中国安芯控股有限公司
Anxin-China Holdings Limited

Incorporated in the Cayman Islands with limited liability

Stock Code: 1149

2012
Interim Report

中國安芯 安心中國

Anxin-China, your safety is our business

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Report on Review of Interim Financial Information

To the Board of Directors of Anxin-China Holdings Limited

(incorporated in Cayman Islands with Limited Liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 3 to 23 which comprise the condensed statement of financial position of Anxin-China Holdings Limited as of 30 June 2012 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of a report on interim financial information 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 this interim financial information in accordance with Hong Kong Financial Reporting Standards.

Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made 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 interim financial information consists of making inquiries, 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 information is not prepared, in all material respects, in accordance with Hong Kong Financial Reporting Standards.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 23 August 2012

The board (the "Board") of directors (the "Directors") of Anxin-China Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012, together with comparative figures for the corresponding period in 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	**Six months ended 30 June** **2012** **(Unaudited)** **HK$'000**	2011 (Unaudited) HK$'000
Revenue	4	**405,937**	279,267
Cost of sales		**(42,488)**	(29,839)
Gross profit		**363,449**	249,428
Other revenue		**60,698**	36,189
Other gains and losses		**22,025**	3,601
Selling and distribution costs	20	**(74,279)**	(26,988)
Administrative expenses	20	**(26,186)**	(13,794)
Research and development expenses		**(6,055)**	(6,514)
Finance costs		**(1,386)**	(9,504)
Profit before tax expense	5	**338,266**	232,418
Income tax expense	6	**(40,740)**	(5,542)
Profit for the period		**297,526**	226,876
Profit for the period attributable to:			
Owners of the Company		**297,573**	226,876
Non-controlling interests		**(47)**	–
		297,526	226,876
Other comprehensive income			
Exchange differences arising on translation		**(24,450)**	15,644
Total comprehensive income for the period		**273,076**	242,520
Total comprehensive income for the period attributable to:			
Owners of the Company		**273,125**	242,520
Non-controlling interests		**(49)**	–
		273,076	242,520
EARNINGS PER SHARE	7		
– Basic (HK$ cents)		**11.05**	9.75
– Diluted (HK$ cents)		**11.04**	8.72

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	**As at 30 June 2012 (Unaudited) HK$'000**	As at 31 December 2011 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment	9	**108,402**	107,719
Deferred tax assets		**1,396**	5,338
Intangible assets	10	**395,637**	83,722
Goodwill	11	**1,237,288**	1,129,430
Total non-current assets		**1,742,723**	1,326,209
Current Assets			
Inventories		**33,337**	10,798
Trade and other receivables	12	**467,597**	235,468
Cash and cash equivalents		**1,141,505**	1,077,795
Total current assets		**1,642,439**	1,324,061
Total assets		**3,385,162**	2,650,270
Current Liabilities			
Trade and other payables	13	**175,558**	49,782
Tax liabilities		**36,592**	12,963
Total current liabilities		**212,150**	62,745
Net Current Assets		**1,430,289**	1,261,316
Total Assets less Current Liabilities		**3,173,012**	2,587,525
Non-current Liabilities			
Deferred tax liabilities		**62,386**	11,929
Promissory note	14	**175,208**	–
Total non-current liabilities		**237,594**	11,929
Total liabilities		**449,744**	74,674
NET ASSETS		**2,935,418**	2,575,596
Capital and reserves attributable to owners of the Company			
Share capital	15	**273,223**	268,087
Share premium and reserves		**2,659,801**	2,305,066
Equity attributable to owners of the Company		**2,933,024**	2,573,153
Non-controlling interests		**2,394**	2,443
TOTAL EQUITY		**2,935,418**	2,575,596

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share Capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Warrant reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Share-based payment reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011 (audited)	207,975	997,751	121,838	25,172	14,911	–	–	19,608	–	13,108	105,133	–	1,505,496	–	1,505,496
Profit for the period	–	–	–	–	–	–	–	–	–	–	226,876	–	226,876	–	226,876
Other comprehensive income for the period	–	–	–	–	–	–	–	–	–	15,644	–	–	15,644	–	15,644
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	15,644	226,876	–	242,520	–	242,520
Issue of new shares on exercise of warrants	6,500	73,354	–	(650)	–	–	–	–	–	–	–	–	79,204	–	79,204
Issue of shares on conversion of convertible notes	30,769	192,470	(86,719)	–	–	–	–	–	–	–	–	–	136,520	–	136,520
Proceeds from exercise of warrants	–	–	–	(24,304)	–	–	–	–	–	–	–	–	(24,304)	–	(24,304)
Issue of new shares	14,010	296,942	–	–	–	–	–	–	–	–	–	–	310,952	–	310,952
Issue of share options	–	–	–	–	–	–	–	–	25,289	–	–	–	25,289	–	25,289
At 30 June 2011 (unaudited)	259,254	1,560,517	35,119	218	14,911	–	–	19,608	25,289	28,752	332,009	–	2,275,677	–	2,275,677
At 1 January 2012 (audited)	268,087	1,516,523	–	131	14,911	13,255	–	19,608	25,289	138,825	496,098	80,426	2,573,153	2,443	2,575,596
Profit for the period	–	–	–	–	–	–	–	–	–	–	297,573	–	297,573	(47)	297,526
Other comprehensive income for the period	–	–	–	–	–	–	–	–	–	(24,448)	–	–	(24,448)	(2)	(24,450)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	(24,448)	297,573	–	273,125	(49)	273,076
Issue of new shares on exercise of share options	1,900	37,296	–	–	–	–	–	–	(10,696)	–	–	–	28,500	–	28,500
Issue of new shares	3,236	56,416	–	–	–	–	–	–	–	–	–	–	59,652	–	59,652
Issue of share options	–	–	–	–	–	–	–	–	70,392	–	–	–	70,392	–	70,392
Equity-settled share-based payment expenses (note16(b))	–	–	–	–	–	–	9,598	–	–	–	–	–	9,598	–	9,598
Distribution of dividends	–	(970)	–	–	–	–	–	–	–	–	–	(80,426)	(81,396)	–	(81,396)
At 30 June 2012 (unaudited)	273,223	1,609,265	–	131	14,911	13,255	9,598	19,608	84,985	114,377	793,671	–	2,933,024	2,394	2,935,418

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FROM OPERATING ACTIVITIES	**211,777**	184,013
NET CASH USED IN INVESTING ACTIVITIES	**(86,901)**	(18,293)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(51,187)**	345,369
NET INCREASE IN CASH AND CASH EQUIVALENTS	**73,689**	511,089
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,077,795**	400,322
Effect of exchange rate changes on cash and cash equivalents	**(9,979)**	10,649
CASH AND CASH EQUIVALENTS AT 30 JUNE	**1,141,505**	922,060
Analysis of the balance of cash and cash equivalents		
cash and bank balances	**1,141,505**	922,060

1. GENERAL

The Company is a limited liability company incorporated in Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located at Unit 01-05, 20/F, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong.

During the period ended 30 June 2012, the Group acquired Yu Hong Investments Limited and its subsidiaries (the "Yu Hong Group") (note 18(a)) whose principal activities are design, development, production and distribution of security and protection products, surveillance cameras and Closed Circuit Television ("CCTV") products (the "Yu Hong Acquisition").

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") Systems, provision of system solutions services and the design, development, production and distribution of security and protection products, surveillance cameras and CCTV products.

These condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

2. BASIS OF PREPARATION

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

The preparation of these condensed consolidated interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated interim financial statements include selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2011. These condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA. HKFRSs include all applicable HKFRSs, HKASs and related interpretations. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2011.

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for the valuation of certain financial instruments.

2. BASIS OF PREPARATION (Continued)

The accounting policies and methods of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2011.

The Group has adopted all new and revised HKFRSs that are relevant to the Group and are effective for accounting periods beginning on 1 January 2012. The adoption of new and revised HKFRSs had no material effect on the financial statements of the Group for the current or prior accounting periods.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The directors has already commenced an assessment of the impact of these new HKFRSs and anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group determines its operating segment based on the reports reviewed by the chief operating decision-maker (i.e. the board of directors) for the purposes of assessing segment performance and allocating resources.

During the six months ended 30 June 2012, the Group has two reportable segments as a result of acquisition of Yu Hong Group. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

ISD system segment – ISD is an acronym standing for "Intelligent Surveillance, Disaster alert and Rescue Co-ordination". It involves the setting up of a dedicated communications platform using Internet-of-things technologies, through which industrial safety parameters, such as gas content in a coal mine, oil pressure in an oil depot, etc, are transmitted from industrial enterprises to the Local Government Monitoring Centre via the Internet. The Group's revenue from this segment is primarily derived from the sales of software and hardware (but primarily software) to local government authorities (or sub-contractors of local government authorities) as well as service charges received for ongoing systems maintenance services.

