REORIENT GROUP LIMITED

STOCK CODE 376 | INTERIM REPORT 2012

REORIENT 瑞東

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Shun, Johnson *(Chairman)*
Mr. Jason Boyer *(Vice Chairman)*
Mr. Brett McGonegal
(Chief Executive Officer)
Mr. Chen Shengjie
Ms. Angelina Kwan
Mr. Tsoi Tong Hoo, Tony
Ms. Ko Wing Yan, Samantha

Independent Non-Executive Directors

Mr. Liu Zhengui
Mr. Ding Kebai
Mr. Chu Chung Yue, Howard

AUDIT COMMITTEE

Mr. Chu Chung Yue, Howard *(Chairman)*
Mr. Liu Zhengui
Mr. Ding Kebai

REMUNERATION COMMITTEE

Mr. Liu Zhengui *(Chairman)*
Mr. Ko Chun Shun, Johnson
Mr. Chu Chung Yue, Howard

NOMINATION COMMITTEE

Mr. Ko Chun Shun, Johnson *(Chairman)*
Mr. Liu Zhengui
Mr. Chu Chung Yue, Howard

COMPANY SECRETARY

Mr. Jim Pak Keung, Patrick

AUDITOR

KPMG
Certified Public Accountants

BANKERS

HSBC
Goldman Sachs International
Standard Chartered Bank
Hang Seng Bank

SOLICITORS

Linklaters

REGISTERED OFFICE AND PRINCIPAL OFFICE

Suites 1102-03
11/F., Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wanchai, Hong Kong

WEBSITE

www.reorientgroup.com

STOCK CODE

376

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Reorient Group Limited (the "Company" or "REORIENT") is pleased to present the unaudited consolidated results and financial position of the Company and its subsidiaries (together the "Group") for the six months period ended 30 June 2012, together with the comparative figures for the corresponding period of 2011. These condensed consolidated interim financial statements are unaudited but have been reviewed by the Company's audit committee and the Company's independent auditor in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

BUSINESS REVIEW AND PROSPECTS

Although the first half of 2012 was challenging for global markets and investment banks, REORIENT has made substantial progress and has succeeded in shortening the time frame for the initial build. The early stages of building a boutique investment house are critical in establishing viable business platform. The verticals must provide a firm foundation that can support complementary accretive business lines. Our goal in the first half was to establish and develop the Investment Banking and Institutional Sales and Trading platforms. The success in setting up these key building blocks with limited headcount and with prudent expenditure puts the firm on solid footing. As the developed platforms bring new opportunities and increase general scale, we have also upgraded substantially our banking and clearing facility. It is vital at this stage to ensure our infrastructure supports not only today's activity, but also allows for years of future expansion.

The success of our model is predicated on the quality of employees we attract. Our first-half focus has been to hire top talent, and always being mindful of cost. We have expanded our headcount by 25% in the first half of 2012, bolstering our Investment Banking as well as Institutional Sales and Trading platforms. Bankers and traders from larger investment banks have pursued employment with us as they have been attracted to REORIENT's vision and prospects. From a cost perspective, the lion's share of the build is now in place including most of the hiring. From staffing to systems, infrastructure and compliance; the Institutional Sales and Trading and Investment Banking platforms are robust and active. We have achieved critical mass, and we are in a prime position to scale up and bolster current business lines and grow new ones.

The Institutional Sales and Trading platform is maturing at a healthy pace. We have been able to bring a host of globally recognized top-tier investment companies onto our platform as we have completed the first phase of a three tiered build-out. It was paramount that we staggered the market rollouts from a market access perspective to control settlement risk, capital exposure and system limitations. The first phase focused on four market centers: Hong Kong, Japan, Australia and Singapore. The second phase of the rollout is underway and is focused on trading Thailand, Malaysia and Indonesia in addition to ADR/GDR and ETFs. The final stage will complete the global trading offering with access to the USA and Europe as well as the Asian ID markets: Korea, Taiwan and India.

The revenue break down from sales and trading through the first six months of 2012 shows the largest share coming from Hong Kong and Japan, and the remainder from Australia and Singapore.

