FOREBASE INTERNATIONAL HOLDINGS LIMITED
申基國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

2014 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") of Forebase International Holdings Limited (the "**Company**") announces that the unaudited condensed consolidated interim financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2014 are as follows:

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	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**153,998**	136,373
Cost of sales		**(156,603)**	(137,436)
Gross loss		**(2,605)**	(1,063)
Other income and gains		**716**	4,123
Selling and distribution expenses		**(3,080)**	(4,080)
Administrative expenses		**(16,986)**	(10,880)
Research and development expenses		**(4,663)**	(1,693)
Other operating expenses		**(11,115)**	(5,066)
Finance costs		**(8,412)**	(396)
Loss before tax		**(46,145)**	(19,055)
Income tax credit (expense)	*5*	**3,652**	(916)
Loss for the period	*6*	**(42,493)**	(19,971)

	Note	Six months ended 30 June **2014** ***HK$'000*** **(Unaudited)**	 2013 *HK$'000* (Unaudited)
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Release of deferred tax upon disposal of investment properties		**1,962**	–
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		**274**	4,048
Other comprehensive income for the period		**2,236**	4,048
Total comprehensive expense for the period		**(40,257)**	(15,923)
Loss per share	*8*		
– Basic and diluted (HK cents)		**(13.12)**	(6.17)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	**30 June 2014 HK$'000 (Unaudited)**	31 December 2013 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*9*	**132,538**	136,259
Investment properties	*10*	**9,600**	29,823
Club memberships		**600**	600
Deposits for purchase of property, plant and equipment		**445**	–
		143,183	166,682
Current assets			
Inventories		**21,967**	26,385
Trade and other receivables	*11*	**66,288**	77,437
Restricted bank deposits		**4,126**	10,007
Bank balances and cash		**74,994**	67,859
		167,375	181,688
Current liabilities			
Trade and other payables	*12*	**70,157**	65,481
Amount due to ultimate holding company		**18,943**	–
Amount due to a director		**21,491**	–
Tax payables		**2,634**	5,239
Obligation under a finance lease		**137**	133
Bank overdrafts		**389**	–
		113,751	70,853
Net current assets		**53,624**	110,835
Total assets less current liabilities		**196,807**	277,517

	Notes	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (Audited)
Capital and reserves			
Share capital	*13*	**90,956**	32,390
Reserves		**(11,059)**	87,677
Equity attributable to owners of the Company and total equity		**79,897**	120,067
Non-current liabilities			
Deferred tax liabilities		**268**	7,647
Obligation under a finance lease		**375**	444
Amount due to ultimate holding company		–	16,565
Amount due to a director		–	16,478
Secured note	*14*	**116,267**	116,316
		116,910	157,450
		196,807	277,517

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 ("**HKAS 34**") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

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 consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation ("**Int**") and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to 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 effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the sales of goods to customers less goods returned and trade discounts, rental income under operating leases and service income from hotel operation.

The Group is principally engaged in the manufacture and sales of electronic components, properties investment and development and hotel operation. The Group's reportable and operating segments, based on information reported to the chief executive officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on goods or services provided are as follows:

(1) Composite components segment

Sales and manufacture of composite components for electronic appliances and communication equipment.

(2) Unit electronic components segment

Sales and manufacture of unit electronic components for electronic appliances and communication equipment.

(3) Properties segment

Leasing office premises to generate rental income and development and sale of properties.

(4) Hotel operation segment

Operation of a resort in Canada.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

During the six months ended 30 June 2014, the Group has a new reportable and operating segment, hotel operation upon the completion of major acquisition of certain assets pertaining to the operation of a resort located in Victoria, British Columbia, Canada in November 2013.

