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FIRST SHANGHAI GROUP

# First Shanghai Investments Limited

(Stock Code : 227)

# 2012
## Annual Report

# 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

## PRINCIPAL BANKERS

China 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

# Contents

# Chairman's Statement

On behalf of the Board, I hereby present the Group's annual report and audited consolidated financial statements for the year ended 31st December 2012. The Group's consolidated revenue and net loss attributable to shareholders of the Company for the year ended 31st December 2012 amounted to approximately HK$349 million and HK$98 million respectively.

## BUSINESS OVERVIEW

2012 was another challenging year for the Group. Slower growth in China, anxiety over the Eurozone and an anaemic recovery in the US impacted the financial market. China maintained in 2012 stringent regulatory policies on the property market including restrictions on property purchases, loans and prices. Despite the problems faced in exporting to western markets and attracting foreign direct investment, China nonetheless managed to maintain 7.8% GDP growth in 2012.

The Group reported consolidated net loss attributable to shareholders of the Company of approximately HK$98 million for the year ended 31st December 2012, compared to a net loss of approximately HK$46 million last year. The significant loss mainly reflected decrease in fair value of the Group's property projects and share of loss of its listed associated company. The Group's turnover increased by 22% from HK$285 million in 2011 to HK$349 million in 2012 attributable to the improved performance from securities investment.

### Financial Services

The Hang Seng Index closed at 22,657 on 31st December 2012 which is 23% higher than 2011. However, the number of newly listed company decreased from 101 in 2011 to 64 in 2012, representing a reduction of 37%. Fund raised by IPOs declined substantially from HK$259.8 billion in 2011 to HK$89.8 billion in 2012. Trading in 2012 was considerably lower with an average daily market turnover of HK$53.9 billion, a 22.8% decrease from 2011. This, combined with lower investor confidence, led to decrease in commission and fee income of our Financial Services Sector in 2012.

The Group has continued to develop the wealth management business by improving the service quality and introducing more investment products to clients. We have adopted a cautious approach to the credit control of margin portfolio while maintained the exposure in the margin finance business.

Our long-established corporate finance division is an inseparable arm of our Financial Services Sector and has continued to bolster our revenue stream primarily via the provision of services to Hong Kong listed companies. Despite that the Hong Kong IPO market in general was less active as compared with the preceding year, our corporate finance division remained an active and healthy player in the corporate financial advisory market in 2012. During the year, our corporate finance division continued to solidify industry position and broadened business network, where it acted as compliance advisors to four companies newly listed in Hong Kong and successfully completed 25 corporate financial advisory cases. On our business pipeline, we have already engaged in a variety of assignments, which include IPO sponsorships and other corporate financial advisor deals.

## Property and Hotel

China witnessed a slowdown in economic growth in 2012. With the key goal of stabilizing economic growth, the central government eased certain monetary policies including lowering the deposit reserve ratio and cutting the interest rate. No further stringent regulatory policies on the property market was imposed in 2012 and there was sign of gradual recovery of property market in major cities. The Group's property development projects are however located in third tier cities and they are still suffering from the sluggish property market. During the year under review, demand for the commercial properties of our Wuxi projects is low and there is oversupply of hotel rooms in Wuxi. The residential and recreation resort projects in Huangshan and Zhongshan are still at development stage.

In 2012, the Group's recognised GFA (gross floor area) and revenue were amounted to approximately 11,000 square meters and HK$17 million respectively. Capital expenditure for property projects incurred for the year was approximately HK$19 million. The Group is currently participating in six projects with total GFA as summarised below:

| Location | Product nature | Expected completion date (Year) | % of interest attributable to the Group | Total gross floor area (sq.m.) | Area sold in 2012 (sq.m.) | Accumulated area sold (sq.m.) |
|---|---|---|---|---|---|---|
| Zhangjiang, Shanghai | Office and commercial | Completed | 50% | 56,000 | — | 27,000 |
| Kunshan, Jiangsu | Residential | Completed | 70% | 55,000 | — | 45,000 |
| Wuxi, Jiangsu | Hotel, commercial and apartment | Completed | 100% | 95,000 | 2,000 | 4,000 |
| Wuxi, Jiangsu | Office and industrial | | | | | |
| — Phase I | | Completed | 70% | 38,000 | 9,000 | 18,000 |
| — Phase II | | Completed | 70% | 59,000 | — | — |
| Huangshan, Anhui | Residential and recreation resort | | | | | |
| — Phase I | | 2013 | 100% | 23,000 | — | — |
| — Phase II | | 2015 | 100% | 29,000 | — | — |
| Zhongshan, Guangdong | Residential and recreation resort | 2015 | 95.2% | 64,000 | — | — |
| **Total** | | | | 419,000 | 11,000 | 94,000 |

**Direct Investment**

China Assets (Holdings) Limited (stock code 170), the major investment of our Direct Investment Sector, reported a net loss after tax of approximately HK$49 million in 2012. This was mainly due to significant provisions made during the year for several investment projects.

The Group's investment in the pharmaceutical business is still in the development stage. Sirton Pharmaceuticals SpA, the first pharmaceutical company set up by the Group in Europe, achieved breakeven result in its second year of operation. It has expanded its production capacity and client base during the year.

## PROSPECTS

As we settle into 2013, we believe that the recent emergence from recession in major western countries will be sustained, and that the economic conditions will improve, even to the extent of a return to growth. Yet uncertainty remains around the prospects for the rest of this year.

The market sentiment continued to improve since the second half year of 2012 and there is an increase in market activities. The Group had redeemed in January 2013 its investment in a securities investment fund which offered a good return to the Group. 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.

Despite the difficult property market faced by the Group in recent years, we will continue to complete the property projects on hand which will bring reasonable returns to the Group in the long term.

Regarding the Direct Investment Sector, we will remain prudent in our investment strategy and continue to look for investment opportunities in pharmaceutical and healthcare business.

## APPRECIATION

I would like to take this opportunity to express thanks on behalf of the Board to all our customers for their invaluable support and to our fellow directors and our employees for their dedication and commitment.

**LO Yuen Yat**
*Chairman*
Hong Kong, 22nd March 2013

# Management Discussion and Analysis

## RESULTS

For the year ended 31st December 2012, the Group recorded a net loss and basic losses per share attributable to shareholders of approximately HK$98 million and HK7.02 cents respectively, compared with a net loss and basic losses per share attributable to the shareholders, after restatement, of approximately HK$46 million and HK3.28 cents respectively in 2011. The restatement for 2011 result was mainly due to change of accounting policy as stipulated in Note 2 to the consolidated financial statements. Revenue of the Group is approximately HK$349 million, represents an increase of 22% from 2011.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group relied 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 31st December 2012, the Group had raised bank and other loans of approximately HK$353 million (2011: HK$323 million) and held approximately HK$330 million (2011: HK$378 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 13.5% (2011: 11.9%). Investment in "financial assets at fair value through profit or loss" as at 31st December 2012 amounted to approximately HK$236 million (2011: HK$273 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 in future. The Group has no significant exposure to other foreign exchange fluctuations.

## PLEDGE OF GROUP 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$665 million (2011: HK$1,017 million) and fixed deposits of approximately HK$15 million (2011: HK$16 million) against its bank loans and general banking facilities. The banking facilities amounted approximately HK$349 million (2011: HK$320 million) had been utilised.

## CONTINGENT LIABILITIES

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in the People's Republic of China ("PRC"). 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 31st December 2012, total contingent liabilities relating to these guarantees amounted to approximately HK$2 million (2011: HK$0.4 million).

## MATERIAL ACQUISITION AND DISPOSAL OF GROUP COMPANIES

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

## EMPLOYEES

As at 31st December 2012, the Group employed 778 staff, of whom 593 are based in the PRC. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include discretionary bonus, medical schemes, defined benefit/contribution provident fund schemes and employee share option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the year ended 31st December 2012 amounted to approximately HK$169 million (2011: HK$152 million).

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. LO Yuen Yat** (67). Appointed as Managing Director of the Company in 1993. Joined the Company in 1993, Mr. Lo is the Chairman of the Company and is also currently the Chairman and Executive Director of China Assets (Holdings) Limited, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously, Mr. Lo was the senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the State Science & Technology Commission, Ministry of Communications and the Railway Ministry of the PRC. Mr. Lo graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

**Mr. XIN Shulin** (59). Appointed as Director of the Company in 1998. Mr. Xin joined the Company in 1994 as Executive Vice President in charge of direct investment and property development business. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992.

**Mr. YEUNG Wai Kin** (51). Appointed as Director of the Company in 1998. Mr. Yeung is also Chief Financial Officer and Company Secretary of the Company. He joined the Company in 1993 and has over 25 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

## NON-EXECUTIVE DIRECTOR

**Mr. KWOK Lam Kwong, Larry**, ***B.B.S., J.P.*** (57). Appointed as Independent Non-executive Director of the Company in 1994 and has been re-designated to Non-executive Director of the Company with effect from 17th March 2005. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a certified public accountant in Hong Kong and Australia and a Chartered Accountant in England and Wales. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. Mr. Kwok is currently Chairman of the Traffic Accident Victims Assistance Advisory Committee and the Transport Advisory Committee, a member of the Land and Development Advisory Committee, Mandatory Provident Fund Schemes Advisory Committee, Hong Kong Tourism Board and Securities and Futures Appeal Tribunal.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor WOO Chia-Wei** (75). Appointed as Independent Non-executive Director of the Company in 1993. Prof. Woo is currently Senior Advisor to the Shui On Holdings Limited, and President Emeritus of the Hong Kong University of Science and Technology. Previously he was President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of Shanghai Industrial Holdings Limited.

**Mr. LIU Ji** (77). Appointed as Independent Non-executive Director of the Company in 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He served as Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing. He is also an independent non-executive director of Wison Engineering Services Company Limited. Mr. Liu is also a class II director of O2micro International Limited, a NASDAQ-listed company.

**Mr. YU Qihao** (66). Appointed as Independent Non-Executive Director of the Company in 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director from 1995 to 1997 and a non-executive director from 1997 to 1998 of Shenyin Wanguo (H.K.) Limited. During the period from 2001 to 2006, Mr. Yu was an advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

**Mr. ZHOU Xiaohe** (60). Appointed as Independent Non-executive Director of the Company in 2007. Mr. Zhou has extensive experience in investment and financing industries. He was educated in China and graduated from the Beijing Industrial University major in Computer Automation. Mr. Zhou was a non-executive director of the Company from 18th May 1995 to 16th June 1998 and of China Assets (Holdings) Limited from 27th March 1995 to 28th November 1997.

## SENIOR MANAGEMENT

**Mr. QIU Hong** (43). Joined the Group in 2000 and is currently the Chief Executive Officer of First Shanghai Financial Holding Limited. Mr. Qiu is responsible for the implementation of business management, development, sales and marketing strategies of the Group's financial service business. Prior to joining the Group, Mr. Qiu had worked for an international audit and consulting company and was responsible for the audit, strategic planning and corporate financing activities. With extensive experience and expertise in financial industry, Mr. Qiu is specializing in corporate financing, stock listing, equity capital market and rules and regulation of the financial market in Hong Kong and the PRC. Mr. Qiu holds a Bachelor's Degree in Economics from Zhong Shan University and a Master of Philosophy (Economics) from Chinese University of Hong Kong.

**Mr. CHING Ah Chye** (63). Joined the Group in 2001 and is currently the Managing Director of First Shanghai Securities Limited and First Shanghai Futures Limited. He is also a Responsible Officer of both the above-mentioned companies under the Securities and Futures Ordinance. Mr. Ching is responsible for management of overall operation and development of dealing in securities and futures. Mr. Ching holds a Bachelor of Business Administration degree from the University of East Asia, Macau (currently known as the University of Macau). He started his career in several financial institutions and has more than 30 years experience in the securities industry.

**Mr. LEE Hon Man, Eric** (46). Joined the Group in April 2002 and is currently the Managing Director of First Shanghai Capital Limited. Mr. Lee has over 15 years working experience in the corporate finance field. Prior to joining the Group, Mr. Lee worked for a Singapore based investment bank and has extensive experience in initial public offerings on both GEM and the Main Board of the Hong Kong Stock Exchange as well as other corporate finance advisory services. Mr. Lee also has working experience in the areas of electronic engineering, information technology and management consultancy. Mr. Lee holds a Master's degree of Business Administration from the Chinese University of Hong Kong and a Bachelor's degree of Engineering in Electrical and Electronic Engineering from the University of Birmingham, United Kingdom.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted its code on corporate governance (the "Code") which sets out the corporate standards and practices used by the Company in directing and managing its business affairs. The Code was prepared with reference to the code provisions and recommended best practices as stipulated in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Code not only formalizes the Company's existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Company runs a highly transparent operation and is accountable to its shareholders. In addition to abiding strictly by the laws and regulations of Hong Kong and observing the rules and guidelines issued by the relevant regulatory authorities, the Company will also regularly review its corporate governance practices, with a view to conforming to international and local best practices.

The Company has complied with all the code provisions as set out in the CG Code for the year ended 31st December 2012, except for the deviation from code provision A.2.1 in respect of segregation of the roles of chairman and chief executive officer and code provision A.6.7 in respect of attendance of the annual general meeting by directors. Such deviations will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## BOARD OF DIRECTORS

### Function and composition

The principal focus of the Board is on the overall strategic development of the Group. The Board provides direction and approval in relation to matters concerning the Company's business strategies and policies and monitors the overall financial performance and internal controls of the Group. Day-to-day management of the Group is delegated to the executive directors or the senior management who is required to report back to the Board on regular basis. The Board is also responsible to the corporate governance function of the Company.

Members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Company. In discharging its corporate accountability, every director is required to pursue excellence in the interests of the shareholders of the Company and fulfill his fiduciary duties by applying the required level of skills, care and diligence to a standard in accordance with the statutory requirements.

The Board meets regularly throughout the year. During the year, there were five Board meetings held to discuss the overall strategy as well as the operation and financial performance of the Group.

The Board of the Company comprises:

| | |
|---|---|
| Executive Directors: | Mr. LO Yuen Yat *(Chairman)*<br>Mr. XIN Shulin<br>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<br>Mr. LIU Ji<br>Mr. YU Qihao<br>Mr. ZHOU Xiaohe |

The Board comprises of three executive directors and five non-executive directors. Of the five non-executive directors, four of them are independent non-executive directors that represent more than one-third of the Board. In addition, two of the non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board.

In accordance with the Company's Articles of Association, at each annual general meeting, one-third of the directors of the Board for the time being (or, if their number is not a multiple of three, the number nearest to one-third) shall retire from office by rotation provided that each director shall be subject to retirement at least once every three years. A retiring director shall be eligible for re-election.

### Chairman and chief executive officer

The Chairman and chief executive officer of the Company is Mr. LO Yuen Yat. This deviates from code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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.

### Non-executive directors

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at annual general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

The non-executive directors serve an important function of ensuring and monitoring the basis for an effective corporate governance framework. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such directors to be independent.

### Directors' continuous professional development

Each newly appointed director is provided with necessary induction and information to ensure that he/she is sufficiently aware of his/her responsibilities under the relevant laws, rules and regulations.

