Interim Report 2012

RCG

RCG Holdings Limited

宏霸數碼集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)

HKSE : 802 AIM : RCG

* For identification purpose only

RCG Holdings Limited is a leading and publicly quoted international provider of biometric and RFID products and solutions services with a primary focus on development and sourcing these products and solutions services from, and selling them in, the Asia Pacific markets. Focusing on biometric and RFID, together with complementary cutting-edge technologies, the Group is dedicated to developing an integrated security platform through hardware and software integration. The Group's products and solutions services include biometric access control devices, biometric consumer products, RFID-enabled asset management systems, RFID anti-counterfeit solutions, intelligent surveillance systems using facial recognition technology and machine-to-machine (M2M) applications.

Established in 1999, RCG Holdings Limited has hands-on experience in serving a number of growing vertical industries such as telecommunication, finance, retail, transportation, entertainment, healthcare, aviation, logistics, real estate and government sectors. RCG is publicly quoted and its Shares are listed or admitted to trading on the Main Board of the Hong Kong Stock Exchange since February 2009, on the PLUS since June 2007 and Alternative Investment Market (AIM) of the London Stock Exchange since July 2004.

RCG Holdings Limited implements an aggressive growth strategy with clear focus on developing innovative applications and diversifying revenue streams towards the emerging markets. Regional offices have been set up in a number of markets including Kuala Lumpur, Beijing, Hong Kong, Shenzhen, Macau, Bangkok and Dubai, with 1800 authorised distributors present globally.

Contents

Highlights	2
Chairman's Statement	3
Management Discussion and Analysis	5
Condensed Consolidated Income Statement	11
Condensed Consolidated Statement of Comprehensive Income	12
Condensed Consolidated Statement of Financial Position	13
Condensed Consolidated Statement of Changes in Equity	15
Condensed Consolidated Statement of Cash Flows	16
Notes to the Financial Statements	18
Purchase, Sale or Redemption of the Company's Listed Securities	33
Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures	33
Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures	34
Share Option Scheme and Post Listing Share Option Scheme	35
Disclosure of Information on Directors	37
Corporate Governance Code	38

Highlights

FINANCIAL HIGHLIGHTS

- Revenue decreased by 58.8% to HK$402.7 million (£32.9 million) (1H 2011: HK$977.1 million (£77.7 million))
- Gross profit decreased by 181.1% to HK$-190.1 million (£-15.5 million) (1H 2011: HK$234.5 million (£18.6 million))
- Gross profit margin was -47.2% (1H 2011: 24.0%)
- Operating loss of HK$443.0 million (£36.2 million) (1H 2011: HK$670.0 million (£53.3 million))
- Loss per share of HK$0.96 (7.8 pence) per share (1H 2011: Loss per share of HK$1.66 (13.2 pence) per share)

OPERATIONAL HIGHLIGHTS

- Continued rationalisation of the corporate structure through the disposal of less profitable and dormant business units.
- Strengthening on the focus of the Solutions, Projects and Services and the Enterprise Solutions business segments.

SINCE PERIOD END

- On 1 July 2012, RCG Holdings Limited (the "Company") announced the appointment of Mr. Chong Cha Hwa, Brandson as an executive director of the Company, and the resignations of both Mr. Liu Kwok Bond and Mr. Li Mow Ming, Sonny, as the independent non-executive directors of the Company, all with effect from 1 July 2012.
- On 27 August 2012, the Company announced the appointment of Mr. Kwan King Wah and Mr. Zeng Min as the independent non-executive directors of the Company with effect from 27 August 2012.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the interim results for the six months ended 30 June 2012, which consists the reporting on the activities, results and strategies of RCG.

BUSINESS ENVIRONMENT

Against the backdrop of a worsening global economic outlook, such as the Middle Eastern region going through a period of unprecedented change, with political transition, pressing social demands, and an adverse external environment combining to increase the near term risks to macroeconomic stability. These risks were contained during 2011 but, with growth faltering, unemployment rising, and continued fiscal and external pressures, 2012 is an equally challenging year in the region. Growth momentum has also slowed in various emerging market economies, notably China, which has also been hit by an increase in investor risk aversion and perceived growth uncertainty, which has led not only to equity price declines, but also to capital outflows and currency depreciation.

Nevertheless, the Group has continued focusing its business cautiously in the Asia Pacific and the Middle East regions, taking the challenge to cope with trade declines and high volatility of capital flows.

FINANCIAL AND BUSINESS REVIEW

For the first half 2012, RCG has recorded an overall downturn in its business. The decrease in turnover was attributed to the continuous reduction in Consumer sales and an increasingly competitive market. The Group has reported total revenue of HK$402.7 million representing a decrease of 58.8% compared to the same period in 2011.

RCG focuses on creating its long term sustainable value and has continued to make progress with its strategy of expanding business through strategic acquisitions. During June 2012, the Group has acquired 55% interest in Most Ideas Limited which in turn holds MGIE group, the information technology companies whose businesses are indirectly related to the Group's core business.

BOARD CHANGES

We are delighted to welcome Mr. Chong Cha Hwa, Brandson to the Board as the Executive Director, appointed on 1 July 2012.

Brandson, with his financial and investment background in various sectors, leadership skills and notable record, is well placed to take the Group forward. The Board is confident that we will evolve as a fitter, more focused business, ready to tackle new opportunities and challenges.

The Board would like to express appreciation to Dr. Chu Wai Man, Raymond, who has retired as non-executive director at the annual general meeting held on 30 June 2012, and also to Mr. Li Mow Ming Sonny and Mr. Liu Kwok Bond, both of them have resigned as independent non-executive directors of RCG on 1 July 2012 to pursue other career interests; for their past few years contributions towards the development of the Group.

Following the resignations of Mr. Li and Mr. Liu, the Board has appointed Mr. Kwan King Wah and Mr. Zeng Min as the independent non-executive directors of RCG on 27 August 2012. We are very pleased to welcome Mr. Kwan and Mr. Zeng to join our Board.

THANK YOU

I would like to take this opportunity to express my sincere gratitude to our shareholders, business partners and customers for their continued support of RCG as well as to the Group's management team and staff for their tireless dedication and efforts in developing the long term prospects for the Group.

Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman
Chairman

28 August 2012

Management Discussion and Analysis

BUSINESS REVIEW

During the six months ended 30 June 2012, the Company and its subsidiaries (together the "Group") recorded turnover of HK$402.7 million, representing a decrease of 58.8% compared to the same period in 2011. The decrease in turnover was attributable to the continue reduction in Consumer sales and the continued slowdown in the implementation of a number of solutions projects.

Gross margin for the six months ended 30 June 2012 was -47.2%, compared to 24.0% for the same period in 2011 due to a number of factors, in particular the pricing strategy adopted by the Company to remain competitive in its segment coupled with the sales of old stock at a discount, to finance the current operations and projects of the Group. The Group reported a net loss of HK$444.7 million for the six months ended 30 June 2012, as a result of the significant reduction in gross margin.

Performance of business segments

The Group is a leading international developer and solutions provider in the biometric, RFID and security industries and delivers high-performing, convenient security systems for enterprises and consumers. The business segment is divided into three categories: "**Consumer**", "**Enterprise**", and "**Solutions, Projects and Services**".

The Group's **Consumer** segment consists of biometrics and RFID products which are being used in daily consumer applications, such as **m-series** fingerprint doorlocks and **FX-Secure-Key**. The Group sells its **Consumer** segment products through third-party distributors.