(a) Segment revenue and results

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

Six months ended 30 June 2014

	Composite components *HK$'000* **(Unaudited)**	**Unit electronic components** *HK$'000* **(Unaudited)**	**Properties** *HK$'000* **(Unaudited)**	**Hotel operation** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Revenue	**58,126**	**74,373**	**691**	**20,808**	**153,998**
Segment (loss) profit	**(12,118)**	**(12,010)**	**(6,610)**	**1,730**	**(29,008)**
Unallocated operating income					**716**
Unallocated operating expenses					**(9,441)**
Finance costs					**(8,412)**
Loss before tax					**(46,145)**

Six months ended 30 June 2013

	Composite components *HK$'000* (Unaudited)	Unit electronic components *HK$'000* (Unaudited)	Properties *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Revenue	75,177	60,357	839	136,373
Segment (loss) profit	(8,190)	(7,441)	3,805	(11,826)
Unallocated operating income				949
Unallocated operating expenses				(7,782)
Finance costs				(396)
Loss before tax				(19,055)

Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of part of other income, certain other operating expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	Composite components		Unit electronic components		Properties		Hotel operation		Total	
	30 June 2014	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**53,157**	57,785	**47,458**	52,696	**17,707**	29,843	**107,390**	115,975	**225,712**	256,299
Unallocated assets										
– Restricted bank deposits									**4,126**	10,007
– Bank balances and cash									**74,994**	67,859
– Others									**5,726**	14,205
Consolidated assets									**310,558**	348,370
Segment liabilities	**26,469**	27,064	**33,867**	27,284	**55**	74	**6,083**	7,832	**66,474**	62,254
Unallocated liabilities										
– Bank overdrafts									**389**	–
– Others									**163,798**	166,049
Consolidated liabilities									**230,661**	228,303

For the purposes of monitoring segment performances and allocating resources between segments for the six months ended 30 June 2014 and the year ended 31 December 2013:

- all assets are allocated to reportable segments other than cash and cash equivalents and part of other receivables. Assets used jointly by reportable segments are allocated on the basis of the production capacity; and

- all liabilities are allocated to reportable segments other than part of other payables, amount due to ultimate holding company, amount due to a director, obligation under a finance lease, bank overdrafts, deferred tax liabilities and secured note.

4. SEASONALITY OF OPERATIONS

The sales of composite components segment, unit electronic components segment and hotel operation segment of the Group are subject to seasonal fluctuations, with peak demand in the third quarter of each year.

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax		
Provision for the period	**1,446**	757
Over-provision in prior years	**–**	(22)
	1,446	735
Canada Corporate Tax		
Provision for the period	**319**	–
Deferred tax		
(Credited) charged for the period	**(5,417)**	181
	(3,652)	916

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2014 and 2013 as the Group did not have any assessable profit derived from Hong Kong.

Provision for the PRC Enterprise Income Tax for its subsidiaries in the People's Republic of China (the "**PRC**") are calculated at 25% (2013: 25%) of estimated assessable profits for the six months ended 30 June 2014 and 2013.

The Korea branch operated in Korea is subject to Korean Corporate Income Tax. The basic Korean Corporate Tax rates for the six months ended 30 June 2014 and 2013 are 11% on the first KRW200,000,000 of the tax base and 22% for the excess. In addition to the basic tax rate, there is a resident surcharge of 10% on the income tax liability. No provision for taxation has been made as there is no assessable profit for the six months ended 30 June 2014 and 2013.

Canadian Corporate Tax is calculated at Federal tax rate of 15% and British Columbia provincial tax rate of 11% on the estimated assessable profits for the six months ended 30 June 2014 (2013: nil).

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging (crediting):		
Minimum lease payments for rented premises under operating leases	**3,989**	3,039
Gross rental income less outgoing of approximately HK$190,000 (2013: HK$208,000)	**(502)**	(631)
Cost of inventories recognised as an expense	**87,154**	83,896
Impairment loss recognised on trade and other receivables (included in other operating expenses)	**123**	637
Reversal of impairment loss recognised on trade and other receivables (included in other income and gains)	**–**	(225)
Net foreign exchange losses	**25**	412
Allowance of inventories (included in cost of sales)	**3,206**	2,211
Reversal of allowance of inventories (included in cost of sales)	**(1,561)**	(1,312)
Equity-settled share-based payments (included in other operating expenses)	**87**	–
Depreciation	**5,219**	4,560
Gain on disposal of property, plant and equipment	**–**	(50)
Interest income	**(391)**	(173)
Loss on disposal of investment properties	**4,191**	–
Change in fair value of investment properties	**2,901**	(3,174)

7. DIVIDEND

No dividend was paid, declared or proposed during the interim period (six months ended 30 June 2013: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended 30 June 2013: nil).

