



中昊科技集團有限公司

Sunrise (China) Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

GREEN ENERGY TOWARDS
SUSTAINABLE DEVELOPMENT

Interim Report 2014



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This report, for which the directors (the “Directors”) of Sunrise (China) Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014, together with the comparative figures as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 30 June 2014

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|--|-------|------------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 (restated) | 2014 HK\$'000 | 2013 HK\$'000 (restated) |
| Continuing operations | | | | | |
| Revenue | | 4,180 | 5,111 | 7,048 | 24,439 |
| Cost of sales | | (3,601) | (3,460) | (6,328) | (16,032) |
| Gross profit | | 579 | 1,651 | 720 | 8,407 |
| Other income and gains | | 115 | 136 | 115 | 23,394 |
| Selling and distribution expenses | | (7) | (84) | (47) | (154) |
| Administrative expenses | | (2,688) | (6,535) | (5,287) | (11,212) |
| Other operating expenses | | – | (585) | (1) | (585) |
| Finance costs | 3 | (1,373) | (3,994) | (2,376) | (8,019) |
| (Loss)/profit before tax | 4 | (3,374) | (9,411) | (6,876) | 11,831 |
| Income tax | 5 | (3) | (82) | (3) | (6,940) |
| (Loss)/profit for the period from continuing operations | | (3,377) | (9,493) | (6,879) | 4,891 |
| Discontinued operations | | | | | |
| Profit for the period from discontinued operations | 6 | – | 17,368 | 50,591 | 19,279 |
| (Loss)/profit for the period | | (3,377) | 7,875 | 43,712 | 24,170 |
| Other comprehensive (expense)/income | | | | | |
| Exchange differences on translating foreign operations | | (15) | 3,423 | (1,005) | 7,738 |
| Other comprehensive (expense)/income for the period, net of tax | | (15) | 3,423 | (1,005) | 7,738 |
| Total comprehensive (expense)/income for the period | | (3,392) | 11,298 | 42,707 | 31,908 |

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|--|-------|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | | 2014 HK\$'000 | 2013 HK\$'000 (restated) | 2014 HK\$'000 | 2013 HK\$'000 (restated) |
| (Loss)/profit for the period from continuing and discontinued operations attributable to: | | | | | |
| Owners of the Company | | (3,499) | (2,074) | 43,785 | 4,338 |
| Non-controlling interests | | 122 | 9,949 | (73) | 19,832 |
| | | <u>(3,377)</u> | <u>7,875</u> | <u>43,712</u> | <u>24,170</u> |
| (Loss)/profit for the period from continuing operations attributable to: | | | | | |
| Owners of the Company | | (3,499) | (9,322) | (6,978) | (5,019) |
| Non-controlling interests | | 122 | (171) | 99 | 9,910 |
| | | <u>(3,377)</u> | <u>(9,493)</u> | <u>(6,879)</u> | <u>4,891</u> |
| Total comprehensive (expense)/income attributable to: | | | | | |
| Owners of the Company | | (3,500) | (1,389) | 42,994 | 8,006 |
| Non-controlling interests | | 108 | 12,687 | (287) | 23,902 |
| | | <u>(3,392)</u> | <u>11,298</u> | <u>42,707</u> | <u>31,908</u> |
| (Loss)/earnings per share | | | | | |
| From continuing and discontinued operations | | | | | |
| – Basic and diluted (<i>in cents</i>) | 7 | <u>(0.81)</u> | <u>(0.48)</u> | <u>10.14</u> | <u>1.00</u> |
| From continuing operations | | | | | |
| – Basic and diluted (<i>in cents</i>) | 7 | <u>(0.81)</u> | <u>(2.16)</u> | <u>(1.62)</u> | <u>(1.16)</u> |