Directors' training is an ongoing process. All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company will arrange and sponsor suitable training for its directors as required. In addition, the directors are briefed, from time to time, on the amendments or updates on the relevant laws, rules and regulations, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records obtained by the Company, a summary of training received by the directors during the year is as follows:

| Name of directors | Types of continuous professional development |
|---|---|
| Mr. LO Yuen Yat | A, B |
| Mr. XIN Shulin | A, B |
| Mr. YEUNG Wai Kin | A, B |
| Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* | A, B |
| Prof. WOO Chia-Wei | A, B |
| Mr. LIU Ji | A, B |
| Mr. YU Qihao | A, B |
| Mr. ZHOU Xiaohe | A, B |

*Notes:*

*A — attending briefing sessions and/or seminars*

*B — reading seminar materials, journals and/or updates relating to the economy, general business and latest development of applicable regulatory requirements*

## BOARD COMMITTEES

The Board has established three specialised committees (the "Board Committees") namely the nomination committee (the "Nomination Committee"), the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") to assist in carrying out and discharging duties and responsibilities efficiently and effectively. The Board Committees function within clearly defined terms of reference which are reviewed from time to time. The structure and effectiveness of each Board Committee is also constantly reviewed by the Board.

### Nomination Committee

The Nomination Committee was newly established on 1st March 2012. The majority of the Nomination Committee members are independent non-executive directors and its members include:

| | |
|---|---|
| Executive Director: | Mr. LO Yuen Yat |
| Independent Non-executive Directors: | Prof. WOO Chia-Wei *(Committee Chairman)*<br>Mr. YU Qihao<br>Mr. ZHOU Xiaohe |

The terms of reference of the Nomination Committee were adopted when the Committee was established on 1st March 2012. The Nomination Committee was set up to review the structure, size and composition of the Board, identify individuals and 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.

During the year, one meeting was held to formulate the nomination policy of the Company, and to review the annual confirmation of independence submitted by the independent non-executive directors and assess their independence.

**Remuneration Committee**

The Remuneration Committee was established on 30th June 2005. The majority of the Remuneration Committee members are independent non-executive directors and its members include:

| | |
|---|---|
| Executive Director: | Mr. LO Yuen Yat *(Committee Chairman until 1st March 2012)* |
| Independent Non-executive Directors: | Mr. ZHOU Xiaohe *(Committee Chairman from 1st March 2012)*<br>Prof. WOO Chia-Wei<br>Mr. YU Qihao |

To comply with the new Listing Rules effective from 1st April 2012, a board resolution was passed on 9th December 2011 that effective from 1st March 2012, Mr. Lo ceased to be the chairman of the Remuneration Committee but remains a member of the Committee. Mr. Zhou was appointed as chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee were adopted when the Committee was established and were amended on 1st March 2012. 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.

During the year, one meeting was held to discuss the remuneration policies and approve the remuneration packages of individual director and senior management of the Company.

**Audit Committee**

The Audit Committee was established on 27th December 1998. All members of the Audit Committee are non-executive directors and its members include:

| | |
|---|---|
| Independent Non-executive Directors: | Mr. YU Qihao *(Committee Chairman)*<br>Prof. WOO Chia-Wei<br>Mr. LIU Ji<br>Mr. ZHOU Xiaohe |
| Non-executive Director: | Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* |

Each member of the Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The terms of reference of the Audit Committee were adopted when the Committee was established and were amended on 1st March 2012. The Audit Committee was set up to ensure proper financial reporting and internal control principles are in place and follow. The Audit Committee meets regularly, to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process.

The Board acknowledges its responsibilities for preparing the financial statements of the Group and is responsible to ensure that the preparation of the financial statements of the Group is in accordance with the statutory requirements and applicable accounting standards.

During the year, there were three meetings held. The Audit Committee has reviewed the annual and interim consolidated financial statements, including the accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee met with the Company's external auditor during each of the committee meeting held in 2012 to liaise the Group's financial reporting and material financial matters. The Audit Committee has also reviewed report of the Company's independent advisor and considers the system of internal control of the Group to be effective and that the Group has adopted the necessary control mechanisms to its financial, operational, statutory compliance and risk management functions.

## MEETINGS AND ATTENDANCE

The Board/Board Committees meet regularly throughout the year. Notice of at least 14 days have been given to all directors for all regular Board/Board Committee meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying meeting papers in respect of regular Board/Board Committee meetings are sent out to all directors within reasonable time before the relevant meeting.

Draft minutes of Board/Board Committee meetings are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of Board/Board Committee meetings are kept by the Company Secretary and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board/Board Committee to make an informed decision on matters placed before it.

During the year, the individual attendance of each director at the Board meetings, the Board Committee meetings and the Company's 2012 annual general meeting (the "2012 AGM") is set out below:

| Name of director | Board meeting | Nomination Committee meeting | Remuneration Committee meeting | Audit Committee meeting | 2012 AGM |
|---|---|---|---|---|---|
| No. of meetings held during 2012 | 5 | 1 | 1 | 3 | 1 |
| Mr. LO Yuen Yat | 5 | 1 | 1 | n/a | 1 |
| Mr. XIN Shulin | 3 | n/a | n/a | n/a | — |
| Mr. YEUNG Wai Kin | 5 | n/a | n/a | n/a | 1 |
| Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* | 5 | n/a | n/a | 3 | — |
| Prof. WOO Chia-Wei | 5 | 1 | 1 | 3 | — |
| Mr. LIU Ji | 2 | n/a | n/a | 1 | — |
| Mr. YU Qihao | 5 | 1 | 1 | 3 | 1 |
| Mr. ZHOU Xiaohe | 4 | 1 | 1 | 2 | — |

Mr. YEUNG Wai Kin attended all the Board/Board Committee meetings in 2012 in the capacity of Company Secretary of the Company.

The code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive director should attend general meeting of the Company. Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.*, Prof. WOO Chia-Wei, Mr. LIU Ji and Mr. ZHOU Xiaohe did not attend the 2012 AGM 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.

## COMPANY SECRETARY

Mr. YEUNG Wai Kin was appointed as Company Secretary of the Company. Following specific enquiry by the Company, he has complied with the requirements as stipulated in Rule 3.29 of the Listing Rules.

## DIRECTORS' SECURITIES TRANSACTIONS

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 for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the year ended 31st December 2012.

## DISCLOSURE FOR REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For the year ended 31st December 2012, the remuneration of the members of the senior management by band is set out below:

| Emolument bands | Number of individuals |
|---|---|
| HK$2,000,001–4,000,000 | 2 |
| HK$6,000,001–8,000,000 | 1 |
| | 3 |

Details of the directors' remuneration and five highest paid individuals for the year ended 31st December 2012 are set out in Note 13 to the consolidated financial statements.

## AUDITOR'S REMUNERATION

For the year ended 31st December 2012, PricewaterhouseCoopers, the Company's auditor, has charged approximately HK$2,482,000 for audit and related services and HK$295,000 for other non-audit services — taxation services.

## COMMUNICATION WITH SHAREHOLDERS

### Corporate communication policy

The Company recognises the importance of effective and proper communications with its shareholders and investors. A policy setting out the principles of the Company in relation to the shareholders' communications, with the objectives of ensuring a fair, transparent and timely communication with shareholders has been established and published on the website of the Company.

## Information disclosure

With respect to the procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules and has established the inside information/price sensitive information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

## General meetings with shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and shareholders of the Company. The Company ensures that shareholders' views are communicated to the Board. The chairman of the annual general meeting proposes separate resolutions for each issue to be considered. The 2012 AGM was held on 25th May 2012. The Company's external auditor and various directors have attended the 2012 AGM to answer questions from shareholders.

## Shareholders' right

### *(A) Convening of extraordinary general meeting on requisition by shareholders*

In accordance with Section 113 of the Hong Kong Companies Ordinance, shareholder(s) holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company which as at the date of the deposit carries the right of voting at general meetings of the Company, may require the directors of the Company to convene an extraordinary general meeting ("EGM"). The written requisition must state the objects of the meeting and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the directors of the Company do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of three months from the said date. The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors of the Company.

### *(B) Procedures for directing shareholders' enquiries to the board*

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary. The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

### *(C) Procedures for putting forward proposals at general meetings by shareholders*

Shareholders are requested to follow Section 115A of the Hong Kong Companies Ordinance for including a resolution at an annual general meeting of the Company ("AGM"). The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at an AGM to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved and is intended to be moved at an AGM.

(ii) The Company shall not be bound by the Hong Kong Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of an AGM unless (a) a copy of the requisition signed by the shareholders concerned (or two or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before an AGM in the case of a requisition requiring notice of a resolution and not less than one week before an AGM in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

#### *(D) Procedures for proposing a person for election as a director*

As regards the procedure for proposing a person for election as a director, please refer to the procedures made available under the "Corporate Governance" section ("Procedures for Shareholders to propose a person for election as a director" sub-section) of the website of the Company.

### Constitutional documents

During the year, there was no change to the Company's Memorandum and Articles of Association. The latest version of the Memorandum and Articles of Association of the Company is available on the websites of the Company and the Stock Exchange.

## CORPORATE SOCIAL RESPONSIBILITIES

We are committed to fulfilling our social responsibility as we believe it is essential to our success in creating value for our customers, stakeholders and society as a whole. As a responsible corporate citizen, we incorporate sustainability and social responsibility into our business strategies and corporate culture. We encourage our staff to support volunteer services and community activities to contribute to a better community and a more sustainable environment. We also strongly believe in our responsibility to create a better environment for future generation. We are committed to operate in strict compliance with environmental regulations and rules and embed environmental considerations into daily operations.

We support all initiatives that improve the well-being of the community. In 2012, the Group has organised and encouraged staff to participate in various social services activities including the charity walk held by OBRIS. The Group also strived to promote and support continuous environmental protection by arranging unserviceable computers and redundant parts to be delivered to Caritas-HK Computer Workshop for refurbish purpose. Since 2013, we have joined WWF as their corporate member and pledged to provide a better living environment for our next generation through continuous campaigns in the Group.

# Report of the Directors

The Board submits herewith their report together with the audited consolidated financial statements for the year ended 31st December 2012.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in Notes 19, 20 and 21 to the consolidated financial statements respectively.

An analysis of the Group's performance for the year by operating and geographical segments is set out in Note 4 to the consolidated financial statements.

## RESULTS

The results for the year are set out in the consolidated income statement on page 24.

## DIVIDEND

The Board does not recommend the payment of a final dividend (2011: HK$Nil) for the year ended 31st December 2012.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 36 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2012, calculated pursuant to Section 79B of the Hong Kong Companies Ordinance, amounted to HK$332,545,000 (2011: HK$358,323,000).

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 37 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$78,000 (2011: HK$Nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2012.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. LO Yuen Yat
Mr. XIN Shulin
Mr. YEUNG Wai Kin
* Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.*
** Prof. WOO Chia-Wei
** Mr. LIU Ji
** Mr. YU Qihao
** Mr. ZHOU Xiaohe

* *Mr. KWOK Lam Kwong, Larry, B.B.S., J.P. is a non-executive director of the Company.*

** *Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe are independent non-executive directors of the Company.*

Mr. XIN Shulin, Prof. WOO Chia-Wei and Mr. ZHOU Xiaohe retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st December 2012, the interests of each director and chief executive 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 required to be kept by the Company under Section 352 of 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 |
|---|---|---|---|---|---|
| Directors | | Personal interests | Corporate interests | Total | |
| 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 Xiaohe | Long position | 160,000 | — | 160,000 | 0.01% |

*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 |
|---|---|---|---|---|---|
| Directors | | | Personal interests | Total | |
| 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 year, 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.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2012, the Company had been notified of the following substantial shareholder's interests, holding 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.*

## 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 (the "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.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the Scheme does not in aggregate exceed 10% of the shares in issue on the date of approval of the Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme does not exceed 30% of the shares in issue from time to time.

As at 31st December 2012, options to subscribe for a total of 122,595,064 ordinary shares were still outstanding under the Scheme which represents approximately 9% of the issued ordinary shares of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the directors (which shall be less than 10 years from the date of the grant of the relevant option and commences not less than six months after the date of grant) at the price to be determined by the Board but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

Details of share options remain outstanding as at 31st December 2012 are as follows:

| | Options held at 1st January 2012 | Options lapsed during 2012 | Options held at 31st December 2012 | Exercise price HK$ | Date of grant | Exercise period | Vesting period |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. LO Yuen Yat | 11,944,000 | — | 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 | — | 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 | — | 11,810,000 | 0.564 | 30/11/2005 | 30/05/2006–11/12/2015 | 30/11/2005–29/05/2006 |
| | 8,032,000 | — | 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 | — | 1,000,000 | 1.950 | 23/05/2007 | 23/11/2007–22/05/2017 | 23/05/2007–22/11/2007 |
| Prof. WOO Chia-Wei | 1,000,000 | — | 1,000,000 | 1.950 | 23/05/2007 | 23/11/2007–22/05/2017 | 23/05/2007–22/11/2007 |
| Mr. LIU Ji | 500,000 | — | 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 | — | 1,000,000 | 1.950 | 23/05/2007 | 23/11/2007–22/05/2017 | 23/05/2007–22/11/2007 |
| **Employees** | 7,400,000 | (150,000) | 7,250,000 | 0.680 | 03/03/2006 | 03/03/2008–02/03/2016 | 03/03/2006–02/03/2008 |
| | 1,000,000 | — | 1,000,000 | 1.950 | 23/05/2007 | 23/11/2007–22/05/2017 | 23/05/2007–22/11/2007 |
| | 51,718,000 | (150,000) | 51,568,000 | | | | |

*Notes:*

*(1) No share options were granted or exercised under the Scheme during the year ended 31st December 2012.*

*(2) No share options granted under the Scheme were cancelled during the year ended 31st December 2012.*

*(3) The accounting policy adopted for share options is consistent with that as described in the consolidated financial statements for the year ended 31st December 2012.*

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2012 and 2011.

## CONNECTED TRANSACTION

The Company did not have any connected transactions which need to be disclosed during the year ended 31st December 2012.

## FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | | |
| Total assets | **4,629,316** | 4,934,702 | 4,733,083 | 4,680,919 | 3,789,432 |
| Total liabilities | **2,008,376** | 2,220,043 | 1,864,028 | 1,926,318 | 1,391,272 |
| Total net assets | **2,620,940** | 2,714,659 | 2,869,055 | 2,754,601 | 2,398,160 |
| Revenue | **349,085** | 285,409 | 291,904 | 587,498 | 157,804 |
| (Loss)/profit attributable to shareholders | **(98,266)** | (45,819) | 108,603 | 187,885 | (108,232) |
| (Losses)/earnings per share | | | | | |
| — basic | **(7.02) cents** | (3.28) cents | 7.77 cents | 13.44 cents | (7.76) cents |
| — fully diluted | **(7.02) cents** | (3.28) cents | 7.70 cents | 13.37 cents | (7.76) cents |

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

## AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**LO Yuen Yat**
*Chairman*

Hong Kong, 22nd March 2013

# Independent Auditor's Report

羅兵咸永道

**TO THE SHAREHOLDERS OF FIRST SHANGHAI INVESTMENTS LIMITED**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of First Shanghai Investments Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 102, which comprise the consolidated and company balance sheets as at 31st December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 22nd March 2013

# Consolidated Income Statement

*For the year ended 31st December 2012*

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) |
|---|---|---|---|
| Revenue | 4 | 349,085 | 285,409 |
| Cost of sales | | (148,405) | (168,966) |
| Gross profit | | 200,680 | 116,443 |
| Other (losses)/gains — net | 5 | (24,461) | 84,830 |
| Selling, general and administrative expenses | | (233,535) | (222,599) |
| Operating loss | 6 | (57,316) | (21,326) |
| Finance income | 7 | 19,770 | 19,572 |
| Finance costs | 7 | (23,364) | (13,559) |
| Finance (costs)/income — net | 7 | (3,594) | 6,013 |
| Share of profits less losses of | | | |
| Associated companies | 20 | (52,708) | (16,940) |
| Jointly controlled entities | 21 | 5,122 | 21,206 |
| Loss before taxation | | (108,496) | (11,047) |
| Taxation | 8(a) | 3,161 | (42,274) |
| Loss after taxation | | (105,335) | (53,321) |
| (Profit)/loss attributable to minority investors of an investment fund | 34 | (657) | 5,285 |
| Loss for the year | | (105,992) | (48,036) |
| **Attributable to:** | | | |
| Shareholders of the Company | 9 | (98,266) | (45,819) |
| Non-controlling interests | | (7,726) | (2,217) |
| | | (105,992) | (48,036) |
| **Losses per share for loss attributable to shareholders of the Company during the year** | | | |
| — Basic | 10 | HK(7.02) cents | HK(3.28) cents |
| — Diluted | 10 | HK(7.02) cents | HK(3.28) cents |

The notes on pages 31 to 102 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

*For the year ended 31st December 2012*

| | 2012 HK$'000 | 2011 HK$'000 (Restated) |
|---|---|---|
| Loss for the year | **(105,992)** | (48,036) |
| Other comprehensive income/(loss) | | |
| — Fair value gain/(loss) on available-for-sale financial assets | **30,125** | (66,451) |
| — Exchange reserve realised upon disposal of subsidiaries | **—** | 1,121 |
| — Actuarial losses on retirement benefit obligations | **(674)** | (274) |
| — Currency translation differences | **271** | 41,919 |
| — Share of post-acquisition reserves of an associated company | **(17,449)** | (68,753) |
| Other comprehensive income/(loss) for the year, net of tax | **12,273** | (92,438) |
| Total comprehensive loss for the year | **(93,719)** | (140,474) |
| **Attributable to:** | | |
| Shareholders of the Company | **(86,231)** | (143,035) |
| Non-controlling interests | **(7,488)** | 2,561 |
| | **(93,719)** | (140,474) |

The notes on pages 31 to 102 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

*As at 31st December 2012*

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) | 2010<br>HK$'000<br>(Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 15 | 2,126 | 2,126 | 2,126 |
| Property, plant and equipment | 16 | 391,730 | 423,801 | 369,626 |
| Investment properties | 17 | 419,495 | 447,570 | 268,152 |
| Leasehold land and land use rights | 18 | 54,934 | 56,699 | 59,292 |
| Investments in associated companies | 20 | 241,473 | 308,486 | 383,914 |
| Investments in jointly controlled entities | 21 | 236,795 | 240,299 | 208,723 |
| Deferred tax assets | 38 | 15,682 | 14,043 | 10,152 |
| Available-for-sale financial assets | 22 | 126,890 | 96,763 | 162,587 |
| Loans and advances | 23 | 10,931 | 17,228 | 21,993 |
| **Total non-current assets** | | 1,500,056 | 1,607,015 | 1,486,565 |
| **Current assets** | | | | |
| Properties under development | 24 | 222,830 | 210,995 | 235,807 |
| Properties held for sale | | 347,975 | 400,230 | 378,355 |
| Inventories | 25 | 7,495 | 5,501 | 555 |
| Loans and advances | 23 | 494,804 | 432,855 | 345,822 |
| Trade receivables | 26 | 147,514 | 70,195 | 205,736 |
| Other receivables, prepayments and deposits | 27 | 42,055 | 29,224 | 34,131 |
| Tax recoverable | 8(b) | 896 | 2,882 | 3,205 |
| Financial assets at fair value through profit or loss | 29 | 235,691 | 273,272 | 330,239 |
| Deposits with banks | 30 | 2,847 | 6,784 | 41,611 |
| Client trust bank balances | 31 | 1,300,485 | 1,524,807 | 1,143,906 |
| Cash and cash equivalents | 31 | 326,668 | 370,942 | 527,151 |
| **Total current assets** | | 3,129,260 | 3,327,687 | 3,246,518 |
| **Current liabilities** | | | | |
| Trade and other payables | 32 | 1,545,356 | 1,760,025 | 1,552,847 |
| Tax payable | 8(b) | 36,851 | 33,507 | 29,209 |
| Borrowings | 33 | 14,799 | 201,394 | 27,030 |
| Net assets attributable to holders of redeemable participation shares | 34 | — | 14,715 | — |
| **Total current liabilities** | | 1,597,006 | 2,009,641 | 1,609,086 |
| **Net current assets** | | 1,532,254 | 1,318,046 | 1,637,432 |
| **Total assets less current liabilities** | | 3,032,310 | 2,925,061 | 3,123,997 |

## Consolidated Balance Sheet

*As at 31st December 2012*

| | Note | 2012 HK$'000 | 2011 HK$'000 (Restated) | 2010 HK$'000 (Restated) |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 38 | 65,432 | 81,763 | 48,110 |
| Retirement benefit obligations | 35 | 7,751 | 7,485 | — |
| Borrowings | 33 | 338,187 | 121,154 | 206,832 |
| **Total non-current liabilities** | | 411,370 | 210,402 | 254,942 |
| **Net assets** | | 2,620,940 | 2,714,659 | 2,869,055 |
| **Equity** | | | | |
| Share capital | 36 | 279,783 | 279,783 | 279,783 |
| Reserves | 37 | 2,249,764 | 2,335,995 | 2,492,095 |
| Capital and reserves attributable to the Company's shareholders | | 2,529,547 | 2,615,778 | 2,771,878 |
| Non-controlling interests | | 91,393 | 98,881 | 97,177 |
| **Total equity** | | 2,620,940 | 2,714,659 | 2,869,055 |

On behalf of the Board

**LO Yuen Yat**
*Director*

**YEUNG Wai Kin**
*Director*

The notes on pages 31 to 102 are an integral part of these consolidated financial statements.

# Balance Sheet

*As at 31st December 2012*

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | — | 53 |
| Investments in subsidiaries | 19 | 87,699 | 87,699 |
| Available-for-sale financial assets | 22 | 125,290 | 95,165 |
| Loans and advances | 23 | 10,931 | 11,060 |
| **Total non-current assets** | | 223,920 | 193,977 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | 27 | 642 | 762 |
| Amounts due from subsidiaries | 28(a) | 1,442,500 | 1,484,030 |
| Cash and cash equivalents | 31 | 15,022 | 14,966 |
| **Total current assets** | | 1,458,164 | 1,499,758 |
| **Current liabilities** | | | |
| Trade and other payables | 32 | 5,687 | 4,483 |
| Amounts due to subsidiaries | 28(b) | 32,675 | 49,835 |
| **Total current liabilities** | | 38,362 | 54,318 |
| **Net current assets** | | 1,419,802 | 1,445,440 |
| **Net assets** | | 1,643,722 | 1,639,417 |
| **Equity** | | | |
| Share capital | 36 | 279,783 | 279,783 |
| Reserves | 37 | 1,363,939 | 1,359,634 |
| **Total equity** | | 1,643,722 | 1,639,417 |

On behalf of the Board

**LO Yuen Yat**
*Director*

**YEUNG Wai Kin**
*Director*

The notes on pages 31 to 102 are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31st December 2012*

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash outflow from operating activities | 39 | (103,007) | (259,134) |
| Hong Kong profits tax paid | | (3,872) | (6,770) |
| Overseas taxation paid | | (5,225) | (4,468) |
| **Net cash used in operating activities** | | (112,104) | (270,372) |
| **Cash flows from investing activities** | | | |
| Interest received | | 19,358 | 14,949 |
| Purchase of property, plant and equipment | | (12,681) | (30,744) |
| Purchase of leasehold land and land use rights | | — | (177) |
| Proceeds from disposal of property, plant and equipment | | 2,651 | 304 |
| Proceeds from disposal of investment properties | | 47,054 | 34,545 |
| Proceeds from disposal of available-for-sale financial assets | | 70 | — |
| Acquisition of a business | | — | (40,908) |
| Proceeds from disposal of partial interest in a subsidiary | | — | 280 |
| Increase in investment in an associated company | | — | (10,269) |
| Proceeds from disposal of associated companies | | — | 2,868 |
| Dividends received from a jointly controlled entity | | 8,580 | 9,681 |
| Decrease in deposits with banks | | 3,937 | 34,827 |
| Receipt of loans repayment from third parties | | 6,377 | 20,432 |
| **Net cash generated from investing activities** | | 75,346 | 35,788 |
| **Cash flows from financing activities** | | | |
| Interest paid | | (23,110) | (13,251) |
| Proceeds from borrowings | | 228,155 | 107,931 |
| Repayments of borrowings | | (197,693) | (29,684) |
| Proceeds from issuance of redeemable participation shares | | — | 20,000 |
| Redemption of redeemable participation shares | | (15,372) | — |
| Dividend paid | | — | (13,989) |
| **Net cash (used in)/generated from financing activities** | | (8,020) | 71,007 |
| **Net decrease in cash and cash equivalents** | | (44,778) | (163,577) |
| Cash and cash equivalents at 1st January | | 370,942 | 527,151 |
| Exchange differences | | 504 | 7,368 |
| **Cash and cash equivalents at 31st December** | | 326,668 | 370,942 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash at bank and in hand | | 135,968 | 185,147 |
| Short-term bank deposits | | | |
| — pledged | | 15,000 | 15,021 |
| — non-pledged | | 175,700 | 170,774 |
| **Cash and cash equivalents as above** | | 326,668 | 370,942 |

The notes on pages 31 to 102 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31st December 2012*

| | Attributable to shareholders of the Company | | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Assets revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained earnings 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 | 2,743,386 |
| Change in accounting policy — Adoption of HKAS 12 (Amendment) *(Note 2.1(a))* | — | — | — | — | — | — | — | (814) | (22,864) | (5,049) | (28,727) |
| **At 1st January 2012, as restated** | 279,783 | 849,536 | 40,500 | 233,332 | 14,006 | 12,334 | 95,165 | 128,090 | 963,032 | 98,881 | 2,714,659 |
| **Total comprehensive loss** | — | — | — | (17,449) | — | — | 30,125 | 33 | (98,940) | (7,488) | (93,719) |
| Transfer from retained earnings | — | — | — | 224 | — | — | — | — | (224) | — | — |
| Transfer of reserve upon lapse of share options | — | — | (42) | — | — | — | — | — | 42 | — | — |
| | — | — | (42) | 224 | — | — | — | — | (182) | — | — |
| **At 31st December 2012** | 279,783 | 849,536 | 40,458 | 216,107 | 14,006 | 12,334 | 125,290 | 128,123 | 863,910 | 91,393 | 2,620,940 |

| | Attributable to shareholders of the Company | | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Assets revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained earnings 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 | 2,879,738 |
| Change in accounting policy — Adoption of HKAS 12 (Amendment) *(Note 2.1(a))* | — | — | — | — | — | — | — | — | (5,764) | (4,919) | (10,683) |
| **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 | 2,869,055 |
| **Total comprehensive loss, as restated** | — | — | — | (68,753) | — | — | (66,451) | 38,262 | (46,093) | 2,561 | (140,474) |
| Changes in ownership interests in subsidiaries without change of control | — | — | — | 924 | — | — | — | — | — | (644) | 280 |
| Disposal of a subsidiary | — | — | — | — | — | — | — | — | — | (213) | (213) |
| Transfer from retained earnings | — | — | — | 1,804 | — | — | — | — | (1,804) | — | — |
| Transfer of reserve upon lapse of share options | — | — | (2,182) | — | — | — | — | — | 2,182 | — | — |
| 2010 final dividend paid | — | — | — | — | — | — | — | — | (13,989) | — | (13,989) |
| | — | — | (2,182) | 2,728 | — | — | — | — | (13,611) | (857) | (13,922) |
| **At 31st December 2011, as restated** | 279,783 | 849,536 | 40,500 | 233,332 | 14,006 | 12,334 | 95,165 | 128,090 | 963,032 | 98,881 | 2,714,659 |

The notes on pages 31 to 102 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 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.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, buildings, available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

#### *(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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(a) Change in accounting policy* *(continued)*

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Consolidated balance sheet** | | | |
| Increase in deferred tax liabilities | 17,925 | 28,727 | 10,683 |
| Decrease in retained earnings | (14,420) | (22,864) | (5,764) |
| Increase/(decrease) in exchange fluctuation reserve | 7 | (814) | — |
| Decrease in non-controlling interests | (3,512) | (5,049) | (4,919) |

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Consolidated income statement** | | |
| (Decrease)/increase in income tax expenses | (9,981) | 17,230 |
| Decrease/(increase) in net loss attributable to shareholders of the Company | 8,444 | (17,100) |
| Decrease/(increase) in net loss attributable to non-controlling interests | 1,537 | (130) |
| Decrease/(increase) in basic losses per share | HK0.60 cents | HK(1.23) cents |
| Decrease/(increase) in diluted losses per share | HK0.60 cents | HK(1.23) cents |

There are no other amendments, revisions or interpretations to existing Standards that are effective for the financial year beginning on or after 1st January 2012 that would be expected to have a material impact on the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### (b) *Standards, amendments and interpretation to existing Standards that are not yet effective and have not been adopted by the Group*

The following Standards, amendments and interpretation to existing Standards have been issued but are not effective for the 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 (Amendment) | 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 1 (Amendment) | First-time Adoption of Hong Kong Financial Reporting Standards — Government Loan; | 1st January 2013 |
| • 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 10, 11 and 12 (Amendment) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities, Transition Guidance; | 1st January 2013 |
| • HKFRS 10, 12 and HKAS 27 (2011) (Amendment) | Investment Entities; | 1st January 2014 |
| • 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 Phrase 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 and interpretation to existing Standards to the Group. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Consolidation

#### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.11). Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Consolidation *(continued)*

#### *(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### *(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### 2.3 Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associated companies include goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.7).

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

Profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors (the "Board") of the Company that makes strategic decisions.

### 2.6 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.6 Foreign currency translation *(continued)*

#### *(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

#### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated companies or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.7 Intangible assets

#### *(a) Goodwill*

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associated companies and jointly controlled entities is included in "investments in associated companies" and "investments in jointly controlled entities" respectively. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Intangible assets *(continued)*

#### *(a) Goodwill (continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units of which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

#### *(b) Trading rights*

The trading rights at the Hong Kong Futures Exchange Limited ("trading rights") are recognised as intangible assets in the consolidated balance sheet. They have indefinite useful lives and are tested annually for impairment and carried at cost less accumulated impairment losses.

### 2.8 Property, plant and equipment

#### *(a) Land and buildings in Hong Kong*

The Group carries its leasehold land classified as finance lease at cost. Buildings in Hong Kong are carried at cost or at revalued amounts and revaluation surpluses or deficits are dealt with as movements in the assets revaluation reserve. Effective from annual period ending after 30th September 1995, no further revaluations have been carried out. The Group places reliance on paragraph 80A of HKAS 16, "Property, plant and equipment", issued by the HKICPA which provides exemption from the need to make regular revaluations for such assets.