8. LOSS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share		
Loss for the period attributable to owners of the Company	**(42,493)**	(19,971)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**323,896,933**	323,896,933

The computation of diluted loss per share does not assume the exercise of the Company's share options as the exercise price of those options was higher than the average market price of the Company's shares for the six months ended 30 June 2014.

The diluted loss per share is the same as basic loss per share as the Company has no dilutive potential shares outstanding for the six months ended 30 June 2014 and 2013.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with a cost of approximately HK$1,565,000 (six months ended 30 June 2013: approximately HK$4,897,000).

The Group had no disposal of property, plant and equipment during the six months ended 30 June 2014 (six months ended 30 June 2013: certain fully depreciated property, plant and equipment were disposed with cash proceeds of HK$50,000, resulting in a gain on disposal of approximately HK$50,000).

As at 30 June 2014, the Group's land and buildings held for own use of approximately HK$108,020,000 (31 December 2013: approximately HK$108,655,000) were pledged to secure secured note issued by the Group.

10. INVESTMENT PROPERTIES

The Group's investment properties as at 30 June 2014 and 31 December 2013 were fair valued by Roma Appraisals Limited, an independent qualified professional valuer not connected to the Group. The fair values are determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available. The resulting decrease in fair value of approximately HK$2,901,000 (six months ended 30 June 2013: increase in fair value of approximately HK$3,174,000) has been recognised directly in profit or loss for the six months ended 30 June 2014.

In addition, during the six months ended 30 June 2014, the Group disposed of certain investment properties with net sales proceeds of approximately RMB10,278,000 (equivalent to approximately HK$12,967,000) (six months ended 30 June 2013: KRW137,500,000 (equivalent to approximately HK$1,023,000)), resulting in a loss on disposal of approximately HK$4,191,000 (six months ended 30 June 2013: nil).

As at 30 June 2014, no investment properties were pledged (31 December 2013: approximately HK$20,223,000) to secure banking facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Trade receivables	**62,354**	62,332
Less: impairment loss recognised	**(10,956)**	(10,960)
	51,398	51,372
Deposits and other receivables	**12,490**	19,275
Prepayments	**2,400**	6,790
Total trade and other receivables	**66,288**	77,437

The Group allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade receivables net of impairment loss presented based on the date of delivery of goods or date of rendering of services which approximated the respective dates on which revenue was recognised.

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 90 days	**50,271**	50,054
91 to 180 days	**1,127**	1,318
	51,398	51,372

12. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**44,236**	42,937
Accrued expenses and other payables	**25,921**	22,544
	70,157	65,481

The average credit period on purchases of goods is 0 to 90 days.

The following is an aged analysis of trade payables presented based on the invoice date.

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 90 days	**41,918**	33,955
91 to 180 days	**78**	412
181 to 365 days	**51**	459
Over 365 days	**2,189**	8,111
	44,236	42,937

