



First Shanghai Investments Limited

(Stock Code : 227)

2013

Interim Report

FIRST SHANGHAI INVESTMENTS LIMITED

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Mr. LO Yuen Yat

Executive Directors

Mr. XIN Shulin

Mr. YEUNG Wai Kin

Non-executive Director

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

Independent Non-executive Directors

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. YU Qihao

Mr. ZHOU Xiaohu

COMPANY SECRETARY

Mr. YEUNG Wai Kin

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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

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MANAGEMENT COMMENTARY

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (together, the “Group”) for the six months ended 30th June 2013 together with the comparative figures for the corresponding period last year.

Business Review

Economic growth remained muted while most major stock markets saw an upward trend in 2013. In Europe, the stock markets gave up some gains subsequently as worries over the Eurozone debt problem grew. There were concerns about the Cyprus bailout scheme and the political uncertainties in Italy. In the US, major stock indices once rose to record highs but retreated later on concerns over a tapering of the monetary stimulus in June. Emerging market equities underperformed during the first half of 2013. Expectations on weaker growth in China and other emerging markets continued to drag most emerging stock market indices lower during the period under review. Since the Chinese government was determined to pursue economic reforms and structural adjustments, economical growth in China, especially on foreign trade, was hindered.

The Group reported consolidated net profit attributable to shareholders of the Company of approximately HK\$22 million for the six months ended 30th June 2013, comparing with a net loss of approximately HK\$38 million in the corresponding period of 2012. This mainly reflected the operating profit from our investment portfolio and the recognised gain from the disposal of an unlisted investment. Our securities brokerage income also reported slight increment, benefited from the increase in turnover of Hong Kong stock market. However, these impacts were partly offset by the valuation loss on certain investment properties of the Group. The total net assets of the Group increased slightly from approximately HK\$2,621 million as at 31st December 2012 to approximately HK\$2,650 million as at 30th June 2013.

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

Financial Services

In 2013, the global financial market continued to be very volatile. While most major stock markets rose in early 2013, the markets of both Hong Kong and China tracked with decline trend. The US market reported record high on optimism about the economic outlook, the extension of debt limit and temporary resolve of fiscal cliff problem. The European market rebounded with the affirmative monetary easing policy and the reduction of interest rate to a record low level. The Japan market even rose dramatically buoyed by various monetary policies. The China market, with general supportive government measures to stabilise economic growth, rose at the beginning of the year. However, gains were then trimmed with general worries about the hard-landing of the economy. Hong Kong market, being highly connected with the China market, followed the same trend, with Hang Seng Index dropped by 8.2% from 31st December 2012 to 30th June 2013 at 20,803. However, with optimism on the general outlook for economic growth in China and speculation on a possible increase in foreign investors' quotas to invest in the China market, trading activities boosted, with average daily market turnover increased by 20% from the corresponding period of 2012 to HK\$68.3 billion.

In line with the increase in trading activities, brokerage commission increased during the reporting period. In addition, with the increase in margin loan size and thus increase in margin loan interest income, the overall brokerage business reported an operating profit of approximately HK\$36 million for the six months ended 30th June 2013, representing an increase of approximately 17% from the corresponding period of 2012. Performance of securities investment has improved satisfactorily resulting in an operating profit of approximately HK\$14 million in 2013, compared with an operating loss of HK\$6 million in the corresponding period of 2012.

The achievement of our corporate finance division was satisfactory in the first half of 2013. We acted as the sole sponsor and the sole bookrunner for the initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited of Jin Cai Holdings Company Limited, the second largest cigarette package supplier in Jiangxi Province. Amidst the mediocre performance of the Hong Kong stock market, the initial public offering of our client was triumphant with its public offer shares significantly over-subscribed by more than 60 times. We also acted as independent financial advisers for several notable transactions conducted by Hong Kong listed companies, including the spin-off by a major Hong Kong properties listed company of its hotel properties in form of share stapled units structure and the acquisitions by an insurance conglomerate of certain insurance businesses in China. Our corporate finance division, as an inseparable arm of our Financial Services Sector, shall continue to capitalise its expertise, network and other resources to strive for further success.

