The revenue contributed by its paper converting equipment business was approximately RMB4.6 million for the six months ended 30 June 2014.

Cost of Sales

The Group's cost of sales mainly consists of costs of raw materials, labour, depreciation and other costs directly related to sales. During the six months ended 30 June 2014, the Group's cost of sales increased by approximately 87.3% from approximately RMB63.5 million for the six months ended 30 June 2013 to approximately RMB119.0 million. The significant increase was mainly attributable to the increase in our sale volume during the period under review.

Gross (Loss) Profit

Due to the sluggish market demand in the steel industry, the Group experienced a gross loss of approximately RMB11.6 million for the six months ended 30 June 2014. For the six months ended 30 June 2013, the Group recorded a gross profit of approximately RMB30.2 million with approximately 32.2% gross profit margin. The gross loss was mainly resulted from our significant cut down on our average products price in order to capture the market in the current competitive environment.

Impairment Loss Recognised in Respect of Property, Plant and Equipment

Due to the weakening of steel market in China and the continuing decline in steel demand and price, the recoverability of the relevant carrying amounts of the Group's plant and equipment exceeded their recoverable amounts. An impairment loss of approximately RMB18.4 million has been recognised for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil).

Impairment Loss Recognised in Respect of Trade Receivables

As the repayment ability of Chinese steel enterprises deteriorates, an impairment loss for trade receivables has been recognised. For the six months ended 30 June 2014, impairment loss for trade receivables amounted to approximately RMB25.9 million (for the six months ended 30 June 2013: nil).

Selling and Distribution Costs

The Group's selling and distribution costs comprised sales commission, sales staff costs and transportation costs. During the six months ended 30 June 2014, the Group's selling and distribution costs increased by approximately RMB2.3 million to RMB12.7 million, representing an increase of around 22.3% from approximately RMB10.4 million for the six months ended 30 June 2013. The increase was mainly attributable to the increase in sales volume during the period under review.

Administrative Expenses

The Group's administrative expenses increased by around 136.6% from approximately RMB11.8 million for the six months ended 30 June 2013 to approximately RMB27.9 million for the same period ended 30 June 2014. The significant increase was mainly attributable to the increase in research and development expenses of approximately RMB14.8 million. The Group has devoted more resources to research and development for creating more new products to meet with our customers' needs.

Finance Costs

The Group's finance costs were approximately RMB0.4 million for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil). The interest rate for bank loan was at a fixed interest rate of 6.9% per annum.

Taxation

One of the Group's PRC subsidiaries has successfully obtained the Chinese High-tech Enterprise Certification (中國高新技術企業認證). Consequently, this PRC subsidiary was entitled to the PRC Enterprise Income Tax ("EIT") rate of 15% until 2014. The EIT rate for another PRC subsidiary is 25%.

(Loss) Profit and total Comprehensive (Expense) Income for the Period

As a result of the abovementioned challenges, the Group's loss and total comprehensive expense for the period was RMB92.3 million while the profit and total comprehensive income was approximately RMB5.5 million for the six months ended 30 June 2013. The loss was mainly due to a combination of factors, which include (i) the significant drop of our average products price; (ii) impairment loss in respect of property, plant and equipment and (iii) impairment loss in respect of trade receivables. The Group's basic loss per share was approximately RMB6.50 cents for the six months ended 30 June 2014, compared to a basic earnings per share of approximately RMB0.46 cent for the six months ended 30 June 2013.

Interim Dividend

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).

Capital Structure, Liquidity and Financial Resources

During the Period, the Group had completed two placing of existing shares and subscription of new shares. The first placing and the subscription were completed on 10 January 2014 and 20 January 2014 respectively and a total of 200,000,000 shares were allotted and issued at HK$0.38 per new share. The net proceeds raised were approximately HK$75 million. The second placing and the subscription were completed on 26 June 2014 and 7 July 2014 respectively and a total of 110,000,000 shares were allotted and issued at HK$0.57 per new share. The net proceeds raised were approximately HK$61 million. The net proceeds from two placings were intended to be used for general working capital and/or to finance potential investment projects.

For the six months ended 30 June 2014, the Group's net cash used in operating activities was approximately RMB107.9 million (for the six months ended 30 June 2013: RMB25.1 million net cash from operating activities) and the Group's bank balances and cash as at 30 June 2014 was approximately RMB258.7 million (31 December 2013: RMB312.3 million).

Total equity of the Group as at 30 June 2014 was approximately RMB574.4 million (31 December 2013: RMB563.3 million). The Group has an outstanding bank loan of approximately RMB20.0 million as at 30 June 2014 (31 December 2013: nil).

As at 30 June 2014, the Group's gearing ratio, which was calculated on the basis of total borrowings as a percentage of shareholder equity, was 3.5% (as at 31 December 2013: nil).