Corporate Finance has demonstrated a more even percentage distribution through Asia, with revenue coming from Hong Kong, Korea, Australia and Malaysia. Majority of the revenue has come from financial advisory work centered around merger and acquisition and privatization. We envision the deal pipelines to pick up in the second half. We are currently mandated on a handful of private and public deals. The geographic distribution will broaden out quite a bit, with current public and private mandates range from Australia to China, Africa and the US. A large percentage of the deal flow currently is natural resource related and we expect that will continue into 2013.

During the first half of 2012, REORIENT has successfully transformed itself from a local retail brokerage firm to a global boutique investment house. The rest of 2012 will continue to be challenging and there are still many uncertainties and political changes ahead. However, we believe the market will continue to be resilient in climbing the many walls of worry. REORIENT, with our strong and solid platforms built in the first half, is well positioned to expand its footprint as the Hong Kong based global reach boutique investment house.

OVERALL PERFORMANCE

For the first six months of 2012, the Group built up the infrastructure in its institutional brokerage business. The Group's consolidated turnover for the first half of 2012 was HK$13.7 million, or 13% above the HK$12.1 million recorded for the same period in 2011. The consolidated net loss for the period was HK$57.1 million as compared to HK$3.7 million for the same period in 2011 due to the increase in staffing costs and the build-up of the brokerage infrastructure.

BROKERAGE BUSINESS

For the six months period ended 30 June 2012, the total value of the transactions in relation to securities brokerage by the Group amounted to approximately HK$6.7 billion. The Group's income generated from securities brokerage amounted to approximately HK$8.1 million, representing 59% of the Group's turnover for the six months period ended 30 June 2012.

FINANCIAL ADVISORY BUSINESS

Our financial advisory business continued in the steady development in these difficult market conditions. For the six months period ended 30 June 2012, income generated from consultancy and advisory services amounted to approximately HK$5.6 million, representing 41% of the Group's turnover for the six months ended 30 June 2012.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2012, the Group had cash and bank balances of HK$193.2 million (31 December 2011: HK$245.9 million). The liquidity ratio as at 30 June 2012 measured at 3.8 times, as compared to 4.9 times as at 31 December 2011. The Group had no borrowing at the end of the reporting period. At 30 June 2012, the Group recorded net assets of HK$205.2 million, as compared to HK$256.3 million reported at the end of last year.

CAPITAL STRUCTURE

There was no change in the Group's capital structure during the six months period ended 30 June 2012.

FOREIGN EXCHANGE RISK

The Group has assets and liabilities denominated in currencies other than its functional currency and that are subject to fluctuation in foreign exchange amounts in the different currencies. The Group considers that its exposure to US dollar ("USD") is insignificant on the ground that the Hong Kong dollar is pegged to the USD.

The Group is exposed to currency risk arising from various currency exposures mainly to the extent of its bank balances in currencies other than the USD, such as the Japanese Yen and the Renminbi. The management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arises.

During the six months period ended 30 June 2012, the Group used currency options for hedging purposes, and there were two currency options outstanding as at 30 June 2012.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any material acquisitions and disposals of subsidiaries during the six months period ended 30 June 2012.

CHARGE OF ASSETS

At the end of the reporting period, the Group did not have any charges of assets, other than a security deposit of HK$20,000,000 for a bank overdraft facility.

COMMITMENTS

As at 30 June 2012, the Group had capital commitment of RMB4,335,000 (31 December 2011: RMB5,100,000) which were not accounted for in the financial statements. The amount represents the balance of committed capital injection to be made in accordance with the terms of the joint venture agreement. The joint venture is accounted for as a subsidiary as the Group has indirect unilateral control over the joint venture.

As at 30 June 2012, rental payments under non-cancellable operating leases on office premises amounted to HK$10,938,000 (31 December 2011: HK$12,119,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2012 and 31 December 2011.

STAFFING AND REMUNERATION

As at 30 June 2012, the Group employed 56 full time employees, of which 53 were located in Hong Kong and 3 located in the People's Republic of China. The remuneration of employees includes salary, commission, sign-on payments and discretionary bonuses. The Group also adopted a share option scheme to provide an incentive to the employees.