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2014

| | | As at | |
|---|-------|-----------------|---------------------|
| | | 30 June 2014 | 31 December 2013 |
| | Notes | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 80,362 | 81,681 |
| Prepaid land lease payments | | 6,031 | 6,210 |
| | | <u>86,393</u> | <u>87,891</u> |
| Current assets | | | |
| Inventories | | 25,207 | 28,623 |
| Trade receivables | 9 | 61,593 | 58,650 |
| Prepayments, deposits and other receivables | | 24,410 | 28,524 |
| Cash and bank balances | | 135 | 543 |
| | | <u>111,345</u> | <u>116,340</u> |
| Assets classified as held for sale | 10 | – | 87,570 |
| | | <u>111,345</u> | <u>203,910</u> |
| Current liabilities | | | |
| Trade payables | 11 | 25,601 | 16,729 |
| Other payables and accruals | | 7,758 | 19,910 |
| Amount due to a director | | 243 | – |
| Amounts due to noteholder | 12 | 20,448 | 45,970 |
| Tax payable | | 85 | 98 |
| | | <u>54,135</u> | <u>82,707</u> |
| Liabilities directly associated with assets classified as held for sale | 10 | – | 108,189 |
| | | <u>54,135</u> | <u>190,896</u> |
| Net current assets | | <u>57,210</u> | <u>13,014</u> |
| Total assets less current liabilities | | <u>143,603</u> | <u>100,905</u> |

| | | As at | |
|--|--------------|-----------------------|---------------------|
| | | 30 June 2014 | 31 December 2013 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current liabilities | | | |
| Unlisted warrants | | 9,076 | 9,076 |
| Deferred tax liabilities | | 931 | 950 |
| | | <u>10,007</u> | <u>10,026</u> |
| Net assets | | <u>133,596</u> | <u>90,879</u> |
| Capital and reserves | | | |
| Issued capital | 13 | 4,318 | 4,318 |
| Reserves | | <u>101,189</u> | <u>58,195</u> |
| Equity attributable to owners of the Company | | 105,507 | 62,513 |
| Non-controlling interests | | <u>28,089</u> | <u>28,366</u> |
| Total equity | | <u>133,596</u> | <u>90,879</u> |

Condensed Consolidated Statement of Changes in Equity (Unaudited)*For the six months ended 30 June 2014*

| | Share capital | Share premium | Asset revaluation reserve | Statutory reserves | Share option reserve | Merger reserve | Exchange fluctuation reserve | Accumulated losses | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
|--|---------------|----------------|---------------------------|------------------------|----------------------|------------------------|------------------------------|--------------------|--|---------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | (Note (a)) HK\$'000 | HK\$'000 | (Note (b)) HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2013 | 4,318 | 165,417 | 11,293 | 12,828 | 24,572 | 2,441 | 23,309 | (116,069) | 128,109 | 172,945 | 301,054 |
| Total comprehensive income for the period | - | - | - | - | - | - | 3,668 | 4,338 | 8,006 | 23,902 | 31,908 |
| Share option forfeited | - | - | - | - | (2,423) | - | - | 2,423 | - | - | - |
| Transfer from retained earnings | - | - | - | 13,240 | - | - | - | (13,599) | (359) | - | (359) |
| At 30 June 2013 | <u>4,318</u> | <u>165,417</u> | <u>11,293</u> | <u>26,068</u> | <u>22,149</u> | <u>2,441</u> | <u>26,977</u> | <u>(122,907)</u> | <u>135,756</u> | <u>196,847</u> | <u>332,603</u> |
| At 1 January 2014 | 4,318 | 165,417 | - | 815 | 22,149 | - | 2,573 | (132,759) | 62,513 | 28,366 | 90,879 |
| Total comprehensive (expense)/income for the period | - | - | - | - | - | - | (791) | 43,785 | 42,994 | (287) | 42,707 |
| Increase in non-controlling interest arising on disposal of subsidiaries | - | - | - | - | - | - | - | - | - | 10 | 10 |
| Transfer to retained earnings on disposal of a subsidiary | - | - | - | (815) | - | - | - | 815 | - | - | - |
| At 30 June 2014 | <u>4,318</u> | <u>165,417</u> | <u>-</u> | <u>-</u> | <u>22,149</u> | <u>-</u> | <u>1,782</u> | <u>(88,159)</u> | <u>105,507</u> | <u>28,089</u> | <u>133,596</u> |

Notes:

(a) Statutory reserves

Pursuant to the articles of association of the group entities in the People's Republic of China ("PRC" or "Mainland China"), appropriations are made from the retained earnings to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in Mainland China. Such appropriations to reserves would be made only with approval from the board of directors of those group entities.