13. CAPITAL AND RESERVES

	Share capital	Share premium	Contribution reserve	Properties revaluation reserve	Statutory reserve	Share options reserve	Exchange reserve	Retained profits (accumulated losses)	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June 2013									
At 1 January 2013 (audited)	32,390	58,566	8,478	23,142	10,215	–	(6,686)	40,665	166,770
Loss for the period	–	–	–	–	–	–	–	(19,971)	(19,971)
Other comprehensive income (expense) for the period									
– Release of deferred tax upon disposal of an investment property	–	–	–	27	–	–	–	(27)	–
– Exchange differences arising on translation	–	–	–	–	–	–	4,048	–	4,048
	–	–	–	27	–	–	4,048	(27)	4,048
Total comprehensive income (expense) for the period	–	–	–	27	–	–	4,048	(19,998)	(15,923)
Release upon disposal of an investment property	–	–	–	(294)	–	–	–	294	–
At 30 June 2013 (unaudited)	32,390	58,566	8,478	22,875	10,215	–	(2,638)	20,961	150,847
For the six months ended 30 June 2014									
At 1 January 2014 (audited)	**32,390**	**58,566**	**8,478**	**10,397**	**10,215**	–	**(4,492)**	**4,513**	**120,067**
Loss for the period	–	–	–	–	–	–	–	**(42,493)**	**(42,493)**
Other comprehensive income for the period									
– Release of deferred tax upon disposal of investment properties	–	–	–	**1,962**	–	–	–	–	**1,962**
– Exchange differences arising on translation	–	–	–	–	–	–	**274**	–	**274**
	–	–	–	**1,962**	–	–	**274**	–	**2,236**
Total comprehensive income (expense) for the period	–	–	–	**1,962**	–	–	**274**	**(42,493)**	**(40,257)**
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	**58,566**	**(58,566)**	–	–	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	**87**	–	–	**87**
Release upon disposal of investment properties	–	–	–	**(11,890)**	–	–	–	**11,890**	–
At 30 June 2014 (unaudited)	**90,956**	–	**8,478**	**469**	**10,215**	**87**	**(4,218)**	**(26,090)**	**79,897**

14. SECURED NOTE

On 20 November 2013, the Company issued a 13% guaranteed senior secured note due 2014 with aggregate principal amount of US$15,000,000 (equivalent to approximately HK$116,271,000) (the "**Notes**"). The Notes are guaranteed by two directors of the Company, have a maturity term of two years and bear a fixed interest rate of 13% per annum with interest payable annually in arrears. The Notes are secured by, among other things, the land and buildings of approximately HK$108,020,000 of the Group as at 30 June 2014 (31 December 2013: HK$108,655,000).

The proceeds of approximately US$15,000,000 (equivalent to approximately HK$116,271,000) was used for financing the acquisition of certain assets pertaining to the operation of a resort located in Victoria, British Columbia, Canada.

In the opinions of the directors of the Company, the effective interest rate of the secured note approximated to the nominal interest rate of 13% per annum.

The carrying amount of the secured note was approximately HK$116,267,000 as at 30 June 2014 (31 December 2013: HK$116,316,000).

15. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The share option scheme (the "**Old Scheme**") adopted by the Company on 16 June 2003 expired on 15 June 2013. The Company has adopted a new share option scheme (the "**New Scheme**") on 3 June 2013 whereby the directors of the Company are authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including directors of any member of the Group), advisers and consultants, to take up options to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share of the Company. The New Scheme shall be valid and effective for a period of ten years ending on 2 June 2023, after which no further options can be granted.

The table below discloses movement of the Company's share options held by a director of the Company:

	Number of share options
Outstanding as at 30 June 2013 and 1 January 2014	–
Granted during the period	3,238,969
Outstanding as at 30 June 2014	3,238,969

The closing price of the Company's shares immediately before 10 June 2014, the date of grant, was HK$2.38. The validity period of the share options is 10 years from the date of grant of the share options and the share options will be vested on 31 March 2017.

In the current interim period, share options were granted on 10 June 2014. The fair value of the options determined at the date of grant using the Binomial model was approximately HK$4,172,000.

The following assumptions were used to calculate the fair value of the share options:

	10 June 2014
Grant date share price	HK$2.38
Exercise price	HK$2.41
Expected life	10 years
Expected volatility	54.65%
Dividend yield	0%
Risk-free interest rate	2.053%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) On 24 July 2014, the Company entered into an agreement with Mr. Shen Yong, the chairman of the board, an executive director and a beneficial owner of 60% equity interest in Ultra Harvest Limited. Pursuant to which the Company has conditionally agreed to purchase, and the vendor has conditionally agreed to sell the entire issued share capital of Best Dollar International Limited and its subsidiaries, at a consideration of HK$10,000,000. The consideration will be satisfied by way of allotment and issue of 4,000,000 new shares, representing approximately 1.22% of the issued share capital of the Company. Details of the proposed acquisition are set out in the Company's announcement dated 24 July 2014 and circular dated 22 August 2014.

The proposed acquisition is not yet completed up to the report date.

