



First Shanghai Investments Limited

(Stock Code : 227)

2012 Interim
Report

First Shanghai Investments Limited

Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. LO Yuen Yat

Executive Directors

Mr. XIN Shulin

Mr. YEUNG Wai Kin

Non-executive Director

Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.*

Independent Non-executive Directors

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. YU Qihao

Mr. ZHOU Xiaohe

COMPANY SECRETARY

Mr. YEUNG Wai Kin

REGISTERED OFFICE

Room 1903, Wing On House

71 Des Voeux Road Central

Hong Kong

Telephone: (852) 2522 2101

Fax: (852) 2810 6789

E-mail address:

enquiry@firstshanghai.com.hk

Website: www.firstshanghai.com.hk

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

SOLICITORS

Reed Smith Richards Butler

T. H. Koo & Associates

Jennifer Cheung & Co

PRINCIPAL BANKERS

CITIC Bank International Limited

Standard Chartered Bank

(Hong Kong) Limited

REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of

Hong Kong Limited: 227

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MANAGEMENT COMMENTARY

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) submits herewith the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (together, the “Group”) for the six months ended 30th June 2012 together with the comparative figures for the corresponding period last year.

Business Review

2012 continues to be a very challenging year for investors. The salient credit risk in banking system results in continuous pressure of deleveraging and contraction policies. The momentum in global economic growth was still slow despite various stimulating measures implemented by major countries. In China, risks of economic slowdown have sharpened with the slow improvement on retail consumption, while recovery of foreign trade is still precarious. The global financial system was unstable and vulnerable. The Hong Kong equity market was inevitably affected and remained volatile during the period under review.

The Group reported consolidated net loss attributable to shareholders of the Company of approximately HK\$38 million for the six months ended 30th June 2012, comparing with a net loss, after restatement, of approximately HK\$1 million in the corresponding period of 2011. The restatement for 2011 result from a net profit was mainly due to change of accounting policy on deferred taxation. The decline in result of 2012 was mainly attributable to the sharing of losses on its investment in a listed associate, China Assets (Holdings) Limited (“China Assets”). Fair value loss on our securities trading portfolio was reduced in 2012. However, slight fair value loss on our investment properties was recorded as compared with a net fair value gain in 2011, and this further trimmed the Group’s overall results. The total net assets of the Group dropped slightly from approximately HK\$2,722 million as at 31st December 2011 to approximately HK\$2,691 million as at 30th June 2012.

The Group adheres to its strategic plan and dedicates its efforts and resources to accelerating growth in its three major business sectors: Financial Services, Property and Hotel, and Direct Investment.

Financial Services

In 2012, the global financial market was continuously encumbered by the spread of European debt problem, especially when there were worries about a possible default of Greek debts and the country's withdrawal from Euro zone. Tightening credit and monetary policies of the Central Government further raised the market concern of economic slowdown in China. Despite the pick up of the US financial market, the emerging markets performed poorly in general. Hang Seng Index closed at 18,434 and 19,411 on 31st December 2011 and 30th June 2012 respectively, with peak and trough at 21,760 and 18,056 respectively over the reporting period. Investors were cautious and risk appetite further shrank. Retail investors have largely stayed on the sidelines in this volatile market. Market trading activity was dampened, with an average daily market turnover dropped by 23% from HK\$74 billion in 2011 to HK\$57 billion in the corresponding period of 2012. Under the unfavorable market sentiment, IPO and secondary fund raising activities reduced by 83% and 25% respectively when compared with the corresponding period in 2011.

Our brokerage business was impeded by the slowdown in stock market activities. During the period, brokerage commission dropped slightly due to intensive market competition and reduction in trading activity. Despite this, underwriting and placing commission increased following expansion of our IPO underwriting business. In addition, with the increase in margin loan size and thus increase in margin loan interest income, the overall securities business reported an operating profit of approximately HK\$31 million in 2012, representing an increase of 30% from the corresponding period of 2011. 2012 is still difficult for the asset management industry in general and our securities investment business reported a loss of approximately HK\$6 million.

Our corporate finance division is an inseparable arm of our Financial Services Sector and has continued to bolster the revenue stream via the provision of services primarily to Hong Kong listed companies. Despite unfavourable performance of the global economy and the equity market in Hong Kong, our corporate finance division remained an active player in the financial advisory market for the six months ended 30th June 2012. During the period, we completed 10 corporate financial advisory cases and acted as compliance advisors to three Hong Kong listed companies. On our business pipeline, we have already engaged in a variety of assignments, which include IPO sponsorships and corporate financial advisory deals.