(b) Merger reserve

Merger reserve of the Group at 1 January 2013 and 30 June 2013 represents the difference between the nominal value of the shares issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares in 2002.

Condensed Consolidated Statement of Cash Flows (Unaudited)*For the six months ended 30 June 2014*

| | For the six months ended | |
|---|---------------------------------|------------|
| | 30 June | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| Net cash (used in)/from operating activities | (22,542) | 94,797 |
| Net cash from/(used in) investing activities | 50,981 | (41,021) |
| Net cash used in financing activities | (27,781) | (16,606) |
| Net increase in cash and cash equivalents | 658 | 37,170 |
| Cash and cash equivalents at beginning of the period | 543 | 93,822 |
| Effect of exchange rate changes | (1,066) | 4,722 |
| Cash and cash equivalents at end of the period | 135 | 135,714 |
| Analysis of the balances of cash and cash equivalents at end of the period: | | |
| Bank balances and cash | 135 | 41,801 |
| Bank balances and cash included in assets reclassified as held for sale | – | 93,913 |
| | 135 | 135,714 |

Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands, and the issued shares of which are listed on GEM of the Stock Exchange.

During the period, the Group was involved in environmental related businesses.

The condensed consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the same as the functional currency of the Company.

In the opinion of the directors, the immediate holding company and ultimate holding company of the Company is Zhongyu Group Holdings Limited, which is incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the GEM Listing Rules.

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 at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in the exchange for goods.

The accounting policies and method of computation used in preparing the financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2013.

The Group has adopted certain new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “HKFRSs”) that are effective for the current accounting period. The adoption of the new/revised HKFRSs has no material impact on the Group’s financial statements.

The Group has not early adopted the new/revised HKFRSs, that have been issued but are yet effective, and are potentially relevant to the Group’s financial statements.

The condensed consolidated financial statements are presented to reflect the discontinued operations. Prior year’s comparative figures have been restated to conform with the current period’s presentation.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. FINANCE COSTS

| | For the three months ended 30 June | | For the six months ended 30 June | |
|----------------------------|---------------------------------------|--------------|-------------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on: | | | | |
| – Loan from a third party | – | 1,835 | – | 3,740 |
| – Convertible loan notes | – | 2,159 | – | 4,279 |
| – Amount due to noteholder | 1,373 | – | 2,376 | – |
| | 1,373 | 3,994 | 2,376 | 8,019 |

4. (LOSS)/PROFIT BEFORE TAX

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|----------|-------------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 658 | 316 | 1,319 | 633 |
| Amortisation of prepaid land lease payments | 33 | 33 | 67 | 67 |
| Exchange (gains)/losses, net | (116) | 585 | (115) | 585 |
| Rental charges on land and buildings under operating leases | 455 | 367 | 910 | 735 |

5. INCOME TAX

| | For the three months ended 30 June | | For the six months ended 30 June | |
|------------------------------------|---------------------------------------|-----------|-------------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current tax | | | | |
| – PRC Enterprise Income Tax | – | (67) | – | 6,791 |
| – Under provision in prior periods | 3 | 149 | 3 | 149 |
| Total tax charge for the period | 3 | 82 | 3 | 6,940 |

No provision for Hong Kong profits tax has been made for both of the periods presented as the Group did not generate any assessable profits arising in Hong Kong during those periods.

The subsidiaries established in the PRC are subject to PRC Enterprise Income Tax at 25% for both of the periods presented. A PRC subsidiary was registered as a Hi-New Technology Enterprise by the relevant government authority in the PRC and is subjected to the PRC corporate tax at the rate of 15%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

6. DISCONTINUED OPERATIONS

On 18 July 2013, following the disposal of the Company's subsidiary, Taraki Inc., the Group discontinued its business of manufacture and sales of loudspeaker systems.

On 30 January 2014, following the disposal of the Company's subsidiary, Confident Echo Holdings Limited, the Group discontinued its business of provision of technological desulphurization service.