#### *(b) Construction-in-progress*

Construction-in-progress comprises other property, plant and equipment under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any impairment losses. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into use.

#### *(c) Other property, plant and equipment*

Other property, plant and equipment comprises mainly buildings outside Hong Kong, furniture, fixtures and equipment, plant and machinery, and motor vehicles and trucks are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged in the consolidated income statement during the financial year in which they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Property, plant and equipment *(continued)*

#### *(d) Depreciation and amortisation*

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold land classified as finance lease | Over the term of the leases |
| Buildings | Over the shorter of the term of the leases or 40 years |
| Furniture, fixtures and equipment | 3 to 7 years |
| Plant and machinery | 8 to 10 years |
| Motor vehicles | 5 years |
| Trucks | 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

#### *(e) Gains and losses on disposals*

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "other (losses)/gains — net" in the consolidated income statement. When revalued assets are sold, the amounts included in assets revaluation reserve are transferred to retained earnings.

### 2.9 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. It also includes property that is being constructed or developed for future use as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 Investment properties *(continued)*

After initial recognition, investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee.

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project/property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar constructions; and
- status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged in the consolidated income statement during the financial year in which they are incurred.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in the consolidated income statement as part of "other (losses)/ gains — net".

### 2.10 Leasehold land and land use rights

The up-front prepayments made for leasehold land and land use rights are accounted for as operating leases. They are amortised in the consolidated income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is recognised in the consolidated income statement. They are included in non-current assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.11 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in the associated companies and jointly controlled entities are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associated companies or jointly controlled entities operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associated company or jointly controlled entity is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount exceeds the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the relevant investment in the Company's balance sheet exceeds its carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.12 Financial assets

#### *2.12.1 Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***(a) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Financial assets *(continued)*

#### 2.12.1 *Classification (continued)*

***(b) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "loans and advances", "client trust bank balances", "cash and cash equivalents", "deposits with banks" and "trade and other receivables" in the consolidated balance sheet.

***(c) Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within twelve months of the end of the reporting period.

#### 2.12.2 *Recognition and measurement*

Regular way of purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including net gains/(losses) on disposal and remeasurement at fair value, are recognised in the consolidated income statement within "revenue". Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of "revenue" when the Group's right to receive payments is established.

Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "gains and losses from available-for-sale financial assets". Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends income on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Financial assets *(continued)*

#### 2.12.2 *Recognition and measurement* *(continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuers' specific circumstances, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale financial assets are not reversed through the consolidated income statement. Impairment testing of trade and other receivables is described in Note 2.15.

### 2.13 Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs, borrowing costs capitalised and professional fees incurred during the construction period. Upon completion, the properties are transferred to properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis method. The cost of finished goods and work in progress comprises raw materials, direct labour, shipping costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.16 Client trust bank balances

The Group has classified in the consolidated balance sheet, the clients' deposits as client trust bank balances in the current assets section and recognised a corresponding trade payables to the respective clients under the current liabilities section.

### 2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less.

### 2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to shareholders of the Company.

### 2.19 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.21 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income and directly in equity, respectively.

***(a) Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***(b) Deferred income tax***

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

***(c) Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.22 Employee benefits

***(a) Pension obligations***

The Group has both defined contribution retirement plan and Italian staff leaving indemnities ("TFR") which are classified as defined benefit retirement plan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.22 Employee benefits *(continued)*

#### (a) Pension obligations *(continued)*

***Defined contribution retirement plan***

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited for those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

As stipulated by rules and regulations in the People's Republic of China ("PRC"), the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans certain percentage of the basic salaries of its employees, and has no further obligations for the actual payment of post-retirement benefits.

***Defined benefit retirement plan***

A defined benefit retirement plan is a pension plan that is not a defined contribution retirement plan. Typically defined benefit retirement plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated balance sheet in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

#### (b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (c) Discretionary bonus

Discretionary bonus is accrued in the year in which the associated services are rendered by employees of the Group.

Liabilities for discretionary bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.22 Employee benefits *(continued)*

#### *(d) Employee share-based compensation*

The Group operates an equity-settled, employee share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

### 2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue from brokerage and commission, management, consultancy, advisory and handling services rendered is recognised once the duties under the service contracts are performed and outcome of the transactions can be foreseen with reasonable certainty.

(b) Revenue from securities trading represents the net gains/(losses) on disposal and remeasurement of financial assets at fair value through profit or loss. All transactions related to securities trading are recorded in the consolidated financial statements based on trade dates. Accordingly, only those trade dates falling within the accounting year have been taken into account.

(c) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(d) Revenue from sales of properties is recognised upon completion of sales agreements, which refers to the time when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.

(e) Revenue from hotel accommodation, food and beverage sales and other ancillary services is recognised when the services are rendered.

(f) Operating lease rental income is recognised on a straight-line basis over the lease periods.

(g) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(h) Dividend income is recognised when the rights to receive payment is established.

### 2.26 Net assets attributable to holders of redeemable participation shares

Net assets attributable to holders of redeemable participation shares represent the minority interest of an investment fund which is consolidated by the Group as a subsidiary. The minority investors in the investment fund have the right to redeem the participation shares at any time and therefore the economic substance of the minority interest is that of a liability. This minority interest is classified as a current liability in the Group's consolidated balance sheet.

### 2.27 Finance costs

Finance costs incurred for the construction of any qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other finance costs are expensed as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment, and investment properties in the consolidated balance sheet. Lease income is recognised over the term of the lease on straight-line basis.

### 2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Income taxes

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

### (b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### (c) Estimated fair value of investment properties

The fair value of each investment property individually is determined at the end of each reporting period by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### (d) Fair value of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets securities) is based on quoted market prices at the end of each reporting period.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### (e) Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of loans and advances, and trade and other receivables. Allowance is made when there are events or changes in circumstances which indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgements and estimates. Where the expectation on the recoverability of loans and advances, and trade and other receivables is different from the original estimate, such difference will impact the carrying value of loans and advances and trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

### (f) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

### (g) Impairment of property, plant and equipment

The Group reviews the recoverable amounts of the property, plant and equipment whenever there are events or changes in circumstances which indicate that the carrying amounts may not be recoverable. Impairment loss is recognised when the carrying amount exceeds its recoverable amount. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates.

### (h) Provision for impairment of investments in subsidiaries and amounts due from subsidiaries

The Company makes provision for impairment of investments in subsidiaries and amounts due from subsidiaries based on an assessment of the recoverability of these balances. Provision is applied to investments in and amounts due from subsidiaries where events and changes in circumstances indicate these balances may not be collectible. The identification of impairment of these balances requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investments and receivables and provision for impairment losses in the year in which such estimate has been changed.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### (i) Provision for impairment of investments in associated companies and jointly controlled entities

The Group assesses the indicator under HKAS 39 to assess if the investments in associated companies and jointly controlled entities are impaired. Any provision for impairment of these investments is based on an assessment of the recoverability of these balances following the guidance under HKAS 36. The identification of impairment of these balances requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investments and receivables and provision for impairment losses in the year in which such estimate has been changed.

### (j) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at each balance sheet date. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

## 4. 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

## 4. SEGMENT INFORMATION *(continued)*

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 Group operates primarily in Hong Kong and the PRC. In presenting information of geographical segments, segment revenue is based on the geographical destination of delivery of goods.

### (a) Operating segments

| | Securities investment 2012 HK$'000 | Corporate finance and stockbroking 2012 HK$'000 | Property development 2012 HK$'000 | Property investment and hotel 2012 HK$'000 | Direct investment 2012 HK$'000 | Group 2012 HK$'000 |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Revenue | 22,666 | 143,798 | 17,133 | 104,136 | 61,352 | 349,085 |
| Segment results | 15,289 | 44,191 | (24,287) | (39,285) | (22,467) | (26,559) |
| Unallocated net operating expenses | | | | | | (30,757) |
| Operating loss | | | | | | (57,316) |
| Finance costs — net | | | | | | (3,594) |
| Share of profits less losses of | | | | | | |
| — Associated companies | — | — | — | — | (52,708) | (52,708) |
| — Jointly controlled entities | — | — | — | 3,542 | 1,580 | 5,122 |
| Loss before taxation | | | | | | (108,496) |
| **Balance sheet** | | | | | | |
| Segment assets | 247,891 | 2,071,027 | 656,723 | 811,365 | 301,284 | 4,088,290 |
| Investments in associated companies | — | — | — | — | 241,473 | 241,473 |
| Investments in jointly controlled entities | — | — | — | 197,396 | 39,399 | 236,795 |
| Tax recoverable | | | | | | 896 |
| Deferred tax assets | | | | | | 15,682 |
| Corporate assets | | | | | | 46,180 |
| Total assets | | | | | | 4,629,316 |
| **Other information** | | | | | | |
| Depreciation and amortisation | 9 | 1,853 | 1,220 | 35,764 | 6,348 | 45,194 |

*Note: There were no sales among the operating segments.*

## 4. SEGMENT INFORMATION *(continued)*

### (a) Operating segments *(continued)*

| | Securities investment 2011 HK$'000 | Corporate finance and stockbroking 2011 HK$'000 | Property development 2011 HK$'000 | Property investment and hotel 2011 HK$'000 | Direct investment 2011 HK$'000 | Group 2011 HK$'000 |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Revenue | (57,317) | 135,504 | 70,756 | 79,880 | 56,586 | 285,409 |
| Segment results | (62,848) | 39,464 | 11,671 | 42,076 | (27,022) | 3,341 |
| Unallocated net operating expenses | | | | | | (24,667) |
| Operating loss | | | | | | (21,326) |
| Finance income — net | | | | | | 6,013 |
| Share of profits less losses of | | | | | | |
| — Associated companies | — | — | — | — | (16,940) | (16,940) |
| — Jointly controlled entities | — | — | — | 18,480 | 2,726 | 21,206 |
| Loss before taxation | | | | | | (11,047) |
| **Balance sheet** | | | | | | |
| 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 |
| **Other information** | | | | | | |
| Depreciation and amortisation | 7 | 1,957 | 1,130 | 32,662 | 7,487 | 43,243 |

*Note: There were no sales among the operating segments.*

## 4. SEGMENT INFORMATION *(continued)*

### (b) Geographical segments

| | Hong Kong 2012 HK$'000 | PRC and others 2012 HK$'000 | Group 2012 HK$'000 |
|---|---|---|---|
| Revenue | **149,170** | **199,915** | **349,085** |
| Non-current assets * | **322,332** | **1,035,152** | **1,357,484** |

| | Hong Kong 2011 HK$'000 | PRC and others 2011 HK$'000 | Group 2011 HK$'000 |
|---|---|---|---|
| Revenue | 80,009 | 205,400 | 285,409 |
| Non-current assets * | 389,390 | 1,106,819 | 1,496,209 |

* *Non-current assets exclude available-for-sale financial assets and deferred tax assets.*

## 5. OTHER (LOSSES)/GAINS — NET

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Net loss on disposal of interests in subsidiaries | **—** | (806) |
| Loss on deemed disposal of an associated company | **—** | (836) |
| Gain on disposal of interests in an associated company | **—** | 55 |
| (Loss)/gain on disposal of investment properties | **(40,443)** | 1,373 |
| Fair value gains on investment properties | **15,613** | 70,596 |
| Gain on disposal of an available-for-sale financial asset | **70** | — |
| Net foreign exchange gain | **299** | 14,448 |
| | **(24,461)** | 84,830 |

## 6. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| **Crediting** | | |
| Gain from a bargain purchase | — | 3,790 |
| Reversal of provision of obsolete stock | 549 | — |
| Reversal of provision for doubtful debts | 302 | — |
| Net gain on disposal of property, plant and equipment | 942 | — |
| **Charging** | | |
| Depreciation | 43,838 | 41,303 |
| Amortisation of leasehold land and land use rights | 1,753 | 2,407 |
| Cost of properties sold | 14,557 | 42,167 |
| Cost of inventories | 63,346 | 50,203 |
| Stockbroking commission and related expenses | 14,959 | 21,248 |
| Staff costs *(Note 12)* | 168,900 | 151,705 |
| Operating lease rental in respect of land and buildings | 7,450 | 7,134 |
| Auditors' remuneration | | |
| Audit and audit related work | | |
| — the Company's auditor | 2,482 | 2,330 |
| — other auditors | 1,176 | 1,331 |
| Non-audit services — the Company's auditor | 295 | 226 |
| Provision for doubtful debts | — | 653 |
| Net loss on disposal of property, plant and equipment | — | 444 |

## 7. FINANCE (COSTS)/INCOME — NET

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Finance income — interest income | 19,770 | 19,572 |
| Finance costs | | |
| — Interest on loans and overdrafts | (23,364) | (20,185) |
| — Less: amounts capitalised as qualifying assets | — | 6,626 |
| Total finance costs | (23,364) | (13,559) |
| Finance (costs)/income — net | (3,594) | 6,013 |

## 8. TAXATION

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

(a) The amount of taxation (credited)/charged to the consolidated income statement represents:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Hong Kong profits tax | | |
| Current | **7,371** | 6,267 |
| Over-provision in previous years | **(1,455)** | (180) |
| Overseas taxation | | |
| Current | **7,873** | 8,419 |
| Under/(over)-provision in previous years | **632** | (39) |
| Deferred taxation *(Note 38)* | **(17,582)** | 27,807 |
| Taxation (credit)/charge | **(3,161)** | 42,274 |

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Loss before taxation (net of share of profits less losses of associated companies and jointly controlled entities) | **(60,910)** | (15,313) |
| Tax calculated at a taxation rate of 16.5% (2011: 16.5%) | **(10,050)** | (2,527) |
| Effect of different taxation rates in other countries | **(9,364)** | 27,497 |
| Income not subject to taxation | **(3,318)** | (3,061) |
| Expenses not deductible for taxation purposes | **2,502** | 1,573 |
| Over-provision in previous years, net | **(823)** | (219) |
| Unrecognised deferred tax assets | **10,623** | 15,362 |
| Corporate withholding tax | **1,463** | 1,008 |
| Others | **143** | (143) |
| | **(8,824)** | 39,490 |
| Land appreciation tax | **5,663** | 2,784 |
| Taxation (credit)/charge | **(3,161)** | 42,274 |

## 8. TAXATION *(continued)*

(b) The amount of taxation in the Group's consolidated balance sheet represents:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Recoverable | | |
| Hong Kong | — | 1,058 |
| Overseas | 896 | 1,824 |
| | 896 | 2,882 |
| Payable | | |
| Hong Kong | 1,770 | 780 |
| Overseas | 35,081 | 32,727 |
| | 36,851 | 33,507 |

## 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$25,820,000 (2011: HK$25,394,000).

## 10. LOSSES PER SHARE

The calculation of basic and diluted losses per share is based on the Group's loss attributable to shareholders of HK$98,266,000 (2011 restated: HK$45,819,000). 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 year.

Diluted losses per share for 2012 and 2011 are the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

## 11. DIVIDENDS

The Board does not recommend the payment of a final dividend for the years ended 31st December 2012 and 2011.