MANAGEMENT COMMENTARY

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

Property and Hotel

Strict tightening policies continued to apply towards the China property market. Due to strong rigid demand on residential properties, sentiment of the property market showed signs of recovery, with both selling price and transaction volume recorded gentle rise in 2013. However, as the product category of the Group's property development projects is not focusing on residential area, performance of the Group's Property and Hotel Sector remains unsatisfactory. During the period, the Group has recognised approximately HK\$18 million valuation loss on the market price of certain investment properties. The Group is currently participating in six property projects with a total GFA (gross floor area) of 419,000 square meters. For the six months ended 30th June 2013, the Group's recognised GFA and sales amount were approximately 3,000 square meters and HK\$22 million respectively. Despite the difficult market situation, we will continue to complete the property projects on hand by phases according to the changing market conditions and remains conservatively optimistic about their long term benefit to the Group.

During the period, the Group acquired 100% equity interest of Gold S.A.S., which owns a country club and resort and operates a 18-hole golf course in France. The Management is confident that this acquisition will lay a solid foundation for the Group's future growth in recreation resort sector.

Direct Investment

China Assets Holdings Limited ("China Assets") continues to be the major investment of our Direct Investment Sector. In 2013, the performance of China Assets has recovered and reported net gain after the disposal of an unlisted investment, when compared with a net loss recorded in 2012. For the six months ended 30th June 2013, China Assets recorded net profit attributable to the Group of approximately HK\$7 million.

Apart from the indirect investment in pharmaceutical and healthcare business through China Assets, the Group continues to invest in pharmaceutical business. Siron Pharmaceuticals SpA, the Group's major presence in the European pharmaceutical industry, continued to contribute improving results.

Prospects

Given that the pace of global economic recovery is still slow, and high volatility is still expected, the global economic outlook is filled with challenges. The process of US Fed tapering, in terms of size and speed, remains an uncertainty. Also, we are confronted with uncertainties regarding scaling back of existing monetary measures of the US and Japan governments, the debt sustainability of Japan and European countries and the risk of reversal movement of capital flow from China. Nevertheless, the Chinese government will consistently maintain a balanced macro-economic policy and will persist with its proactive but moderate fiscal and monetary policies that will reinforce economic growth at a healthy momentum. Despite such cautious outlook, we believe that Hong Kong, capitalising with its advantage as an international financial centre and the largest offshore Renminbi business centre, will continue to offer opportunities for stable growth.

While adhering to its business strategy, the Group will closely monitor the macro economy and regulatory environment so as to effectively respond to changes in a timely manner. We will continue our efforts in setting up a firm base in the financial services and property development industries in Hong Kong and China. We will devote more efforts to enhance the quality of our products and services, capitalise on our professional team and refine our operational efficiency in order to strengthen market penetration and capture greater business opportunities in future. We will continue to pursue our aim of upgrading our IT systems and has launched a new online securities dealing system recently.

Regarding the Direct Investment Sector, we will continue to push forward our existing investment strategy focusing on pharmaceutical and healthcare business. We may also seek future opportunities to enlarge our presence in industries with advantage synergies with the aim to optimising returns to the Company and its shareholders.

MANAGEMENT COMMENTARY

Management Discussion and Analysis

Financial results

For the six months ended 30th June 2013, the Group recorded a net profit and basic earnings per share attributable to shareholders of the Company amounting to approximately HK\$22 million and HK1.56 cents respectively, compared with a net loss and basic losses per share attributable to shareholders of the Company of approximately HK\$38 million and HK2.70 cents respectively in the corresponding period of 2012. Revenue of the Group was approximately HK\$221 million, representing an increase by 28% over the same period of 2012.

Material acquisitions, disposals and significant investments

On 27th June 2013, the Group acquired 100% equity interest of Gold S.A.S., which owns a country club and resort and operates a 18-hole golf course in France, at a cash consideration of EUR15 million.