ISS segment – ISS is an acronym standing for "Intelligent Safety Systems". The Group's revenue from this segment is primarily derived from the sales of software, hardware and equipment (but primarily hardware and equipment), such as surveillance cameras, CCTV products and sensors, to industrial enterprises for the purpose of ensuring industrial safety. During the six months ended 30 June 2012, revenue from this segment primarily related to the sales of surveillance cameras and CCTV products.

3. SEGMENT INFORMATION (Continued)

Segment information for the period is set out below:

	ISD system segment		ISS segment		Elimination		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**379,698**	279,267	**26,239**	–	**–**	–	**405,937**	279,267
Inter-segment sales	**–**	–	**1,148**	–	**(1,148)**	–	**–**	–
Total	**379,698**	279,267	**27,387**	–	**(1,148)**	–	**405,937**	279,267
Segment profit	**348,821**	232,418	**434**	–	**(116)**	–	**349,139**	232,418

Inter-segment transactions are priced with reference to prices charged to external parties for similar order.

	ISD system segment		ISS segment		Total	
	As at 30 June 2012	As at 31 December 2011	**As at 30 June 2012**	As at 31 December 2011	**As at 30 June 2012**	As at 31 December 2011
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**2,852,554**	2,650,270	**377,941**	–	**3,230,495**	2,650,270

	ISD system segment		ISS segment		Total	
	As at 30 June 2012	As at 31 December 2011	**As at 30 June 2012**	As at 31 December 2011	**As at 30 June 2012**	As at 31 December 2011
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment liabilities	**99,700**	74,674	**75,975**	–	**175,675**	74,674

3. **SEGMENT INFORMATION (Continued)**

Reconciliations of reportable segment profit or loss:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment profit	**349,139**	232,418
Interest income	**74**	–
Exchange losses, net	**(1,938)**	–
Finance costs	**(1,386)**	–
Unallocated corporate expenses	**(7,623)**	–
Consolidated profit before income tax expenses	**338,266**	232,418

Geographical Information

The directors of the Group consider that the Group's condensed consolidated revenue and substantially all of its condensed consolidated results are attributable to the market in the PRC. The Group's condensed consolidated non-current assets are substantially located in the PRC. Accordingly, no geographical information is presented.

Information about major customers

For the six months ended 30 June 2012, 3 customers of the ISD system segment had sales of HK$74,599,000, HK$70,590,000 and HK$53,047,000 respectively each of which contributed to more than 10% of the Group's revenue.

For the six months ended 30 June 2011, 3 customers of the ISD system segment had sales of HK$113,401,000, HK$82,105,000 and HK$50,843,000 each of which contributed to more than 10% of the Group's revenue.

4. **TURNOVER**

Turnover represents the invoiced value of sale of application software and system hardware, security and protection products and manufacturing and sales of surveillance cameras and CCTV products, and system solution service income, after discounts and rebates, earned by the Group.

5. PROFIT BEFORE TAX EXPENSE

Profit before tax expense has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories recognised as an expense	**16,394**	7,857
Depreciation of property, plant and equipment	**3,482**	4,397
Amortisation of intangible assets (included in cost of sales)	**21,940**	17,766
Interest expense on convertible notes	**–**	9,146
Interest expense on promissory note (note 14)	**1,386**	–
Equity-settled share-based payment expenses (note 16(b))	**79,990**	25,289
Net foreign exchange loss/(gains)	**1,931**	(3,609)
Interest income on bank deposit	**(2,205)**	(1,134)
Reversal of bad debt provision	**(23,956)**	–

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax – PRC Enterprise Income Tax ("EIT")		
– tax for the period	**46,221**	7,265
– overprovision in respect of prior period	**(5,873)**	–
	40,348	7,265
Deferred tax		
– charge/(credit) to profit or loss for the period	**392**	(1,723)
Income tax expense	**40,740**	5,542

The Company and those subsidiaries established in the British Virgin Islands are exempted from income taxes.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (six months ended 30 June 2011: Nil).

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

According to the Implementation Guidance, there will be a transitional period of five years for the Company's PRC subsidiaries located in Shenzhen Special Economic Zone whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 respectively.

The Company's subsidiary, Shenzhen Anxin Digital Development Co., Limited ("Shenzhen Anxin") is qualified as a high-tech enterprise and is entitled to a preferential enterprise income tax rate of 15% for the three years from 2011 to 2013. The applicable income tax rates of Shenzhen Anxin are 24% and 15% for the period ended 30 June 2011 and the period ended 30 June 2012 respectively.

6. INCOME TAX EXPENSE (Continued)

Pursuant to an approval document issued by the Tax Bureau of Hongze, Jiangsu Province, the Company's subsidiary, Jiangsu Hongxin Intelligence Technology Co., Limited ("Jiangsu Hongxin") qualifies as a software-producing enterprise and is entitled to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014.

Other subsidiaries, which were established and operate in the PRC, are subject to EIT at a standard rate of 25% (six months ended 30 June 2011: 25%).

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**297,573**	226,876
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**–**	9,146
Earnings for the purposes of dilutive earnings per share	**297,573**	236,022

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,692,541**	2,327,021
Effect of dilutive potential ordinary shares:		
Convertible notes	**–**	359,210
Share options	**22**	–
Warrants	**3,344**	19,190
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,695,907**	2,705,421

Note:

The computation of diluted earnings per share does not assume an exercise of the Company's outstanding share options, which were granted on 1 April 2011 with exercise price of HK$2.25, as the exercise price of those options is higher than the average market price of the Company's shares for the period ended 30 June 2012.

8. DIVIDENDS

On 4 May 2012, the Company issued 32,353,756 ordinary shares for Anxin Mate Acquisition as set out in note 15(b). The issued shares together with the ordinary shares of 2,680,873,000 as at 31 December 2011, totaling 2,713,226,756 were entitled to a final dividend of HK$3 cents per ordinary share (year ended 31 December 2010: HK$Nil). 2011 dividend of approximately HK$81,396,000 was approved by the shareholders at the 2012 annual general meeting.

Final dividend of 2011 amounted to HK$79,686,000 were paid during the period ended 30 June 2012 with balance of approximately HK$1,710,000 recorded as dividend payable as at 30 June 2012.

Except for the above, no dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$4,350,000 (six months ended 30 June 2011: HK$103,061,000). There is no significant disposal of property, plant and equipment for the six months ended 30 June 2012.

No property, plant and equipment were pledged as at 30 June 2012 as all bank borrowings have been repaid in prior periods.

10. INTANGIBLE ASSETS

During the period, the Group acquired intangible assets of approximately HK$333,873,000 (six months ended 30 June 2011: HK$Nil), which mainly resulted from Yu Hong Acquisition and Anxin Mate Acquisition as detailed below.

(a) Yu Hong Acquisition

As set out in note 18(a), the Group acquired the surveillance cameras and CCTV products business of Yu Hong Group during the period, including the acquisition of patents with fair value of approximately HK$215,933,000 on the date of acquisition. The patents identified from the acquisition have estimated useful life of approximately 9 years.

10. INTANGIBLE ASSETS (Continued)

(b) Anxin Mate Acquisition

As set out in note 18(b), the Group acquired various patents and relevant trademark in relation to behavior watch technologies (the "Behaviour Watch Assets") amounted to approximately HK$116,708,000 through the acquisition of subsidiary, Anxin Mate Holdings Limited ("Anxin Mate"). The patents and trademark have estimated useful life of 10 years. The Group engaged a professional appraiser, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional qualified valuer, to conduct valuation of these intangible assets. As the economic benefits arising from the Behaviour Watch Assets are totally integrated with the existing operating segments of the Group, the "Incremental Cash Flow Approach" has been applied to derive the incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets. Under this approach, the incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets were estimated by considering the net impact on the Group's cash flow by generating two different scenarios, namely: (1) the business enterprise value of the Group under a scenario "WITH Behaviour Watch Assets"; and (2) the business enterprise value of the Group under a scenario "WITHOUT the Behaviour Watch Assets". The incremental business enterprise value arising from the acquisition of the Behaviour Watch Assets is derived from the difference of the business enterprise values between the two scenarios aforementioned.

11. GOODWILL

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
Balance at beginning of period/year	**1,129,430**	1,040,427
Acquisition of subsidiaries (note 18(a))	**119,543**	–
Exchange adjustments	**(11,685)**	89,003
Balance at end of period/year	**1,237,288**	1,129,430

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
ISD system business	**1,119,015**	1,129,430
ISS business	**118,273**	–
	1,237,288	1,129,430

Goodwill is allocated to the Group's cash generating units ("CGUs") according to business segments. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
Trade receivables	**447,732**	207,427
Other receivables	**8,951**	11,709
Amounts due from directors	**907**	495
Rental and utility deposits	**3,083**	2,700
Advance to suppliers	**6,924**	13,137
	467,597	235,468

The amounts due from directors are unsecured, interest free and repayable on demand.