MANAGEMENT COMMENTARY

With a strong expertise and sound reputation in the industry, together with the synergies brought forward by the full range of financial services offered by the Group including brokerage and asset management, financial advisory and IPO sponsorships, we have a solid platform to further expand our business in the market. We will continue to leverage on the core competitiveness of the Group and take a proactive approach to further capture business opportunities, broaden its client base and strengthen its market niche.

Property and Hotel

Under the strict tightening policies towards the Chinese property market, speculation and investment was curbed leading to reduction of transaction volume and falling in property prices. As it is expected that the Central Government's tightening measures will continue, the two property development projects of the Group in Wuxi, in the short run, will still be under tremendous pressure. However, the Group considered these measures will lead to a healthier and more sustainable economic growth to the industry. The Group remains conservatively optimistic about the long term development of the property market in view of China's accelerating urbanization and massive housing demand.

The Group is currently participating in six property projects with a total GFA of 419,000 square meters. We will complete these projects by phases according to the changing market conditions.

Our five-star hotel, Double Tree by Hilton in Wuxi, has reported satisfactory growth in 2012. Its occupancy rate has increased from 23% in 2011 to 47% in the corresponding period of 2012 and the hotel has contributed approximately HK\$42 million to the Group's total revenue in 2012.

Direct Investment

China Assets continues to be the major investment of our Direct Investment Sector. The performance of China Assets was affected by the unfavorable economic environment during the reporting period. In 2012, China Assets has made significant provision on impairment of investments. The project development of Goldeneye Interactive Limited, an online search engine company, was still behind budget. The recoverability of loan investment in Junhui International Holdings Limited, owner of a dredging vessel, was remote with reference to the recent business development. China Assets considers returns of these investments were uncertain and thus made a total of approximately US\$7 million provision in the reporting period. For the six months ended 30th June 2012, China Assets recorded net loss and decrease in investment reserve attributable to the Group of approximately HK\$24 million and HK\$4 million respectively.

Apart from the indirect investment in pharmaceutical and healthcare business through China Assets, the Group continues to invest in pharmaceutical business. The pharmaceutical business acquired in early 2011 has reported break-even results during the period. With the implementation of medical reform by the Central Government, we are confident that the Group will have a bright prospect in the pharmaceutical market. We will continue to push forward our research and development plans while making full use of our existing platform in strengthening our business foundation. We may also seek future opportunities to enlarge our presence in the industry.

Prospects

With the European sovereign debt crisis still some way from resolution, the general outlook of world economy remains uncertain. Nevertheless, the Central Government will consistently maintain a stable macro-economic policy and will persist with its proactive but moderate fiscal and monetary policies that will reinforce economic growth at a healthy momentum. Despite the cautious outlook, we believe Hong Kong, being firmly supported by the Central Government as an international financial centre and offshore Renminbi business centre, will continue to offer opportunities for stable growth.

MANAGEMENT COMMENTARY

While adhering to its business strategy, the Group will closely monitor the macro economy and regulatory environment so as to effectively respond to changes in a timely manner. We will continue our efforts in setting up a firm base in the financial services and property development industries in Hong Kong and the Chinese Mainland. We will devote more efforts to enhance the quality of our products and services, capitalise on our professional team and refine our operational efficiency in order to strengthen market penetration and capture greater business opportunities in future. Meanwhile, we will continue to pursue, with an active and prudent approach, strategic direct investment projects with the aim to optimising returns to the Company and its shareholders.

Management Discussion And Analysis

Financial results

For the six months ended 30th June 2012, the Group recorded a net loss and basic losses per share attributable to shareholders of the Company amounting to approximately HK\$38 million and HK2.70 cents respectively, compared with a net loss and basic losses per share attributable to shareholders of the Company, after restatement, of approximately HK\$1 million and HK0.08 cents respectively in the corresponding period of 2011. The restatement for 2011 result was mainly due to change of accounting policy as stipulated in Note 3 to the financial information. Revenue of the Group was approximately HK\$172 million, representing an increase by 21% over the same period of 2011.

Material acquisitions, disposals and significant investments

During the period, the Group had no material acquisitions, disposals and significant investments.

Liquidity and financial resources

The Group relies principally on its internal resources to fund its operations and investment activities. Bank loans will be raised to meet the different demands of our various property projects and our financial services business. As at 30th June 2012, the Group had raised bank loans of approximately HK\$302 million and held approximately HK\$376 million cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 11%. Investment in "financial assets at fair value through profit or loss" as at 30th June 2012 amounted to approximately HK\$258 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. The Group expects that Renminbi will maintain in a stable pattern for the remaining period of 2012. The Group has no significant exposure to other foreign exchange fluctuations.