The **Enterprise** segment consists of biometric and RFID products and components for commercial use, such as **i-series** and **s-series** fingerprint authentication devices, together with **EL-1000** and **XL-1000** controllers forming access control, **r-series** RFID readers and controllers and **K-series** multi-modal security devices combining facial recognition, fingerprint authentication, password and RFID. The Group mainly sells the Enterprise segment products to its distributors, system integrators and security system providers.

The Group develops system solutions for enterprise users using the Group's internally developed software and self-developed or third party products as required; supplying them to enterprises to solve business needs in security, asset management or efficiency improvements. These **Solutions, Projects and Services** applications focus on high growth industries such as banking, logistics and transportation, entertainment, healthcare, anti-counterfeit and government sectors solutions.

	Six months ended 30 June				HK$ y-o-y
	2012 (unaudited)		2011 (unaudited)		growth
Business Segment	HK$ m	%	HK$ m	%	%
Consumer	**5.3**	**1.3**	157.0	16.1	-96.6
Enterprise	**394.9**	**98.1**	638.2	65.3	-38.1
Solutions, Projects and Services	**2.5**	**0.6**	181.9	18.6	-98.8
Total Revenue	**402.7**	**100.0**	977.1	100.0	-58.8

The key contributor to the Group's turnover as at 30 June 2012 is the Enterprise segment which contributed 98.1% of the total Group's turnover. However, the Enterprise segment revenue reduced by 38.1% from HK$638.2 million in the first half of 2011 to HK$394.9 million in the same period in 2012, as the Company reduced its stocks of the biometric modules and components in a challenging market.

Revenue from the Consumer segment in the six months ended 30 June 2012 was HK$5.3 million. This segment experienced a 96.7% decrease compared to HK$157.0 million in the same period in 2011 due to a reduction in distribution sales in this segment.

The Solutions, Projects and Services business segment experienced a 98.8% revenue decrease from HK$181.9 million in the six months ended 30 June 2011 to HK$2.5 million in the six months ended 30 June 2012. The decrease was attributable to the shift of the Group's strategy to continue focus on long term projects, which have longer completion period with steadier collection schedules.

Geographical performance

In the first half of 2012, the Group continued to focus its business in the Asia Pacific and the Middle East regions. The Group works with distributors and dealers around the region. The majority of the Group's revenues are generated from these regions.

A breakdown of revenue based on geographies is presented in the table below.

	Six months ended 30 June				HK$ y-o-y
	2012 (unaudited)		2011 (unaudited)		growth
Geographical Segment	**HK$ m**	**%**	HK$ m	%	%
Southeast Asia	**187.5**	**46.6**	484.7	49.6	-61.3
Greater China	**213.0**	**52.9**	285.4	29.2	-25.4
Middle East	**2.2**	**0.5**	202.2	20.7	-98.9
Other Regions	**—**	**—**	4.8	0.5	-100.0
Total Revenue	**402.7**	**100.0**	977.1	100.0	-58.8

In the six months ended 30 June 2012, all regions reported lower revenue compared to the revenue in the same period in 2011, with each region showing similar patterns of reduction in Consumer segment and Solutions, Projects and Services segment for the reasons described above.

The majority of the revenue in the Southeast Asia region was derived from the Enterprise segment which accounted for 98.3% of total revenue in the region. The Enterprise segment also accounted for a majority 84.0% of revenue in the Middle East. The demand in the Enterprise segment in Greater China were of similar magnitude, with the Enterprise segment contributing 98.0% of the total revenue.

Disposals

On 19 March 2012, the Group disposed of its 70% shareholding in Strong Aims Ltd, its indirect subsidiary whose principal activities were providing RFID Solutions, tags and related products.

The disposals were undertaken in order to rationalise the Group's corporate structure and to focus its resources on other business segments and on new opportunities which are seen to carry better prospects for the Group.

Acquisitions

On 23 April 2012, the Group entered into a conditional Sale and Purchase Agreement with Crossover Global Limited, to acquire 55% of the issued share capital of Most Ideas Limited ("Most Ideas") for a total consideration of HK$88.7 million. Most Ideas is an investment holding company that has two wholly-owned subsidiaries namely MG Interactive Limited (MGI) and MG Interactive Entertainment Limited (MGIE). MGI specializes in focusing on Web 2.0 projects and mobile marketing solutions. MGIE focuses on developing entertainment applications for various mobile phone platforms such as iOS, Android, etc. The acquisition was completed on 25 June 2012.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2012, the Group reported total revenue of HK$402.7 million representing a decrease of 58.8% compared to HK$977.1 million in the same period in 2011. The decrease was mainly due to the reduction in the Consumer biometric sales and the slowdown in the implementations of a number of solutions projects, partly offset by an increase in the Enterprise sales.

Cost of sales

Cost of sales decreased 20.2% from HK$742.6 million in the six months ended 2011 to HK$592.8 million in the same period in 2012. In terms of percentage of sales, the cost of sales increased from 76.0% in the six months ended 30 June 2011 to 147.2% in the six months ended 30 June 2012.

Gross loss and gross profit margin

Gross loss in the first half of 2012 was HK$190.1 million, as compared to gross profit of HK$234.5 million in the same period of 2011 resulting from more competitive pricing due to an already saturated market and the disposal of old stock at a discount.

Other operating income

Other operating income decreased from HK$14.0 million during the first half of 2011 to HK$4.6 million in the same period of 2012.

Administrative expenses

Administrative expenses decreased by 22.4% from HK$201.0 million in the first half of 2011 to HK$156.0 million in the same period in 2012 mainly attributable to lower related administrative expenses.

Selling and distribution costs

Selling and distribution costs increased by 72.9% from HK$56.1 million in the six months ended 30 June 2011 to HK$97.0 million in the same period in 2012 due to higher marketing cost incurred to create better market awareness of the Company's brand and products.

Finance costs

Finance costs during the first half of 2012 decreased by 44.1% to HK$2.0 million from HK$3.5 million in the same period in 2011.

Loss before taxation

Loss before taxation for the six months ended 30 June 2012 was HK$445.0 million, compared to a profit before taxation of HK$673.4 million in the same period in 2011. The loss before taxation in the first half year in 2012 was attributable to lower margin.

Income tax expense

Income tax expense decreased from HK$0.5 million in first half of 2011 to a credit of HK$0.2 million in same period in 2012.

Loss for the period

The Group's loss for the period was HK$444.7 million compared to loss of HK$673.9 million in the same period in 2011.

Loss attributable to the equity holders of the Company

Loss attributable to the equity holders of the Company decreased from a loss of HK$579.5 million in the first half of 2011 to a loss of HK$473.1 million in the same period of 2012.

Profit attributable to the non-controlling interests

The profit attributable to the minority interests of HK$28.4 million for six month ended 30 June 2012 (in the same period in 2011 the loss attributable to the minority interest was HK$94.5 million).

REVIEW OF THE GROUP'S FINANCIAL POSITION AS AT 30 JUNE 2012

Liquidity and capital resources

The Group funds its operations with sales revenue from its operating activities. The Group also has cash inflows from interest income and collections. Key drivers in the Group's sources of cash are primarily the Group's sales, and their inflow depends on the Group's ability to collect payments. There have been no material changes in the Group's underlying drivers during the period under review.

The Group incurred capital expenditure of HK$0.6 million during the six months ended 30 June 2012 compared to HK$61.6 million in the first half of 2011. The capital expenditure was mainly used for acquisition of property, plant and equipment.

The following table sets forth capital expenditure for the periods indicated:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Purchase of property, plant and equipment	608	1,279
Investment in research and development	—	60,366
Total	608	61,645

The Group has internal budgeting systems in place to ensure that if and when cash is committed to fund major expenditures there is sufficient cash flow to maintain the Group's daily operations and meet all of its contractual obligations.