In general, the credit terms granted by the Group ranged from 90 to 180 days, while the retention monies held in relation to the application software are receivable 12 months after installation of software. The following is an aged analysis of trade receivables net of allowance for impairment losses presented based on the invoice date at the end of reporting period.

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
0 – 30 days	**215,832**	8,277
31 – 60 days	**1,653**	87,829
61 – 90 days	**2,241**	49,220
91 – 180 days	**154,881**	3,946
181 – 365 days	**39,391**	58,155
Over 365 days	**33,734**	–
	447,732	207,427

Included within the trade receivables balance at the end of the period, HK$95,310,000 (31 December 2011: HK$67,174,000) is due from the Group's largest customer. There are another seven customers (31 December 2011: seven customers) who represent more than 5% of the total balance of trade receivables. These customers are governmental bureaus with no history of default to the Group in the past.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
Trade payables	**23,138**	8,714
Cash consideration (note i)	**96,700**	–
Other payables and accruals	**26,222**	38,702
Other tax payables	**20,588**	40
Amounts due to related parties (note ii)	**1,358**	2,076
Advance from customers	**5,842**	250
Dividend payable	**1,710**	–
	175,558	49,782

Note:

(i) As set out in note 18(a), as part of the consideration of the Yu Hong Acquisition, the balance represented deferred cash considerations which together with the promissory note consideration (note 14) are subject to contingent consideration adjustments as detailed in note 18(a).

(ii) The amounts due to related parties are unsecured, interest free and repayable on demand.

In general, the credit terms granted by suppliers ranged from 90 to 180 days. The aging analysis of trade payables prepared based on invoice date is as follows:

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
0 – 30 days	**8,371**	917
31 – 60 days	**2,196**	–
61 – 90 days	**2,274**	–
91 – 180 days	**1,208**	7,323
181 – 365 days	**8,579**	–
Over 365 days	**510**	474
	23,138	8,714

14. PROMISSORY NOTE

	As at 30 June 2012 (Unaudited) HK$'000
Fair value at date of issue:	**173,822**
Imputed interest recognised during the period	**1,386**
Carrying amount at the end of the period	**175,208**

As set out in note 18(a), the Company issued a zero-coupon promissory note in the principal amount of HK$189,000,000 (the "Promissory Note") as part of the consideration for the acquisition of the entire equity of Yu Hong Group. The Promissory Note has a two-year maturity terms and the Company has the right to redeem the Promissory Note by giving not less than 7 days prior written notice to the holder of Promissory Note while the holder of the Promissory Note has the right to transfer the outstanding balance of Promissory Note respectively before the maturity terms.

The fair value of the Promissory Note was determined at approximately HK$173,822,000 issued at acquisition date, based on an independent valuation carried out by an independent firm of valuers, Asset Appraisal Limited. The effective interest rate of the Promissory Note was determined to be 4.77% per annum. The Promissory Note was classified as non-current liabilities and carried at amortised cost until extinguished on redemption.

15. SHARE CAPITAL

	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.1 each	**400,000**	400,000
Issued and full paid:		
2,732,227,000 ordinary shares of HK$0.1 each (31 December 2011: 2,680,873,000 shares)	**273,223**	268,087

15. SHARE CAPITAL (Continued)

The movements in the issued share capital of the Company during the year/period were as follows:

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each		
As at 1 January 2011 (audited)	2,079,746	207,975
Issue of shares on conversion of convertible notes	432,307	43,230
Issue of shares on exercise of warrants	75,000	7,500
Purchase of own shares for cancellation	(46,280)	(4,628)
Issue of new shares	140,100	14,010
As at 31 December 2011 (audited)	2,680,873	268,087
Exercise of share options (note (a))	19,000	1,900
Issue of new shares (note (b))	32,354	3,236
As at 30 June 2012 (unaudited)	2,732,227	273,223

(a) On 16 April 2012, a total of 158,820,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to the grantees (the "Grantees"), subject to acceptance by the Grantees, under the share option scheme adopted by the Company on 3 November 2003.

On 18 June 2012, a total of 19,000,000 share options were exercised at a subscription price of HK$1.5 per share, resulting in the issue of 19,000,000 ordinary shares of HK$0.1 each.

(b) On 17 March 2012, the Company conditionally agreed to acquire 100% equity interests of Anxin Mate. The aggregate consideration of the acquisition is US$14,841,000, of which US$7,341,000 shall be satisfied by cash, US$7,500,000 by 32,353,756 Consideration Shares to be issued (note 18(b)).

On 4 May 2012, a total of 32,353,756 shares as Consideration Shares were issued, according to the Agreement.

16. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share Options

On 16 April 2012, the Company granted 158,820,000 share options (year ended 31 December 2011: 37,000,000). Details and movements of share options are as follows:

	Weighted average exercise price	Number '000
At 1 January 2011	–	–
Granted during the period	HK$2.25	37,000
At 31 December 2011	HK$2.25	37,000
Granted during the period	HK$1.50	158,820
Exercised during the period	HK$1.50	(19,000)
At 30 June 2012	HK$1.66	176,820
Exercisable at the end of the period	HK$1.66	176,820

The weighted average fair value of each option granted during the period is determined at the date of grant using the Binomial option pricing model with reference to assessment by Assets Appraisal Limited.

The following information is relevant in the determination of the fair value of options granted during the period under the equity-settled share based remuneration schemes operated by the Group.

Option pricing model used	Binomial option pricing model
Weighted average share price at grant date	HK$1.49
Grant date	16 April 2012
Exercise price	HK$1.5
Weighted average contractual life	2.79 years
Expected volatility	71.89%
Expected dividend yield	2.01%
Risk free interest rate	0.33%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of weekly share prices over the last 156 weeks. The weighted average remaining contractual life was 2.79 years.

The expected dividend yield is calculated based on the historical dividend payout records of the Company.

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

In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share option reserve.

16. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Equity settled share-based payment

On 17 March 2012, the Group entered into a Services Agreement with a consulting company whereby the consulting company agreed to provide services to the Group within three years for the purpose of assisting the Group in expanding and developing markets for ISD platforms in three cities in the PRC, and each of such cities shall install at least 1,000 surveillance points ("the Services"). The consideration for the Services, being US$15,000,000, shall be satisfied by the Company's allotment and issuance of three tranches of Consideration Shares of 21,569,171 shares each.

Pursuant to HKFRS 2, the fair value of the services should be measured by reference to the share price at date of grant amounted to approximately HK$115,179,000, which are to be recognised in profit and loss throughout the service vesting period. Balance of approximately HK$9,598,000 was recognised in profit or loss for the six months ended 30 June 2012.

17. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

				As at	As at
		Six months ended 30 June		**30 June**	31 December
		2012	2011	**2012**	2011
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Related party relationship	**Types of transaction**	**Transaction amount**		**Balance owed/(owing)**	
		HK$'000	HK$'000	**HK$'000**	HK$'000
Related parties	Lease of office	**737**	714	**(1,358)**	(739)
	Transfer of property, plant and equipment	**–**	98,789	**–**	–

Related parties represent the companies controlled by Chen Hong, who is one of the major shareholders of the Company.

The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any commitment or guarantee been given or received during 2012 and 2011 regarding related party transactions.

17. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Salaries, allowances and other short-term employee benefits	**780**	765
Contribution to retirement benefits schemes	**30**	6
	810	771

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

18. ACQUISITION DURING THE PERIOD

(a) Pursuant to the agreement dated 11 November 2011, the first supplemental agreement dated 10 January 2012 and the second supplemental agreement dated 17 August 2012 (the "Yu Hong Agreements"), the Group agreed to acquire Yu Hong Group, together with its shareholder's loan of HK$13,005,000 at an aggregate consideration of HK$315,000,000. On 1 April 2012, the Yu Hong Acquisition has been completed.

Yu Hong Investments Limited is a company incorporated in the British Virgin Islands, which holds Island Wide Investments Limited and Shenzhen Hawell Advanced Technology Company Limited ("Shenzhen Hawell") incorporated in Hong Kong and the PRC respectively. Shenzhen Hawell's principal activity is the design, development, production and distribution of security and protection products, surveillance cameras and CCTV products. The purpose of the acquisition is to broaden revenue base and provide synergy effect of current ISD systems operation.