## 12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Wages, salaries and allowance | 143,578 | 128,333 |
| Retirement benefit costs *(Note 14)* | 15,683 | 14,702 |
| Other employee benefits | 9,639 | 8,670 |
| | 168,900 | 151,705 |

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of every director for the year ended 31st December 2012 is set out below:

| Name of director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Retirement benefit costs HK$'000 | 2012 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Mr. LO Yuen Yat | — | 2,914 | — | 248 | 3,162 |
| Mr. XIN Shulin | — | 2,378 | — | 202 | 2,580 |
| Mr. YEUNG Wai Kin | — | 2,545 | — | 216 | 2,761 |
| **Non-executive director:** | | | | | |
| Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* | 294 | — | — | — | 294 |
| **Independent non-executive directors:** | | | | | |
| Prof. WOO Chia-Wei | 294 | — | — | — | 294 |
| Mr. LIU Ji | 294 | — | — | — | 294 |
| Mr. YU Qihao | 294 | — | — | — | 294 |
| Mr. ZHOU Xiaohe | 294 | — | — | — | 294 |

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (a) Directors' emoluments *(continued)*

The remuneration of every director for the year ended 31st December 2011 is set out below:

| Name of director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Retirement benefit costs HK$'000 | 2011 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Mr. LO Yuen Yat | — | 2,910 | — | 248 | 3,158 |
| Mr. XIN Shulin | — | 2,380 | — | 202 | 2,582 |
| Mr. YEUNG Wai Kin | — | 2,548 | — | 216 | 2,764 |
| **Non-executive director:** | | | | | |
| Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* | 294 | — | — | — | 294 |
| **Independent non-executive directors:** | | | | | |
| Prof. WOO Chia-Wei | 294 | — | — | — | 294 |
| Mr. LIU Ji | 294 | — | — | — | 294 |
| Mr. YU Qihao | 294 | — | — | — | 294 |
| Mr. ZHOU Xiaohe | 294 | — | — | — | 294 |

Details of share options granted, exercised and lapsed during the year are disclosed in the Report of the Directors.

No directors have waived emoluments in respect of the years ended 31st December 2012 and 2011.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: two) individuals during the year are as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Basic salaries, allowances and benefits-in-kind | **3,728** | 4,523 |
| Discretionary bonuses | **5,550** | 1,480 |
| Retirement benefit costs | **230** | 218 |
| | **9,508** | 6,221 |

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

| Emolument bands HK$ | Number of individuals 2012 | 2011 |
|---|---|---|
| 1,000,001–2,000,000 | — | 1 |
| 2,000,001–3,000,000 | 1 | — |
| 4,000,001–5,000,000 | — | 1 |
| 7,000,001–8,000,000 | 1 | — |
| | 2 | 2 |

## 14. RETIREMENT BENEFIT COSTS — DEFINED CONTRIBUTION PLANS

The Group participates in defined contribution retirement schemes which are available to Hong Kong employees. The rates of contributions are 5% of basic salary from the employees and 5% to 10% from the employer depending on the length of service of the individuals. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

HK$48,000 (2011: HK$15,000) of defined contribution retirement schemes in Hong Kong was forfeited during the year. There were no outstanding balance as at the balance sheet dates of 2012 and 2011 available to reduce the contributions payable in the future years.

Contributions totaling HK$233,000 (2011: HK$208,000) were payable to the retirement scheme at the year end and are included in trade and other payables.

The Group also contributes to retirement plans for its employees in the PRC and overseas. The rates of contributions are approximately ranging from 17% to 28% of basic salary from the Group for its employees in the PRC and approximately ranging from 12% to 17% of basic salary from the Group for its overseas employees.

## 15. INTANGIBLE ASSETS

| Group | Goodwill HK$'000 | Trading rights HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st January and 31st December 2012 | **2,104** | **400** | **2,504** |
| **Accumulated impairment loss** | | | |
| At 1st January and 31st December 2012 | **378** | **—** | **378** |
| **Net book value** | | | |
| At 31st December 2012 | **1,726** | **400** | **2,126** |

| Group | Goodwill HK$'000 | Trading rights HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st January and 31st December 2011 | 2,104 | 400 | 2,504 |
| **Accumulated impairment loss** | | | |
| At 1st January and 31st December 2011 | 378 | — | 378 |
| **Net book value** | | | |
| At 31st December 2011 | 1,726 | 400 | 2,126 |

**Impairment test for goodwill**

Goodwill acquired through business combination has been allocated to the property development, and property investment and hotel segments for impairment testing.

The recoverable amount of the lowest level of CGU has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five years. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures and selection of discount rates. Management determines budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The discount rate applied to cash flow projection is 10%.

## 16. PROPERTY, PLANT AND EQUIPMENT

### (a) Group

| | Land and Buildings | | Buildings | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold outside Hong Kong HK$'000 | Long-term leases in Hong Kong HK$'000 | Medium-term leases outside Hong Kong HK$'000 | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles and trucks HK$'000 | Construction-in-progress HK$'000 | Total HK$'000 |
| **Cost or valuation** | | | | | | | | |
| At 1st January 2012 | 31,052 | 59,501 | 216,779 | 158,416 | 46,848 | 24,254 | 373 | 537,223 |
| Additions | 204 | — | 110 | 4,336 | 7,709 | 322 | — | 12,681 |
| Disposals | — | — | — | (6,334) | (1,757) | (4,639) | — | (12,730) |
| Exchange differences | 636 | — | (42) | (14) | 555 | (74) | — | 1,061 |
| At 31st December 2012 | 31,892 | 59,501 | 216,847 | 156,404 | 53,355 | 19,863 | 373 | 538,235 |
| **Accumulated depreciation and impairment loss** | | | | | | | | |
| At 1st January 2012 | 1,485 | 9,954 | 18,069 | 51,059 | 10,480 | 22,002 | 373 | 113,422 |
| Depreciation for the year | 1,514 | 607 | 7,483 | 28,558 | 4,343 | 1,333 | — | 43,838 |
| Disposals | — | — | — | (5,839) | (1,007) | (4,175) | — | (11,021) |
| Exchange differences | 66 | — | 20 | 75 | 102 | 3 | — | 266 |
| At 31st December 2012 | 3,065 | 10,561 | 25,572 | 73,853 | 13,918 | 19,163 | 373 | 146,505 |
| **Net book value** | | | | | | | | |
| At 31st December 2012 | 28,827 | 48,940 | 191,275 | 82,551 | 39,437 | 700 | — | 391,730 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### (a) Group *(continued)*

| | Land and Buildings | | Buildings | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold outside Hong Kong HK$'000 | Long-term leases in Hong Kong HK$'000 | Medium-term leases outside Hong Kong HK$'000 | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles and trucks HK$'000 | Construction-in-progress HK$'000 | Total HK$'000 |
| **Cost or valuation** | | | | | | | | |
| At 1st January 2011 | — | 59,501 | 211,818 | 150,929 | 7,103 | 25,774 | 681 | 455,806 |
| Acquisition of a business | 27,729 | — | — | — | 22,701 | — | — | 50,430 |
| Additions | 3,614 | — | 7,031 | 1,802 | 17,203 | 976 | 118 | 30,744 |
| Transfer from construction-in-progress | — | — | — | 472 | — | — | (472) | — |
| Transfer from properties held for sale | — | — | 5,028 | — | — | — | — | 5,028 |
| Transfer to investment properties | — | — | (17,606) | — | — | — | — | (17,606) |
| Disposals | — | — | (208) | (1,267) | (361) | (3,225) | — | (5,061) |
| Exchange differences | (291) | — | 10,716 | 6,480 | 202 | 729 | 46 | 17,882 |
| At 31st December 2011 | 31,052 | 59,501 | 216,779 | 158,416 | 46,848 | 24,254 | 373 | 537,223 |
| **Accumulated depreciation and impairment loss** | | | | | | | | |
| At 1st January 2011 | — | 9,346 | 21,808 | 25,722 | 6,436 | 22,524 | 344 | 86,180 |
| Depreciation for the year | 1,608 | 608 | 7,896 | 25,453 | 4,243 | 1,495 | — | 41,303 |
| Transfer to investment properties | — | — | (12,773) | — | — | — | — | (12,773) |
| Disposals | — | — | (86) | (1,207) | (316) | (2,704) | — | (4,313) |
| Exchange differences | (123) | — | 1,224 | 1,091 | 117 | 687 | 29 | 3,025 |
| At 31st December 2011 | 1,485 | 9,954 | 18,069 | 51,059 | 10,480 | 22,002 | 373 | 113,422 |
| **Net book value** | | | | | | | | |
| At 31st December 2011 | 29,567 | 49,547 | 198,710 | 107,357 | 36,368 | 2,252 | — | 423,801 |

The analysis of the cost or valuation of the above assets is as follows:

| | Land and buildings | | Buildings | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold outside Hong Kong 2012 HK$'000 | Long-term leases in Hong Kong 2012 HK$'000 | Medium-term leases outside Hong Kong 2012 HK$'000 | Furniture, fixtures and equipment 2012 HK$'000 | Plant and machinery 2012 HK$'000 | Motor vehicles and trucks 2012 HK$'000 | Construction-in-progress 2012 HK$'000 | Total 2012 HK$'000 |
| At cost | 31,892 | 48,376 | 216,847 | 156,404 | 53,355 | 19,863 | 373 | 527,110 |
| At professional valuation — 1994 | — | 11,125 | — | — | — | — | — | 11,125 |
| | 31,892 | 59,501 | 216,847 | 156,404 | 53,355 | 19,863 | 373 | 538,235 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### (a) Group *(continued)*

| | Land and buildings: Freehold outside Hong Kong 2011 HK$'000 | Land and buildings: Long-term leases in Hong Kong 2011 HK$'000 | Buildings: Medium-term leases outside Hong Kong 2011 HK$'000 | Furniture, fixtures and equipment 2011 HK$'000 | Plant and machinery 2011 HK$'000 | Motor vehicles and trucks 2011 HK$'000 | Construction-in-progress 2011 HK$'000 | Total 2011 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At cost | 31,052 | 48,376 | 216,779 | 158,416 | 46,848 | 24,254 | 373 | 526,098 |
| At professional valuation — 1994 | — | 11,125 | — | — | — | — | — | 11,125 |
| | 31,052 | 59,501 | 216,779 | 158,416 | 46,848 | 24,254 | 373 | 537,223 |

Certain buildings are stated at professional valuation in 1994 less accumulated depreciation. If these buildings have been stated at the historical cost basis, their net book amount would be HK$7,894,000 (2011: HK$8,227,000).

### (b) Company

| | Motor vehicles 2012 HK$'000 | Motor vehicles 2011 HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1st January and 31st December | **457** | 457 |
| **Accumulated depreciation** | | |
| At 1st January | **404** | 312 |
| Depreciation for the year | **53** | 92 |
| At 31st December | **457** | 404 |
| **Net book value** | | |
| At 31st December | **—** | 53 |

## 17. INVESTMENT PROPERTIES

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Valuation at 1st January | **447,570** | 268,152 |
| Transfer from properties under development and properties held for sale | **44,182** | 123,471 |
| Transfer from property, plant and equipment | **—** | 4,833 |
| Transfer from leasehold land and land use rights | **—** | 3,032 |
| Disposals | **(87,497)** | (33,172) |
| Fair value gains | **15,613** | 70,596 |
| Exchange differences | **(373)** | 10,658 |
| Valuation at 31st December | **419,495** | 447,570 |

Investment properties were revalued at 31st December 2012 on an open market value basis by independent, professionally qualified valuers who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The Group's interests in investment properties at valuation are analysed as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| In Hong Kong, held on | | |
| — leases over 50 years | **16,200** | 14,300 |
| Outside Hong Kong, held on | | |
| — leases between 10 to 50 years | **403,295** | 433,270 |
| | **419,495** | 447,570 |

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Rental income recognised in consolidated income statement for investment properties | **11,642** | 6,529 |

## 18. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movements in the net book value thereof are analysed as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Net book value at 1st January | 56,699 | 59,292 |
| Addition | — | 177 |
| Transfer to investment properties | — | (3,032) |
| Amortisation for the year | (1,753) | (2,407) |
| Transfer from properties held for sale | — | 955 |
| Exchange differences | (12) | 1,714 |
| Net book value at 31st December | 54,934 | 56,699 |

The Group's interests in leasehold land and land use rights are located outside Hong Kong and held on leases between 10 to 50 years.

## 19. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Unlisted investments, at cost | 36,168 | 36,168 |
| Loan to a subsidiary | 70,000 | 70,000 |
| Less: accumulated impairment losses | (18,469) | (18,469) |
| | 87,699 | 87,699 |

The loan to a subsidiary is unsecured, denominated in Hong Kong dollar and, interest bearing at Hong Kong prime rate plus 1% (2011: Hong Kong prime rate plus 1%) and not repayable within the next twelve months as at the balance sheet date. The carrying value of the loan to a subsidiary approximates to its fair value as at 31st December 2012.

## 19. INVESTMENTS IN SUBSIDIARIES *(continued)*

The following is a list of the principal subsidiaries at 31st December:

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| **Shares held directly:** | | | | | |
| First Shanghai Direct Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Investment holding |
| First Shanghai Finance Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Money lending |
| First Shanghai Management Services Limited | Hong Kong | 1,200,000 ordinary shares of HK$1 each | 100% | 100% | Agency, management and secretarial services |
| First Shanghai Nominees Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | 100% | Nominee services |
| First Shanghai Properties Limited | Hong Kong | 16,500,002 ordinary shares of HK$1 each | 100% | 100% | Property investment |
| Headmost Technology Limited | British Virgin Islands | 10 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| Leung Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | 100% | 100% | Property investment |
| P.I. Investments Australia Pty. Limited | Australia | 2,000,000 ordinary shares of A$1 each | 100% | 100% | Securities investment |
| Shun Xin Limited | British Virgin Islands | 10 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| UAT Holdings Limited | British Virgin Islands | 100 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| Yearson Properties Limited | British Virgin Islands | 10 ordinary shares of US$1 each | 100% | 100% | Property investment |
| **Shares held indirectly:** | | | | | |
| Atlas Securities Pty. Limited | Australia | 2 ordinary shares of A$1 each | 100% | 100% | Securities investment |
| Billion Bright Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | 100% | 100% | Securities investment |
| Bonvision Consultancy (Beijing) Company Limited | PRC (a) | HK$500,000 | 100% | 100% | Financial consultancy |
| Bonvision Consulting (Shanghai) Limited | PRC (a) | US$200,000 | 100% | 100% | Financial consultancy |