As at 30 June 2012, the Group had a term loan facility amounting to HK$48.8 million secured by the pledging of a Malaysian property.

Save as disclosed above, there were no other charges on assets as at 30 June 2012.

The following sets forth the maturities of the Group's total borrowings as at the balance sheet date:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Total bank borrowings, secured, repayable within one year	4,624	49,885
Total bank borrowings, secured, repayable more than one year	44,400	49,394
Total	49,024	99,279

The Group had cash and cash equivalents of HK$17.9 million as of 30 June 2012 compared to HK$86.9 million as of 30 June 2011.

Gearing ratio

As at 30 June 2012, the Group's gearing ratio was approximately 0.020x, as compared to 0.026x as at 30 June 2011. The gearing ratio was calculated as the Group's total debt divided by its total capital. Debt of HK$49.0 million is calculated as total borrowings (including short-term bank loans amounting HK$4.5 million, current portion of financing obligations amounting HK$0.1 million, long-term bank loans amounting HK$44.2 million and long-term financing obligations of HK$0.2 million). Total capital is calculated as total shareholder equity of HK$2,432.8 million plus debt.

Contingent Liabilities

As at 30 June 2012, the Group had no contingent liabilities. There was also no contingent liabilities recorded at 30 June 2011. The Company acted as a guarantor of its subsidiaries to secure interest-bearing borrowings, which amounting to approximately HK$48.8 million (2011: HK$96.2 million).

The carrying amount of the financial guarantee provision recognised in the Company's balance sheet was approximately HK$172,434 as at 30 June 2012. The financial guarantee contract was eliminated on consolidation.

Deposits, prepayments and other receivable

As at 30 June 2012, the Group's deposits, prepayments and other receivable was HK$77.9 million, as compared to HK$738.2 million as at 30 June 2011. The reduction was mainly attributable to the conversion of trade deposits into stocks to meet the operation needs of the Group.

Foreign exchange risk management

Certain of the Group's bank balances are denominated in Pounds, Ringgit, United States Dollars, United Arab Emirates Dirham and Renminbi, each of which is a currency other than the functional currency of the relevant group entities, which exposes it to foreign currency risk. The Group has not used any financial instruments to hedge against this currency risk. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES

As at 30 June 2012, in addition to the directors of the Company (the "Directors"), there were around 48 employees (31 December 2011: 76) of the Group stationed in the Group's offices in Hong Kong, Beijing, Shenzhen, Kuala Lumpur, Bangkok and Dubai. Total staff costs for the six months ended 30 June 2012 were HK$6.7 million, compared with HK$32.4 million in first half 2011. The saving was attributable to the Group's continuous efforts to reduce its overheads and re-allocate the project resources by increasing collaboration with third party partners, hence reducing the dependency on internal manpower needs.

The Group offers training and development courses for its employees to enhance the staff's working capabilities. Remuneration packages are linked to individual performance, the Group's business performance, and taking into consideration industry practices and market conditions, reviewed on an annual basis. Directors' remuneration is determined with reference to his duties and responsibilities with the Company, the Company's standards for emoluments and market conditions. Share options are also granted to eligible employees based on individual's performance as well as the Group's performance.

MANAGEMENT OUTLOOK

The Group remains very conscious of trading conditions and working capital requirements. It will continue to exercise strict cost control and adjusting its trading policies with its distributors. It will continue to undergo rationalisation program for the Group; apart from closely monitor the competition in the market and adopt a more cautious approach in its sales and pricing policy in order to remain competitive.

The Group will continue focus on its core business while, looking for opportunities to complement its existing businesses through possible merger and acquisitions of potential business opportunities.

The board of directors of the Company (the "Directors") (the "Board") announces the unaudited condensed financial statements of the Group for the six months ended 30 June 2012 (the "Period"). The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2012, and condensed consolidated statement of financial position of the Group as at 30 June 2012, along with selected explanatory notes, are set out as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Turnover	3	**402,689**	977,125
Cost of sales		**(592,793)**	(742,581)
Gross (loss)/profit		**(190,104)**	234,544
Other operating income	4	**4,607**	14,047
Loss on disposals of investment properties		**(2,311)**	—
Gain arising on change of fair value of investment properties		**16**	5,311
Share of result of an associate		**133**	(77)
Gain/(loss) on disposal of subsidiaries	20	**109**	(41,428)
Loss arising on fair value of financial assets at fair value through profit or loss		**(2,494)**	(183)
Impairment loss of trade receivable		**—**	(93,028)
Impairment loss on intangible assets	11	**—**	(520,117)
Impairment loss recognised in respect of goodwill	10	**—**	(4,508)
Impairment loss on available-for-sales financial assets		**—**	(7,402)
Selling and distribution costs		**(96,984)**	(56,078)
Administrative expenses		**(155,996)**	(200,979)
Loss from operations		**(443,024)**	(669,898)
Finance costs		**(1,957)**	(3,498)
Loss before taxation	5	**(444,981)**	(673,396)
Income tax credit/(expense)	6	**239**	(473)
Loss for the period		**(444,742)**	(673,869)
Attributable to:			
Owners of the Company		**(473,146)**	(579,509)
Non-controlling interests		**28,404**	(94,360)
		(444,742)	(673,869)
Loss per share attributable to the owners of the Company			
— Basic and diluted (HK cents)	7	**(95.9)**	(166.0)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Loss for the period	**(444,742)**	(673,869)
Other comprehensive income for the period:		
Available-for-sale financial assets:		
Loss arising on change in fair value	**(4,310)**	(41,730)
Exchange differences on translating foreign operations		
Exchange differences arising during the period	**4,304**	24,873
Reclassification adjustments upon disposal	**(128)**	(5,289)
	4,176	19,584
	(134)	(22,146)
Total comprehensive income for the period	**(444,876)**	(696,015)
Attributable to:		
Owners of the Company	**(473,283)**	(601,540)
Non-controlling interests	**28,407**	(94,475)
	(444,876)	(696,015)

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	**162,368**	176,039
Investment properties		**55,011**	61,257
Prepaid lease payments		**18,789**	32,909
Goodwill	10	**59,170**	20,905
Intangible assets	11	**521,879**	466,632
Interests in associates		**29,165**	29,032
Available-for-sale financial assets	12	**38,667**	42,977
		885,049	829,751
Current assets			
Prepaid lease payments		**202**	497
Inventories		**792,300**	659,464
Financial assets at fair value through profit and loss		**2,691**	5,185
Trade receivables	13	**917,101**	866,579
Deposits, prepayments and other receivables		**77,912**	621,730
Cash at bank and in hand		**17,943**	52,683
		1,808,149	2,206,138
Total assets		**2,693,198**	3,035,889
EQUITY			
Owners of the Company			
Share capital	14	**4,932**	4,932
Reserves		**2,427,905**	2,897,712
		2,432,837	2,902,644
Non-controlling interests		**40,790**	(28,919)
Total equity		**2,473,627**	2,873,725

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	15	**44,210**	44,623
Convertible notes	16	**84,579**	—
Obligations under finance leases		**190**	223
Deferred tax liabilities		**19,070**	2,452
		148,049	47,298
Current liabilities			
Trade payables	17	**11,769**	13,217
Accruals and other payables		**44,146**	58,897
Interest-bearing borrowings	15	**4,556**	32,611
Tax payable		**682**	—
Promissory note		**10,301**	10,043
Obligations under finance leases		**68**	98
		71,522	114,866
Total liabilities		**219,571**	162,164
Total equity and liabilities		**2,693,198**	3,035,889
Net current assets		**1,736,627**	2,091,272
Total assets less current liabilities		**2,621,676**	2,921,023