The fair value of separate identifiable assets and liabilities of the acquiree, after the settlement of shareholder's loan of HK$13,005,000, as at the date of acquisition was:

	HK$'000	HK$'000
Property, plant and equipment	908	
Patents	215,933	
Inventories	23,084	
Trade and other receivables	12,033	
Cash	2,770	
Trade and other payables	(20,466)	
Amount due to holding company	(13,005)	
Deferred tax liabilities recognised upon fair value adjustments	(53,983)	
		167,274
The fair value of consideration transfer:		
Cash paid	16,295	
Contingent consideration:		
– Cash consideration (note 13)	96,700	
– Promissory note (note 14)	173,822	
		286,817
Goodwill (note 11)		119,543

18. ACQUISITION DURING THE PERIOD (Continued)

(a) (Continued)

Pursuant to the Yu Hong Agreements, a vendor and its original shareholder have guaranteed that the audited consolidated net profit after taxation of Yu Hong Group for the financial year ending 31 December 2012 shall not be less than HK$90,000,000 (the "2012 Profit Guarantee"). As a security for the 2012 Profit Guarantee, the second and third cash payments of HK$40,000,000 and HK$56,700,000, respectively (the "Cash consideration") together with the zero-coupon promissory note in the principal amount of HK$189,000,000 (the "Promissory Note") (collectively referred to the "Contingent Considerations") are subject to fulfillment of the 2012 Profit Guarantee. In case the 2012 Profit Guarantee is not fulfilled, all or part of the Contingent Considerations will be set off against to make up any shortfall which is calculated as the difference between the 2012 Profit Guarantee and the audited consolidated net profit after taxation of Yu Hong Group for the year ending 31 December 2012 (the "Shortfall") and multiplied by 3.5. In case there is a loss in the audited consolidated net profit after taxation of Yu Hong Group, the profit used for such calculation should be treated as zero. The directors of the Company are of the opinion that the 2012 Profit Guarantee is achievable and no adjustment to the contingent consideration is considered necessary.

The fair value of trade and other receivables amounted to HK$12,033,000. The gross amount of these receivables is HK$12,033,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of HK$119,543,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing ISD system operations of the Group.

Since the acquisition date on 1 April 2012, Yu Hong Group has contributed HK$27,387,000 and HK$4,952,000 to the Group's revenue and profit for the period ended 30 June 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit would have been HK$53,211,000 and HK$9,793,000 respectively. The acquisition-related costs of HK$102,000 have been expensed and are included in administrative expenses.

(b) On 4 May 2012, the Company acquired 100% equity interests of Anxin Mate, as detailed in the Company's announcement dated 4 May 2012 (the "Anxin Mate Acquisition"). Based on the precedent condition in the acquisition agreement, the vendor, Mate Intelligent Video 2009 Limited, would transfer the Behaviour Watch Assets to the newly incorporated Anxin Mate. Upon the completion of the Anxin Mate Acquisition, the Group would have the right to utilise the Behaviour Watch Assets to enhance the functionality of the Group's ISD system monitoring process with the use of refined video analysis technique.

The fair values of identifiable assets of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Intangible Assets (note 10)		116,708
The fair value of consideration transfer:		
Cash	57,055	
32,353,756 Consideration Shares	59,653	116,708

Anxin Mate Acquisition does not meet the definition of a business, therefore, the above acquisition is deemed as acquisition of assets.

19. EVENTS AFTER THE END OF THE INTERIM PERIOD

(a) As announced on 6 July 2012, the Group has entered into an acquisition agreement pursuant to which the Company has conditionally agreed to acquire 100% equity interest of Tech Praise Limited and its subsidiaries (collectively refer to the "Tech Praise Group") ("the Acquisition"). Tech Praise Group is engaged in design and development of remote surveillance information system, and provision of system technical services in the PRC and was acquired with the objective of expanding the Group's business in the PRC. The Acquisition was completed on 17 August 2012 involving an aggregate consideration of HK$300 million to be satisfied by the issuance of the Company's shares. On 9 August 2012, the Company has issued 30,467,163 ordinary shares as 1st installment of the total consideration. Details of the Acquisition are set out in the Company's announcement.

Since the completion of the Acquisition was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the Acquisition.

(b) Subsequent to the period ended 30 June 2012, 10,000,000 warrants were exercised at a subscription price of HK$1.22 per share, resulting in the issue of 10,000,000 ordinary shares of HK$0.1 each in July and August 2012.

20. COMPARATIVE FIGURES

Equity-settled share-based payment expenses of approximately HK$25,289,000 incurred for sales and marketing purpose included in administrative expenses in prior period has been reclassified to selling and distribution costs to conform to current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2012, consolidated turnover of the Group amounted to approximately HK$405,937,000 (1H2011: HK$279,267,000), representing an increase of approximately 45% over the corresponding period.

- Profit for the period attributable to owners of the Company amounted to approximately HK$297,573,000 (1H2011: HK$226,876,000), representing an increase of approximately 31% over the corresponding period.

- Basic earnings per share and diluted earnings per share amounted to HK$11.05 cents (1H2011: HK$9.75 cents) and HK$11.04 cents (1H2011: HK$8.72 cents) respectively.

- Cash flows generated from operating activities amounted to approximately HK$211,777,000 (1H2011: HK$184,013,000).

- As at 30 June 2012, cash held by the Group amounted to approximately HK$1,141,505,000 (31 December 2011: HK$1,077,795,000).

Note: 1H represents (first half of the year from January to June).

PROFILE OF THE GROUP

The Group is a first-mover and the largest integrated solution provider of ISD systems in China. It derives its income from: (1) customizing ISD solutions according to customer needs; (2) the provision of ISD hardware and software; and (3) ongoing ISD agency operations and maintenance services. (please refer to Diagram 1 for a pictorial description of a typical ISD system.) The target customers of the Group are primarily government authorities, including the Administration of Work Safety, the Administration of Coal Mine Safety and the Production Safety Emergency Control Center, etc.

The Group is one of the pioneers and first movers of ISD systems and participated in the formulation of the standards of China's coal mining ISD system. It is also one of the earliest coal mining ISD system providers formally endorsed by the Chinese government. At present, the Group is the one and only ISD solution provider that is capable of providing multi-industry ISD systems.

Following the completion of the Group's acquisition of Yu Hong Investments Limited and its principal subsidiary, Shenzhen Hawell Advanced Technology Co., Ltd (深圳市豪威未來科技有限公司) in April 2012, the Group has also expanded into the business of intelligent safety systems ("ISS"). ISS refers to software, hardware and equipment, e.g. surveillance cameras, CCTVs and sensors, sold to industrial enterprises for the purpose of ensuring industrial safety. In 1H2012, most of the sales of ISS related to sales of surveillance cameras and CCTVs. Going forward, it is expected that the ISS business will become another pillar revenue generator for the Group.

What are ISD Systems?

ISD systems are unique to China. ISD is an acronym standing for "Intelligent Surveillance, Disaster Alert and Rescue Co-ordination". The system involves the setting up of a dedicated communications platform using leading edge Internet-of-things technologies, through which all the safety parameters obtained via on-site electronic sensors located at surveillance points, eg, gas content in a coal mine, oil pressure in an oil depot, etc, are transmitted to the Local Government Monitoring Centre via the Internet. Various transmission means can be employed, including public telecom networks, dedicated optical fiber cables or even satellites.

The Local Government Monitoring Centre monitors such information and data on a real-time basis. Should any parameter exceed the pre-set safety limit, the system automatically sends out warning signals and rescue information to different interested parties, including the responsible person of the enterprise, relevant government departments such as the local safety bureau as well as other rescue agencies such as the police offices and the local hospitals.

Not only does the system alert the enterprise to take precautionary measures to avoid industrial disasters (under the supervision of the local government), but it also assists the local government in devising the optimal rescue co-ordination and contingency measures after the occurrence of an accident in order to minimize casualties.

In 2008, the State Administration of Work Safety identified 31 categories of "origins of peril" for coal-mining and multi-industrial safety purposes. (see Diagram 2). Examples of such origins of peril are coal mines, gasoline stations and high human density locations. It is the Central Government's objective to install ISD systems to monitor all 31 categories of origins of peril across the nation over the next 10 to 15 years.

In 2008, the State Administration of Work Safety identified 31 categories of "origins of peril" that are prone to massive injuries and deaths. Currently, the Group's ISD systems applied to 11 out of these 31 categories. These include coal mines, non-coal underground mines, open-pit mines, construction sites, storage area, gas stations, storage tank area, LPG stations, tailing ponds, dangerous goods operation and terminals for dangerous goods (please refer to Diagram 2 for the 31 categories of "origins of peril").

In addition to enjoying favorable government policies and support from local governments, the Group also places heavy emphasis on research and development in order to maintain its leading edge in the industry arena. As of 30 June 2012, the Group has been awarded 33 patents and copyrights in China and was also accredited with the ISO9001: 2008 Quality Management System Standard Certification. The technology standards of the Group's subsidiaries are widely recognized. Jiangsu Hongxin Intelligence Technology Co., Ltd.(江蘇省洪芯智能技術有限公司)("Jiangsu Hongxin") and Shenzhen Anxin Digital Development Co., Ltd.(深圳市安芯數字發展有限公司)("Shenzhen Anxin") have been acknowledged with "State Hi-Tech Enterprise Certification" by the Ministry of Science and Technology of China. During the review period, Shenzhen Anxin was also awarded the honor of "Excellent Software Enterprise in 2011". It also won the corporate seat to act as the vice president of the Science and Technology Promotion Center of Shenzhen City(深圳市科學技術普及推廣中心)as well as becoming a corporate member on the Council of the Chinese Institute of Electronics. Shenzhen Anxin also obtained the qualification certificate in the design, construction and maintenance of security and protection systems from the Guangdong Province of China. All of these are testimonies to the Group's technologies and contributions to the profession. They also serve to enhance the marketing strength of the Group.