An analysis of the results attributable to the discontinued operations is as follows:

| | 1.1.2014 to 30.1.2014 Confident Echo HK\$'000 | For the six months ended 30 June 2013 | | |
|--|--|--|----------------------------|-------------------|
| | | Confident Echo HK\$'000 | Taraki Inc. HK\$'000 | Total HK\$'000 |
| (Loss)/profit of the discontinued operations | (352) | (3,654) | 22,933 | 19,279 |
| Gain on disposal of subsidiaries | 50,943 | — | — | — |
| Profit/(loss) for the period from discontinued operations | 50,591 | (3,654) | 22,933 | 19,279 |
| Profit/(loss) for the period from discontinued operations attributable to: | | | | |
| Owners of the Company | 50,763 | (2,841) | 12,198 | 9,357 |
| Non-controlling interests | (172) | (813) | 10,735 | 9,922 |
| | 50,591 | (3,654) | 22,933 | 19,279 |

The (loss)/profit of the discontinued operations are analysed as follows:

| | 1.1.2014 to 30.1.2014 | For the six months ended 30 June 2013 | | Total HK\$'000 |
|---|--|--|-------------------------------------|---------------------------|
| | Confident Echo HK\$'000 | Confident Echo HK\$'000 | Taraki Inc. HK\$'000 | |
| Revenue | – | – | 353,306 | 353,306 |
| Cost of sales | – | (7) | (258,525) | (258,532) |
| Gross (loss)/profit | – | (7) | 94,781 | 94,774 |
| Other income and gains | – | 185 | 14,136 | 14,321 |
| Selling and distribution expenses | (96) | (184) | (16,355) | (16,539) |
| Administrative expenses | (256) | (4,405) | (60,351) | (64,756) |
| Other operating expenses | – | – | (5,668) | (5,668) |
| Finance costs | – | – | (2,596) | (2,596) |
| (Loss)/profit before tax | (352) | (4,411) | 23,947 | 19,536 |
| Income tax | – | 757 | (1,014) | (257) |
| (Loss)/profit for the period of the discontinued operations | (352) | (3,654) | 22,933 | 19,279 |

7. (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:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---|--------------------------|---|--------------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| (Loss)/earnings – From continuing and discontinued operation | | | | |
| (Loss)/earnings for the purposes of calculating basic and diluted earnings per share | (3,499) | (2,074) | 43,785 | 4,338 |
| Loss – From continuing operations | | | | |
| Loss for the purposes of calculating basic and diluted earnings for share | (3,499) | (9,322) | (6,978) | (5,019) |
| Number of shares – From continuing and discontinued operations and from continuing operations | | | | |
| Number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share | 431,765 | 431,765 | 431,765 | 431,765 |

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 June 2014 and 2013 in respect of a dilution as the impact of the unlisted warrants and convertible loan notes during these periods had either no dilutive effect or an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK\$Nil).

9. TRADE RECEIVABLES

| | As at | |
|--|-----------------------------|---------------------------------|
| | 30 June 2014 HK\$'000 | 31 December 2013 HK\$'000 |
| Trade receivables | 61,593 | 104,893 |
| Less: Impairment loss recognised | – | (23,209) |
| | <u>61,593</u> | <u>81,684</u> |
| Less: Reclassified to assets classified as held for sale | – | (23,034) |
| | <u>61,593</u> | <u>58,650</u> |

The aging analysis of trade receivables, net of impairment, prepared based on delivery date is as follows:

| | As at | |
|--------------------|-----------------------------|---------------------------------|
| | 30 June 2014 HK\$'000 | 31 December 2013 HK\$'000 |
| Within 90 days | 4,723 | 29,956 |
| 91 – 180 days | 3,202 | – |
| 181 – 365 days | 24,781 | 12,412 |
| More than 365 days | 28,887 | 39,316 |
| | <u>61,593</u> | <u>81,684</u> |

10. DISPOSAL OF SUBSIDIARIES/ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 30 January 2014, the Company disposed of 51% equity interest in a subsidiary, Confident Echo Holdings Limited, for a cash consideration of HK\$50,980,962, of which a cash deposit of HK\$21,000,000 was received by the Company up to 31 December 2013. Confident Echo, through its subsidiaries established in the PRC, is principally engaged in the provision of technological desulphurization service.