Liquidity and financial resources

The Group relies principally on its internal resources to fund its operations and investment activities. Bank loans will be raised to meet the different demands of our various property projects and our financial services business. As at 30th June 2013, the Group had raised bank and other loans of approximately HK\$416 million (31st December 2012: HK\$353 million) and held approximately HK\$354 million (31st December 2012: HK\$330 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 15.7% (31st December 2012: 13.5%). Investment in "financial assets at fair value through profit or loss" as at 30th June 2013 amounted to approximately HK\$72 million (31st December 2012: HK\$236 million).

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. The Group expects that Renminbi will maintain in a stable pattern for the remaining period of 2013. The Group has no significant exposure to other foreign exchange fluctuations.

Pledge of assets

The Group has pledged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$675 million (31st December 2012: HK\$665 million) and fixed deposits of approximately HK\$15 million (31st December 2012: HK\$15 million) against its bank loans and general banking facilities. The banking facilities amounted approximately HK\$416 million (31st December 2012: HK\$349 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 purchasers of the Group's properties in China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 30th June 2013, total contingent liabilities relating to these guarantees amounted to approximately HK\$1 million (31st December 2012: HK\$2 million).

Human resources

As at 30th June 2013, the Group employed 741 (30th June 2012: 794) staff, of whom 533 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 six months ended 30th June 2013 amounted to approximately HK\$84 million (30th June 2012: HK\$81 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30th June	
		2013	2012
	Note	HK\$'000	HK\$'000
Revenue	5	221,173	172,395
Cost of sales		(97,538)	(71,057)
Gross profit		123,635	101,338
Other losses — net	6	(1,702)	(1,004)
Selling, general and administrative expenses		(110,734)	(109,423)
Operating profit/(loss)	5 and 7	11,199	(9,089)
Finance income	8	7,265	10,894
Finance costs	8	(7,963)	(11,359)
Finance costs — net	8	(698)	(465)
Share of profits less losses of			
— Associated companies		6,001	(25,517)
— Jointly controlled entities		4,873	4,915
Profit/(loss) before taxation		21,375	(30,156)
Taxation	10	2,627	(12,603)
Profit/(loss) after taxation		24,002	(42,759)
Loss attributable to minority investors of an investment fund		—	391
Profit/(loss) for the period		24,002	(42,368)
Attributable to:			
Shareholders of the Company		21,858	(37,803)
Non-controlling interests		2,144	(4,565)
		24,002	(42,368)
Earnings/(losses) per share attributable to shareholders of the Company			
— Basic	11	HK1.56 cents	HK(2.70) cents
— Diluted	11	HK1.56 cents	HK(2.70) cents

The notes on pages 14 to 30 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
Profit/(loss) for the period	24,002	(42,368)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
– Fair value gain on available-for-sale financial assets	505	23,230
– Capital reserve realised upon disposal of subsidiaries	(290)	–
– Currency translation differences	12,334	(8,140)
– Share of post-acquisition reserves of an associated company	(7,811)	(3,946)
Other comprehensive income for the period, net of tax	4,738	11,144
Total comprehensive income/(loss) for the period	28,740	(31,224)
Attributable to:		
Shareholders of the Company	25,437	(26,145)
Non-controlling interests	3,303	(5,079)
	28,740	(31,224)

The notes on pages 14 to 30 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Non-current assets			
Intangible assets	13	13,114	2,126
Property, plant and equipment	13	534,464	391,730
Investment properties	13	426,189	419,495
Leasehold land and land use rights	13	54,613	54,934
Investments in associated companies		240,622	241,473
Investments in jointly controlled entities		237,208	236,795
Deferred tax assets		14,704	15,682
Available-for-sale financial assets		127,386	126,890
Loans and advances		10,405	10,931
Total non-current assets		1,658,705	1,500,056
Current assets			
Properties under development		235,115	222,830
Properties held for sale		314,588	347,975
Inventories		9,315	7,495
Loans and advances		586,967	494,804
Trade receivables	14	221,375	147,514
Other receivables, prepayments and deposits		48,049	42,055
Tax recoverable		338	896
Financial assets at fair value through profit or loss		71,736	235,691
Deposits with banks		5,236	2,847
Client trust bank balances		1,417,889	1,300,485
Cash and cash equivalents		348,635	326,668
Total current assets		3,259,243	3,129,260