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to the owners of the Company													
	Share capital	Share premium	Available-for-sale Securities revaluation reserve	Employee share-based compensation reserve	Convertible notes reserve	Capital reserve	Translation reserve	Revaluation reserve	Shares issuable reserve	Legal reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2011	3,015	1,767,640	–	31,845	–	(872)	37,498	83,577	59,150	48	2,072,725	4,054,626	181,997	4,236,623
Total comprehensive income for the period	–	–	(41,730)	–	–	–	19,699	–	–	–	(579,509)	(601,540)	(94,475)	(696,015)
Issues of shares	410	121,997	–	–	–	–	–	–	–	–	–	122,407	–	122,407
Share-based payment	–	–	–	9,986	–	–	–	–	–	–	–	9,986	–	9,986
Lapse of share options	–	–	–	(2,147)	–	–	–	–	–	–	2,147	–	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(2,110)	(2,110)	(460)	(2,570)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(3,988)	(3,988)
Placing of shares	685	98,640	–	–	–	–	–	–	–	–	–	99,325	–	99,325
Share issuing expenses	–	(2,981)	–	–	–	–	–	–	–	–	–	(2,981)	–	(2,981)
As at 30 June 2011	**4,110**	**1,985,296**	**(41,730)**	**39,684**	**–**	**(872)**	**57,197**	**83,577**	**59,150**	**48**	**1,493,253**	**3,679,713**	**83,074**	**3,762,787**
As at 1 January 2012	4,932	2,051,074	(34,242)	21,161	–	(872)	(21,317)	–	59,150	48	822,710	2,902,644	(28,919)	2,873,725
Total comprehensive income for the period	–	–	(4,310)	–	–	–	4,173	–	–	–	(473,146)	(473,283)	28,407	(444,876)
Release of share issuable reserve	–	–	–	–	–	–	–	–	(59,150)	–	59,150	–	–	–
Lapse of share options	–	–	–	(11,638)	–	–	–	–	–	–	11,638	–	–	–
Acquisition of subsidiary	–	–	–	–	4,162	–	–	–	–	–	–	4,162	41,265	45,427
Deferred tax of convertible notes issue for acquisition of subsidiaries	–	–	–	–	(686)	–	–	–	–	–	–	(686)	–	(686)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	37	37
As at 30 June 2012	**4,932**	**2,051,074**	**(38,552)**	**9,523**	**3,476**	**(872)**	**(17,144)**	**–**	**–**	**48**	**420,352**	**2,432,837**	**40,790**	**2,473,627**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Cash flows from operating activities		
Loss before taxation	**(444,981)**	(673,396)
Adjustments for:		
Amortisation of intangible assets	**42,754**	114,417
Amortisation of prepaid lease payments	**177**	250
Gain on disposal of property, plant and equipment	**(62)**	(177)
Reversal of provision for obsolete stock	**(574)**	(60)
Impairment loss on intangible assets	**—**	520,117
Impairment loss on available-for-sale financial assets	**—**	7,402
Loss arising on fair value of financial assets at fair value through profit or loss	**2,494**	183
Share of result of an associate	**(133)**	77
Loss on disposal of investment properties	**2,311**	—
Gain arising on change in fair value of investment properties	**(16)**	(5,311)
(Gain)/loss on disposal of subsidiaries	**(109)**	41,428
Impairment loss recognised in respect of goodwill	**—**	4,508
Provision for obsolete stock	**81,088**	88
Impairment of trade receivables	**—**	93,028
Depreciation	**8,502**	12,435
Share-based payment expenses	**—**	9,986
Bank interest income	**(67)**	(130)
Written-off of property, plant and equipment	**1,284**	—
Interest on the interest-bearing borrowings	**1,884**	3,363
Operating cash flows before movements in working capital	**(305,448)**	128,208
(Increase)/decrease in inventories	**(213,350)**	46,564
Increase in trade receivables	**(37,500)**	(208,472)
Decrease in deposits, prepayments and other receivables	**543,663**	40,602
Decrease in trade payables	**(1,969)**	(80,151)
(Decrease)/increase in accruals and other payables	**(18,501)**	6,677
Cash used in operating activities	**(33,105)**	(66,572)
Bank interest income received	**67**	130
Income tax paid	**(204)**	(1,458)
Net cash used in operating activities	**(33,242)**	(67,900)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Cash flows from investment activities		
Purchases of property, plant and equipment	**(608)**	(1,279)
Investments in intangible assets	**—**	(60,365)
Net cash received from acquisition of a subsidiary	**2,087**	—
Proceeds from disposal of investment properties	**3,967**	—
Proceeds from disposal of property, plant and equipment	**19,170**	1,144
Purchase of available for sale financial assets	**—**	(74,111)
Investments in interest in associate	**—**	(77)
Proceeds from disposal of subsidiaries	**—**	1,263
Decrease/(increase) in fixed assets	**24,671**	(518)
Purchase of financial assets at fair value through profit or loss	**—**	(19,142)
Net cash received from acquisition of assets	**—**	307
Net cash paid for acquisition of additional share of a subsidiary	**—**	(460)
Net cash generated from/(used in) investing activities	**49,287**	(153,238)
Cash flows from financial activities		
Interest expenses paid on interest-bearing borrowings and bank overdrafts	**(1,584)**	(3,363)
Issue of new shares	**—**	221,732
Share issuing expenses	**—**	(2,981)
Proceeds from inception of obligation under finance leases	**—**	359
Obligations under finance lessees repaid, net	**(64)**	(468)
Interest-bearing borrowings repaid, net	**(28,771)**	(167,663)
Net cash (used in)/generated from financing activities	**(30,419)**	47,616
Net decrease in cash and cash equivalents for the period	**(14,374)**	(173,522)
Cash and cash equivalents at the beginning of the period	**27,928**	220,555
Effect of foreign exchange rate changes	**4,217**	17,650
Cash and cash equivalents at 30 June	**17,771**	64,683
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**17,943**	86,946
Fixed deposits	**(172)**	(22,263)
Cash and cash equivalents at 30 June	**17,771**	64,683

Notes to the Financial Statements

For the six months ended 30 June 2012

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

The financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities, which are carried at fair values.

2. APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2011.

The Group had not early adopted the new and revised IFRSs that have been issued but are not yet effective during the period.

The Group is in the process of assessing the impact of the new and revised IFRSs upon initial application but has not yet in a position to state whether these new and revised IFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the key management. This key management reviews the Group's internal reporting in order to assess performance and allocate resources. Key management has determined the operating segments based on these reports.

The key management considers the business from both a business and geographic perspective. From a business perspective, key management assesses the performance of consumer, enterprise, solutions, projects and services business segments.

— Consumer segment focuses principally on residential and personal security products for end-users. Products in this segment include FxGuard Windows Logon, BioMirage Coffer and iTrain software;

— Enterprise segment's products are mainly biometric products for commercial use, such as i-series and s-series biometric fingerprint authentication sensors and RFID card readers used for access control, time attendance, visitor management and security applications, m-series door locks that use biometric fingerprint authentication technology and K-series multi-model security devices that use facial recognition technology, fingerprint authentication technology, password and RFID components and parts use for biometric and RFID devices; and

— Solutions, Projects and Services segment makes bespoke system solutions for end-users using our internally developed software and hardware capabilities supported by our own and third party products as required.

3. SEGMENT INFORMATION (continued)

The key management assesses the performance of the business segments based on a measure of gross (loss)/profit. Segment assets include all tangible, intangible assets and current assets with the exception of assets classified as held for sale and other corporate assets. Segment liabilities include trade payables, accruals and other payables except of current and deferred tax liabilities, other corporate liabilities attributable to the individual segments and other borrowings managed directly by the segments.