| | |
|--------------------------------|-----------------|
| Consideration received: | <i>HK\$'000</i> |
| Consideration received in cash | <u>50,981</u> |

The consolidated assets and liabilities of Confident Echo and its subsidiaries are analysed as follows:

| | As at | |
|--|--------------------------------|---------------------------------|
| | 30 January 2014 HK\$'000 | 31 December 2013 HK\$'000 |
| Assets | | |
| Property, plant and equipment | 2,377 | 2,371 |
| Intangible assets | 2,144 | 2,144 |
| Amounts due from customers for contract work | 30,248 | 30,163 |
| Trade receivables | 23,099 | 23,034 |
| Prepayments, deposits and other receivables | 12,756 | 12,714 |
| Restricted bank deposits | 14,000 | 13,960 |
| Bank balances and cash | 3,194 | 3,184 |
| | <u>87,818</u> | <u>87,570</u> |
| Liabilities | | |
| Trade payables | (13,846) | (13,806) |
| Accruals and other payables | (73,405) | (72,847) |
| Deferred tax liabilities | (536) | (536) |
| | <u>(87,787)</u> | <u>(87,189)</u> |
| Liabilities of Confident Echo and its subsidiaries | (87,787) | (87,189) |
| Deposit received on disposal of Confident Echo | – | (21,000) |
| | <u>(87,787)</u> | <u>(108,189)</u> |
| Liabilities directly associated with assets classified as held for sale | (87,787) | (108,189) |
| | <u>(87,787)</u> | <u>(108,189)</u> |
| Net assets of Confident Echo and its subsidiaries | <u>31</u> | <u>381</u> |
| Gain on disposal of subsidiaries: | | <i>HK\$'000</i> |
| Consideration received | | 50,981 |
| Net assets disposed of | | (31) |
| Non-controlling interests | | (10) |
| Cumulative exchange gains in respect of the net assets of the subsidiaries | | 3 |
| Gain on disposal | | <u>50,943</u> |

The gain on disposal is included in profit/(loss) of the period from discontinued operations (*Note 6*).

11. TRADE PAYABLES

In general, the credit terms granted by suppliers ranged from 30 to 180 days. An aging analysis of the Group's trade payables is as follows:

| | As at | |
|--|------------------------------------|--|
| | 30 June 2014 <i>HK\$'000</i> | 31 December 2013 <i>HK\$'000</i> |
| Within 30 days | – | 516 |
| 31 – 90 days | – | 10,799 |
| 91 – 180 days | 4,948 | 138 |
| 181 – 365 days | 20,645 | 14,983 |
| More than 365 days | 8 | 4,099 |
| | <u>25,601</u> | <u>30,535</u> |
| Less: Reclassified to liabilities directly associated with assets classified as held for sale | – | (13,806) |
| | <u>25,601</u> | <u>16,729</u> |

12. AMOUNT DUE TO NOTEHOLDER

| | As at | |
|------------------------------------|------------------------------------|--|
| | 30 June 2014 <i>HK\$'000</i> | 31 December 2013 <i>HK\$'000</i> |
| Unsecured amount due to noteholder | <u>20,448</u> | <u>45,970</u> |

At the request of the noteholder, the Company redeemed all of the 12% convertible redeemable notes on 9 October 2013. Subsequently, the Company and the noteholder were negotiating to extend the repayment date of the outstanding principal amount and unpaid interest, and on 10 January 2014, a total amount of HK\$27.8 million was repaid. On 7 July 2014, the Company entered into an extension agreement with the noteholder, pursuant to which the repayment date was extended to 30 September 2014.

13. SHARE CAPITAL

| | '000 | HK\$ '000 |
|--------------------------------------|-------------------|----------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 each | | |
| At 31 December 2013 and 30 June 2014 | <u>20,000,000</u> | <u>200,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.01 each | | |
| At 31 December 2013 and 30 June 2014 | <u>431,765</u> | <u>4,318</u> |

14. CAPITAL COMMITMENTS

As at 31 December 2013 and 30 June 2014, the Group did not have any significant capital commitments.

15. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

| | For the six months ended | |
|---|---------------------------------|------------|
| | 30 June | |
| | 2014 | 2013 |
| | HK\$ '000 | HK\$ '000 |
| Sonavox Electronics (Suzhou Industrial Park) Company Limited (“SSIP”) | | |
| – sales of goods | <u>–</u> | <u>206</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Heilongjiang Province Shengyan New Energy Development Limited (“Shengyan”)

Shengyan was incorporated in the PRC in July 2010 with a registered capital of RMB30 million and is principally engaged in the production and sale of straw fuel briquettes, which is a type of biofuels and a substitute for coal in the northeast region of the PRC. The Group completed the acquisition of its 51% interest in Shengyan in December 2012. The business model of Shengyan is briefly summarised as follows:

- Straw collection – purchase, collect and strap raw straw from farmers and transport to the warehouses for storage;
- Straw chopping – the collected straw is then crushed into fine powder through crushing equipments;
- Straw briquetting – the powdered straw is then put into the briquetting press machines from where it is compressed and processed before straw fuel briquettes are made; and
- Sale of finished products – upon receiving sales orders, the straw fuel briquettes are then sold to customers.

The customers of Shengyan are mainly consisted of companies located at Heilongjiang Province in the PRC, which are engaged in agricultural and manufacturing industries and use the straw fuel briquettes for different usage such as heat generation. Revenue of Heilongjiang Shengyan is mainly derived from the sale of straw fuel briquettes by sales orders from customers and Shengyan purchases raw straw directly from many different local farmers located at the Baiquan County of Heilongjiang Province.

During the second quarter of this year, Shengyan has recorded a sales income of approximately HK\$4.2 million (2013: HK\$5.1 million). The reduction is mainly caused by a halt in production when Shengyan was engaging in the seasonal inspection and maintenance of production plants.

Jiangsu Shengyi Environmental Technology Company Limited (“Shengyi”)

Shengyi was principally engaged in the provision of technological desulphurization service, which could effectively reduce sulfur dioxide and hydrogen sulfide emissions generated from burning of fossil fuels such as coal, natural gas and oil products.

Reference is made to the announcement of the Company dated 23 December 2013 and the circular of the Company dated 30 January 2014 in relation to the disposal of a subsidiary, the Company and a purchaser entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to dispose Confident Echo Holdings Limited and its subsidiaries including Shengyi at an aggregate consideration of HK\$51 million. The disposal was completed on 30 January 2014.

Financial Review

The Group has commenced its shengyan business since 2012. Revenue generated from such business decreased by 71.2% to HK\$7.0 million (2013: 24.4 million) for the six months ended 30 June 2014. The gross profit ratio decreased to 10.2% (2013: 34.4%) for the six months ended 30 June 2014.

The Group recorded net profit of approximately HK\$43.7 million, compared with a profit of approximately HK\$24.2 million for the previous financial period. The net profit was mainly attributable to the gain on disposal of Shengyi.

Looking Ahead

In recent years, there have been different levels of environmental issues exposed in various regions of the PRC, continuously boosting public awareness of environmental protection throughout the country and making the Chinese government to strive for integrated management enhancement of pollution prevention, energy conservation and emission reduction at the enterprise level. Benefited from the enormous support given by the government towards environmental related industry, the environmental sector is filled with promising development opportunities and clear direct guidelines, further fortified the Group's objective to develop the environmental related industry.

In 2014, the Group will continue to strengthen the existing business of Shengyan, proactively explore new business scope and continuously seek other suitable investment opportunities.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

Liquidity, Financial Resources and Capital Structure

For the period under review, the Group's major business operations took place in China, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 30 June 2014, the Group had cash and bank balances together with restricted and pledged bank deposits of approximately HK\$135,000 (31 December 2013: HK\$525,000). The decrease in cash and bank deposits was primarily attributable to the repayment of other payables and other borrowings during the period. As at 30 June 2014, the Group's total indebtedness comprised of the amount due to noteholder of approximately HK\$20.4 million (31 December 2013: HK\$46.0 million).

As at 30 June 2014, the Group's outstanding number of issued shares of HK\$0.01 each was 431,764,974 shares (31 December 2013: 431,764,974 shares).