(ii) On 31 July 2014, the Company entered into a placing agreement with a placing agent, Ample Orient Capital Limited. Pursuant to the placing agreement, the placing agent has agreed to endeavour to procure placees who are not and whose ultimate beneficial owner(s), if applicable, are not, connected persons of the Company on a best effort basis to subscribe for the bonds in an aggregated principal amount of up to HK$200,000,000 within the placing period. The bonds will be placed in denomination of HK$5,000,000. Details are set out in the Company's announcement dated 31 July 2014.

The placing is not yet completed up to the report date.

Saved as disclosed above, the Group did not have any other significant events which took place subsequent to the end of the reporting period.

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).

FINANCIAL REVIEW

Because of the completion of major acquisition of certain assets pertaining to the operation of a resort located in Victoria, British Columbia, Canada in November 2013, the Group has a new segment – hotel operation. Accordingly, the Group's turnover increased by approximately 12.9% to approximately HK$153,998,000, as compared with the corresponding period last year. Cost of sales increased by approximately HK$19,167,000 or 13.9% to approximately HK$156,603,000 which was in line with the increase in revenue.

Other income and gains for the six months ended 30 June 2014 decreased by approximately HK$3,407,000 as compared with the corresponding period last year. The decrease was primarily due to increase in fair value of investment properties during the period ended 30 June 2013 while no such item reported this period.

Operating expenses for the six months ended 30 June 2014 increased by approximately HK$14,125,000 or 65.0% as compared with the corresponding period last year. The increase was mainly due to net effect of increase in administrative expenses arising from the acquisition of the resort that accounted for the entire interim review period, recognition of fair value losses and loss on disposal of certain investment properties (included in other operating expenses) of approximately HK$7,092,000 and increase in research and development expenses of approximately HK$2,970,000 arising from setting up of a research and development office in Korea in June 2014.

The increase in finance costs was mainly due to the interest charged on the secured note issued by the Group in November 2013.

Taxation represented a net tax credit of approximately HK$3,652,000 as compared to income tax expenses of approximately HK$916,000 in the corresponding period last year. The difference was due to a deferred tax credit arising from the disposal of certain investment properties during the period under review.

As a result of the foregoing, the Group reported a loss for the period of approximately HK$42,493,000 as compared to approximately HK$19,971,000 recorded in the corresponding period last year.

Liquidity and Financial Resources

As at 30 June 2014, the Group's net current assets amounted to approximately HK$53,624,000 (31 December 2013: approximately HK$110,835,000).

Current ratio, being the ratio of current assets to current liabilities, decreased from 2.56 as at 31 December 2013 to 1.47 as at 30 June 2014. The decrease in ratio mainly reflected the decrease in current assets and increase in current liabilities.

As at 30 June 2014, the Group's restricted bank deposits and bank and cash balances amounted to approximately HK$79,120,000 (31 December 2013: approximately HK$77,866,000) and bank overdrafts amounted to approximately HK$389,000 (31 December 2013: nil).

Charge on Assets

As at 30 June 2014, the Group's bank deposits of approximately HK$4,126,000 and land and buildings held for own use of approximately HK$108,020,000 (31 December 2013: bank deposits of approximately HK$10,007,000, land and buildings held for own use of approximately HK$108,655,000 and investment properties of approximately HK$20,223,000) were pledged to secure banking facilities granted to and secured note issued by the Group.

Capital Structure

For the six months ended 30 June 2014, the Group financed its liquidity requirements through a combination of cash flow as generated from operations, secured note, advances from a director and ultimate holding company.

Capital Commitment and Contingent Liabilities

As at 30 June 2014, the Group had capital commitments of approximately HK$264,000 (31 December 2013: nil) in respect of acquisition of property, plant and equipment and approximately HK$21,714,000 (31 December 2013: approximately HK$22,290,000) as operating lease commitments. As at 30 June 2014, the Group did not have any significant contingent liabilities.

Investment Activities

The Group did not make any material acquisition or disposal of any of its subsidiaries or associated company for the six months ended 30 June 2014.