The remuneration policy and package, including the share options, of the Group's employees are maintained at market level and are reviewed annually by the management.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2012, the interests and short positions of each director and chief executive in the shares, underlying shares and 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 required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules, or known to the Company, were as follows:

Long positions in the shares of the Company:

		Number of Shares held	
Name of Director	**Nature of interest**	**Long position**	**Percentage of shareholding**
Mr. Ko Chun Shun, Johnson	Held by controlled corporation	277,624,382	72.21%

Note: Mr. Ko Chun Shun, Johnson, the Chairman and an executive director of the Company, was interested in 277,624,382 shares through Gainhigh Holdings Limited ("Gainhigh"). 80% of the issued share capital of Gainhigh was held by Kwan Wing Holdings Limited, a company wholly-owned by Mr. Ko.

Save as disclosed above, as at 30 June 2012, none of the directors and chief executives of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

During the six months period, no options were issued and as at 30 June 2012, no options were outstanding.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 4 June 2012, the Company was informed by Gainhigh Holdings Limited ("Gainhigh") that an aggregate of 15% shareholding interest of Gainhigh will be sold to certain key employees of the Group, including Mr. Jason Boyer and Mr. Brett McGonegal, both are executive directors of the Company. As at the date hereof, Mr. Ko Chun Shun, Johnson, the chairman and executive director of the Company is indirectly interested in 80% of the issued share capital of Gainhigh. Gainhigh is currently interested in 277,624,382 shares of the Company, representing approximately 72.21% of the issued share capital of the Company. Following the sale, Mr. Ko will be interested in 65% of the issued share capital of Gainhigh. Each of Mr. Jason Boyer and Mr. Brett McGonegal will acquire 3.75% of the issued share capital of Gainhigh respectively. The sale of the 15% shareholding of Gainhigh has not taken place as at the date of this report.

Saved as disclosed above, at no time during the six month period ended 30 June 2012 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by the means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, save as disclosed under the section "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying shares and Debentures of the Company or any Associated Corporation" above, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO.

		Number of Shares held	
Name of shareholder	**Nature of interest**	**Long position**	**Percentage of Shareholding**
Mr. Ko Chun Shun, Johnson *(Note 1)*	Held by controlled corporation	277,624,382	72.21%
Kwan Wing Holdings Limited *(Note 1)*	Held by controlled corporation	277,624,382	72.21%
Gainhigh Holdings Limited *(Note 1)*	Beneficial owner	277,624,382	72.21%
Shaw David Elliot *(Note 2)*	Held by controlled corporation	35,000,000	9.10%
D. E. Shaw Valence Portfolios, L.L.C. *(Note 2)*	Held by controlled corporation	35,000,000	9.10%

Name of shareholder	Nature of interest	Number of Shares held Long position	Percentage of Shareholding
D. E. Shaw Composite Portfolios, L.L.C. *(Note 2)*	Held by controlled corporation	35,000,000	9.10%
D. E. Shaw & Co., Inc *(Note 2)*	Held by controlled corporation	35,000,000	9.10%
D. E. Shaw & Co., L.P. *(Note 2)*	Investment manager	35,000,000	9.10%
D. E. Shaw & Co., L.L.C *(Note 2)*	Held by controlled corporation	35,000,000	9.10%
D. E. Shaw & Co. II, Inc *(Note 2)*	Held by controlled corporation	35,000,000	9.10%
D. E. Shaw & Co. (Asia Pacific) Limited *(Note 2)*	Investment manager	35,000,000	9.10%
Barclays PLC	Person having a security interest in shares/Held by controlled corporation	19,614,000 (long position) 114,000 (short position)	5.10% 0.03%

Notes:

1. Mr. Ko Chun Shun, Johnson, the Chairman and an executive director of the Company, was interested in 277,624,382 Shares through Gainhigh. 80% of the issued share capital of Gainhigh was held by Kwan Wing Holdings Limited, a company wholly-owned by Mr. Ko.

2. Shaw David Elliot, D. E. Shaw Valence Portfolios, L.L.C., D. E. Shaw Composite Portfolios, L.L.C., D. E. Shaw & Co., Inc, D. E. Shaw & Co., L.P., D. E. Shaw & Co., L.L.C., D. E. Shaw & Co. II, Inc, and D. E. Shaw & Co. (Asia Pacific) Limited were interested in the same parcel of these 35,000,000 Shares by virtue of the SFO.