The Group's gearing ratio, as a percentage of total indebtedness over total indebtedness and total equity, as at 30 June 2014 was 13.2% (31 December 2013: 32.3%).

Significant Investments and Future Plans for Material Investments

Save as disclosed in the sections headed “Business Review” and “Looking Ahead”, during the six months ended 30 June 2014, the Group did not make any significant investments or future plans for material investments.

Material Acquisitions and Disposals

Save as disclosed in the sections headed “Business Review” and “Looking Ahead”, during the six months ended 30 June 2014, the Group did not have any material acquisitions or disposals which would be required to be disclosed under the GEM Listing Rules.

Employees and Remuneration Policy

As at 30 June 2014, the Group had about 35 (2013: 2,599) employees. The Group’s staff costs, including directors’ emoluments, employees’ salaries and retirement benefits scheme contribution amounted to approximately HK\$2.5 million (2013: HK\$70.8 million).

The Group believes that its staff is one of the Group’s most important assets. Aiming at providing competitive salary packages, the Group adjusts employees’ salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group’s business performance. The Group is also committed to providing appropriate on-going training to staff members to equip them for future career development.

Pledge on Assets

As at 31 December 2013 and 30 June 2014, the Group did not have any substantial pledge of assets.

Contingent Liabilities

Except as disclosed in the section headed “Legal Proceedings”, as at 31 December 2013 and 30 June 2014, the Group did not have any material contingent liabilities.

Legal Proceedings

Reference is made to the Company’s announcement dated 25 July 2014 in relation to the writ of summons received by the Company. It was alleged in the Writ that a total sum of HK\$10,000,000 was advanced by Total Shares Limited (the “Plaintiff”) to Mr. Shan Xiaochang (“Mr Shan”) pursuant to a loan agreement (the “Loan Agreement”) dated 9 August 2013 made between the Plaintiff as the lender and Mr. Shan as the borrower, the repayment of which was guaranteed by the Company as a guarantor by a guarantee (the “Guarantee”) signed by the Company in favour of the Plaintiff dated 9 August 2013. The amount of the claim specified in the Writ was HK\$10,000,000 plus the accrued unpaid interest under the Loan Agreement and other interest.

As no meeting at the Board or shareholders of the Company was held to approve the Guarantee or authorise any Director to sign the Guarantee for and on behalf of the Company, the Board is of the view that the Guarantee is not binding on or enforceable against the Company and the Claim has no merit against the Company. The Company will vigorously dispute the allegations under the Writ and is in the process of seeking independent legal advice.

Exposure to Fluctuations in Exchange Rates and Related Hedges

During the period under review, the Group's transactions were mainly denominated in Renminbi and Hong Kong dollars which exposed the Group to currency risk. The Group currently does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares and underlying shares of the Company

| Name | Capacity | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of issued share capital of the Company |
|--------------------|--------------------------------------|--------------------------------|----------------------------------|--------------------|---|
| Mr. Shan Xiaochang | Interest of a controlled corporation | 230,056,536 <i>(Note 1)</i> | – | 230,056,536 | 53.28% |
| | Beneficial owner | – | 35,000,000 <i>(Note 2)</i> | 35,000,000 | 8.11% |
| | | <u>230,056,536</u> | <u>35,000,000</u> | <u>265,056,536</u> | <u>61.39%</u> |

Notes:

- These shares are held by Zhongyu Group Holdings Limited. The entire issued share capital of Zhongyu Group Holdings Limited is beneficially owned by Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be allotted and issued upon exercise in full of options under share option scheme adopted by the Company on 8 July 2002. These share options were conditionally granted to Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

Save as disclosed above, none of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2014.