The following table presents the Group's turnover, segment results and other information for operating segments:

For the six months ended 30 June 2012

	Consumer		Enterprise		Solutions, Projects and Services		Unallocated		Total	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Turnover — external sales	5,259	157,047	394,923	638,193	2,507	181,885	–	–	402,689	977,125
Segment results	(527)	50,815	(190,002)	123,411	425	60,318	–	–	(190,104)	234,544
Unallocated other operating income							4,607	14,047	4,607	14,047
Loss on disposal of investment properties							(2,311)	–	(2,311)	–
Gain arising on changes in fair value of investments properties							16	5,311	16	5,311
Depreciation	(37)	(1,470)	(37)	(1,470)	–	–	(8,428)	(9,495)	(8,502)	(12,435)
Amortisation of prepaid lease payments	–	–	–	–	–	–	(177)	(250)	(177)	(250)
Amortisation of intangible assets	(5,447)	(4,122)	(31,668)	(24,204)	(5,639)	(86,091)	–	–	(42,754)	(114,417)
Impairment loss on available-for-sale financial assets	–	–	–	–	–	–	–	(7,402)	–	(7,402)
Impairment loss on intangible assets	–	–	–	–	–	(520,117)	–	–	–	(520,117)
Impairment loss recognised in respect of goodwill	–	–	–	–	–	(4,508)	–	–	–	(4,508)
Loss arising on fair value of financial assets at fair value through profit or loss							(2,494)	(183)	(2,494)	(183)
Unallocated expenses							(201,305)	(264,488)	(201,305)	(264,488)
Finance costs							(1,957)	(3,498)	(1,957)	(3,498)
Loss before taxation							(212,049)	(265,958)	(444,981)	(673,396)
Income tax expense							239	(473)	239	(473)
Loss for the period							(211,810)	(266,431)	(444,742)	(673,869)
Segment assets	60,106	436,124	1,916,928	1,640,840	313,472	672,111	402,692	1,167,977	2,693,198	3,917,052
Segment liabilities	115	3,287	11,613	15,929	41	3,762	207,802	131,287	219,571	154,265
Other segment information:										
Additions to non-current assets	–	–	–	18,565	–	41,800	608	1,279	608	61,644
Depreciation	(37)	(1,470)	(37)	(1,470)	–	–	(8,428)	(9,495)	(8,502)	(12,435)
Amortisation of prepaid lease payments	–	–	–	–	–	–	(177)	(250)	(177)	(250)
Amortisation of intangible assets	(5,447)	(4,122)	(31,668)	(24,204)	(5,639)	(86,091)	–	–	(42,754)	(114,417)
Impairment loss on intangible assets	–	–	–	–	–	520,117	–	–	–	520,117
Impairment loss recognised in respect of goodwill	–	–	–	–	–	4,508	–	–	–	4,508
Loss arising on fair value of financial assets at fair value through profit or loss	–	–	–	–	–	–	(2,494)	(183)	(2,494)	(183)

3. SEGMENT INFORMATION (continued)

Geographical information

The Group operates in three principal geographical areas — Southeast Asia, Greater China and Middle East. The following tables provide an analysis of the Group's turnover, by geographical areas, irrespective of the origin of the goods and services:

	Turnover For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Southeast Asia	**187,545**	484,672
Greater China	**213,046**	285,466
Middle East	**2,098**	202,191
Others	**—**	4,796
	402,689	977,125

4. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Bank interest income	**67**	130
Rental income	**728**	1,055
Gain on disposal of property, plant and equipment	**62**	177
Reversal of impairment loss on trade receivables	**—**	2,509
Reversal of provision for obsolete stock	**574**	60
Foreign exchange gain	**3,052**	8,970
Sundry income	**124**	1,146
	4,607	14,047

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Finance costs		
Bank charges	**73**	135
Interests on convertible notes	**41**	—
Interests on promissory notes	**259**	—
Interests on interest-bearing borrowings and bank overdrafts wholly repayable within five years	**1,584**	3,363
	1,957	3,498
Other items		
Cost of inventories sold	**592,793**	742,581
Depreciation	**8,502**	12,435
Amortisation of prepaid lease payments	**177**	250
Amortisation of intangible assets	**42,754**	114,417
Impairment loss on trade receivables	**—**	93,028
Impairment loss on carrying amount of obsolete stock (note)	**81,088**	88
Impairment loss recognised in respect of goodwill	**—**	4,508

Note: Inventories are stated at lower of cost and net realisable value at the reporting date.

6. INCOME TAX (CREDIT)/EXPENSE

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Underprovision of tax in the previous year	**–**	(678)
Deferred tax liabilities	**(239)**	1,151
	(239)	473

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the period.

No provision for Hong Kong Profits Tax and Malaysian Income Tax has been made for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong and Malaysia respectively.

Malaysian Income Tax is calculated at the statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year. The corporate tax rate for companies with paid-up capital of Malaysian Ringgit 2.5 million and below at the beginning of the basis period for the years of assessment are as follows: The first Malaysian Ringgit 500,000 chargeable income is charged at the rate of 20% (2011: 20%) for the year and the amount of chargeable income exceeding Malaysian Ringgit 500,000 is charged at the rate of 25% (2011: 25%) for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax charges represent tax effects of the excess of tax capital allowances over related depreciation of property, plant and equipment of the Malaysian subsidiaries for the period ended 30 June 2011.

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:

Loss

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Loss for the purpose of basic and diluted loss per share		
Loss for the period attributable to owners of the Company	**(473,146)**	(579,509)

Number of shares

	For the six months ended 30 June	
	2012	2011
Weighted average number of ordinary shares for the purpose of basic loss per share	**493,223,555**	349,104,944
Effect of dilutive potential ordinary shares		
Share option scheme	**–**	–
Convertible notes	**–**	–
Weighted average number of ordinary shares for the purpose of dilutive loss per share	**493,223,555**	349,104,944

For the period ended 30 June 2012 and 2011 diluted loss per share was not presented because the exercise of share option and conversion of all outstanding convertible note consider would have anti-dilutive effect.

8. INTERIM DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend in respect of the period ended 30 June 2012 (2011: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of approximately HK$608,000 (2011: approximately HK$1,279,000). Items of plant and equipment with a net book value of approximately HK$6,074,000 were disposed of during the six months ended 30 June 2012 (2011: approximately HK$652,000), resulting in a gain on disposal of approximately HK$62,000 (2011: a gain of approximately HK$177,000).

10. GOODWILL

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
Cost		
As at the beginning of the year	**154,479**	199,777
Additional amounts recognised from business combinations occurred during the period (Note 19)	**38,265**	20,905
Disposal of subsidiaries	**(4,510)**	(67,371)
Exchange alignment	**(4,649)**	1,168
As at the end of the period	**183,585**	154,479
Accumulated impairment losses		
As at the beginning of the year	**133,574**	146,201
Impairment loss recognised during the period	**—**	4,508
Disposal of subsidiaries	**(4,510)**	(17,501)
Exchange alignment	**(4,649)**	366
As at the end of the period	**124,415**	133,574
Carrying amount		
As at the end of the period	**59,170**	20,905

The carrying amount of goodwill allocated to cash-generating units ("CGUs") that are significant individually or in aggregate is as follows:

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
Home business accessories	**20,905**	20,905
Provision of advertising and entertainment applications on mobile platforms	**38,265**	—
	59,170	20,905

The Group tests goodwill for impairment at each reporting period, or more frequently if there are indications that goodwill might be impaired.

10. GOODWILL (continued)

The recoverable amounts of the CGUs are determined from value-in-use calculations for 30 June 2012 and 31 December 2011. The key assumptions for the value-in-use calculations are those regarding the discount rates and growth rates. The directors of the Company estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the CGUs. The growth rates are based on past performance and its expectations for the development of the market.