Staff and Remuneration Policies

As at 30 June 2014, the Group had approximately 889 employees, including 712 based in the PRC, 39 based in Hong Kong, 108 based in Canada and 30 based in Korea. Staff costs for the six months ended 30 June 2014 were approximately HK$49,380,000, representing an increase of approximately HK$20,617,000 as compared to approximately HK$28,763,000 in the corresponding period last year.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Group. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

Foreign Exchange Fluctuation and Hedge

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Renminbi, United States Dollar, Korean Won and Canadian Dollar. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investment in foreign operations. During the six months ended 30 June 2014, the Group did not enter into any forward foreign currency contracts.

BUSINESS REVIEW

For the six months ended 30 June 2014, revenue from composite components business decreased by approximately 22.7% to approximately HK$58,126,000, as compared with approximately HK$75,177,000 for the corresponding period last year. The decrease was mainly attributable to decrease in sales of tuner modules for home audios and sales of dual docking systems. The revenue amount represented approximately 37.7% of the Group's total revenue.

Revenue from unit electronic components business amounted to approximately HK$74,373,000, representing an increase of approximately 23.2% as compared to approximately HK$60,357,000 over the corresponding period last year. The increase was mainly due to increase in customer orders. The revenue amount represented approximately 48.3% of the Group's total revenue.

Revenue from properties business decreased by approximately HK$148,000 from approximately HK$839,000 in the corresponding period last year to approximately HK$691,000 for the six months ended 30 June 2014. The decrease was due to disposal of the Group's investment properties in the PRC during the six months ended 30 June 2014. The revenue amount represented approximately 0.5% of the Group's total revenue.

Revenue generated from hotel operation in Canada contributed approximately HK$20,808,000 for the six months ended 30 June 2014 which represented 13.5% of the Group's total revenue.

PROSPECTS

Looking forward, the Group anticipates that the consumer electronics market is still stagnant and the demand for electronic components will remain challenging with no signs of recovery. The rising trend in costs of both labour and materials is expected to continue to place repeated pressure on profit margin. To cope with the challenges of intense competition and hostile environment, the Group will adopt appropriate business strategies to weaken continuing impacts from these tough conditions and to inspire a turnaround for the Group. The Group expects that its turnaround strategy will eventually help deliver competitive returns to the Company's shareholders in the long term.

In addition, the Group will strive to boost up revenue from the Canadian resort in all aspects by introducing tourists from the Mainland and other countries.

As announced on 24 July 2014, the Company has initiated to acquire a target group holding a parcel of land in Yunnan Province, the PRC with a view to developing a hotel and residential composite. The Group has also been actively exploring other investment opportunities in hotel operation, property investment and development both in the PRC and other overseas countries which can enhance the shareholders' return and are within the core competence of the Group, when materialized and completed, the Company will make further announcement(s) should any acquisition(s) materialized to comply with the Listing Rules as and when required.

Investor Relations

The Company values its relationship with investors, and guided by its management philosophy, is committed to maintaining transparency of operational performance and strategic development plans. The management communicates continually with analysts and institutional investors and provides them with up-to-date comprehensive information regarding the Company's development. The Company practices timely dissemination of information and makes sure its website www.kse.com.hk contains the most current information, including annual reports, interim reports, announcements, monthly returns and press releases, and is updated in a timely manner to maintain transparency.

Corporate Social Responsibility

As a caring corporation, the Group has been active in fulfilling its social responsibility to the interest of all stakeholders and society. The Group's corporate social responsibility efforts fall into the three following categories:

Marketplace

In the interest of shareholders, the Group adheres to the business objectives of contributing to the sustainable development of the electronics industry, improving consumer electronics to heighten product efficiency and delivering the best end-user experience. To these ends, the Group invests substantially in research and development and internal quality control to ensure the continuous delivery of quality and reliable products to customers. The Company complies with the requirements of ISO/TS 16949:2009 on design and manufacture of its car tuners and ISO 9001:2008 on production and servicing of electronic products. These products include transformers, intermediate frequency transformers, antennas, filters, coils, coil inductors, electrical meters, dielectric filters, tuners, tuner modules, wireless modules, switching mode power supplies, digital tuner modules for DAB and digital amplifiers. The Group has also frequently received customers' performance certificates that signified recognition of the Group's professional procedures and appreciation of product quality.