What is Internet-of things?

The concept of "internet-of-things" refers to the connection of objects (or "things" or "devices") through the internet, as distinguished from the old context of internet which refers to the connection of "people". Internet-of-things has multiple applications. "Things" that can be connected include various detection devices such as infrared sensors, global positioning systems, laser scanners, etc. Internet-of-things applications include intelligent identification and management (such as positioning, tracking, monitoring and management) of different objects, as well as analysis functionalities. Thanks to the breakthrough developments in wireless network technologies in recent years, applications of Internet-of-things technology have experienced rapid development around the world.

Internet-of-things in China

In 2010, the Chinese government promulgated the 12th Five-Year Plan in which it pushed forward the development of the Internet-of-things technologies and established Internet-of-things as one of the 7 new industries for strategic development purposes. The Plan also advocates the construction of a digital national government affairs network that will integrate and upgrade the capabilities of public services and management. According to the China Research and Development Center for Internet-of-things, the industry size of Internet-of-things could reach RMB750 billion by 2015.

Diagram 1：ISD System Operation Module

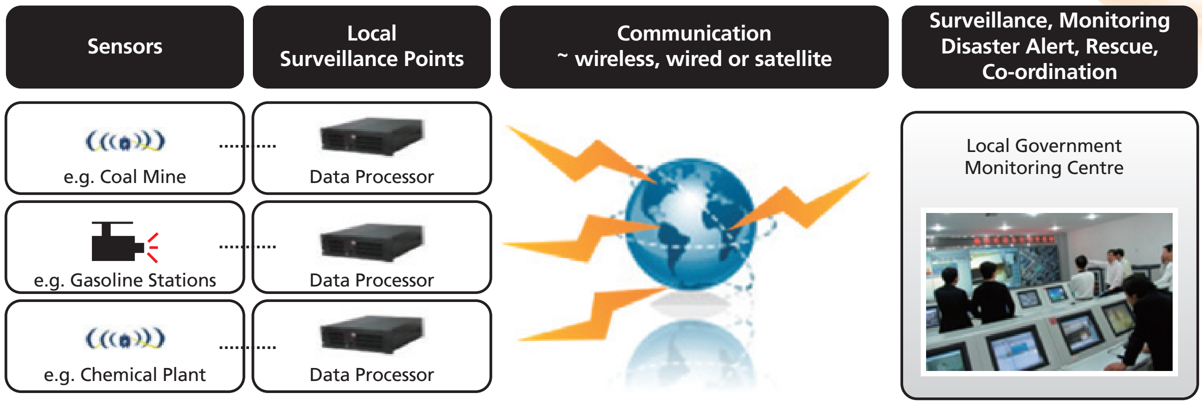


Diagram 2: 31 Types of Origins of Peril

Note: Those marked in yellow represent the types that Anxin-China had covered as at 30 June 2012.

Why ISD systems are split between Coal-Mining ISD and Multi-Industry ISD system?

Prior to joining the WTO, China's pre-occupation of "generating economic growth" had resulted in relatively poor public and industrial safety records when compared to other developed countries. The situation is particularly acute in the coal-mining industry. According to the statistics of U.S. Department of Labor Mine Safety and Health Administration and China State Administration of work safety, coal mining fatalities in China were 1,973 in 2011 as compared to only 16 in the US for the year. As such, coal mining safety was singled out by the Central Government as its top priority. The concept of using ISD systems as a monitoring tool in coal mining safety was first introduced in 2004, a year prior to its formal endorsement by the Central Government in the nation's 11th 5-year Plan in 2005.

In 2008, the State Administration of Work Safety formally identified 31 categories of "origins of peril" that are prone to severe casualties. Not surprisingly, coal mines were included as a major origin of peril, along with other categories such as gas stations, non-coal mines, operations involving dangerous chemicals and radioactive devices, etc. ISD systems have since been proposed to monitor all 31 categories of "origins of peril". At present, two directly affiliated institutions under the State Council, namely, the State Administration of Coal Mine Safety and the Headquarters of the State Administration of Work Safety are respectively responsible for the monitoring of coal mining safety and safety over the other 30 categories of origins of peril.

As a result of this historical background, the ISD industry is conveniently split between coal-mining ISD and multi-industry ISD.

In its 12th 5-year Plan in 2010, the Central Government re-affirmed its determination and commitment to improving public and industrial safety. ISD systems are expected to be installed to cover all 31 categories of "origins of peril" over the next 10 to 15 years. Based on the Group's own estimates, there are at least 1 million surveillance points across the country if ISD systems are to cover all 31 categories of "origins of peril".

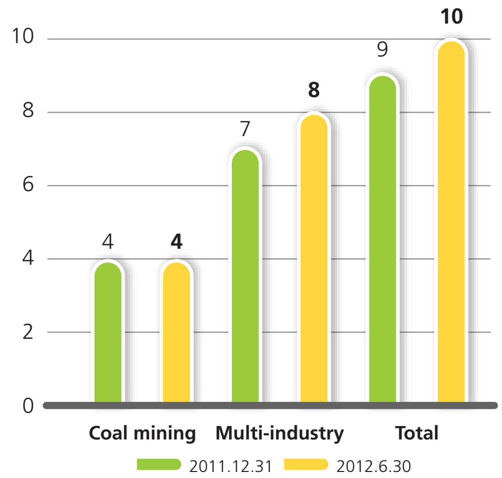
BUSINESS REVIEW

Since China's accession to the World Trade Organization ("WTO"), the Government has been placing increasing emphasis on coaling mining and multi-industry production safety. In October 2011, the "Safe Industrial Production 12-5 Plan（安全生產「十二五」規劃）" (the "Plan") was announced. The Plan stipulates that local governments are expected to dedicate at least 5% of their annual budgets to support and facilitate the improvement of industrial production safety.

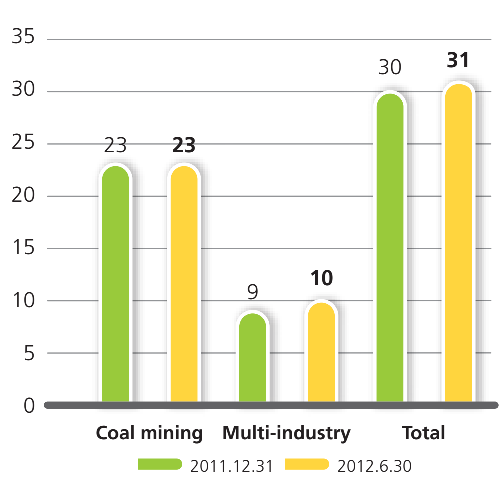
Thanks to these favorable policies, the demand for ISD systems has enjoyed tremendous growth. For the 6 months under review, the Group added 1 monitoring centre and 5,432 surveillance points to its portfolio. As at 30 June 2012, a total of 31 monitoring centers (31 December 2011: 30) and 18,434 surveillance points (31 December 2011: 13,002) were operated by the Group. The Group's footprint now spans 10 provinces across 31 cities/counties in China.

During the period under review, the Group and the Production Safety Committee Office of the government of Chongqing City, China (重慶市安全生產委員會辦公室) entered into a framework agreement, pursuant to which the Company had agreed to establish ISD systems in Chongqing City. Pursuant to the agreement, the Company will establish a monitoring centre for the purpose of monitoring the industrial safety of industrial enterprises in Chongqing City in accordance with the requirements of the Production Safety Committee Office of the government of Chongqing City, China (重慶市安全生產委員會辦公室). It is expected that the entire project will be completed by 31 December 2015.