## 19. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| **Shares held indirectly:** *(continued)* | | | | | |
| Bright Shining Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Property investment |
| China Betung Automobile (H.K.) Company Limited | Hong Kong | 2 ordinary shares of HK$1 each | **100%** | 100% | Investment holding |
| Clear Profit Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Property investment |
| Crimson Pharmaceutical (Hong Kong) Limited | Hong Kong | 1,000 ordinary shares of HK$1 each | **51%** | 51% | Pharmaceutical services |
| Crimson Pharmaceutical (Shanghai) Company Limited | PRC (a) | US$1,400,000 | **51%** | 51% | Pharmaceutical services |
| CVIC International Container Transportation Company Limited | Hong Kong | 10,000 ordinary share of HK$1 each | **100%** | 100% | Investment holding |
| Ever Achieve Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Securities investment |
| Excel Partner Holdings Limited | Hong Kong | 1 ordinary share of HK$1 each | **100%** | 100% | Pharmaceutical services |
| First eFinance Limited | Hong Kong | 2 ordinary shares of HK$1 each | **100%** | 100% | Internet financial service system services |
| First Shanghai Asset Management Limited | Hong Kong | 9,000,000 ordinary shares of HK$1 each | **100%** | 100% | Assets Management |
| First Shanghai Capital Limited | Hong Kong | 22,000,000 ordinary shares of HK$1 each | **100%** | 100% | Corporate finance |
| First Shanghai Financial Holding Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| First Shanghai Futures Limited | Hong Kong | 19,000,000 ordinary shares of HK$1 each | **100%** | 100% | Futures broking |
| First Shanghai Properties (Kunshan) Company Limited | PRC (b) | US$5,000,000 | **70%** | 70% | Property development |
| First Shanghai Real Estate (Holdings) Limited | Hong Kong | 10 ordinary shares of HK$1 each | **100%** | 100% | Investment holding |
| First Shanghai Securities Limited | Hong Kong | 85,000,000 ordinary shares of HK$1 each | **100%** | 100% | Stockbroking |

## 19. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| **Shares held indirectly:** *(continued)* | | | | | |
| First Shanghai Venture Capital Management (Shenzhen) Company Limited | PRC (a) | HK$1,000,000 | **100%** | 100% | Venture capital management & consultancy |
| Golad Resources Limited | British Virgin Islands | 100 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| HK Landshine Real Estate Limited | Hong Kong | 1 ordinary share of HK$1 each | **100%** | 100% | Investment holding |
| Huangshan Hui Zhong Property Development Company Limited | PRC (a) | US$10,000,000 | **100%** | 100% | Property development |
| Kunshan Shi Jingying Hotel Management Company Limited | PRC (c) | RMB1,000,000 | **70%** | 70% | Hotel operation |
| Leading Business Limited | British Virgin Islands | 1,450,000 ordinary shares of US$1 each | **100%** | 100% | Property investment |
| Perfect Honour Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Property investment |
| P.H.A. Investments Pty. Limited | Australia | 60,000 ordinary shares of A$2 each | **78.6%** | 78.6% | Investment holding |
| P.H.A. Trading Pty. Limited | Australia | 2 ordinary shares of A$0.5 each | **78.6%** | 78.6% | Investment holding |
| Shanghai Fu Heng Properties Management Limited | PRC (c) | RMB500,000 | **55%** | 55% | Property management |
| Shanghai Transvision Network Application Service Company Limited | PRC (a) | US$1,800,000 | **100%** | 100% | Investment holding |
| Shanghai Zhong Chuang International Container Storage & Transportation Company Limited | PRC (b) | US$11,025,000 | **62%** | 62% | Container transportation and freight forwarding |
| Sirton Pharmaceuticals S.p.A. | Italy | 300,000 ordinary shares of EUR1 each | **100%** | 100% | Pharmaceutical services |
| Staying Power International Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| Talent Creation Investments Limited | British Virgin Islands | 10 ordinary shares of US$1 each | **100%** | 100% | Property investment |

## 19. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| **Shares held indirectly:** *(continued)* | | | | | |
| United Asia Transport Limited | Hong Kong | 2 ordinary shares of HK$1 each | **100%** | 100% | Investment holding |
| Wise Success Investments Limited | British Virgin Islands | 1 ordinary share of US$1 each | **100%** | 100% | Securities investment |
| Wise United Investments Limited | British Virgin Islands | 1 ordinary share of US$1 each | **100%** | 100% | Securities investment |
| Wuxi HK Landshine Real Estate Company Limited | PRC (b) | US$20,000,000 | **70%** | 70% | Property development |
| Wuxi Sunshine Hotel Company Limited | PRC (c) | RMB1,000,000 | **100%** | 100% | Hotel operation |
| Wuxi Sunshine Real Estate Limited | PRC (a) | US$30,000,000 | **100%** | 100% | Hotel operation |
| Zhongshan Sunshine Resort Limited | PRC (a) | RMB80,000,000 | **95.2%** | 95.2% | Property development |

*Notes:*

(a) *Subsidiaries incorporated in the PRC registered as wholly-owned foreign enterprises.*

(b) *Subsidiaries incorporated in the PRC registered as sino-foreign equity joint ventures.*

(c) *Subsidiaries incorporated in the PRC registered as limited companies.*

## 20. INVESTMENTS IN ASSOCIATED COMPANIES

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At 1st January | 308,486 | 383,914 |
| Increase in investment in an associated company | — | 10,269 |
| Share of associated companies' results | | |
| — Loss before taxation | (52,527) | (16,597) |
| — Taxation | (181) | (343) |
| Share of an associated company's reserves | (17,449) | (68,753) |
| Disposal of associated companies | — | (2,813) |
| Deemed disposal of partial interest on an associated company | — | (836) |
| Constructive obligations in share of loss of an associated company recognised in other payables | 3,733 | 4,472 |
| Exchange differences | (589) | (827) |
| At 31st December | 241,473 | 308,486 |

The following is a list of the associated companies at 31st December:

| Name | Place of incorporation | Particulars of issued share capital | Effective interest held 2012 | Effective interest held 2011 | Principal activities |
|---|---|---|---|---|---|
| China Assets (Holdings) Limited ("China Assets") (see note (a) below) | Hong Kong | 76,758,160 ordinary shares of US$0.1 each | 33.25% | 33.25% | Investment holding |
| Holygene Corporation (see note (b) below) | British Virgin Islands | 6,450,000 ordinary shares of US$1 each | 54.26% | 54.26% | Pharmaceutical services |

*Notes:*

*(a) China Assets operates principally in Hong Kong and is listed on The Stock Exchange of Hong Kong Limited. The market value of the listed security as at 31st December 2012 was approximately HK$87,033,000 (2011:HK$102,091,000).*

*(b) Holygene Corporation is deemed to be an associated company of the Group as the Group owns less than half of the voting power of the entity.*

## 20. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

Additional information in respect of the Group's interests in its associated companies is given as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Revenue | **2,179** | 8,807 |
| Loss for the year | **(52,708)** | (16,940) |
| Assets | **256,659** | 329,436 |
| Liabilities | **(15,186)** | (20,950) |
| Net assets | **241,473** | 308,486 |

## 21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | **Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1st January | **240,299** | 208,723 |
| Share of jointly controlled entities' results | | |
| — Profit before taxation | **5,559** | 26,490 |
| — Taxation | **(437)** | (5,284) |
| Dividend income | **(8,580)** | — |
| Exchange differences | **(46)** | 10,370 |
| At 31st December | **236,795** | 240,299 |

## 21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following is a list of the jointly controlled entities at 31st December:

| Name | Place of incorporation/ establishment and operation | Effective interest in ownership/voting power/profit sharing 2012 | 2011 | Principal activities |
|---|---|---|---|---|
| Goodbaby Bairuikang Hygienic Products Company Limited ("Goodbaby Bairuikang") (see note (a) below) | PRC | 50% | 50% | Production of diapers and related hygienic products |
| Shanghai Zhangjiang Property Development Company Limited ("Zhangjiang") (see note (b) below) | PRC | 50% | 50% | Property development |

*Notes:*

(a) *Goodbaby Bairuikang was established as an equity joint venture in the PRC in December 1997 for a term of 50 years.*

(b) *Zhangjiang was established as an equity joint venture in the PRC in October 2002 for a term of 50 years.*

Additional information in respect of the Group's interests in its jointly controlled entities is given as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Income | 40,136 | 60,551 |
| Expenses | (35,014) | (39,345) |
| **Profit for the year** | 5,122 | 21,206 |
| **Assets** | | |
| Non-current assets | 239,162 | 247,015 |
| Current assets | 50,476 | 38,465 |
| | 289,638 | 285,480 |
| **Liabilities** | | |
| Non-current liabilities | 35,442 | 37,292 |
| Current liabilities | 17,401 | 7,889 |
| | 52,843 | 45,181 |
| **Net assets** | 236,795 | 240,299 |

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January | 96,763 | 162,587 | 95,165 | 161,616 |
| Acquisition of a business | — | 633 | — | — |
| Fair value change transfer to other comprehensive income | 30,125 | (66,451) | 30,125 | (66,451) |
| Impairment loss | (11) | — | — | — |
| Exchange differences | 13 | (6) | — | — |
| At 31st December | 126,890 | 96,763 | 125,290 | 95,165 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Listed securities | | | | |
| — Equity securities, Overseas | 971 | 971 | — | — |
| Unlisted securities | | | | |
| — Equity securities | 125,290 | 95,165 | 125,290 | 95,165 |
| — Equity securities, Overseas | 629 | 627 | — | — |
| | 126,890 | 96,763 | 125,290 | 95,165 |
| Market value of listed securities | 971 | 971 | — | — |

The fair value of unlisted securities is determined by reference to published price quotations in an active market of the underlying investments held by the investee.

## 23. LOANS AND ADVANCES

| | Group 2012 HK$'000 | 2011 HK$'000 | Company 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|---|
| Loans and advances *(note (a))* | **73,929** | 101,047 | **63,521** | 63,650 |
| Provision for impairment | **(56,475)** | (78,238) | **(52,590)** | (52,590) |
| | **17,454** | 22,809 | **10,931** | 11,060 |
| Less: non-current portion | **(10,931)** | (17,228) | **(10,931)** | (11,060) |
| Current portion | **6,523** | 5,581 | **—** | — |
| Margin loans *(note (b))* | **488,281** | 427,274 | **—** | — |
| | **494,804** | 432,855 | **—** | — |

*Notes:*

(a) *The carrying value of loans and advances approximates to their fair value.*

*The movements in the provision for impairment of loans and advances are as follows:*

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At 1st January | **78,238** | 78,054 |
| Written off | **(21,762)** | — |
| Exchange differences | **(1)** | 184 |
| At 31st December | **56,475** | 78,238 |

*The carrying amounts of loans and advances are denominated in the following currencies:*

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Hong Kong dollars | **10,931** | 11,060 |
| Renminbi | **6,523** | 11,749 |
| | **17,454** | 22,809 |

(b) *Margin loans to third parties are secured by the underlying pledged securities and are repayable on demand. The carrying values of margin loans approximate to their fair values. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not meaningful in view of the nature of the business of securities margin financing.*

## 24. PROPERTIES UNDER DEVELOPMENT

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Leasehold land and land use rights | **171,313** | 171,345 |
| Construction costs | **51,517** | 39,650 |
| | **222,830** | 210,995 |

The properties under development are located in the PRC.

The Group's interests in leasehold land and land use rights outside Hong Kong at cost are held on leases between 10 to 50 years.

## 25. INVENTORIES

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Raw materials | **4,751** | 3,786 |
| Work-in-progress | **1,807** | 970 |
| Finished goods | **937** | 745 |
| | **7,495** | 5,501 |

## 26. TRADE RECEIVABLES

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Due from stockbrokers and clearing houses | **15,991** | 2,576 |
| Due from stockbroking clients | **114,476** | 39,258 |
| Trade receivables | **29,551** | 44,530 |
| Bills receivable | **3,616** | 1,110 |
| | **163,634** | 87,474 |
| Provision for impairment | **(16,120)** | (17,279) |
| | **147,514** | 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.

## 26. TRADE RECEIVABLES *(continued)*

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.

The ageing analysis of the trade receivables is as follows:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| 0–30 days | **138,646** | 63,469 |
| 31–60 days | **7,003** | 3,156 |
| 61–90 days | **1,547** | 1,336 |
| Over 90 days | **318** | 2,234 |
| | **147,514** | 70,195 |

The movements in the provision for impairment of trade receivables are as follows:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At 1st January | **17,279** | 15,934 |
| (Write back of provision)/provision for impairment during the year | **(302)** | 653 |
| Receivables written off | **(855)** | — |
| Exchange differences | **(2)** | 692 |
| At 31st December | **16,120** | 17,279 |

The carrying amounts of trade receivables are denominated in the following currencies:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Hong Kong dollars | **121,731** | 56,573 |
| Renminbi | **1,345** | 3,442 |
| US dollars | **12,962** | — |
| Euro | **11,476** | 10,180 |
| | **147,514** | 70,195 |

## 27. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other receivables | **23,372** | 10,181 | **6** | 83 |
| Prepayments and deposits | **18,683** | 19,043 | **636** | 679 |
| | **42,055** | 29,224 | **642** | 762 |

Other receivables, prepayments and deposits are either repayable within one year or on demand. Accordingly, the fair values of the Group's and the Company's other receivables, prepayments and deposits are approximately the same as the carrying values.

## 28. AMOUNTS DUE FROM/TO SUBSIDIARIES

### (a) Amounts due from subsidiaries

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries | **1,760,738** | 1,786,608 |
| Provision for impairment | **(318,238)** | (302,578) |
| | **1,442,500** | 1,484,030 |

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. Out of the total amount, approximately HK$1,419,349,000 (2011: HK$1,377,290,000) and HK$23,151,000 (2011: HK$106,740,000) are denominated in Hong Kong dollars and Renminbi, respectively.

The movements in the provision for impairment on amounts due from subsidiaries are as follows:

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1st January | **302,578** | 264,410 |
| Provision for impairment during the year | **27,006** | 38,168 |
| Disposal | **(11,346)** | — |
| At 31st December | **318,238** | 302,578 |

### (b) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free, repayable on demand and denominated in Hong Kong dollars.

## 29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Equity securities | | |
| — Listed, Hong Kong | 56,723 | 77,364 |
| — Listed, Overseas | 9,331 | 11,160 |
| — Quoted, Hong Kong | 159,454 | 156,958 |
| Market value of financial assets | 225,508 | 245,482 |
| Unlisted securities | 10,183 | 27,790 |
| | 235,691 | 273,272 |

Financial assets at fair value through profit or loss are presented within the section of operating activities as part of changes in working capital in the consolidated statement of cash flows (Note 39).

The fair value of all quoted securities is determined by reference to current bid prices in an active market.

## 30. DEPOSITS WITH BANKS

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Pledged | — | 1,337 |
| Non-pledged | 2,847 | 5,447 |
| | 2,847 | 6,784 |

The carrying amounts of the deposits with banks are denominated in the following currencies:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Renminbi | 2,847 | 2,846 |
| Australian dollars | — | 2,601 |
| Euro | — | 1,337 |
| | 2,847 | 6,784 |

As at 31st December 2012, deposits of HK$2,847,000 (2011: HK$2,846,000) are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to exchange control restrictions imposed by the Chinese government.

As at 31st December 2012, no deposit (2011: deposits amounting to HK$1,337,000) has been pledged to a bank as security for certain facilities granted to the Group by the banks.

## 31. CASH AND CASH EQUIVALENTS AND CLIENT TRUST BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **135,968** | 185,147 | **5,022** | 4,945 |
| Short-term bank deposits | | | | |
| — pledged | **15,000** | 15,021 | **10,000** | 10,021 |
| — non-pledged | **175,700** | 170,774 | **—** | — |
| Total cash and cash equivalents | **326,668** | 370,942 | **15,022** | 14,966 |
| Client trust bank balances | **1,300,485** | 1,524,807 | **—** | — |
| | **1,627,153** | 1,895,749 | **15,022** | 14,966 |

The carrying amounts of cash and cash equivalents and client trust bank balances are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **1,279,814** | 1,610,600 | **14,885** | 14,875 |
| Renminbi | **240,833** | 251,064 | **—** | — |
| US dollars | **86,702** | 18,502 | **137** | 87 |
| Australian dollars | **17,194** | 14,284 | **—** | — |
| Euro | **2,610** | 1,288 | **—** | — |
| Others | **—** | 11 | **—** | 4 |
| | **1,627,153** | 1,895,749 | **15,022** | 14,966 |

Bank balances of HK$169,950,000 (2011: HK$176,792,000) are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to exchange control restrictions imposed by the Chinese government.