The Group recognises the need and the cross-fertilisation benefits of collaboration between industry and academia. It hopes to ride on the resources of universities and selected research institutes to customise training courses and programmes that can help develop the business and professional competence of its people in successfully competing globally. In return, the Group provides consultancy services, financial aid and internships to university students.

Employee Health and Welfare

Caring about the health and work safety of its staff, the Group has introduced appropriate safety systems and processes to minimise staffs exposure to potential hazardous materials or adverse working conditions. As an equal opportunity employer, the Group strives to provide a fair work environment to employees and does not tolerate any form of harassment or discrimination in respect of employment and occupation. To retain the best talents, the Group ensures its employee remuneration packages are competitive and that rewards are linked with performance excellence.

The Group also encourages employees to enroll in external job-related courses and sponsors these initiatives when appropriate. As part of the orientation procedure, all new employees are required to participate in programmes on topics include internal control and information protection, ISO and quality management systems.

The Group also arranges regular health checks for all employees to protect their health and therefore maintain their productivity at work. In case of sickness, employees are protected by comprehensive group medical insurance policies. Retirement and comprehensive pension funds are also provided to employees in accordance to relevant legislation.

Environment and Community

The Company complies with the requirements of ISO 14001:2004 on environmental management systems and procedures.

The Group also continues to make sure its products comply with the European Union's environmental protection guidelines including the Directive on the Restriction of the use of certain Hazardous Substances in Electrical Equipment ("**RoHS**") for manufacturing activities. All products manufactured by the Group are lead-free and RoHS compliant.

The Group also encourages employees to save energy and resources. To cut down on paper consumption, the Group encourages double-sided printing and printing when necessary only. The Group also relays energy saving tips to staff members through a daily learning programme. To fulfill its commitment to the society during the year, the Company has also provided donations to charities to help the needy.

OTHER INFORMATION

Corporate Governance

The Company is committed to achieving a high standard of practices of corporate governance so as to ensure the protection of shareholders' interests with better transparency. The Company has complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2014, except for the following:

The Company held its annual general meeting on 30 May 2014 (the "**AGM**"). Code Provision E.1.2 stipulates that the Chairman of the Board should attend the AGM. Due to other business engagements, the Chairman of the Board was unable to attend the AGM.

The Company will continue to create excellent conditions for independent non-executive directors and (if any) non-executive directors to attend general meetings, so as to support non-executive directors to respond to shareholders' questions in the general meetings.

Model Code for Securities Transactions by Directors

The Company has adopted Appendix 10, Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "**Model Code**") as the code of practice for carrying out securities transactions by the directors of the Company. The Company, having made specific enquiries to all directors of the Company, confirmed that throughout the six months ended 30 June 2014, all directors have complied with the code provisions as set out in the Model Code. The relevant employees who, because of their office in the Company, are likely to be in possession of unpublished inside information, have been requested to comply with the provisions of the Model Code.

Purchase, Sale or Redemption of the Company's Listed Securities

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 2014.

Review of Accounts

The audit committee of the Board (the "**Audit Committee**") has reviewed and discussed with the management of the Company the accounting principles and practices, financial reporting process, internal control matters, and the unaudited interim financial results for the six months ended 30 June 2014. The Audit Committee consists of three independent non-executive directors of which at least one of them has appropriate professional qualifications and experience in financial matters.

Publication of the Final Results and Annual Report

This results announcement has been published on the Company's website at www.kse.com.hk and the website of the Stock Exchange at www.hkexnews.hk. The relevant interim report is expected to be despatched to shareholders on or before Tuesday, 30 September 2014, which will be also made available on the websites of the Company and the Stock Exchange.

By order of the Board
Forebase International Holdings Limited
SHEN YONG
Chairman

Hong Kong, 29 August 2014

As at the date hereof, the Board comprises six executive directors Mr. SHEN Yong, Mr. KWAN Man Kit Edmond, Mr. Ronald Lew PODLAS, Mr. SHEN Ke, Mr. LI Zhi and Mr. HONG Sang Joon; and three independent non-executive directors Mr. YU Lei, Ms. ZHANG Cui Lan and Mr. Ernst Rudolf ZIMMERMANN.