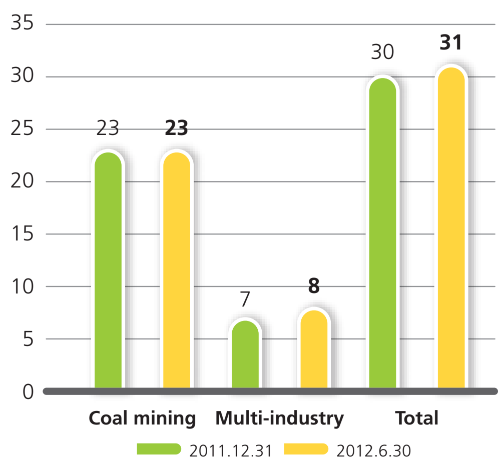
Provinces



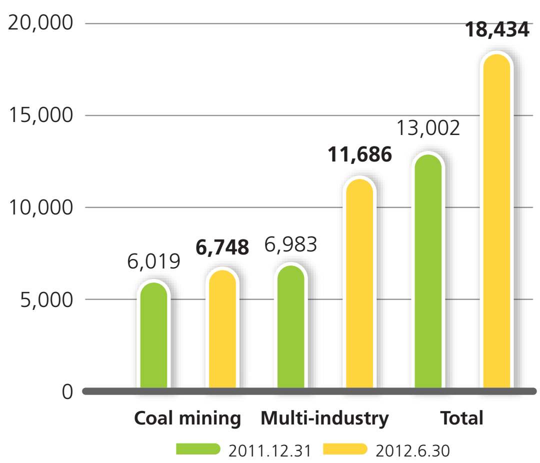
Cities and counties



Monitoring centers



Surveillance points



On 17 March 2012, the Group entered into a Share Purchase and Services Agreement (the "Agreement"). Pursuant to the Agreement, the Group has become the sole owner of a series of intellectual properties. The intellectual properties consist of a patent regarding method of indexing and searching images of text in video (United States patent number 6,937,766), a patent regarding method of selecting key-frames from a video sequence (United States patent number 7,184,100), a patent application regarding circuit and system for matching an object or person present within two or more images (United States patent application number 13/001,631, Israeli and PRC patent applications being national phase of PCT/IB2010/053008), the unregistered trademark "Mate", algorithms, software for edge devices products and server products and various other software, and know-how. More details are set out in Note 10(b) and Note 18(b) to the condensed consolidated financial statements.

The acquisition of Yu Hong Investment Limited ("Yu Hong"), completed in April 2012, has allowed the Group to expand into the Intelligent Safety Systems ("ISS") business. ISS refers to software, hardware and equipment, e.g. surveillance cameras, CCTVs and sensors, sold to industrial enterprises for the purpose of ensuring industrial safety. Shenzhen Hawell Advanced Technology Co., Ltd（深圳市豪威未來科技有限公司）, the principal trading subsidiary of Yu Hong, is a leading supplier of ISS products, including surveillance cameras, DVR cards, digital video recorders, CCTVs and relevant accessories for CCTV systems. In 1H2012, most of the sales of ISS related to sales of surveillance cameras and CCTVs. Going forward, it is expected that the ISS business will become another pillar revenue generator for the Group.

PROSPECTS

Despite the adverse global economic downturn in 2011 and 1H2012, the Group continued to post strong operating performance, resulting in strong turnover and profit growth. Not only is our performance a testimony to the Group's resilience to adverse economic conditions, but it also reflects the unrelenting demand for ISD systems in China thanks to the Central Government's bid to improve industrial and production safety across the nation.

The acquisition of Shenzhen Hawell Advanced Technology Co., Ltd（深圳市豪威未來科技有限公司）completed during the period under review, allows the Group to expand into the ISS business. ISS refers to software, hardware and equipment, e.g. surveillance cameras, CCTVs and sensors, sold to industrial enterprises for the purpose of ensuring industrial safety. In 1H2012, most of the sales of ISS related to sales of surveillance cameras and CCTVs. Going forward, it is expected that the ISS business will become another pillar revenue generator for the Group.

FINANCIAL REVIEW AND ANALYSIS

Consolidated Turnover and Gross Profit

For the six months ended 30 June 2012, the consolidated turnover of the Group amounted to approximately HK$405.9 million (1H2011: HK$279.3 million), representing an increase of approximately 45%. Gross profit for the period amounted to approximately HK$363.4 million (1H2011: HK$249.4 million), representing an increase of approximately 46%. The increase in consolidated turnover and gross profit was mainly attributable to the increase in sales of ISD systems.

Segment Information

Full details on segment information are set out in note 3 to the condensed financial statements.

Other Revenue

Other revenue went up from approximately HK$36.2 million in 1H2011 to approximately HK$60.7 million in 1H2012. This item mainly refers to the refund of value-added tax, interest income from bank deposits, financial subsidy income and rental income, etc. Amongst which, the refund of value-added tax during the review period amounted to approximately HK$56.2 million (1H2011: HK$34.7 million).

Other Gains and Losses

Other gains and losses mainly refer to reversal of bad debt provision, net exchange gains and losses, etc. The increase in other gains and losses from approximately HK$3.6 million in 1H2011 to approximately HK$22.0 million in 1H2012 was mainly attributable to the reversal of approximately HK$24.0 million of bad debt provision recorded in the review period.

Selling and distribution costs

Selling and distribution costs went up from approximately HK$27.0 million in 1H2011 to approximately HK$74.3 million in 1H2012. The increase was mainly due to the increase in share option expenses arising from share options granted to the Group's marketing partners and the first tranche of equity settled share-based payment to the Group's consulting company details of which are given in Note 16 to the condensed consolidated financial statements. The amount of share option expenses involved amounted to approximately HK$61.0 million in 1H2012 as compared to approximately HK$25.3 million in 1H2011. The amount of the first tranche of equity settled share-based payment is approximately HK$9.6 million (1H2011: HK$NIL).

Administrative expenses

Administrative expenses went up from approximately HK$13.8 million in 1H2011 to approximately HK$26.2 million in 1H2012. The increase was mainly due to the increase in share option expenses arising from share options granted to the Group's staff. Total amount of share option expenses incurred in 1H2012 amounted to approximately HK$9.3 million (1H2011: HK$NIL).

Profit for the Period

Profit for the period attributable to the owners of the Company amounted to approximately HK$297.6 million (1H2011: HK$226.9 million), representing an increase of approximately 31% over the corresponding period. The increase in profit for the period attributable to owners of the Company was mainly due to the increase in the volume of ISD business.

Earnings Per Share

During the period, basic earnings per share was HK$11.05 cents (1H2011: HK$9.75 cents) and diluted earnings per share was HK$11.04 cents (1H2011: HK$8.72 cents) respectively.

Capital Expenditure

For the six months ended 30 June 2012, capital expenditure of the Group amounted to approximately HK$4.4 million (1H2011: HK$103.1 million). Capital expenditure mainly represents the acquisition of property, plant and equipment.

Liquidity and Financial Resources

Total assets of the Group amounted to approximately HK$3,385.2 million as at 30 June 2012 (31 December 2011: HK$2,650.3 million), representing an increase of 28%. Total equity of the Group amounted to approximately HK$2,935.4 million (31 December 2011: HK$2,575.6 million), of which equity attributable to shareholders of the Company was approximately HK$2,933.0 million (31 December 2011: HK$2,573.2 million), non-controlling interests were approximately HK$2.4 million (31 December 2011: HK$2.4 million) and total liabilities were approximately HK$449.7 million (31 December 2011: HK$74.7 million). As at 30 June 2012, the current ratio of the Group was 7.74 (31 December 2011: 21.10) and the gearing ratio was 13% (31 December 2011: 3%). The decrease in current ratio and the increase in total liabilities and gearing ratio were mainly due to consolidation of Yu Hong as a wholly owned subsidiary of the Group. Yu Hong is a company acquired during the review period. More details of this acquisition are given in Note 18(a) to the condensed consolidated financial statements.

The Group has a stable financial position and maintained a robust and stable cash inflow from its operations. The Group recorded a net cash inflow of approximately HK$211.8 million from operating activities during the review period (1H2011: HK$184.0 million). As at 30 June 2012, cash and cash equivalents were approximately HK$1,141.5 million (31 December 2011: HK$1,077.8 million).

Share Capital

Details on the movement of share capital are set out in Note 15 to the condensed consolidated financial statements.

SIGNIFICANT INVESTMENTS

Shenzhen Ruian Information Technology Co., Ltd.（深圳市睿安信息技術有限公司）(Shenzhen Ruian) was incorporated in PRC in November 2011. The fully paid up capital of Shenzhen Ruian was RMB10 million. The Group subscribed 80% fully paid up capital of Shenzhen Ruian with RMB8 million. However, the performance of Shenzhen Ruian cannot achieve the objective of the Group. With unanimous consent of all shareholders on 7 June 2012, Shenzhen Ruian was decided to be dissolved. The remaining amount invested, approximately RMB7.8 million, will be returned to the Group after all dissolution procedures in PRC.

Save as disclosed above, the Group had no significant investment held during the period.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

I. Acquisition of Yu Hong Investments Limited

On 14 November 2011, the Company, Yu Sheng Holdings Limited (the Vendor) and Mr. Wong King（王琼）, the sole shareholder and director of the Vendor (the Guarantor) entered into an Acquisition Agreement.

Pursuant to the Acquisition Agreement, the Company as purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of Yu Hong Investments Limited (the Target Company), together with the Shareholder's Loan free from encumbrance and together with all rights now or hereinafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after the Completion Date.

The aggregate consideration for the Acquisition was HK$315 million subject to Profit Guarantee 2012 which shall be paid in the following manner upon Completion:

(i) HK$126 million shall be satisfied by cash; and

(ii) HK$189 million shall be satisfied by promissory note.