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

As at 30 June 2014, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

| Name | Capacity | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of issued share capital of the Company |
|---|--------------------------------------|--------------------------------|----------------------------------|-------------|---|
| Zhongyu Group Holdings Limited (Note 1) | Beneficial owner | 230,056,536 | - | 230,056,536 | 53.28% |
| Mr. Shan Xiaochang (Note 1) | Interest of a controlled corporation | 230,056,536 | - | 230,056,536 | 53.28% |
| | Beneficial owner | - | 35,000,000 (Note 2) | 35,000,000 | 8.11% |
| | | 230,056,536 | 35,000,000 | 265,056,536 | 61.39% |
| Ms. Wu Shuhua (Note 3) | Interest of spouse | 230,056,536 | 35,000,000 | 265,056,536 | 61.39% |
| Tong Heng Company Limited | Beneficial owner | 230,000,000 | - | 230,000,000 | 53.27% |
| Mr. Yan Qiyu (Note 4) | Interest of a controlled corporation | 230,000,000 | - | 230,000,000 | 53.27% |

Notes:

1. The entire issued share capital of Zhongyu Group Holdings Limited was solely and beneficially owned by Mr. Shan Xiaochang, the chairman and the chief executive officer and the executive director of the Company, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be allotted and issued upon exercise in full of options under share scheme adopted by the Company on 8 July 2002. These share options were conditionally granted for Mr. Shan Xiaochang, the chairman, the chief executive officer and the executive director of the Company on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.
3. Ms. Wu Shuhua is the spouse of Mr. Shan Xiaochang and, under section 316 of the SFO, is therefore deemed to be interested in all 265,056,536 shares in which Mr. Shan Xiaochang is interested.
4. Mr. Yan Qiyu holds approximately 69.69% interest in Tong Heng Company Limited and therefore is deemed to be interested in the 230,000,000 shares in which Tong Heng Company Limited is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 June 2014.

SHARE OPTIONS

The Group adopted a share option scheme (the “Scheme”) which has become effective on 15 June 2012. In accordance with the Scheme, share options may be granted to any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price of the options granted is the highest of (i) the closing price of the Company’s shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company’s shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

The following table discloses movements in the Company's share options during the period:

| Name or category of participant | Exercisable period | Exercise price per share of the Company HK\$ | Outstanding at 1 January 2014 | Granted during the period | Exercised during the period | Lapsed/ forfeited during the period | Outstanding at 30 June 2014 |
|---------------------------------|--------------------------------------|---|-------------------------------|---------------------------|-----------------------------|-------------------------------------|-----------------------------|
| Directors | | | | | | | |
| Mr. Shan Xiaochang | 20 October 2011 to 1 September 2021 | 0.962 | 35,000,000 | - | - | - | 35,000,000 |
| Others | | | | | | | |
| In aggregate | 25 November 2010 to 24 November 2020 | 0.666 | 21,200,000 | - | - | - | 21,200,000 |
| | | | 56,200,000 | - | - | - | 56,200,000 |

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and required standard of dealings and its code of conduct regarding security transactions by the Directors throughout the six months ended 30 June 2014.

CORPORATE GOVERNANCE PRACTICES AND PROCEDURES

The Company has complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2014, except for the following deviations:

Code Provision A.2.1

The code provision stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Shan Xiaochang, an executive Director, has served both roles as the chairman and the chief executive officer of the Company since September 2010. In view of the scale and operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives, the Board is of the view that this has not compromised accountability and independent decision-making. In addition, the audit committee of the Company comprises exclusively of independent non-executive Directors and they have free and direct access to the Company's external auditors and independent professional advisors when considered necessary.

Code Provision E.1.2

The code provision stipulated that the chairman of the Board should attend the annual general meeting of the Company.

Due to urgent business engagement, Mr. Shan Xiaochang, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 28 July 2014 (the "Meeting"). Mr. Ma Arthur On-hing, an executive Director, presided as the chairman at the Meeting in accordance with the articles of association of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice as defined in the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises exclusively of independent non-executive Directors.

The Group's unaudited results for the six months ended 30 June 2014 have been reviewed by the audit committee, which was of the opinion that such financial statements complied with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board
Sunrise (China) Technology Group Limited
Ma Arthur On-hing
Executive Director

Hong Kong, 14 August 2014

As at the date of this report, the Board comprises eight Directors namely Mr. Shan Xiaochang, Mr. Ma Arthur On-hing and Mr. Shan Biao, being the executive Directors, and Mr. Wang Jialian, Ms. Chan Sze Man, Mr. Ho Chun Kit Gregory, Mr. Ng Chi Ho Dennis and Mr. Ho Wai Shing, being the independent non-executive Directors.