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Group has classified in the consolidated balance sheet, the clients' deposits as client trust bank balances in the current assets section and recognised the corresponding trade payables to the respective clients in the current liabilities section, on the grounds that the Group is liable for any misappropriation of the respective clients' deposits as stipulated under the Hong Kong Securities and Futures Ordinance ("SFO"). The Group is not allowed to use the clients' monies to settle its own obligations under the SFO. As such, these monies are not included in cash and cash equivalents of the Group for cash flow purposes in the consolidated statement of cash flows.

## 32. TRADE AND OTHER PAYABLES

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| Due to stockbrokers and dealers | 53,662 | 30,719 |
| Due to stockbroking clients | 1,361,263 | 1,558,048 |
| Trade payables | 41,768 | 100,977 |
| Total trade payables | 1,456,693 | 1,689,744 |
| Advance receipts from customers | 2,855 | 4,304 |
| Accruals and other payables | 85,808 | 65,977 |
| | 1,545,356 | 1,760,025 |

| | Company 2012 HK$'000 | Company 2011 HK$'000 |
|---|---|---|
| Accruals and other payables | 5,687 | 4,483 |

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 and Company'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$1,300,485,000 (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.

The ageing analysis of the trade payables is as follows:

| | Group 2012 HK$'000 | Group 2011 HK$'000 |
|---|---|---|
| 0–30 days | 7,734 | 78,183 |
| 31–60 days | 4,396 | 5,302 |
| 61–90 days | 4,563 | 4,294 |
| Over 90 days | 25,075 | 13,198 |
| | 41,768 | 100,977 |

## 32. TRADE AND OTHER PAYABLES *(continued)*

The carrying amounts of the trade and other payables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **1,434,668** | 1,604,613 | **5,687** | 4,483 |
| Renminbi | **70,918** | 129,607 | **—** | — |
| US dollars | **17,127** | 8,874 | **—** | — |
| Australian dollars | **352** | 362 | **—** | — |
| Euro | **22,289** | 16,569 | **—** | — |
| Others | **2** | — | **—** | — |
| | **1,545,356** | 1,760,025 | **5,687** | 4,483 |

## 33. BORROWINGS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Bank loans — secured | **338,187** | 121,154 |
| **Current** | | |
| Other loans — unsecured | **3,700** | 3,701 |
| Bank loans — secured | **11,099** | 197,693 |
| | **14,799** | 201,394 |
| | **352,986** | 322,548 |

The Group's borrowings were repayable as follows:

| | Group | | | |
|---|---|---|---|---|
| | Bank loans | | Other Loans | |
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 1 year | **11,099** | 197,693 | **3,700** | 3,701 |
| Between 1 and 2 years | **30,832** | 72,159 | **—** | — |
| Between 2 and 5 years | **171,696** | — | **—** | — |
| Over 5 years | **135,659** | 48,995 | **—** | — |
| At 31st December | **349,286** | 318,847 | **3,700** | 3,701 |

The Group has pledged properties of HK$222 million (2011: HK$232 million), investment properties of HK$188 million (2011: HK$326 million), leasehold land and land use rights of HK$44 million (2011: HK$46 million), properties under development of HK$27 million (2011: HK$27 million), properties held for sale of HK$184 million (2011: HK$386 million) and fixed deposits of approximately HK$15 million (2011: HK$16 million) to secure bank borrowings.

## 33. BORROWINGS *(continued)*

Bank borrowings will mature and be repayable in April 2013 to June 2021 and bear floating interest rates. The weighted average effective interest rate at 31st December 2012 was 6.74% (2011: 6.84%) per annum. The carrying amount of borrowings approximates to its fair value and is denominated in Renminbi.

## 34. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE PARTICIPATION SHARES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1st January | **14,715** | — |
| Issuance of redeemable participation shares to minority investors during the year | **—** | 20,000 |
| Profit/(loss) attributable to minority investors of an investment fund | **657** | (5,285) |
| Redemption of redeemable participation shares | **(15,372)** | — |
| At 31st December | **—** | 14,715 |

## 35. RETIREMENT BENEFIT OBLIGATIONS

The Italian retirement benefit, TFR, is an unfunded plan, and the fair value was determined by projecting the benefit, accruing under Italian law at the end of each balance sheet date, to the future date when the employment relationship will be terminated, which was then discounted at the balance sheet date using the projected unit credit method. This defined benefit plan is valued by an independent national registered actuary in Italy.

The movements in the defined benefit obligation over the year are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1st January | **7,485** | — |
| Acquisition of a business | **—** | 7,088 |
| Interest cost | **254** | 308 |
| Actuarial losses | **929** | 378 |
| Benefits paid | **(1,050)** | (207) |
| Exchange differences | **133** | (82) |
| At 31st December | **7,751** | 7,485 |

## 35. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

The amounts recognised in the consolidated income statement are as follows:

| | Group 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Interest cost | **254** | 308 |

The principal actuarial assumptions used are as follows:

| | Group 2012 | 2011 |
|---|---|---|
| Discount rate | **2.33%** | 3.40% |
| Expected future pension increase | **0%–2.25%** | 0%–2.25% |

The retirement benefit obligation was determined based on an independent appraisal which considered demographic, economic and financial evidence and assumptions. The technical basis for the computation was based on an historical analysis of the data. For the demographic assumptions, variables such as mortality, early retirement and resignation, dismissal, expiry of employment contract, advance payment on leaving indemnities and supplementary pension schemes were considered. Economic and financial assumptions were made based on variables such as inflation and discount rates.

The Group recognised actuarial losses amounted to HK$929,000 (2011: HK$378,000) for the year ended 31st December 2012 in other comprehensive income. The cumulative amount of actuarial losses recognised by the Group directly in other comprehensive income amounted to HK$1,307,000 (2011: HK$378,000) as at 31st December 2012.

## 36. SHARE CAPITAL

| | Ordinary shares of HK$0.2 each | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **Number of shares (thousands)** | **HK$'000** | Number of shares (thousands) | HK$'000 |
| Authorised: | | | | |
| At 1st January and 31st December | **2,000,000** | **400,000** | 2,000,000 | 400,000 |
| Issued and fully paid: | | | | |
| At 1st January and 31st December | **1,398,913** | **279,783** | 1,398,913 | 279,783 |

## 36. SHARE CAPITAL *(continued)*

*Note:*

*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. 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 of the Company.*

*No share options were exercised under the Scheme approved by the shareholders of the Company during the years ended 31st December 2012 and 2011.*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Average exercise price per share HK$** | **Number of options (thousands)** | Average exercise price per share HK$ | Number of options (thousands) |
| At 1st January | **1.452** | **51,718** | 1.470 | 53,718 |
| Lapsed | **0.68** | **(150)** | 1.950 | (2,000) |
| At 31st December | **1.454** | **51,568** | 1.452 | 51,718 |
| Options exercisable at 31st December | | **51,568** | | 51,718 |

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| **Expiry date** | **Exercise price** | **Number of options** | |
|---|---|---|---|
| | HK$ | **2012 (thousands)** | 2011 (thousands) |
| 11th December 2015 | 0.564 | **11,810** | 11,810 |
| 2nd March 2016 | 0.680 | **7,250** | 7,400 |
| 22nd May 2017 | 1.950 | **32,508** | 32,508 |
| | | **51,568** | 51,718 |

## 37. RESERVES

| Group | Attributable to shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Assets revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| **At 1st January 2012, as previously reported** | 849,536 | 40,500 | 233,332 | 14,006 | 12,334 | 95,165 | 128,904 | 985,896 | 2,359,673 |
| Change in accounting policy — Adoption of HKAS 12 (Amendment) | — | — | — | — | — | — | (814) | (22,864) | (23,678) |
| **At 1st January 2012, as restated** | 849,536 | 40,500 | 233,332 | 14,006 | 12,334 | 95,165 | 128,090 | 963,032 | 2,335,995 |
| Loss for the year | — | — | — | — | — | — | — | (98,266) | (98,266) |
| Fair value gain on available-for-sale financial assets | — | — | — | — | — | 30,125 | — | — | 30,125 |
| Actuarial losses on retirement benefit obligations | — | — | — | — | — | — | — | (674) | (674) |
| Currency translation differences | — | — | — | — | — | — | 33 | — | 33 |
| Share of post-acquisition reserves of an associated company | — | — | (17,449) | — | — | — | — | — | (17,449) |
| **Total comprehensive loss** | — | — | (17,449) | — | — | 30,125 | 33 | (98,940) | (86,231) |
| Transfer from retained earnings | — | — | 224 | — | — | — | — | (224) | — |
| Transfer of reserve upon lapse of share options | — | (42) | — | — | — | — | — | 42 | — |
| | — | (42) | 224 | — | — | — | — | (182) | — |
| **At 31st December 2012** | 849,536 | 40,458 | 216,107 | 14,006 | 12,334 | 125,290 | 128,123 | 863,910 | 2,249,764 |

## 37. RESERVES *(continued)*

| Group | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Assets revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to shareholders of the Company | | | | | | | | |
| **At 1st January 2011, as previously reported** | 849,536 | 42,682 | 299,357 | 14,006 | 12,334 | 161,616 | 89,828 | 1,028,500 | 2,497,859 |
| Change in accounting policy — Adoption of HKAS 12 (Amendment) | — | — | — | — | — | — | — | (5,764) | (5,764) |
| **At 1st January 2011, as restated** | 849,536 | 42,682 | 299,357 | 14,006 | 12,334 | 161,616 | 89,828 | 1,022,736 | 2,492,095 |
| Loss for the year | — | — | — | — | — | — | — | (45,819) | (45,819) |
| Fair value loss on available-for-sale financial assets | — | — | — | — | — | (66,451) | — | — | (66,451) |
| Exchange reserve realised upon disposal of subsidiaries | — | — | — | — | — | — | 1,121 | — | 1,121 |
| Actuarial losses on retirement benefit obligations | — | — | — | — | — | — | — | (274) | (274) |
| Currency translation differences | — | — | — | — | — | — | 37,141 | — | 37,141 |
| Share of post-acquisition reserves of an associated company | — | — | (68,753) | — | — | — | — | — | (68,753) |
| **Total comprehensive loss, as restated** | — | — | (68,753) | — | — | (66,451) | 38,262 | (46,093) | (143,035) |
| Changes in ownership interest in subsidiaries without change of control | — | — | 924 | — | — | — | — | — | 924 |
| Transfer from retained earnings | — | — | 1,804 | — | — | — | — | (1,804) | — |
| Transfer of reserve upon lapse of share options | — | (2,182) | — | — | — | — | — | 2,182 | — |
| 2010 final dividend paid | — | — | — | — | — | — | — | (13,989) | (13,989) |
| | — | (2,182) | 2,728 | — | — | — | — | (13,611) | (13,065) |
| **At 31st December 2011, as restated** | 849,536 | 40,500 | 233,332 | 14,006 | 12,334 | 95,165 | 128,090 | 963,032 | 2,335,995 |

*Note: Included in capital reserve an amount of HK$11,485,000 (2011: HK$11,260,000) which represents PRC statutory reserve.*

## 37. RESERVES *(continued)*

| Company | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1st January 2012** | **849,536** | **40,500** | **2,104** | **14,006** | **95,165** | **358,323** | **1,359,634** |
| Loss for the year | — | — | — | — | — | (25,820) | (25,820) |
| Fair value gain on available-for-sale financial assets | — | — | — | — | 30,125 | — | 30,125 |
| Transfer of reserve upon lapse of share options | — | (42) | — | — | — | 42 | — |
| **At 31st December 2012** | **849,536** | **40,458** | **2,104** | **14,006** | **125,290** | **332,545** | **1,363,939** |

| Company | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1st January 2011** | 849,536 | 42,682 | 2,104 | 14,006 | 161,616 | 397,706 | 1,467,650 |
| Loss for the year | — | — | — | — | — | (25,394) | (25,394) |
| Fair value loss on available-for-sale financial assets | — | — | — | — | (66,451) | — | (66,451) |
| Transfer of reserve upon lapse of share options | — | (2,182) | — | — | — | — | (2,182) |
| 2010 final dividend paid | — | — | — | — | — | (13,989) | (13,989) |
| **At 31st December 2011** | 849,536 | 40,500 | 2,104 | 14,006 | 95,165 | 358,323 | 1,359,634 |

## 38. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts, not to be recovered within twelve months, are as follows:

| | Group 2012 HK$'000 | Group 2011 HK$'000 (Restated) |
|---|---|---|
| Deferred tax assets | (15,682) | (14,043) |
| Deferred tax liabilities | 65,432 | 81,763 |
| | 49,750 | 67,720 |

## 38. DEFERRED TAXATION *(continued)*

The gross movements in the deferred taxation are as follows:

| | Group 2012 HK$'000 | 2011 HK$'000 (Restated) |
|---|---|---|
| At 1st January, as restated | **67,720** | 37,958 |
| Recognised in the consolidated income statement *(Note 8(a))* | **(17,582)** | 27,807 |
| Deferred tax on actuarial losses | **(255)** | (104) |
| Acquisition of a business | **—** | (109) |
| Exchange differences | **(133)** | 2,168 |
| At 31st December | **49,750** | 67,720 |

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

The Group's deferred tax liabilities represented the followings:

| | Depreciation HK$'000 | Fair value gains HK$'000 | Withholding tax HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st January 2012, as restated | **735** | **77,015** | **4,013** | **81,763** |
| Recognised in the consolidated income statement | **(138)** | **(17,352)** | **1,231** | **(16,259)** |
| Exchange differences | **—** | **(72)** | **—** | **(72)** |
| At 31st December 2012 | **597** | **59,591** | **5,244** | **65,432** |

| | Depreciation HK$'000 | Fair value gains HK$'000 (Restated) | Withholding tax HK$'000 | Total HK$'000 (Restated) |
|---|---|---|---|---|
| At 1st January 2011, as restated | 903 | 44,177 | 3,030 | 48,110 |
| Recognised in the consolidated income statement | (168) | 30,782 | 833 | 31,447 |
| Exchange differences | — | 2,056 | 150 | 2,206 |
| At 31st December 2011 | 735 | 77,015 | 4,013 | 81,763 |

## 38. DEFERRED TAXATION *(continued)*

The Group's deferred tax assets represented the followings:

| | Retirement benefit obligations HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st January 2012 | **212** | **12,203** | **1,628** | **14,043** |
| Recognised in the consolidated income statement | **—** | **1,469** | **(146)** | **1,323** |
| Recognised in the consolidated statement of comprehensive income | **255** | **—** | **—** | **255** |
| Exchange differences | **5** | **26** | **30** | **61** |
| At 31st December 2012 | **472** | **13,698** | **1,512** | **15,682** |

| | Retirement benefit obligations HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st January 2011 | — | 10,152 | — | 10,152 |
| Acquisition of a business | 109 | — | — | 109 |
| Recognised in the consolidated income statement | — | 1,879 | 1,761 | 3,640 |
| Recognised in the consolidated statement of comprehensive income | 104 | — | — | 104 |
| Exchange differences | (1) | 172 | (133) | 38 |
| At 31st December 2011 | 212 | 12,203 | 1,628 | 14,043 |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred tax benefits of approximately HK$62,120,000 (2011: HK$61,388,000) in respect of tax losses amounting to approximately HK$376,482,000 (2011: HK$372,052,000) that can be carried forward indefinitely against future taxable income.