Save as disclosed above, as at 30 June 2012, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

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

During the six months period ended 30 June 2012, other than acting as an agent for clients of the Company and its subsidiaries, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE CODE

Throughout the six months period ended 30 June 2012, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the provisions of the relevant Corporate Governance Code (the "CG Code") from time to time, as set out in Appendix 14 to the Listing Rules , except for the following deviation:

Code Provision A.2.1

There was no separation of the role of chairman (the "Chairman") and chief executive officer (the "CEO") as set out in the CG Code A.2.1 until 4 June 2012. Mr. Brett McGonegal has been appointed as the executive director and the CEO of the Company on 4 June 2012. Since 4 June 2012, the roles of the Chairman and the CEO have been segregated and exercised by different individuals.

All other information on the Corporate Governance Code of the Company have been disclosed in the corporate governance report contained in the 2011 Annual Report of the Company issued in February 2012.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding Director's securities transactions with terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Upon enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the six months period ended 30 June 2012.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive directors of the Company, Messrs. Chu Chung Yue, Howard, Liu Zhengui and Ding Kebai. Mr. Chu Chung Yue, Howard, is the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the CG Code.

These unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2012 of the Group have been reviewed by the Audit Committee.

CHANGES OF DIRECTORS' INFORMATION

The change of directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Liu Zhengui, the independent non-executive director of the Company, has been appointed as non-executive director and the vice chairman of Wah Nam International Holdings Limited ("Wah Nam") on 27 April 2012 and 15 June 2012 respectively. Wah Nam is listed on the main board of the Stock Exchange.

Mr. Jason Boyer has been appointed as the executive director and the vice chairman of the Company on 4 June 2012.

Mr. Brett McGonegal has been appointed as the executive director and the CEO of the Company on 4 June 2012.

Mr. Zhang Binghua has resigned as the executive director of the Company on 4 June 2012.

Review report to the board of directors of
REORIENT GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 32 which comprises the condensed consolidated statement of financial position of REORIENT GROUP LIMITED (the "Company") as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

3 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2012

	Note	Six months ended 30 June 2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Turnover	4	**13,674**	12,091
Other operating income	5	**124**	402
Other net gain		**1,138**	—
Staff costs		**(46,754)**	(3,518)
Depreciation		**(1,157)**	(309)
Other operating expenses		**(23,849)**	(11,514)
Loss from operations		**(56,824)**	(2,848)
Finance costs		**(299)**	(847)
Loss before taxation	6	**(57,123)**	(3,695)
Income tax	7	**—**	—
Loss for the period		**(57,123)**	(3,695)
Loss for the period attributable to:			
— Equity shareholders of the Company		**(56,975)**	(3,695)
— Non-Controlling interests		**(148)**	—
		(57,123)	(3,695)
Loss per share attributable to equity shareholders of the Company			
Basic and diluted (cents)	8	**(14.82) cents**	(11.97) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months period ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(57,123)**	(3,695)
Other comprehensive income for the period:		
Exchange differences arising on translation of results of foreign operations	**26**	—
Total comprehensive income for the period	**(57,097)**	(3,695)
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**(56,962)**	(3,695)
Non-controlling interests	**(135)**	—
	(57,097)	(3,695)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Note	At 30 June 2012 (Unaudited) HK$'000	At 31 December 2011 (Audited) HK$'000
Non-current assets			
Fixed assets	11	**7,850**	8,920
Other non-current assets		**440**	430
Total non-current assets		**8,290**	9,350
Current assets			
Accounts receivable	12	**45,673**	10,076
Other receivables, deposits and prepayments	13	**5,757**	3,717
Bank balance — Trust and segregated accounts	14	**22,609**	50,355
Cash and cash equivalents	14	**193,188**	245,859
Total current assets		**267,227**	310,007
Current liabilities			
Accounts payable	15	**64,516**	55,131
Accrued expenses and other payables	16	**5,850**	7,965
Total current liabilities		**70,366**	63,096
Net current assets		**196,861**	246,911
Total assets less current liabilities		**205,151**	256,261
EQUITY			
Share capital	17	**3,845**	3,845
Share premium		**412,428**	412,428
Asset revaluation account		**2,650**	2,650
Exchange reserve		**13**	—
Accumulated loss		**(219,637)**	(162,662)
		199,299	256,261
Non-controlling interests		**5,852**	—
TOTAL EQUITY		**205,151**	256,261