Pledge of assets

The Group has pledged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$951 million (31st December 2011: HK\$1,017 million) and fixed deposits of approximately HK\$16 million (31st December 2011: HK\$16 million) against its bank loans and general banking facilities. The banking facilities amounting approximately HK\$300 million (31st December 2011: HK\$320 million) had been utilised.

Human resources

As at 30th June 2012, the Group employed 794 (30th June 2011: 775) staff, of whom 600 are based in Chinese Mainland. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined benefit/contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the six months ended 30th June 2012 amounted to approximately HK\$81 million (30th June 2011: HK\$76 million).

Contingent liabilities

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for purchasers of the Group's properties in Chinese Mainland. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 30th June 2012, total contingent liabilities relating to these guarantees amounted to approximately HK\$2 million (31st December 2011: HK\$0.4 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30th June	
	Note	2012 HK\$'000	2011 HK\$'000 (Restated)
Revenue	6	172,395	142,728
Cost of sales		(71,057)	(75,236)
Gross profit		101,338	67,492
Other (losses)/gains — net	7	(1,004)	66,631
Selling, general and administrative expenses		(109,423)	(106,966)
Operating (loss)/profit	6 and 8	(9,089)	27,157
Finance income	9	10,894	8,681
Finance costs	9	(11,359)	(342)
Finance (costs)/income — net	9	(465)	8,339
Share of profits less losses of			
— Associated companies		(25,517)	(11,432)
— Jointly controlled entities		4,915	6,226
(Loss)/profit before taxation		(30,156)	30,290
Taxation	11	(12,603)	(28,393)
(Loss)/profit after taxation		(42,759)	1,897
Loss attributable to minority investors of an investment fund		391	—
(Loss)/profit for the period		(42,368)	1,897
Attributable to:			
Shareholders of the Company		(37,803)	(1,092)
Non-controlling interests		(4,565)	2,989
		(42,368)	1,897
Losses per share attributable to shareholders of the Company			
— basic	12	HK(2.70) cents	HK(0.08) cents
— diluted	12	HK(2.70) cents	HK(0.08) cents

The notes on pages 14 to 29 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000 (Restated)
(Loss)/profit for the period	(42,368)	1,897
Other comprehensive income		
– Fair value gain/(loss) on available-for-sale financial assets	23,230	(14,371)
– Exchange reserve realised for disposal of a subsidiary	—	(1,121)
– Currency translation differences	(8,140)	27,061
– Share of post-acquisition reserves of an associated company	(3,946)	(4,998)
Other comprehensive income for the period, net of tax	11,144	6,571
Total comprehensive (loss)/income for the period	(31,224)	8,468
Attributable to:		
Shareholders of the Company	(26,145)	3,021
Non-controlling interests	(5,079)	5,447
	(31,224)	8,468

The notes on pages 14 to 29 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000 (Restated)
	Note		
Non-current assets			
Intangible assets	14	2,126	2,126
Property, plant and equipment	14	401,990	423,801
Investment properties	14	457,631	447,570
Leasehold land and land use rights	14	55,645	56,699
Investments in associated companies		280,475	308,486
Investments in jointly controlled entities		235,303	240,299
Deferred tax assets		14,212	14,043
Available-for-sale financial assets		119,978	96,763
Loans and advances		10,475	17,228
Total non-current assets		1,577,835	1,607,015
Current assets			
Properties under development		219,420	210,995
Properties held for sale		383,099	400,230
Inventories		7,031	5,501
Loans and advances		385,018	432,855
Trade receivables	15	185,989	70,195
Other receivables, prepayments and deposits		39,518	29,224
Tax recoverable		1,411	2,882
Financial assets at fair value through profit or loss		258,390	273,272
Deposits with banks			
— pledged		913	1,337
— non-pledged		2,830	5,447
Client trust bank balances		1,369,178	1,524,807
Cash and cash equivalents		372,070	370,942
Total current assets		3,224,867	3,327,687

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000 (Restated)
	Note		
Current liabilities			
Trade and other payables	16	1,673,096	1,760,025
Tax payable		41,914	33,507
Borrowings	17	188,010	201,394
Net assets attributable to holders of redeemable participation shares		14,324	14,715
Total current liabilities		1,917,344	2,009,641
Net current assets		1,307,523	1,318,046
Total assets less current liabilities		2,885,358	2,925,061
Non-current liabilities			
Deferred tax liabilities		73,228	74,323
Retirement benefit obligations		6,906	7,485
Borrowings	17	114,349	121,154
Total non-current liabilities		194,483	202,962
Net assets		2,690,875	2,722,099
Equity			
Share capital	18	279,783	279,783
Reserves		2,317,290	2,343,435
Capital and reserves attributable to the Company's shareholders		2,597,073	2,623,218
Non-controlling interests		93,802	98,881
Total equity		2,690,875	2,722,099