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Reconciliation of loss before taxation to net cash outflow from operating activities**

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Loss before taxation | (108,496) | (11,047) |
| Share of net losses of associated companies | 52,708 | 16,940 |
| Share of net profits of jointly controlled entities | (5,122) | (21,206) |
| Finance income | (19,770) | (19,572) |
| Finance costs | 23,364 | 13,559 |
| Gain from a bargain purchase | — | (3,790) |
| Net (gain)/loss on disposal of property, plant and equipment | (942) | 444 |
| Depreciation | 43,838 | 41,303 |
| Net loss/(gain) on disposal of investment properties | 40,443 | (1,373) |
| Fair value gains on investment properties | (15,613) | (70,596) |
| Amortisation of leasehold land and land use rights | 1,753 | 2,407 |
| (Reversal)/provision for doubtful debts | (302) | 653 |
| Reversal of provision for obsolete stock | (549) | — |
| Net loss on disposal of interests in subsidiaries | — | 806 |
| Gain on disposal of interests in an associated company | — | (55) |
| Loss on deemed disposal of an associated company | — | 836 |
| Gain on disposal of an available-for-sale financial asset | (70) | — |
| Impairment of an available-for-sale financial asset | 11 | — |
| Operating profit/(loss) before working capital changes | 11,253 | (50,691) |
| Net increase in properties under development and properties held for sale | (67,665) | (158,179) |
| Increase in inventories | (1,445) | (2,149) |
| Increase in loans and advances | (61,006) | (98,077) |
| (Increase)/decrease in trade receivables | (77,017) | 129,387 |
| Increase in other receivables, prepayments and deposits | (13,442) | (4,729) |
| Decrease in financial assets at fair value through profit or loss | 37,581 | 56,967 |
| Increase/(decrease) in trade and other payables | 69,784 | (131,456) |
| Decrease in retirement benefit obligations | (1,050) | (207) |
| Net cash outflow from operating activities | (103,007) | (259,134) |

## 40. CONTINGENT LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties *(Note)* | **2,110** | 433 | **—** | — |
| Guarantee for undrawn bank facilities of a subsidiary | **—** | — | **60,000** | 60,000 |
| | **2,110** | 433 | **60,000** | 60,000 |

*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 the PRC. 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.*

## 41. COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided for | **336,974** | 342,741 |
| Authorised but not contracted | **570,619** | 573,645 |

The Company does not have any material capital commitments.

### (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:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Not later than one year | **16,184** | 18,219 |
| Later than one year but not later than five years | **15,226** | 39,513 |
| More than five years | **5,036** | 12,342 |
| | **36,446** | 70,074 |

## 41. COMMITMENTS *(continued)*

### (b) Commitments under operating leases *(continued)*

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:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Not later than one year | **9,075** | 7,442 |
| Later than one year but not later than five years | **8,158** | 1,852 |
| | **17,233** | 9,294 |

The Company does not have any material commitments under operating leases.

## 42. RELATED PARTY TRANSACTIONS

Details of the key management compensation has been disclosed in Note 13.

## 43. FINANCIAL RISK MANAGEMENT

### 43.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including foreign exchange risk, interest rate risk and price risk). The Group has in place controls to manage these risks to an acceptable level without affecting its business. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's overall risk management function focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management of the Group is carried out by the credit committee and finance department of the Group. The top management and the credit committee approve the Group's financial risk management policies. Credit committee and finance department undertake both regular and ad hoc reviews of risk management controls and procedures which are reported to the top management.

#### *(a) Credit risk analysis*

Credit risk is managed on a group basis. The Group's credit risk mainly arises from loans and receivables, deposits with banks, client trust bank balances and cash and cash equivalents.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date is carrying value of each class and category of financial assets mentioned above. The Group has put in place policies to ensure that sales of products and services and sales of properties are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.1 Financial risk factors *(continued)*

#### (a) *Credit risk analysis* *(continued)*

The Group's cash at bank, bank deposits and client trust bank balances are placed with reputable banks. There were no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions. Management does not expect any of these institutions to fail to meets its obligations.

The following analysis shows the credit quality of the Group's loans and receivables that are exposed to credit risk:

| | Loans and advances — long term 2012 HK$'000 | Loans and advances — short term 2012 HK$'000 | Trade receivables 2012 HK$'000 | Other receivables 2012 HK$'000 |
|---|---|---|---|---|
| **Gross amount** | | | | |
| — neither past due nor impaired | — | 494,804 | 127,182 | 23,372 |
| — past due but not impaired | | | | |
| — less than three months | — | — | 19,898 | — |
| — between three to six months | — | — | 36 | — |
| — over six months | — | — | 282 | — |
| — impaired | 63,521 | 3,885 | 16,236 | 7,973 |
| | 63,521 | 498,689 | 163,634 | 31,345 |

| | Loans and advances — long term 2011 HK$'000 | Loans and advances — short term 2011 HK$'000 | Trade receivables 2011 HK$'000 | Other receivables 2011 HK$'000 |
|---|---|---|---|---|
| **Gross amount** | | | | |
| — neither past due nor impaired | 6,168 | 432,855 | 59,372 | 10,181 |
| — past due but not impaired | | | | |
| — less than three months | — | — | 7,702 | — |
| — between three to six months | — | — | 559 | — |
| — over six months | — | — | 58 | — |
| — impaired | 63,650 | 25,648 | 19,783 | 7,794 |
| | 69,818 | 458,503 | 87,474 | 17,975 |

# 43. FINANCIAL RISK MANAGEMENT *(continued)*

## 43.1 Financial risk factors *(continued)*

### *(a) Credit risk analysis (continued)*

As at year end, the collaterals furnished by the margin clients for security of their loans and advances from the Group are mainly listed securities, the majority of which are listed in Hong Kong. The total market value of securities amounted to HK$2,548 million (2011: HK$2,142 million) and margin loans receivable amounted to HK$488 million (2011: HK$427 million).

The maximum exposure to credit risk before collateral held or other credit enhancements approximates to the carrying value.

The individually impaired amounts were in default or delinquency in payments and are not expected to be recovered. Save as disclosed above, all loans and advances, and trade and other receivables are neither past due nor impaired as at 31st December 2012 and 2011.

The following analysis shows the credit quality of the Company's loans and receivables that are exposed to credit risk:

| | Other receivables 2012 HK$'000 | Loans and advances 2012 HK$'000 | Loan to a subsidiary 2012 HK$'000 | Amounts due from subsidiaries 2012 HK$'000 |
|---|---|---|---|---|
| **Gross amount** | | | | |
| — neither past due nor impaired | 6 | — | 70,000 | 1,442,500 |
| — impaired | — | 63,521 | — | 318,238 |
| | 6 | 63,521 | 70,000 | 1,760,738 |

| | Other receivables 2011 HK$'000 | Loans and advances 2011 HK$'000 | Loan to a subsidiary 2011 HK$'000 | Amounts due from subsidiaries 2011 HK$'000 |
|---|---|---|---|---|
| **Gross amount** | | | | |
| — neither past due nor impaired | 83 | — | 70,000 | 1,484,030 |
| — impaired | — | 63,650 | — | 302,578 |
| | 83 | 63,650 | 70,000 | 1,786,608 |

# 43. FINANCIAL RISK MANAGEMENT *(continued)*

## 43.1 Financial risk factors *(continued)*

### *(a) Credit risk analysis (continued)*

The individually impaired amounts were in default or delinquency in payments and are not expected to be recovered. Save as disclosed above, all loans and advances, other receivables, and loan to and amounts due from subsidiaries are neither past due nor impaired as at 31st December 2012 and 2011.

None of the financial assets that are fully performing has been renegotiated in 2012 and 2011.

### *(b) Liquidity risk analysis*

Surplus cash is invested in interest bearing current accounts, time deposits, money market deposits and marketable securities by choosing instruments with appropriate maturities or sufficient liquidity to meet operational needs. At the reporting date, the Group held cash at bank and in hand of HK$135,968,000 (2011: HK$185,147,000) that are expected to readily generate cash inflows for managing liquidity risk.

The following analysis shows the Group's contractual maturity of non-derivative financial liabilities:

| | Less than one year 2012 HK$'000 | More than one year 2012 HK$'000 |
|---|---|---|
| Borrowings | | |
| Current other loans — unsecured | 3,700 | — |
| Current bank loans — secured | 11,099 | — |
| Non-current bank loans — secured | — | 338,187 |
| Trade and other payables | 1,524,617 | — |
| Financial guarantee contracts | 2,110 | — |
| | 1,541,526 | 338,187 |

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.1 Financial risk factors *(continued)*

#### (b) Liquidity risk analysis *(continued)*

| | Less than one year 2011 HK$'000 | More than one year 2011 HK$'000 |
|---|---|---|
| Borrowings | | |
| Current other loans — unsecured | 3,701 | — |
| Current bank loans — secured | 197,693 | — |
| Non-current bank loans — secured | — | 121,154 |
| Trade and other payables | 1,748,036 | — |
| Net assets attributable to holders of redeemable participation shares | 14,715 | — |
| Financial guarantee contracts | 433 | — |
| | 1,964,578 | 121,154 |

The Company's contractual trade and other payables and financial guarantee contracts amounting to HK$2,295,000 (2011: HK$1,518,000) and HK$60,000,000 (2011: HK$60,000,000) respectively will mature within one year.

The amounts disclosed above are the contractual undiscounted cash flows.

#### (c) Market risk analysis — foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars and Renminbi. Revenue and majority of its operating costs and cost of sales are in Hong Kong dollars and Renminbi basis. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations is expected in the foreseeable future. The Group does not use any derivative financial instruments to hedge its foreign exchange risk.

At 31st December 2012, if Renminbi had strengthened/weakened by 5% against the Hong Kong dollars, with all other variables held constant, post-tax loss for the year would have been HK$3,567,000 (2011: HK$3,704,000) lower/higher, mainly as a result of foreign exchange gain on translation of Renminbi-denominated bank deposits. There is no significant impact on equity as most of the available-for-sale securities are denominated in Hong Kong dollars.

In determining the percentage of the currency fluctuation, the Group has considered the economic environments in which it operates.

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.1 Financial risk factors *(continued)*

#### (d) *Market risk analysis — interest rate risk*

The Group's significant interest-bearing assets are margin loans, cash at bank and bank deposits, and client trust bank balances, where the interest rate is low in the current environment.

The Group is also exposed to changes in interest rates which arises from its bank loans and amounts due to stockbroking clients. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's practice is to maintain a reasonable balance between variable and fixed rate borrowings. The Group has not used any derivatives to hedge its exposure to interest rate risk.

The Company's income and operating cash flows are substantially independent of changes in market interest rates as the interest rate is low in the current environment and the Company has no significant interest-bearing assets, other than loan to a subsidiary, cash at bank and bank deposits. The Company has not used any derivatives to hedge its exposure to interest rate risk.

At 31st December 2012, if interest rates on the Group's margin loans, cash at bank, bank deposits and bank loans had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax loss for the year would have been HK$4,685,000 (2011: HK$8,050,000) lower/higher. There is no impact on equity.

At 31st December 2012, if interest rates on the Company's loan to a subsidiary, cash at bank and bank deposits had been 100 basis points higher/lower with all other variables held constant, the Company's post-tax loss for the year would have been HK$850,000 (2011: HK$850,000) lower/higher. There is no impact on equity.

#### (e) *Market risk analysis — price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.1 Financial risk factors *(continued)*

#### *(e) Market risk analysis — price risk* *(continued)*

The Group's equity investments for trading purpose are mainly publicly traded or quoted in Hong Kong, the PRC and America. The Group's equity investments classified as available-for-sale are mainly unlisted securities which the fair values were determined by reference to published price quotations in an active market of the underlying investments held by the investee.

The Group's equity exposures are mainly in long-term equity investments, which are reported as "available-for-sale financial assets" set out in Note 22 to the consolidated financial statements. Equities held for trading purpose are included under "financial assets at fair value through profit or loss" set out in Note 29 to the consolidated financial statements.

At 31st December 2012, if the listed price, quoted price or fair value of each equity investment classified as financial assets at fair value through profit or loss and available-for-sale financial assets had appreciated/depreciated by 10%, with all other variables held constant, post-tax loss for the year would have been HK$23,569,000 (2011: HK$24,548,000) lower/higher, mainly as a result of unrealised gains/losses on equity securities classified as financial assets at fair value through profit or loss. Equity would have been HK$12,626,000 (2011: HK$9,614,000) higher/lower, arising from gain/loss on equity securities classified as available-for-sale financial assets.

### 43.2 Capital risk management

The Group's objectives when managing capital are to maintain a strong capital base to support the development of its business and to meet regulatory capital requirement at all times. The Group recognises the impact on shareholders' returns of the level of equity capital employed within the Group and seeks to maintain a balance between the returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Capital of the Group for regulatory and capital management purpose includes share capital, share premium, retained earnings, other reserves and subordinated liabilities. Capital is allocated to various business activities of the Group depending on the risk taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame.

The Group monitors capital on the basis of the gearing ratio, which is calculated as total debts divided by total shareholders' funds. The Group also monitors capital base of its subsidiaries to ensure compliance with relevant regulatory capital requirements of SFO. Management strives to maintain an optimal capital structure so as to achieve the Group's capital risk management objective as stated above. To achieve this, the Group may adjust the amount of dividend payout and other relevant factors.

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.2 Capital risk management *(continued)*

The gearing ratios at 31st December 2012 and 2011 are as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) |
|---|---|---|
| Total borrowings *(Note 33)* | 352,986 | 322,548 |
| Total equity | 2,620,940 | 2,714,659 |
| Gearing ratio | 13.5% | 11.9% |

### 43.3 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).

The following table presents the Group's assets that are measured at fair value at 31st December 2012.

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| — listed securities | 66,054 | — | — | 66,054 |
| — unlisted, quoted securities | 159,454 | — | — | 159,454 |
| — unlisted securities | — | — | 10,183 | 10,183 |
| Available-for-sale financial assets | | | | |
| — listed securities | 971 | — | — | 971 |
| — unlisted securities | — | 125,290 | 629 | 125,919 |
| | 226,479 | 125,290 | 10,812 | 362,581 |

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.3 Fair value estimation *(continued)*

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

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'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 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

## 43. FINANCIAL RISK MANAGEMENT *(continued)*

### 43.3 Fair value estimation *(continued)*

The following table presents the changes in level 3 instruments for the years ended 31st December 2012 and 2011.

| | Unlisted securities | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Opening balance | **28,417** | — |
| Addition | **—** | 28,417 |
| Impairment loss | **(11)** | — |
| Fair value losses | **(17,607)** | — |
| Exchange differences | **13** | — |
| Closing balance | **10,812** | 28,417 |

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board on 22nd March 2013.