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months period ended 30 June 2012

	Note	Share capital $'000	Share premium $'000	Convertible note reserve $'000	Asset revaluation account $'000	Exchange reserve $'000	Warrant reserve $'000	Acc-umulated loss $'000	Sub total $'000	Non-controlling interests $'000	Total $'000
Balance at 1 January 2011		308,701	42,395	–	2,650	–	1,415	(462,252)	(107,091)	–	(107,091)
Changes in equity for the six months ended 30 June 2011:											
Release upon expiry of warrant		–	1,415	–	–	–	(1,415)	–	–	–	–
Loss and total comprehensive income for the period		–	–	–	–	–	–	(3,695)	(3,695)	–	(3,695)
Balance at 30 June 2011 and at 1 July 2011		308,701	43,810	–	2,650	–	–	(465,947)	(110,786)	–	(110,786)
Changes in equity for the six months ended 31 December 2011:											
Capital reorganization		(308,392)	–	–	–	–	–	308,392	–	–	–
Issue of subscription shares		1,282	78,218	–	–	–	–	–	79,500	–	79,500
Issue of top-up placement shares		670	200,330	–	–	–	–	–	201,000	–	201,000
Cost of issuance of shares		–	(846)	–	–	–	–	–	(846)	–	(846)
Issuance of convertible notes		–	–	92,500	–	–	–	–	92,500	–	92,500
Conversion of convertible notes		1,584	90,916	(92,500)	–	–	–	–	–	–	–
Loss and total comprehensive income for the period		–	–	–	–	–	–	(5,107)	(5,107)	–	(5,107)
Balance at 31 December 2011 and at 1 Jan 2012		3,845	412,428	–	2,650	–	–	(162,662)	256,261	–	256,261
Changes in equity for the six months ended 30 June 2012:											
Loss for the period		–	–	–	–	–	–	(56,975)	(56,975)	(148)	(57,123)
Other comprehensive income for the period		–	–	–	–	13	–	–	13	13	26
Establishment of a subsidiary		–	–	–	–	–	–	–	–	5,987	5,987
Balance at 30 June 2012		3,845	412,428	–	2,650	13	–	(219,637)	199,299	5,852	205,151

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months period ended 30 June 2012

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Net cash used in operating activities		**(58,349)**	(277)
Net cash outflow in investing activities		**(54)**	(8,267)
Net cash generated from financing activities		**5,706**	20,000
Net (decrease)/increase in cash and cash equivalents		**(52,697)**	11,456
Cash and cash equivalents at 1 January		**245,859**	36,918
Exchange differences		**26**	—
Cash and cash equivalents at 30 June	*14*	**193,188**	48,374

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

REORIENT GROUP LIMITED (the "Company") is a limited liability company incorporated in Hong Kong, the shares of which are listed on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial report of the Company as at and for the six months period ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group").

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 3 August 2012.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed consolidated interim financial statements for the six months period ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. These condensed consolidated interim financial statements should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

These condensed consolidated interim financial statements are unaudited, but have been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA.

(b) Basis of measurement

These condensed consolidated interim financial statements are prepared under historical cost convention and are presented in Hong Kong Dollars ("HKD"), and all values are stated to the nearest thousand (HK$'000s), unless otherwise stated.

The accounting policies applied in preparing these interim financial statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2011, as disclosed in the annual report and financial statements for the year ended 31 December 2011.

2. BASIS OF PREPARATION *(Continued)*

(c) Use of estimates and judgments

The preparation of condensed consolidated interim financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

A number of new and revised HKFRSs have become effective in 2012. None has material impact on the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

New and revised HKFRSs that have been issued but are not yet effective

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

HKAS 1 (Revised) (Amendment)	Presentation of financial statements[1]
HKAS 19 (2011)	Employee benefits[2]
HKAS 27 (2011)	Separate financial statements[2]
HKAS 28 (2011)	Investments in associates and joint ventures[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015

The Group has commenced an assessment of the impact of these new and amended HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of this condensed consolidated interim financial statements is set out below.