The notes on pages 14 to 29 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Cash flows from operating activities	5,009	11,239
Cash flows from/(used in) investing activities	27,868	(57,617)
Cash flows (used in)/from financing activities	(29,734)	61,417
Net increase in cash and cash equivalents	3,143	15,039
Cash and cash equivalents at 1st January	370,942	527,151
Exchange (losses)/gains	(2,015)	2,361
Cash and cash equivalents at 30th June	372,070	544,551

The notes on pages 14 to 29 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited									
	Attributable to shareholders of the Company									Non-controlling interests
										Total
	Share capital	Share premium	Employee share-based compensation reserve	Capital reserve	Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2012, as previously reported	279,783	849,536	40,500	233,332	14,006	12,334	95,165	128,904	985,896	103,930
Change in accounting policy – Adoption of HKAS 12 (Amendment) (Note 3(a))	–	–	–	–	–	–	–	(814)	(15,424)	(5,049)
At 1st January 2012, as restated	279,783	849,536	40,500	233,332	14,006	12,334	95,165	128,090	970,472	98,881
Total comprehensive loss for the period ended 30th June 2012	–	–	–	(3,946)	–	–	23,230	(7,626)	(37,803)	(5,079)
At 30th June 2012	279,783	849,536	40,500	229,386	14,006	12,334	118,395	120,464	932,669	93,802

	Unaudited									
	Attributable to shareholders of the Company									Non-controlling interests
										Total
	Share capital	Share premium	Employee share-based compensation reserve	Capital reserve	Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2011, as previously reported	279,783	849,536	42,682	299,357	14,006	12,334	161,616	89,828	1,028,500	102,096
Change in accounting policy – Adoption of HKAS 12 (Amendment) (Note 3(a))	–	–	–	–	–	–	–	–	(5,764)	(4,919)
At 1st January 2011, as restated	279,783	849,536	42,682	299,357	14,006	12,334	161,616	89,828	1,022,736	97,177
Total comprehensive income for the period ended 30th June 2011	–	–	–	(4,998)	–	–	(14,371)	23,482	(1,092)	5,447
Transfer of reserve upon lapse of share options	–	–	(1,091)	–	–	–	–	–	1,091	–
2010 final dividend paid	–	–	–	–	–	–	–	–	(13,989)	–
	–	–	(1,091)	–	–	–	–	–	(12,898)	–
At 30th June 2011	279,783	849,536	41,591	294,359	14,006	12,334	147,245	113,310	1,008,746	102,624

The notes on pages 14 to 29 form an integral part of this condensed consolidated financial information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. General information

First Shanghai Investments Limited (the “Company”) and its subsidiaries, associated companies and jointly controlled entities (together, the “Group”) are principally engaged in securities investment, corporate finance, stockbroking, property development, property investment, hotel operation, direct investment, investment holding and management.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated financial information is presented in Hong Kong dollars, unless otherwise stated.

This unaudited condensed consolidated financial information was approved for issue by the Board on 24th August 2012.

2. Basis of preparation

This unaudited condensed consolidated financial information for the six months ended 30th June 2012 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. This unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2011, as described in those annual financial statements.

(a) Change in accounting policy

HKAS 12 (Amendment), “Income Tax”, is effective for annual periods beginning on or after 1st January 2012. It introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. It requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale.

HKAS 12 (Amendment) has been applied retrospectively for annual periods beginning 1st January 2012 in accordance with the effective date of the amendment. The Group has re-measured the deferred tax relating to certain investment properties according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. Accounting policies (continued)

(a) Change in accounting policy (continued)

The effect of the adoption of this amendment is as follows:

	30th June 2012 HK\$'000	31st December 2011 HK\$'000
Condensed consolidated balance sheet		
Increase in deferred tax liabilities	21,372	21,287
Decrease in retained earnings	(15,431)	(15,424)
Decrease in exchange fluctuation reserve	(618)	(814)
Decrease in non-controlling interests	(5,323)	(5,049)
	Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Condensed consolidated income statement		
Increase in income tax expenses	281	10,068
Increase/decrease in net (loss)/profit attributable to shareholders of the Company	(7)	(9,762)
Increase/decrease in net (loss)/profit attributable to non-controlling interests	(274)	(306)
Decrease in basic earnings per share	—	HK(0.70) cents
Decrease in diluted earnings per share	—	HK(0.70) cents

There are no other amendments, revisions or interpretations to existing Standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

- (b) Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. Accounting policies (continued)

- (c) The following Standards, amendments, revisions and interpretation to existing Standards have been issued but are not effective for financial year beginning 1st January 2012 and have not been early adopted:

		Effective for accounting periods beginning on or after
— HKAS 1 (Amendment)	Presentation of Financial Statements;	1st July 2012
— HKAS 19 (2011)	Employee Benefits;	1st January 2013
— HKAS 27 (2011)	Separate Financial Statements;	1st January 2013
— HKAS 28 (2011)	Investments in Associates and Joint Ventures;	1st January 2013
— HKAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities;	1st January 2014
— HKFRS 7 (Amendment)	Disclosure — Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities;	1st January 2013
— HKFRS 7 and 9 (Amendment)	Mandatory Effective Date and Transition Disclosures;	1st January 2015
— HKFRS 9	Financial Instruments;	1st January 2015
— HKFRS 10	Consolidated Financial Statements;	1st January 2013
— HKFRS 11	Joint Arrangements;	1st January 2013
— HKFRS 12	Disclosure of Interests in Other Entities;	1st January 2013
— HKFRS 13	Fair Value Measurements;	1st January 2013
— HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine; and	1st January 2013
— Fourth Annual Improvements	Improvements to HKFRS Published Project (2011) in June 2012	1st January 2013

The Group has already commenced an assessment of the related impact of adopting the above Standards, amendments, revisions and interpretation to existing Standards to the Group. The Group is not yet in a position to state whether the above amendments will result in substantial changes to the Group's accounting policies and presentation of the financial statements.

4. Estimates

The preparation of unaudited condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2011.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

This unaudited condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December 2011.

There have been no changes in the risk management responsible departments since year end or in any risk management policies.

5.2 Liquidity risk

Compared to 31st December 2011, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. Financial risk management (continued)

5.3 Fair value estimation (continued)

The following table presents the unaudited Group's financial assets that are measured at fair value at 30th June 2012.

	Unaudited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
— listed securities	80,974	—	—	80,974
— unlisted, quoted securities	149,626	—	—	149,626
— unlisted securities	—	—	27,790	27,790
Available-for-sale financial assets				
— listed securities	971	—	—	971
— unlisted securities	—	118,395	612	119,007
	231,571	118,395	28,402	378,368

The following table presents the audited Group's financial assets that are measured at fair value at 31st December 2011.

	Audited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
— listed securities	88,524	—	—	88,524
— unlisted, quoted securities	156,958	—	—	156,958
— unlisted securities	—	—	27,790	27,790
Available-for-sale financial assets				
— listed securities	971	—	—	971
— unlisted securities	—	95,165	627	95,792
	246,453	95,165	28,417	370,035

For the six months ended 30th June 2012, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

For the six months ended 30th June 2012, there were no reclassifications of financial assets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. Segment information

The chief operating decision-maker has been identified as the Board. Management determines the operating segments based on the Group's internal reports, which are then submitted to the Board for performance assessment and resources allocation.

The Board identifies the following reportable operating segments by business perspective:

- Securities investment
- Corporate finance and stockbroking
- Property development
- Property investment and hotel
- Direct investment

The Board assesses the performance of the operating segments based on a measure of segment results and share of results of associated companies and jointly controlled entities.

Segment assets consist primarily of intangible assets, property, plant and equipment, investment properties, leasehold land and land use rights, properties under development, properties held for sale, inventories, financial assets and operating cash.

The unaudited segment results of the Group for the six months ended 30th June 2012 are as follows:

	Unaudited					Group HK\$'000
	Securities investment	Corporate finance and stockbroking	Property development	Property investment and hotel	Direct investment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue	(918)	76,312	6,060	51,403	39,538	172,395
Segment results	(5,714)	31,086	(8,145)	(8,297)	(3,591)	5,339
Unallocated net operating expenses						(14,428)
Operating loss						(9,089)
Finance costs — net						(465)
Share of profits less losses of						
— Associated companies	—	—	—	—	(25,517)	(25,517)
— Jointly controlled entities	—	—	—	4,246	669	4,915
Loss before taxation						(30,156)

Note: There are no sales or other transactions among the operating segments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. Segment information (continued)

The unaudited segment results of the Group for the six months ended 30th June 2011 are as follows:

	Unaudited					Group HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
Revenue	(11,647)	71,834	23,346	36,637	22,558	142,728
Segment results	(15,324)	23,861	(1,138)	40,854	(9,786)	38,467
Unallocated net operating expenses						(11,310)
Operating profit						27,157
Finance income — net						8,339
Share of profits less losses of						
— Associated companies	—	—	—	—	(11,432)	(11,432)
— Jointly controlled entities	—	—	—	3,984	2,242	6,226
Profit before taxation						30,290

Note: There are no sales or other transactions among the operating segments.