The key assumptions used for value-in-use calculations are as follows:

	Home business accessories	Provision of advertising solutions and entertainments on mobile platforms
As at 30 June 2012		
Growth rate	**5%**	**5%**
Discount rate	**13.62%**	**19.90%**
As at 31 December 2011		
Growth rate	5%	N/A
Discount rate	13.62%	N/A

For the period ended 30 June 2012, the directors of the company had assessed the recoverable amount of the CGUs that no impairment losses (31 December 2011: impairment of approximately HK$4,508,000) were recognised as the recoverable amount of the CGUs are not less than the carrying amount of the CGUs. The recoverable amounts of the CGUs are determined based on value-in-use calculations. The calculations uses cash flow projections based on financial budgets approved by directors of the Company covering a five-year periods. Cash flows beyond the five year are extrapolated using the estimated growth rate, which does not exceed the projected long-term average growth rate.

11. INTANGIBLE ASSETS

During the six months ended 30 June 2012, the Group did not invest in product development and design (31 December 2011: HK$66,360,000).

During the six months ended 30 June 2012, the Group acquired intangible assets “mobile applications software and technology” through business combination of approximately HK$98,000,000 with the useful life estimated as 5 years (note 19).

The directors of the Company had assessed the recoverable amount of intangible assets for the period ended 30 June 2012. No impairment loss (31 December 2011: HK$630,347,000) on intangible assets “contract rights” and “Product development and design” were recognised for the period ended 30 June 2012.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
Equity securities at cost		
Unlisted outside Hong Kong	**169,200**	169,200
Equity securities at fair value		
Listed outside Hong Kong	**760**	5,070
	169,960	174,270
Impairment on unlisted equity securities	**(131,293)**	(131,293)
	38,667	42,977

At 30 June 2012, certain unlisted equity securities with carrying amount of HK$37,907,000 (31 December 2011: HK$37,907,000) were stated at cost less impairment loss because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

The directors of the Company had re-assessed recoverable amount of unlisted equity securities outside Hong Kong, and no impairment loss was recognised for the period ended 30 June 2012 (31 December 2011: Impairment loss of approximately HK$74,152,000).

For listed equity securities, the fair value as determined based on the quoted market bid prices available on the relevant stock exchange.

13. TRADE RECEIVABLES

The aging analysis of the trade receivables is as follows:

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
0–30 days	**98,162**	232,320
31–60 days	**67,005**	249
61–90 days	**50,774**	19,002
91–180 days	**200,039**	150,223
Over 180 days	**957,067**	1,112,195
	1,373,047	1,513,989
Impairment loss on trade receivables	**(455,946)**	(647,410)
	917,101	866,579

The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers.

The trade receivables are generally on 30–180 days credit terms. The Directors of the Company consider that the carrying amounts of trade receivables approximate to their fair values.

14. SHARE CAPITAL

	As at 30 June 2012	As at 31 December 2011	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**9,000,000,000**	9,000,000,000	**90,000**	90,000
Issued and fully paid:				
As at beginning of the period/year	**493,223,555**	301,473,555	**4,932**	3,015
Issue of shares	**—**	41,050,000	**—**	410
Placing of shares	**—**	150,700,000	**—**	1,507
As at end of the period/year	**493,223,555**	493,223,555	**4,932**	4,932

15. INTEREST-BEARING BORROWINGS

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
On demand or repayable:		
Within one year	**4,556**	32,611
In the second to fifth years	**30,110**	23,088
Over five years	**14,100**	21,535
Total bank borrowings, secured	**48,766**	77,234

The bank borrowings bear interest at rates ranging from 5.2% to 6.9% (31 December 2011: 1.8% to 6.9%) per annum for the six months ended 30 June 2012.

The Malaysian Ringgit bank borrowings of approximately HK$48,766,000 (31 December 2011: HK$74,517,000) were secured the Group's land and buildings in Malaysia with carrying values of approximately HK$111,969,000 as at 30 June 2012 (31 December 2011: land and buildings approximately HK$112,696,000 and bank deposits approximately HK$21,745,000).

As at 31 December 2011, RMB bank borrowings of approximately HK$2,717,000 are secured by bank deposits of approximately HK$3,000,000, the loan was repaid during the six months ended 30 June 2012.

16. CONVERTIBLE NOTES

	Liability component HK$'000	**Equity component** HK$'000
As at 1 January 2012	—	—
Issue of convertible notes for the acquisition of subsidiary	84,538	4,162
Deferred taxation for the convertible notes issue	—	(686)
Imputed interest expenses charged	41	—
As at 30 June 2012	84,579	3,476

On 25 June 2012, the Company issued convertible notes with principal amount of HK$88,700,000 for the acquisition of a subsidiary. The effective interest rate of the liability component was 3.6% per annum. The convertible bond will mature at 25 June 2015.

Detail of convertible notes set out in the Company circular dated 8 June 2012.

17. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	As at 30 June 2012 HK$'000	As at 31 December 2011 HK$'000
0–30 days	**14**	502
31–60 days	**33**	108
61–90 days	**17**	580
Over 90 days	**11,705**	12,027
	11,769	13,217

Trade payables are generally settled on 0–60 days terms. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The Directors of the Company consider that the carrying amounts of trade payables approximate to their fair values.

18. COMMITMENTS

There were no significant commitments as at 30 June 2012 and 2011.

19. ACQUISITIONS OF A SUBSIDIARY

During the period ended 30 June 2012, the Group had acquired 55% of the entire issued share capital of Most Ideas Limited (the "Most Ideas"), for the consideration of Convertible Notes of approximately HK$88,700,000.

(a) The carrying amounts and fair value of the assets and liabilities acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amounts before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Property, plant and equipment	96	—	96
Trade receivables	13,022	—	13,022
Intangible assets	—	98,000	98,000
Deposits, prepayments and other receivables	195	—	195
Cash and bank balance	2,087	—	2,087
Trade payables	(521)	—	(521)
Accruals and other payables	(3,280)	—	(3,280)
Tax payables	(1,729)	—	(1,729)
Deferred taxation	—	(16,170)	(16,170)
Net assets acquired	9,870	81,830	91,700
Non-controlling interests			(41,265)
Goodwill (Note 10)			38,265
Total consideration			88,700
Satisfied by:			
— Convertible Notes			88,700
Net cash inflow arising on acquisition:			
— Cash and bank balance on acquisition of			2,087

(b) Acquisition-related costs of approximately HK$180,000 are included in the income statements.

(c) Most Ideas did not contributed turnover to the Group and contributed loss after tax of during the period ended 30 June 2012.

(d) Detail of the acquisition of the subsidiary please refer to the Company circular dated 8 June 2012.

20. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2012, the Group's entered into sales agreement with independent third parties to disposal Strong Aim Limited and Stepfull Limited.

Detail of the aggregate assets and liabilities of subsidiaries disposal, and the calculation of the profit or loss on disposal are disclosed in below:

Consideration received

	HK$'000
Cash consideration received	3

Analysis of aggregate assets and liabilities

	HK$'000
Trade receivable	—
Cash and bank balance	3
Accruals and other payables	(18)
Net liabilities disposal of	(15)
Non-controlling interests	37
The Group's share of net assets	22

Gain on disposal of subsidiaries

	HK$'000
Release of goodwill	—
Release of intangible assets	—
Release of translation reserve	128
Cash consideration received	3
Net assets disposed of	(22)
Gain on disposal	109
Net Cash flow on disposal:	
Cash consideration received	3
Cash and cash equivalents balance disposed of	(3)
	—

21. SHARE-BASED PAYMENTS

A share option scheme (the "Share Option Scheme") was adopted by the Company on 28 June 2004 and was amended on 7 June 2006. A post listing share option scheme (the "Post Listing Scheme") was adopted by the Company on 16 October 2008.