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Brokerage commission income

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Handling and settlement fee income

Handling and settlement fee income are recognised when the related services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Revenue recognition *(Continued)*

(iv) Underwriting and placement commission income

Underwriting and placement commission income are recognised when the related services are rendered.

(v) Consultancy and advisory fee income

Consultancy and advisory fee income are recognised when the related services are rendered.

(b) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with and depending on the nature of the liability.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(d) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. TURNOVER

The principal activities of the Group are securities broking, underwriting and placements, and provision of consultancy and advisory services.

Turnover represents the net amount received during the period. An analysis of the Group's turnover for the period is as follow:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Brokerage and commission income	**8,020**	6,466
Underwriting and placement commission income	**—**	2,122
Consultancy and advisory fee income	**5,555**	3,450
Interest income	**99**	53
	13,674	12,091

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**33**	—
Handling and settlement fees	**91**	96
Sundry income	**—**	306
	124	402

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Recovery of impairment loss of accounts receivable	**—**	(2)
Information, data and communication expenses	**4,799**	754
Restructuring expenses	**—**	5,145
Legal and professional fees	**8,719**	2,176
Operating lease charges in respect of properties	**2,444**	1,327
Exchange loss	**1,676**	—

7. INCOME TAX

No provision for Hong Kong profits tax was made for both periods as the Group either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward for the two periods ended 30 June 2012 and 2011. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams, and no deferred tax liability in respect of the accelerated depreciation allowance has been recognised as the amount is insignificant.

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Group of $57,123,000 (six months period ended 30 June 2011: $3,695,000) and the weighted average number of shares in issue during the period ended 30 June 2012 of 384,494,527 (six months period ended 30 June 2011: 30,870,146, after adjusting for share consolidation of every 50 issued shares of HK$0.20 each into 1 consolidated share of HK$0.20 each).

There were no dilutive potential ordinary shares for the six months period ended 30 June 2012 and 2011, therefore basic loss per share equals to diluted loss per share.

9. DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months period ended 30 June 2012 (six months period ended 30 June 2011: nil).

10. SEGMENT REPORTING

The operating segments have been determined based on the reports reviewed by the executive directors of the Company that are used for performance assessment and to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments. The Group currently has three operating segments, namely

(i) securities brokerage,

(ii) securities underwriting and placements, and

(iii) consultancy and advisory services.

The accounting policies and the basis of segmentation of the reportable segments are the same as those followed by the Group in the last annual financial statements.

Segment revenue represents the revenue generated by each operating segment from external customers. Inter-segment revenue represents inter-segment services which were transacted with reference to the normal commercial price made to third parties at the then prevailing market prices.

10. SEGMENT REPORTING *(Continued)*

Segment results represent specific operating performance of the reported segments by allocating all specific and related operating costs, excluding other corporate, general administrative expenses and non-operating costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

In prior year, segment profit represented the profit earned by the segment without allocation of general and administrative staff costs, gain on restructuring, other central administrative costs, other income, finance costs, depreciation, and taxation. This was the measure reported to the chief operating decision maker, at the relevant times, for the purposes of resource allocation and performance assessment.

(a) Segment revenue and results

For the six months period ended 30 June 2012

	Securities brokerage *HK$'000*	Securities underwriting and placements *HK$'000*	Consultancy and advisory services *HK$'000*	Total *HK$'000*
Segment revenue	**8,119**	**–**	**5,555**	**13,674**
Segment loss	**(43,250)**	**(1,443)**	**(1,952)**	**(46,645)**
Other income				**1,262**
Unallocated staff costs				**(6,280)**
Finance costs				**(25)**
Depreciation				**(388)**
Restructuring expenses				**–**
Legal and professional expenses				**(2,588)**
Other central administrative costs				**(2,459)**
Loss for the period				**(57,123)**

10. SEGMENT REPORTING *(Continued)*

(a) Segment revenue and results *(Continued)*

For the six months period ended 30 June 2011

	Securities brokerage *HK$'000*	Securities underwriting and placements *HK$'000*	Consultancy and advisory services *HK$'000*	Total *HK$'000*
Segment revenue	6,519	2,122	3,450	12,091
Segment profit	6,451	2,122	3,450	12,023
Other income				402
Unallocated staff costs				(3,454)
Finance costs				(847)
Depreciation				(309)
Restructuring expenses				(5,145)
Legal and professional expenses				(2,176)
Other central administrative costs				(4,189)
Loss for the period				(3,695)

(b) Segment information

Assets and liabilities of the reportable segments are regularly reviewed as a whole by the directors of the Group, the measure of total assets by operating segment is therefore not presented.