The unaudited segment assets of the Group as at 30th June 2012 are as follows:

	Unaudited					Group HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
Segment assets	257,917	2,138,839	643,980	865,729	314,888	4,221,353
Investments in associated companies	—	—	—	—	280,475	280,475
Investments in jointly controlled entities	—	—	—	197,015	38,288	235,303
Tax recoverable						1,411
Deferred tax assets						14,212
Corporate assets						49,948
Total assets						4,802,702

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. Segment information (continued)

The audited segment assets of the Group as at 31st December 2011 are as follows:

	Audited					
	Securities investment	Corporate finance and stockbroking	Property development	Property investment and hotel	Direct investment	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	270,982	2,195,624	682,525	876,465	296,650	4,322,246
Investments in associated companies	—	—	—	—	308,486	308,486
Investments in jointly controlled entities	—	—	—	202,472	37,827	240,299
Tax recoverable						2,882
Deferred tax assets						14,043
Corporate assets						46,746
Total assets						4,934,702

7. Other (losses)/gains — net

	Unaudited	
	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
Loss on disposal of interests in subsidiaries	—	(1,121)
Loss on deemed disposal of an associated company	—	(836)
(Loss)/gain on disposal of investment properties	(80)	1,863
Fair value (losses)/gains on investment properties	(57)	57,303
Net foreign exchange (loss)/gain	(867)	9,422
	(1,004)	66,631

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. Operating (loss)/profit

The following items have been charged to the operating (loss)/profit during the interim period:

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Charging:		
Depreciation	21,221	15,281
Amortisation of leasehold land and land use rights	874	1,191
Staff costs (<i>Note 10</i>)	80,736	75,568

9. Finance (costs)/income — net

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Finance income	10,894	8,681
Finance costs		
— Interest on loans and overdrafts	(11,359)	(8,861)
— Less: amounts capitalised as qualifying assets	—	8,519
Total finance costs	(11,359)	(342)
Finance (costs)/income — net	(465)	8,339

10. Staff costs

Staff costs, including directors' remuneration, comprise:

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Wages, salaries and allowances	68,489	64,653
Retirement benefit costs — defined contribution plans	8,330	6,830
Other employee benefits	3,917	4,085
	80,736	75,568

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
		(Restated)
Hong Kong profits tax		
— Current	5,377	3,062
— Over-provision in previous years	(780)	(192)
Overseas profits tax		
— Current	8,503	3,986
— Under/(over)-provision in previous years	619	(102)
Deferred taxation	(1,116)	21,639
Taxation charge	12,603	28,393

12. Losses per share

The calculation of basic and diluted losses per share is based on the Group's loss attributable to shareholders of approximately HK\$37,803,000 (2011 restated: HK\$1,092,000). The basic losses per share is based on the weighted average number of 1,398,913,012 (2011: 1,398,913,012) shares in issue during the period.

Diluted losses per share during the period is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

13. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2012 (2011: HK\$Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. Capital expenditure

	Unaudited			
	Intangible assets	Property, plant and equipment	Investment properties	Leasehold land and land use rights
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value at 1st January 2012	2,126	423,801	447,570	56,699
Additions	—	3,192	—	—
Transfer from properties held for sale	—	—	13,080	—
Fair value losses	—	—	(57)	—
Disposals	—	(744)	(724)	—
Depreciation and amortisation (Note 8)	—	(21,221)	—	(874)
Exchange differences	—	(3,038)	(2,238)	(180)
Net book value at 30th June 2012	2,126	401,990	457,631	55,645

	Unaudited			
	Intangible assets	Property, plant and equipment	Investment properties	Leasehold land and land use rights
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value at 1st January 2011	2,126	369,626	268,152	59,292
Acquisition of a business	—	50,430	—	—
Additions	—	12,307	—	1,394
Transfer from properties held for sale	—	120	107,502	32
Fair value gains	—	—	57,303	—
Disposals	—	(332)	(32,733)	—
Depreciation and amortisation (Note 8)	—	(15,281)	—	(1,191)
Exchange differences	—	10,159	5,030	815
Net book value at 30th June 2011	2,126	427,029	405,254	60,342

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. Trade receivables

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Due from stockbrokers and clearing houses	20,412	2,576
Due from stockbroking clients	126,936	39,258
Trade receivables	55,140	44,530
Bills receivable	155	1,110
	202,643	87,474
Provision for impairment	(16,654)	(17,279)
	185,989	70,195

All trade receivables are either repayable within one year or on demand. The fair value of the Group's trade receivables is approximately the same as the carrying value.