On 10 January 2012, the Company, the Vendor and the Guarantor entered into a supplemental acquisition agreement (the "Supplemental Acquisition Agreement"), pursuant to which the cash portion of the consideration for the Acquisition ("Cash Consideration") in the sum of HK$126 million shall be paid by the Company to the Vendor by 3 installments and payment of which together with the Promissory Note is subject to certain conditions. The completion of the Acquisition Agreement (supplemented by the Supplemental Acquisition Agreement) for accounting and legal requirements took place on 1 April 2012.

Upon Completion, the Target Company become a wholly-owned subsidiary of the Company and the financial information of the Target Group (the Target Company, Island Wide Investments Limited and 深圳市豪威未來科技有限公司 (the PRC Company)) would be consolidated into the accounts of the Group.

On 17 August 2012, the Company, the Vendor and the Guarantor entered into a second supplemental acquisition agreement in relation to the payment of the part of the cash consideration.

II. Acquisition of Anxin Mate Holding Limited

On 17 March 2012, the Company, Mate Intelligent Video 2009 Ltd. (the Vendor), Mango(a company incorporated in Israel with limited liability, being the sole shareholder of the Vendor), Infinity(four limited partnerships which aggregately hold approximately 70% of the entire equity interest in Mango) and Anxin Mate Holding Limited (the Target Company) entered into the Share Purchase and Services Agreement.

Pursuant to the Share Purchase and Services Agreement, the Vendor conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Share, representing the entire equity interest in the Target Company on the Completion Date, free from encumbrance and together with all rights attaching or accruing to the Sale Share.

Mango agreed to procure the Infinity Group to provide Services to the Company, that is, various services for the purpose of assisting the Group in expanding and developing markets for ISD platforms in three cities in the PRC, each city installing at least 1,000 surveillance points, within three years from the Completion Date which include, inter alia, allowing the Group to use the facilities of Infinity Group in various cities in the PRC and assisting the Group in facilitating and maintaining the relationships with relevant local authorities and eco-system.

The aggregate consideration under the Share Purchase and Services Agreement was US$29,841,000 (equivalent to HK$232,162,980), which consist of:

(a) US$14,841,000 (equivalent to HK$115,462,980) as consideration for the Sale Share, which shall be paid in the following manner on the Completion Date:

  (i) US$7,341,000 (equivalent to HK$57,112,980) was be satisfied by cash; and

  (ii) US$7,500,000 (equivalent to HK$58,350,000) was satisfied by the Company's allotment and issuance of the 32,353,756 1st Tranche Consideration Shares to the Vendor; The 1st Tranche Consideration Shares was issued at the issue price of HK$1.8035 per Consideration Share, credited as fully paid and rank pari passu in all respects with the Shares then in issue. The number of the Consideration Shares was calculated by dividing HK$58,350,000 (equivalent to US$7,500,000) by the issue price; and

(b) US$15,000,000 (equivalent to HK$116,700,000) as consideration for the Services, which was satisfied by the Company's allotment and issuance of 2nd Tranche Consideration Shares, 3rd Tranche Consideration Shares and 4th Tranche Consideration Shares, which shall be allotted and issued to Mango within three years after Completion upon the happening of milestones of the Services.

On 17 March 2012 simultaneously with the execution of the Share Purchase and Services Agreement, Suzhou I-China as seller and Hongxin, an indirect wholly-owned subsidiary of the Company, as purchaser, entered into the Suzhou I-China Agreement pursuant to which Suzhou I-China conditional agreed to sell certain technology in respect of Behavior Watch to the Hongxin. As consideration, Hongxin should pay RMB1,000,000 (equivalent to US$159,000 or HK$1,237,000) in cash to Suzhou I-China on the Completion Date. Suzhou I-China has given non-competition undertaking in favour of Hongxin.

The Suzhou I-China Agreement and the Share Purchase and Services Agreement are inter-conditional and shall be completed simultaneously. The sum of the consideration under the Share Purchase and Services Agreement and the consideration under the Suzhou I-China Agreement is US$30,000,000, equivalent to HK$233,400,000.

The sale and purchase of the Sale Share pursuant to the Share Purchase and Services Agreement was completed on 4 May 2012, and the sale and purchase of technology pursuant to the Suzhou I-China Agreement was completed simultaneously. The technology specified in Suzhou I-China agreement was transferred from Suzhou I-China to the Group, and the aggregate consideration for the technology under this agreement, being RMB1,000,000, was paid to Suzhou I-China. Upon Completion, the Target Company become a wholly-owned subsidiary of the Company.

The acquisition of the Sale Share under the Share Purchase and Services Agreement, as well as the transfer of technology from Suzhou I-China to the Group under the Suzhou I-China Agreement, will enable the Group to have access to advanced technology of Behavior Watch which may boost the Group's research and development of the ISD system. The Group's entitlement to Services under the Share Purchase and Services Agreement will provide an excellent opportunity for the Group's business development in the ISD market in the PRC.

III. Acquisition of Tech Praise Limited

On 6 July 2012, the Company as purchaser, Win Tech Enterprises Co Limited (the Vendor) and Ms. Fu Chun Man (the Guarantor) entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Share, representing the entire issued share capital of Tech Praise Limited (the Target Company), together with the Shareholder's Loan, free from encumbrance and together with all rights now or hereinafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after the Completion Date.

The Consideration shall be HK$300 million (subject to downward adjustments, if any), of which HK$6,379,600 (equivalent to US$820,000) shall be the consideration for the Shareholder's Loan and the balance shall be the consideration for the Sale Share. The Consideration shall be satisfied by way of the Company allotting and issuing to the Vendor (or its nominee) up to 203,114,421 Consideration Shares at the Issue Price of HK$1.477 per Consideration Share by five installments.

The Acquisition agreement was completed on 17 August 2012. Upon Completion, Tech Praise Limited became a wholly-owned subsidiary of the Company.

The Acquisition enables the Group to expand its coverage to the four ISD Monitoring Centres and over 900 surveillance points owned by the Target Group in the Jilin Province, which will increase its market share in the PRC ISD industry. The Directors are of the view that the Acquisition will strengthen the Group's position as the largest integrated solution provider of ISD systems in the PRC.

Save as disclosed above, there was no material acquisition or disposal of subsidiaries or associated companies by the Group during the six months ended.

EMPLOYEE INFORMATION

As at 30 June 2012, the Group employed a total of 416 employees (31 December 2012: 201). The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

The emoluments of the directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement. During the review period, the employment cost (including directors' emoluments) amounted to approximately HK$17,234,000 (1H2011: HK$3,993,000).

CHARGE ON GROUP ASSETS

As at 30 June 2012, the Group did not have any charges on its assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

As announced on 6 July 2012, the Group was entered into a acquisition agreement pursuant to which the Company was conditionally agreed to acquire 100% equity interest of Tech Praise Limited and its subsidiaries ("the Acquisition"). The Acquisition was completed on 17 August 2012. For detailed information, please refer to a Note 19(a) events after the end of the interim period of the condensed consolidated financial statement.

The Group will continue to monitor the industry closely and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests. The management, if considered beneficial to the future of the Group, may make new investments. In view of the market situation, the management may consider raising capital for funding new investments while reserving internal financial resources to support its core business.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND TREASURY POLICIES

The Group mainly operates in Mainland China and most of the assets, liabilities and transactions of the Group are denominated in RMB. The Group is exposed to foreign exchange translation risk, arising from the exposure of Hong Kong dollars against Renminbi.

The Group does not expect any appreciation or depreciation of the Renminbi Yuan against foreign currency which might materially affects the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to exchange rate risk during the period and the Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

CAPITAL COMMITMENTS

The Group did not have any capital commitments that were contracted for as at 30 June 2012.

CONTINGENT LIABILITIES

Details of contingent liabilities should refer to note 18(a) to the financial statements.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all eligible employees in accordance with the relevant regulations in the PRC and are charged to the Statement of Comprehensive Income as incurred. The contributions paid for the six months ended 30 June 2012 and 30 June 2011 were approximately HK$433,000 and HK$147,000 respectively. The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to its staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 from January to May 2012 and HK$1,250 for June 2012 by each of the employee and the Group) on a monthly basis to the fund.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, the interests or short positions of the Directors and the chief executive of the Company and their associates in the shares, or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")) which were to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

	Number of Shares held		Number of options held		
Name of Director	**Personal Interest**	**Corporate Interest**	**Personal Interest**	**Total**	**Approximate percentage of total issued ordinary Shares**
Mr. Liu Zhongkui	7,600,000	–	2,600,000	10,200,000	0.37
Mr. Lin Supeng	–	–	2,600,000	2,600,000	0.10
Mr. Yang Ma	–	–	2,600,000	2,600,000	0.10

Note: The percentage has been calculated based on the total number of 2,732,226,598 ordinary shares of the Company in issue as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, none of the Directors and the chief executive of the Company and their associates had interests or short positions in the shares, or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares" above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the six months ended 30 June 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the six months ended 30 June 2012.