Pledge of Assets

As at 30 June 2014, the Group pledged certain of its property, plant and equipment and land use rights with aggregate carrying value of approximately RMB34.6 million (as at 31 December 2013: Nil) as collaterals for the bank borrowing granted to the Group.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Except for the acquisition of Accurate Trade International Limited as details in note 20 to the condensed consolidated financial statements, there was no material acquisition/disposal during the period under review.

The Group has always been investing significantly in research and development activities. Such expenditure amounted to about RMB14.8 million for the period ended 30 June 2014.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of 30 June 2014, the total capital commitments by the Group amounted to approximately RMB4.5 million which were mainly made up of contracted/authorised commitments in respect of the acquisition of plant and equipment.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group had not provided any form of guarantee to any company outside of the Group. The Group is not involved in any current material legal proceedings, nor is it aware of any pending or potential material legal proceedings involving the Group.

HUMAN RESOURCES AND STAFF REMUNERATION

As at 30 June 2014, the Group had 382 staff members employed in mainland China and Hong Kong (2013: 240). During the period under review, the Group had continued to devote significant resources to bolster its training programme, providing training and study opportunities for management staff and professional technicians. In addition, the Group has provided timely updates to all staff about the latest government policies related to the industry to continuously enhance the professional standard and quality of the staff. Meanwhile, the Group has provided competitive remuneration for its staff which encourages their commitment and enhances their professionalism.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 21 to the condensed consolidated financial statements.

FUTURE PROSPECTS

Looking ahead, despite the steel industry has been delivering weak performances in the first half of 2014, the management is cautious of its outlook in the second half of the year, given the continuously improving economic conditions and the "Mini Stimulus" policies and supportive policies of the government.

Recently, the National Development and Reform Commission of the PRC has announced a number of favored social investment projects, the first tranche included 80 projects in infrastructure and related fields and most of them involve high steel consumption which means an apparently significant demand for the steel to come. In view of this, it is expected that the oversupply situation can be eased, and we believe that it will boost the demand for our advanced steel flow control products.

In addition, the PRC government has continuously dedicated significant efforts to eliminate obsolete and excess capacity. On the list of the first group of obsolete capacity enterprises to be eliminated recently published by the Ministry of Industry and Information Technology of the PRC, 15 industries are involved, including 44 iron smelting enterprises and 30 steel mills, and a total of 46.86 million tonnes of obsolete and excess capacity will be eliminated in the steel in industry. It is believed that this will create a healthier and balanced supply-demand condition.

To enhance shareholders' value, the Group will follow its strategy to review potential business opportunities and investments from time to time. In addition to the business of manufacturing steel flow control products, the Group is also identifying proper investments with growth potential and capable of providing steady cash flows and profits in the long term. The Group keeps an open attitude towards any complementary business with promising market prospects. On 24 July 2014, the Group entered into a memorandum of understanding with Abundant Day Limited in relation to the possible acquisition of its indirect 65% equity interest in Chongqing Anxuan Safety Industry Investment Co., Ltd. (重慶安軒安全產業發展有限公司) which is principally engaged in the supply and installation of parapets in the PRC. The local governments attach great importance to the safety related industry in the new-type urbanisation drive in China, the possible acquisition, if materialises, represents a good opportunity for the Group to diversify its business and develop a new revenue stream.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report, contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2014, except for Code Provision A.2.1 in respect of the segregation of the roles of chairman and chief executive officer and A.6.7 in respect of the attendant of independent non-executive directors and other non-executive directors in the general meetings.

According to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Xu Yejun, in addition to his duties as the chairman of the Company, is also responsible for the strategic planning and overseeing all aspects of the Group's operations as the chief executive officer of the Company. This constitutes a deviation from Code Provision A.2.1. Mr. Xu Yejun as one of the founders of the Group has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

According to Code Provision A.6.7, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagement, our non-executive Director and one of our independent non-executive Directors could not attend 2013 annual general meeting held on 30 May 2014. However, at the 2013 annual general meeting, there were executive Directors and some independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 June 2014.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the condensed consolidated financial statements for the six months ended 30 June 2014, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor, Deloitte Touche Tohmatsu.

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, redeemed or sold any of the Company's listed securities.

By order of the Board
Sinoref Holdings Limited
Xu Yejun
Chairman

Hong Kong, 25 August 2014

As at the date of this announcement, the executive Directors are Mr. Xu Yejun, Mr. Zhao Ping and Mr. Ho Yuk Hay, the non-executive Director is Mr. Chow Chi Wa, and the independent non-executive Directors are Mr. Yao Enshu, Mr. Tsui Siu Hang Steve and Mr. Wong Kwong Chi.