Share options are granted to the directors and employees of the Group to subscribe for shares in RCG Holdings Limited.

	Post Listing Scheme				Share Option Scheme			
	2012 Weighted average exercise price per share	2012 Number of options	2011 Weighted average exercise price per share	2011 Number of options	2012 Weighted average exercise price per share	2012 Number of options	2011 Weighted average exercise price per share	2011 Number of options
As at 1 January	HK$8.21	2,250,000	HK$8.21	6,215,000	50.24p	2,835,000	53.94p	4,135,000
Lapsed	HK$8.21	(250,000)	HK$8.21	(1,707,500)	50.43p	(2,800,000)	64.25p	(400,000)
As at 30 June	HK$8.21	2,000,000	HK$8.21	4,507,500	34.5p	35,000	52.82p	3,735,000
Lapsed			HK$8.21	(2,257,500)			60.95p	(900,000)
As at 31 December			HK$8.21	2,250,000			50.24p	2,835,000

The options have contractual option terms ranging from 5 to 10 years. There are 2,035,000 outstanding options (31 December 2011: 5,085,000 options) which no options are exercised for the six months ended 30 June 2011 (31 December 2011: Nil). Weighted average remaining contractual life of options outstanding as at 30 June 2012 is 7.7 years (31 December 2011: 8.30 years).

22. CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no contingent liabilities.

23. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions:

(a) The remuneration of directors and other members of key personnel during the period was as follows:

	2012 HK$'000	2011 HK$'000
Salaries and bonus	2,072	5,340
Retirement scheme contribution	33	99
Employee share option benefits	—	5,287
	2,105	10,726

24. SUBSEQUENT EVENTS

The Group had no significant subsequent events after the end of reporting period.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

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

As at 30 June 2012, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long position in the ordinary shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares	Number of underlying shares	Total number of shares and underlying shares	Approximate percentage of issued share capital (Note)
Li Mow Ming, Sonny (Resigned as an independent non-executive Director on 1 July 2012)	Beneficial owner	—	80,000	80,000	0.02%
Liu Kwok Bond (Resigned as an independent non-executive Director on 1 July 2012)	Beneficial owner	—	80,000	80,000	0.02%

Note: Represents the approximate percentage of total issued shares as at 30 June 2012.

Save as disclosed above, none of the Directors or chief executives had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2012 that was required to be recorded pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

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

As at 30 June 2012, the following persons or companies (other than the Directors and chief executives) had interest or short positions in the shares, underlying shares or debentures as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

Name of Shareholders	Capacity/ Nature of interest	Number of shares	Number of underlying shares	Total number of shares and underlying shares	Approximate percentage of issued share capital (Note 4)
Crossover Global Limited (Note 1)	Beneficial owner	—	104,352,941	104,352,941	21.15%
Chan Chun Fai (Note 1)	Interest of controlled corporation	—	104,352,941	104,352,941	21.15%
Qin Chuhua (Note 1)	Interest of controlled corporation	—	104,352,941	104,352,941	21.15%
Yang Zhijian (Note 1)	Interest of controlled corporation	—	104,352,941	104,352,941	21.15%
Veron International Limited (Note 2)	Beneficial owner	65,662,832	—	65,662,832	13.31%
Kung Nina (Estate of Nina Kung also known as Nina T.H. Wang) (Note 2)	Interest of controlled corporation	65,662,832	—	65,662,832	13.31%
Lam Hok Chung Rainier (Note 2)	Trustee	65,662,832	—	65,662,832	13.31%
Jong Yat Kit (Note 2)	Trustee	65,662,832	—	65,662,832	13.31%
The Offshore Group Holdings Limited (Note 3)	Beneficial owner	53,515,556	—	53,515,556	10.85%
Chan Chun Chuen (Note 3)	Interest of controlled corporation	53,515,556	—	53,515,556	10.85%
Tam Miu Ching (Note 3)	Spousal interest	53,515,556	—	53,515,556	10.85%

Notes:

1. The entire issued share capital of Crossover Global Limited ("Crossover") is beneficially owned by three individuals, namely Mr. Chan Chun Fai, Mr. Qin Chuhua and Mr. Yang Zhijian at the percentage 45%, 29% and 26% respectively. Therefore, Mr. Chan Chun Fai, Mr. Qin Chuhua and Mr. Yang Zhijian are deemed to be interested in the 104,352,941 underlying shares held by Crossover under the SFO.

2. The entire issued share capital of Veron International Limited is beneficially owned by Ms. Kung Nina. Therefore, Ms. Kung Nina is deemed to be interested in the 65,662,832 shares held by Veron International Limited under the SFO. Mr. Lam Hok Chung Rainier and Mr. Jong Yat Kit solely as Joint and Several Administrators *pendente lite* of Estate of Ms. Nina Kung.

3. The entire issued share capital of The Offshore Group Holdings Limited ("Offshore") is beneficially owned by an individual, Mr. Chan Chun Chuen. Ms. Tam Miu Ching is the wife of Mr. Chan Chun Chuen. Therefore, Mr. Chan Chun Chuen and Ms. Tam Miu Ching are deemed to be interested in the 53,515,556 shares held by The Offshore Group Holdings Limited under the SFO.

4. Represents the approximate percentage of total issued shares as at 30 June 2012.

Save as disclosed above, no person (other than the Directors and chief executives, whose interests are set out in the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures") had registered an interest or short position in the shares, underlying shares or debentures of the Company as at 30 June 2012 that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME AND POST LISTING SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the Company on 28 June 2004 and was amended on 7 June 2006. A post listing share option scheme (the "Post Listing Scheme") was adopted by the Company on 16 October 2008. Summary of principal terms of the Share Option Scheme and Post Listing Scheme were outlined in the Company's annual report for the year ended 31 December 2011 under the section "Directors' Report".

Share Option Scheme

Movements of the share options granted under the Share Option Scheme and Post Listing Scheme during the period ended 30 June 2012 are as follows:

	Outstanding at beginning of the Period	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	Outstanding at the end of the Period	Date of grant	Vesting Period	Exercisable period	Exercise price
Directors										
Raymond Chu Wai Man (Retired as a non-executive Director on 30 June 2012)	1,300,000	–	–	1,300,000	–	–	20.04.2005	3 years	20.04.2008–19.04.2015	34.5p
	1,500,000	–	–	1,500,000	–	–	04.10.2006	1 year	04.10.2007–03.10.2016	64.25p
Liu Kwok Bond (Resigned as an independent non-executive Director on 1 July 2012) (Note 2)	80,000	–	–	–	–	80,000	29.04.2010 (Note 1)	1 year	29.04.2011–28.04.2020	HK$8.21
Li Mow Ming Sonny (Resigned as an independent non-executive Director on 1 July 2012) (Note 2)	80,000	–	–	–	–	80,000	29.04.2010 (Note 1)	1 year	29.04.2011–28.04.2020	HK$8.21
Subtotal	2,960,000	–	–	2,800,000	–	160,000				
Other employees										
In aggregate	35,000	–	–	–	–	35,000	20.04.2005	3 years	20.04.2008–19.04.2015	34.5p
	1,040,000	–	–	100,000	–	940,000	29.04.2010 (Note 1)	–	29.04.2010–28.03.2017	HK$8.21
	1,050,000	–	–	150,000	–	900,000	29.04.2010 (Note 1)	1 year	29.04.2011–28.04.2020	HK$8.21
Subtotal	2,125,000	–	–	250,000	–	1,875,000				
Total	5,085,000	–	–	3,050,000	–	2,035,000				

Notes:

1. The closing price of the shares immediately before 29 April 2010 is HK$8.10.

2. The number of share options held by Mr. Liu Kwok Bond and Mr. Li Mow Ming Sonny up to 1 July 2012 immediately before their resignation. The options exercisable into 80,000 and 80,000 underlying shares held by Mr. Liu Kwok Bond and Mr. Li Mow Ming Sonny respectively lapsed on 1 July 2012 following their resignation.