The settlement terms of trade receivables attributable to the securities trading and stockbroking business are two days after the trade date, and those of trade receivables attributable to the futures broking business are one day after the trade date. For the remaining business of the Group, trade receivables are on general credit terms of 30 to 90 days.

At 30th June 2012 and 31st December 2011, the ageing analysis of trade receivables is as follows:

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
0-30 days	178,717	63,469
31-60 days	4,724	3,156
61-90 days	637	1,336
Over 90 days	1,911	2,234
	185,989	70,195

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Trade and other payables

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Due to stockbrokers and dealers	52,390	30,719
Due to stockbroking clients	1,452,568	1,558,048
Trade payables	102,759	100,977
Total trade payables	1,607,717	1,689,744
Advance receipts from customers	1,754	4,304
Accruals and other payables	63,625	65,977
	1,673,096	1,760,025

The majority of the trade and other payables are either repayable within one year or on demand except where certain trade payables to stockbroking clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand. The fair values of the Group's trade and other payables are approximately the same as the carrying values.

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$1,369,178,000 (31st December 2011: HK\$1,524,807,000).

Trade and other payables are non-interest bearing except for the amount due to stockbroking clients placed in trust and segregated accounts with authorised institutions which bear interest at the rate with reference to the bank deposit savings rate.

No ageing analysis is disclosed for amounts due to stockbrokers, dealers and stockbroking clients as in the opinion of Directors, it does not give additional value in view of the nature of these businesses.

At 30th June 2012 and 31st December 2011, the ageing analysis of trade payables is as follows:

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
0-30 days	14,908	78,183
31-60 days	6,087	5,302
61-90 days	3,561	4,294
Over 90 days	78,203	13,198
	102,759	100,977

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17. Borrowings

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Non-current		
Bank loans — secured	114,349	121,154
Current		
Other loans — unsecured	3,680	3,701
Bank loans — secured	184,330	197,693
	188,010	201,394
	302,359	322,548

As at 30th June 2012, the Group has pledged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$951 million (31st December 2011: HK\$1,017 million) and fixed deposits of approximately HK\$16 million (31st December 2011: HK\$16 million).

Bank borrowings will mature and be repayable in August 2012 to October 2017. The weighted average effective interest rate at 30th June 2012 was 6.60% (31st December 2011: 6.84%) per annum. The carrying amount of borrowings approximates its fair value and is denominated in Renminbi.

18. Share capital

	Unaudited 30th June 2012		Audited 31st December 2011	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.2 each	2,000,000	400,000	2,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK\$0.2 each	1,398,913	279,783	1,398,913	279,783

No share options were exercised under the Employee Share Option Scheme adopted by the Company on 24th May 2002 during the six months ended 30th June 2012 and the year ended 31st December 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. Commitments

- (a) Capital commitments for leasehold land and land use rights and properties under development

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Contracted but not provided for	334,287	342,741
Authorised but not contracted	570,238	573,645

- (b) Commitments under operating leases

The Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Not later than one year	18,753	18,219
Later than one year but not later than five years	33,466	39,513
More than five years	10,783	12,342
	63,002	70,074

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of property, plant and equipment, and leasehold land and land use rights as follows:

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Not later than one year	5,678	7,442
Later than one year but not later than five years	1,625	1,852
	7,303	9,294

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20. Contingent liabilities

	Unaudited 30th June 2012 HK\$'000	Audited 31st December 2011 HK\$'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (<i>Note</i>)	2,099	433

Note: The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties in Chinese Mainland. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates.

21. Related party transactions

During the period, the Group had no material transactions with related parties. The key management compensation is disclosed as follows:

	Unaudited Six months ended 30th June	
	2012 HK\$'000	2011 HK\$'000
Fees	810	810
Salaries and other employee benefits	3,918	3,919
Retirement benefit costs	333	333
	5,061	5,062

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests in the Shares and Underlying Shares of the Company or any Associated Corporation

At 30th June 2012, the interests of each directors and chief executives in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Interests in respect of the Company:

		Number of shares and underlying shares held			% of issued share capital of the Company
		Personal interests	Corporate interests	Total	
Directors					
Mr. LO Yuen Yat (Note)	Long position	108,349,636	72,952,000	181,301,636	12.96%
Mr. XIN Shulin	Long position	8,032,000	—	8,032,000	0.57%
Mr. YEUNG Wai Kin	Long position	20,384,304	—	20,384,304	1.46%
Mr. KWOK Lam Kwong, Larry, B.B.S., J.P.	Long position	1,000,000	—	1,000,000	0.07%
Prof. WOO Chia-Wei	Long position	1,000,000	—	1,000,000	0.07%
Mr. LIU Ji	Long position	500,000	—	500,000	0.04%
Mr. YU Qihao	Long position	1,000,000	—	1,000,000	0.07%
Mr. ZHOU Xiaohu	Long position	160,000	—	160,000	0.01%

No Directors and chief executives have any interest of short positions in any share or underlying shares of the Company.