11. FIXED ASSETS

Acquisitions and disposals

During the six months period ended 30 June 2012, the Group acquired items of fixed assets with a cost of $87,000 (six months period ended 30 June 2011: $8,267,000). No item of fixed assets was disposed of during the six months period ended 30 June 2012 and 2011.

12. ACCOUNTS RECEIVABLE

	Note	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Accounts receivable from			
— Cash clients, net of provisions	*(i)*	**22,118**	6,962
— Margin clients, net of provisions	*(ii)*	**3**	3
— Clearing houses	*(iii)*	**21,379**	—
— Brokers and dealers	*(iii)*	**1,010**	312
— Corporate clients		**1,163**	2,799
		45,673	10,076

The ageing analysis of accounts receivable, net of provisions, at the end of the reporting period is as follows:

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Current	**44,038**	7,702
Past due		
— Less than 1 month past due	**601**	1,022
— 1 to 3 months past due	**65**	572
— More than 3 months but less than 12 months past due	**969**	780
	1,635	2,374
Total Accounts Receivable	**45,673**	10,076

(i) Accounts receivable from cash clients relate to a wide range of customers for whom there was no recent history of default. Based on past experience, management believes that no material impairment loss provision for doubtful debt is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

Included in the impairment loss provision for doubtful debts were individually impaired accounts receivable amounting to HK$158,000 (2011: HK$158,000) that relate to individually impaired accounts receivable arising from the business of dealing in securities. Consequently, specific allowance for doubtful debts for the full amount has been made.

12. ACCOUNTS RECEIVABLE *(Continued)*

(ii) Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The Group ceased providing margin financing service since the year 2004. As at 30 June 2012 and 31 December 2011, this amount of margin loans due from margin clients amounting to HK$26,124,000 has been brought forward from year 2004. This amount has been impaired and a provision for impairment losses of HK$26,121,000 has been made in prior years and as at 31 December 2011. Accordingly, the net balance of the margin clients' receivable is HK$3,000.

(iii) Accounts receivable from clearing houses, brokers and dealers are current. These represent pending trades arising from the business of dealing in securities, which are normally due within a few days after the trade dates.

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2012	At 31 December 2011
	HK$'000	*HK$'000*
Rental and utility deposits	**1,296**	1,177
Prepayments and other deposits	**3,298**	2,529
Other receivables	**1,163**	11
	5,757	3,717

Included in the above balances are amount of $1,296,000 and $1,177,000 as at 30 June 2012 and 31 December 2011, respectively, which are to be recovered in more than one year.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalent comprise:

	Note	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Bank balance — Trust and segregated	*(i)*	**22,609**	50,355
Deposits with banks	*(ii)*	**20,000**	—
Cash at bank and in hand		**173,188**	245,859
		193,188	245,859
		215,797	296,214

(i) The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client money) Rules under the Securities and Futures Ordinance.

(ii) The Group has deposited HK$20,000,000 with the bank as a security deposit for the bank overdraft facility (refer to Note 20). As at 30 June 2012, the Group has no bank overdraft outstanding in respect of this facility.

15. ACCOUNTS PAYABLE

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Accounts payable		
— Cash clients	**55,603**	53,154
— Brokers, dealers and clearing houses	**8,913**	1,977
	64,516	55,131

Included in accounts payable are payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities, which amounts to HK$21,595,000 (2011: HK$50,016,000).

All of the accounts payable are due within one month or on demand.

16. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2012 *HK$'000*	At 31 December 2011 *HK$'000*
Accrued salaries, bonuses and MPF	**248**	245
Stamp duty, trading levy and trading fee payables	**112**	233
Other payables	**4,923**	6,724
Amount due to directors	**567**	763
	5,850	7,965

All accrued expenses and other payables are expected to be settled or recognised as income within one year.

17. SHARE CAPITAL

	At 30 June 2012		At 31 December 2011	
	No. of shares	**Amount** *HK$'000*	No. of shares	Amount *HK$'000*
Authorised:				
Ordinary shares of $0.01 each	**2,000,000,000**	**20,000**	2,000,000,000	20,000

	At 30 June 2012		At 31 December 2011	
	No. of shares	**Amount** *HK$'000*	No. of shares	Amount *HK$'000*
Issued and fully paid:				
Ordinary shares of $0.01 each	**384,494,527**	**3,845**	384,494,527	3,845

18. SHARE OPTION

The Company has a share option scheme which was adopted on 21 July 2011 whereby the directors of the Company are authorised, at their discretion, to invite eligible participant (employee, director, consultant of each member of the Group) to take up options to subscribe for shares of the Company.

As at 30 June 2012 and 31 December 2011, there was no share option granted under the share option scheme of the Company.

19. COMMITMENTS

(a) Indemnity given in respect of the employment of staff

In year 2011, the Group, via a wholly-owned subsidiary, entered into employment contracts with four staff in connection with which the Group agreed to indemnify, subject to certain conditions, such staff in respect of legal costs, claims and liabilities that may arise from any claims made by their former employer arising from such staff leaving such former employment or commencing employment with the Group.

In year 2011, the former employer initiated litigation against the four staff. On 29 February 2012, the High Court of Hong Kong handed down its judgement in the legal action and dismissed the claims brought by the former employer against the four staff. The High Court has ordered the former employer to pay costs to the four staff. As at the date of this report, the amount of payment of costs to be made to the four staff is being quantified by respective legal representatives.

The Group has paid approximately HK$5,750,000 and HK$8,649,000 in respect of legal and related costs pursuant to the indemnity, in the six months period ended 30 June 2012 and in the year to 31 December 2011, respectively.

(b) Capital commitment

On 21 October 2011, Fast Capital Holdings Limited ("Fast Capital"), a wholly-owned subsidiary of the Company, and Beijing Chengtong Investment Management Company ("Beijing Chentong"), a wholly-owned subsidiary of China Chengtong Asset Management Corporation entered into a joint venture agreement to establish Beijing Chengtong Reorient Investment Consultancy Limited (the "BCRJV"), a Chinese –foreign equity joint venture in Beijing, PRC. The BCRJV will engage in the provision of investment management consulting and advisory services for state-owned enterprises in the PRC.

Pursuant to the joint venture agreement, the BCRJV will be owned as to 51% equity by Fast Capital and 49% by Beijing Chengtong. The BCRJV's registered capital is RMB10,000,000 and Fast Capital's and Beijing Chengtong's committed share of capital injection is RMB5,100,000 and RMB4,900,000 respectively. As of 30 June 2012, Fast Capital has invested RMB765,000 (31 December 2011: RMB765,000), the balance will be made in accordance with the terms of the joint venture agreement.

BCRJV is accounted for as a subsidiary as the Group has indirect unilateral control over the joint venture.

19. COMMITMENTS *(Continued)*

(c) Operating lease commitments

The total future minimum lease payments under non-cancellable operating lease on office premises properties are payable as follows:

	At 30 June 2012	At 31 December 2011
	HK$'000	*HK$'000*
Within one year	**4,317**	3,809
After one year but within five years	**6,621**	8,310
	10,938	12,119

The Group leases a number of properties under operating leases. The leases run for an initial period of one to four years. None of the leases includes contingent rentals.

20. PLEDGE OF ASSETS

The Group has been granted a bank overdraft facility of HK$40,000,000 and in this connection, the Group is required to place a security deposit of HK$20,000,000 with the bank. As at the end of the reporting period, the Group has no bank overdraft outstanding.

21. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2012 and 31 December 2011.

22. MATERIAL RELATED PARTY TRANSACTION

Except as disclosed elsewhere in these condensed consolidated financial statements, the Group did not have any material related party transactions in the six months period ended 30 June 2012 and 30 June 2011.