SHARE OPTION SCHEME

On 3 November 2003, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme") as an incentive to selected participants. The Share Option Scheme will expire on 2 November 2013. 158,820,000 share options were granted at an exercise price of HK$1.5 per share and 19,000,000 share options were exercised during the period under review and the share option cost that was charged to the income statement was approximately HK$70,392,000 (six months ended 30 June 2011: approximately HK$25,289,000). Based on the existing outstanding number of share options as of 30 June 2012 and assume that no further share options are to be granted in the six months to 31 December 2012, no further share option cost will be charged to the income statement as share option expense. No options has been cancelled or lapsed during the six months ended 30 June 2012. There are 176,820,000 share options outstanding as at 30 June 2012.

Movements of the options, which were granted and exercised under the Share Option Scheme, during the period under review were listed below:

Category	Date of grant	Number of share option held as at 01/01/2012	Number of share option granted during the period	Number of share option exercised during the period	Number of share option lapsed during the period	Number of share option held as at 30/06/2012	Exercise price HK$	Exercise period
Directors:								
Mr. Liu Zhongkui	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Mr. Lin Supeng	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Mr. Yang Ma	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
Other eligible participants:								
Consultants	1 April 2011	37,000,000	–	–	–	37,000,000	2.25	01/04/2011 – 02/11/2013
Consultants	16 April 2012	–	114,800,000 (Note)	19,000,000	–	95,800,000	1.5	16/04/2012 – 15/04/2015 (Note)
Employee	16 April 2012	–	33,620,000 (Note)	–	–	33,620,000	1.5	16/04/2012 – 15/04/2015 (Note)
Substantial shareholder	16 April 2012	–	2,600,000 (Note)	–	–	2,600,000	1.5	16/04/2012 – 15/04/2015 (Note)
		37,000,000	158,820,000	19,000,000	–	176,820,000		

Note:

These share options are exercisable within the said exercise period in the following manner:

1.	110,500,000 share options	:	any time within the exercise period, i.e. 16 April 2012 to 15 April 2015	
2.	1,500,000 share options	:	(i)	up to one-third of the grantee's entitlement from the date of grant, i.e. 16 April 2012;
			(ii)	up to two-thirds of the grantee's entitlement from the date after the expiry of 12 months from the date of grant, i.e. 16 April 2013; and
			(iii)	up to the grantee's full entitlement from the date after the expiry of 24 months from the date of grant, i.e. 16 April 2014.
3.	46,820,000 share options (including 10,400,000 share options to Directors and substantial shareholder (as defined in the Listing Rules) of the Company)	:	(i)	up to 30% of the grantee's entitlement from the date of grant, i.e. 16 April 2012;
			(ii)	up to 60% of the grantee's entitlement from the date after the expiry of 12 months from the date of grant, i.e. 16 April 2013; and
			(iii)	up to the grantee's full entitlement from the date after the expiry of 24 months from the date of grant, i.e. 16 April 2014.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons or companies (other than the Directors and chief executives of the Company) had interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the Company's issued share capital were as follow:

Name of substantial shareholder	Capacity in which shares were held	Number of shares	Number of underlying shares	Total	Approximate percentage of shareholding
Chen Hong	Interest of controlled corporation (Note 3)	514,952,000	2,600,000	517,552,000	18.94%
Jin Yong Investments Limited	Beneficial owner (Note 3)	230,680,000	0	230,680,000	8.44%
Elite Achieve Limited	Beneficial owner (Note 3)	211,720,000	0	211,720,000	7.75%

Notes:

1. The above are all long positions in the ordinary shares of the Company.

2. The percentage has been calculated based on the total number of 2,732,226,598 ordinary shares of the Company in issue as at 30 June 2012.

3. The 72,552,000 shares are owned by Mr. Chen Hong in person. The 230,680,000 shares and 211,720,000 shares are owned by Jin Yong Investments Limited and Elite Achieve Limited respectively. Both Jin Yong Investments Limited and Elite Achieve Limited are wholly owned by Mr. Chen Hong. Therefore, Mr. Chen Hong is deemed to be interested in the shares held by Jin Yong Investments Limited and Elite Achieve Limited under the SFO.

Save as disclosed above, as at 30 June 2012, the Directors are not aware of any other person (other than the Directors or Chief Executive of the Company, whose interests are set out in the paragraph headed "Directors' and Chief Executives Interest and Short Positions in Shares and Underlying Shares"), had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by the Company under Part XV of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the six months ended 30 June 2012.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2012, except for those disclosed in note 17 to the financial statements, the Group had no transactions with related or connected parties.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 Company's listed securities during the six months ended 30 June 2012.

CORPORATE GOVERNANCE

The Stock Exchange has issued the amendments on code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules effective on 1 April 2012.

To fully comply with all the new code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, relevant amendments and adoptions have been made by the Company on 1 April 2012 including the establishment of a nomination committee and a corporate governance committee on 28 March 2012.

The Group is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Throughout the six months ended 30 June 2012, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices effective until 31 March 2012 and the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, save for the deviations from code provisions A.2.1 and A.4.1 which are explained below.

Code Provision A2.1

According to the code provision A2.1 of the Corporate Governance Code, the roles of the chairman and the chief executive officer (the "CEO") should be segregated and should not be performed by the same individual. However, Mr. Liu Zhongkui currently holds the offices of Chairman and CEO of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Code Provision A4.1

According to the code provision A.4.1 of the Corporate Governance Code, non-executive directors should be appointed for a specific term and subject to re-election. All independent non-executive Directors are appointed for a specific term except for Mr. Cheung Chuen who was not appointed for a specific term but he is subject to retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years according to the articles of association of the Company. The Company considered that such practice meets the same objective and is no less exacting than those prescribed under the code provision A4.1 of the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry with all Directors, the Company confirmed that in respect of the six months ended 30 June 2012, all Directors had complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee is established with written terms of reference in compliance with the Corporate Governance Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Chen Feng, Mr. Xie Baitang and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. The audit committee had reviewed the condensed consolidated interim financial statements for the six months ended 30 June 2012 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

NOMINATION COMMITTEE

The nomination committee has been established with a defined terms of reference in consistent with the Corporate Governance Code on 28 March 2012. The primary duties of the nomination committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive Directors.

The nomination committee is led by Mr. Liu Zhongkui, the executive Director, the chairman and the CEO. Members of the nomination committee include Mr. Xie Baitang, Mr. Cheung Chuen and Mr. Chen Feng, all are independent non-executive Directors.

REMUNERATION COMMITTEE

The remuneration committee is established with a defined terms of reference in consistent with the Corporate Governance Code. The primary duties of the remuneration committee include making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The remuneration committee is led by Mr. Xie Baitang, an independent non-executive Director. Members of the remuneration committee include Mr. Chen Feng and Mr. Cheung Chuen, both are independent non-executive Directors.

CORPORATE GOVERNANCE COMMITTEE

The corporate governance committee has been established with a defined terms of reference in consistent with the Corporate Governance Code on 28 March 2012. The primary duties of the corporate governance committee include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report annually.

The corporate governance committee is led by Mr. Liu Zhongkui, the executive Director, the chairman and the CEO. Members of the corporate governance committee include Mr. Xie Baitang, Mr. Cheung Chuen and Mr. Chen Feng, all are independent non-executive Directors.

REVIEW OF ACCOUNTS

These condensed consolidated interim financial statements have been reviewed by the Company's auditors.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company discloses the changes in information of the Directors as follows:

On 9 January 2012, Mr. Chen Feng has been appointed as an independent non-executive Director, member of the audit committee and member of the remuneration committee of the Company.

On 9 January 2012, (i) Mr. Zhong Houtai has resigned as executive Director, the authorised representative (as required under Rule 3.05 of the Listing Rules and the Companies Ordinance (Cap. 32 of the laws of Hong Kong)) and Chairman of the Company; (ii) Mr. Zhong Houyao has resigned as executive Director; and (iii) Mr. Liu Zhongkui, the executive Director and the CEO, has been appointed as the authorised representative (as required under Rule 3.05 of the Listing Rules and Companies Ordinance (Cap. 32 of the laws of Hong Kong)) of the Company and as Chairman of the Company.

On 23 April 2012, Mr. Pei Renjiu has resigned as independent non-executive Director and ceased to act as the member of the audit committee and the member of the remuneration committee of the Company.

On 15 June 2012, Mr. Wang Bo has been appointed as an executive Director.

Subsequent to the six months ended 30 June 2012, on 6 July 2012, Mr. Wang Bo has also been appointed as the vice-chairman of the Company.

APPRECIATION

I would like to take this opportunity to extend my deepest gratitude to the Directors and staff as a whole for their immense contribution, dedication and diligence during the period under review.

By order of the board
Liu Zhongkui
Chairman and CEO

23 August 2012

As at the date of this report, the executive directors of the Company are Mr. Liu Zhongkui, Mr. Wang Bo, Mr. Lin Supeng and Mr. Yang Ma and the independent non-executive directors of the Company are Mr. Cheung Chuen, Mr. Chen Feng and Mr. Xie Baitang.