Note: 72,952,000 shares are held by Kinmoss Enterprises Limited, a company wholly owned by Mr. LO Yuen Yat.

(b) Interests in respect of an associated corporation:

			Number of shares and underlying shares held		% of issued share capital of the associated corporation
			Personal interests	Total	
Directors					
Mr. LO Yuen Yat	China Assets	Long position	1,700,000	1,700,000	2.21%
Mr. YEUNG Wai Kin	China Assets	Long position	1,250,000	1,250,000	1.63%

Saved as disclosed above, at no time during the period, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

Share Options

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the “Scheme”) to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

Movement of share options during the six months ended 30th June 2012 is as follows:

	Options held at 1st January 2012 and 30th June 2012	Exercise price HK\$	Date of grant	Exercise period	Vesting period
Directors:					
Mr. LO Yuen Yat	11,944,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. XIN Shulin	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. YEUNG Wai Kin	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015	30/11/2005-29/05/2006
	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. KWOK Lam Kwong, Larry, B.B.S., J.P.	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Prof. WOO Chia-Wei	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. LIU Ji	500,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. YU Qihao	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Employees	7,400,000	0.680	03/03/2006	03/03/2008-02/03/2016	03/03/2006-02/03/2008
	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
	<u>51,718,000</u>				

Notes:

- (1) No share options were granted, exercised or lapsed under the Scheme during the six months ended 30th June 2012.
- (2) No share options granted under the Scheme were cancelled during the six months ended 30th June 2012.
- (3) The accounting policy adopted for share options is consistent with that as described in the annual financial statements for the year ended 31st December 2011.

DISCLOSURE OF INTERESTS

Substantial Shareholders' Interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2012, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Ordinary shares of HK\$0.2 each in the Company:

		Personal interests	Family interests	Corporate interests	Total	% of issued share capital of the Company
China Assets (Holdings) Limited ("China Assets") (Note 1)	Long position	—	—	247,674,500	247,674,500	17.70%
Ms. CHAN Chiu, Joy ("Ms. Chan") (Note 2)	Long position	131,616,000	12,432,000	57,592,000	201,640,000	14.41%
Mr. YIN Jian, Alexander ("Mr. Yin") (Note 2)	Long position	12,432,000	131,616,000	57,592,000	201,640,000	14.41%

Notes:

- (1) China Assets is a Hong Kong listed company, which is also an associated company of the Group.
- (2) 57,592,000 shares are held by Richcombe Investments Limited, a company jointly owned by Ms. Chan and Mr. Yin with 50% equity interests each.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2012 (2011: HK\$Nil).

Compliance with Code on Corporate Governance Practices

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules throughout the period, except for the deviation of Code A.2.1 and Code A.6.7 of the CG Code.

The Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently, Mr. LO Yuen Yat holds both the positions of the Chairman of the Board and the Chief Executive Officer. The Board believes that vesting the role of both positions in Mr. Lo provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

The Code A.6.7 stipulates that independent non-executive directors and other non-executive director should attend general meetings. Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.*, Prof. WOO Chia-Wei, Mr. LIU Ji and Mr. ZHOU Xiaohu did not attend the annual general meeting (the “2012 AGM”) of the Company held on 25th May 2012 due to their other commitments. However, the Board believes that the presence of Mr. LO Yuen Yat, Mr. YEUNG Wai Kin and Mr. YU Qihao (an independent non-executive director) at the 2012 AGM allowed the Board to develop a balanced understanding of the views of shareholders.

Nomination Committee

The Nomination Committee was newly established on 1st March 2012. The Nomination Committee comprises three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohu and an executive director, Mr. LO Yuen Yat. The Nomination Committee was set up to review the structure, size and composition of the Board, make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors and assess the independence of independent non-executive directors.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Remuneration Committee

The Remuneration Committee was established on 30th June 2005. The Remuneration Committee comprises three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe and an executive director, Mr. LO Yuen Yat. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes. Meetings will be held in the second half of this year to discuss the above for the year of 2012 in details.

Audit Committee

The Audit Committee was established on 27th December 1998. The Audit Committee comprises the non-executive director, Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* and the four independent non-executive directors, Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe. The Audit Committee acts in an advisory capacity and makes recommendations to the Board.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited consolidated interim results for the six months ended 30th June 2012 for approval by the Board.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

By order of the Board

LO Yuen Yat

Chairman

Hong Kong, 24th August 2012