Other than as disclosed above, no other share option was granted, cancelled, lapsed or exercised pursuant to the Share Option Scheme and Post Listing Scheme of the Company during the period ended 30 June 2012.

Convertible Notes

On 23 April 2012, the Board announced that RCG International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company (the "Purchaser") and Crossover Global Limited, a company incorporated in the British Virgin Islands (the "Vendor") entered into an agreement to acquire 27,500 ordinary shares of US$1.00 each in the share of Most Ideas Limited (the "Target") (the "Sale Shares"), representing 55% of the issued share capital of the Target (the "Sale and Purchase Agreement").

The Target is a company incorporated in the British Virgin Islands with limited liability and is owned as to 55% by the Vendor and 45% by Golden Matrix Holdings Limited as at 23 April 2012. Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares, representing 55% of the issued share capital of the Target for a total consideration of HK$88,700,000 which will be satisfied by the issue of the convertible notes in the aggregate principal amount of HK$88,700,000 with interest rate of 2% per annum to be issued by the Company to satisfy the consideration of HK$88,700,000 payable by the Purchaser for the Sale Shares under the Sale and Purchase Agreement (the "Convertible Notes").

On 25 June 2012, the Board announced that the ordinary resolution regarding the issue of the Convertible Notes and the issue and allotment of the ordinary shares of the Company upon the exercise of the conversion rights attached to the Convertible Notes at the conversion price of HK$0.85 (the "Convertible Rights") proposed at the special general meeting held on 25 June 2012 was duly passed.

On 31 August 2012, the Board announced that pursuant to the approval granted by HKSE for the listing of 104,352,941 ordinary shares of HK$0.01 each in the share of the Company upon the exercise of Conversion Rights, the ordinary shares of the Company listed on the Main Board of the HKSE have been issued and allotted to Crossover Global Limited on 31 August 2012 and were expected to be admitted to trading on the AIM market of the London Stock Exchange on 3 September 2012.

On 31 August 2012, the total issued share capital of the Company had enlarged to 597,576,496 ordinary shares of HK$0.01 each and Crossover Global Limited held an interest of 17.46% in the equity of the Company.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the HKSE (the "Hong Kong Listing Rules"), the changes of information on Directors are as follows:

Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman was resigned as an independent non-executive director of Inch Kenneth Kajang Rubber Public Limited Company, a company listed on the Bursa Malaysia Securities Berhad, with effect from 21 June 2012.

Mr. Chong Cha Hwa, Brandson has been appointed as a director of some of the subsidiaries of the Company with effect from 16 August 2012.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE CODE

The Directors, where practicable for an organisation of the Group's size and nature, sought to comply with the UK Corporate Governance Code (the "UK Code"). The UK Code is the key source of corporate governance recommendations for UK listed companies. It consists of principles of good governance covering the following areas:

1. Directors;
2. Directors' Remuneration;
3. Accountability and Audit;
4. Relations with Shareholders; and
5. Institutional Investors.

In connection with the listing of the Company on the HKSE in February 2009, the Company adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Hong Kong Listing Rules as its additional code on corporate governance practices on 2 February 2009. The Company has complied with the CG Code throughout six months ended 30 June 2012, except for the deviation from code provision A.5.1 after the period which is explained in the following paragraph.

Under code provision A.5.1 of the CG Code, the nomination committee should comprise a majority of independent non-executive directors. On 1 July 2012, Mr. Li Mow Ming, Sonny and Mr. Liu Kwok Bond have resigned as the members of nomination committee of the Company. Therefore, the Company deviates from code provision A.5.1 of the CG Code. The Company has appointed Mr. Kwan King Wah and Mr. Zeng Min as the members of nomination committee of the Company with effect from 27 August 2012 to fill in the vacancies so as to comply with code provision A.5.1 of the CG Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10(1) of the Hong Kong Listing Rules, there are three independent non-executive directors representing one-third of the Board. Among the three independent non-executive directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Hong Kong Listing Rules.

Since the resignations of Mr. Li Mow Ming, Sonny and Mr. Liu Kwok Bond as the independent non-executive Directors on 1 July 2012, there remains only one independent non-executive Director in the Board. Therefore, the Company is not compliant with Rule 3.10(1) of the Hong Kong Listing Rules. The Company is also not in compliance with the Rule 3.10(2) of the Hong Kong Listing Rules upon the resignation of Mr. Li Mow Ming, Sonny.

The Company has appointed Mr. Kwan King Wah and Mr. Zeng Min as the independent non-executive Directors with effect from 27 August 2012 to fill in the vacancies so as to meet the requirements as set out in Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules.

REMUNERATION COMMITTEE

Following the resignation of Mr. Liu Kwok Bond as the chairman of the remuneration committee of the Company on 1 July 2012, the Company is not compliant with Rule 3.25 of the Hong Kong Listing Rules.

The Company has appointed Mr. Zeng Min as a member of the remuneration committee of the Company with effect from 27 August 2012 to fill in the vacancies so as to meet the requirements as set out in Rule 3.25 of the Hong Kong Listing Rules.

DIRECTORS' DEALING IN THE COMPANY'S SECURITIES

The Company has adopted a code for Directors' dealings appropriate for a company whose shares are admitted to trading on AIM and takes all reasonable steps to ensure compliance by the Directors and any relevant employees. The Company also adopted the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules.

The Directors have confirmed, following a specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2012.

AUDIT COMMITTEE

During the Period, the audit committee of the Company (the "Audit Committee") comprises of three members, namely Mr. Li Mow Ming, Sonny (resigned on 1 July 2012) acts as Chairman of the committee with Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman, a non-executive Director, and Mr. Pieter Lambert Diaz Wattimena, an independent non-executive Director, act as members. The arrangement of the Audit Committee was compliant with the Rule 3.21 of the Hong Kong Listing Rules. After the resignation of Mr. Li Mow Ming, Sonny as a Chairman of the Audit Committee on 1 July 2012, the Company failed to meet the requirements set out in Rule 3.21 of the Hong Kong Listing Rules.

The Company has appointed Mr. Kwan King Wah as a Chairman of Audit Committee with effect from 27 August 2012 to fill in the vacancies so as to meet the requirements as set out in Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the Company's unaudited financial statements for the period ended 30 June 2012.

PUBLICATION OF INTERIM REPORT

The interim report will be published on the Company's website (www.rcg.tv), the Company's webpage on www.rcg.todayir.com and the Hong Kong Stock Exchange's website (www.hkex.com.hk).

By Order of the Board of
RCG Holdings Limited
Chong Cha Hwa, Brandson
Director

Hong Kong, 28 August 2012

As at the date of this report publication, the Board comprises the following Directors:

Executive Directors:
Chong Cha Hwa, Brandson
Li Jinglong
Zhang Ligong

Non-executive Director:
Tan Sri Dato' Nik Hashim Bin Nik Ab. Rahman

Independent Non-executive Directors:
Pieter Lambert Diaz Wattimena
Kwan King Wah
Zeng Min

For purpose of this report, the exchange rates are defined as following for the respective periods:

1H'2012: £1 to HK$12.24
1H'2011: £1 to HK$12.58