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
	Note		
Current liabilities			
Trade and other payables	15	1,735,286	1,545,356
Tax payable		40,938	36,851
Borrowings	16	87,714	14,799
Total current liabilities		1,863,938	1,597,006
Net current assets		1,395,305	1,532,254
Total assets less current liabilities		3,054,010	3,032,310
Non-current liabilities			
Deferred tax liabilities		68,053	65,432
Retirement benefit obligations		7,711	7,751
Borrowings	16	328,566	338,187
Total non-current liabilities		404,330	411,370
Net assets		2,649,680	2,620,940
Equity			
Share capital	17	279,783	279,783
Reserves		2,275,201	2,249,764
Capital and reserves attributable to the Company's shareholders		2,554,984	2,529,547
Non-controlling interests		94,696	91,393
Total equity		2,649,680	2,620,940

The notes on pages 14 to 30 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Cash flows from operating activities	97,777	5,009
Cash flows (used in)/from investing activities	(129,000)	27,868
Cash flows from/(used in) financing activities	52,940	(29,734)
Net increase in cash and cash equivalents	21,717	3,143
Cash and cash equivalents at 1st January	326,668	370,942
Exchange gains/(losses)	250	(2,015)
Cash and cash equivalents at 30th June	348,635	372,070

The notes on pages 14 to 30 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited										
	Attributable to shareholders of the Company									Non-controlling interests	Total
	Employee share-based			Capital	Assets	Investment	Exchange	Retained			
	Share capital	Share premium	compensation reserve	reserve	redemption reserve	revaluation reserve	revaluation reserve	fluctuation reserve	earnings		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January 2013	279,783	849,536	40,458	216,107	14,006	12,334	125,290	128,123	863,910	91,393	2,620,940
Total comprehensive income for the period ended 30th June 2013	–	–	–	(8,101)	–	–	505	11,175	21,858	3,303	28,740
At 30th June 2013	279,783	849,536	40,458	208,006	14,006	12,334	125,795	139,298	885,768	94,696	2,649,680

	Unaudited										
	Attributable to shareholders of the Company									Non-controlling interests	Total
	Employee share-based			Capital	Assets	Investment	Exchange	Retained			
	Share capital	Share premium	compensation reserve	reserve	redemption reserve	revaluation reserve	revaluation reserve	fluctuation reserve	earnings		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January 2012	279,783	849,536	40,500	233,332	14,006	12,334	95,165	128,090	970,472	98,881	2,722,099
Total comprehensive loss for the period ended 30th June 2012	–	–	–	(3,946)	–	–	23,230	(7,626)	(37,803)	(5,079)	(31,224)
At 30th June 2012	279,783	849,536	40,500	229,386	14,006	12,334	118,395	120,464	932,669	93,802	2,690,875

The notes on pages 14 to 30 form an integral part of this condensed consolidated financial information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. General information

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

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

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

This unaudited condensed consolidated financial information was approved for issue by the Board on 23rd August 2013.

2. Basis of preparation

This unaudited condensed consolidated financial information for the six months ended 30th June 2013 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. This unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2012, as described in those annual financial statements.

- (a) There are no Standards, amendments, revisions and interpretations to existing Standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.
- (b) Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. Accounting policies (continued)

- (c) The following Standard, amendments and interpretation to existing Standards have been issued but are not effective for financial year beginning 1st January 2013 and have not been early adopted:

		Effective for accounting periods beginning on or after
–	HKAS 32 (Amendment) Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities;	1st January 2014
–	HKAS 36 (Amendment) Recoverable amount disclosures for non-financial assets;	1st January 2014
–	HKFRS 7 and 9 (Amendment) Mandatory Effective Date and Transition Disclosures;	1st January 2015
–	HKFRS 9 Financial Instruments;	1st January 2015
–	HKFRS 10,12 and HKAS 27 (2011) (Amendment) Investment Entities; and	1st January 2014
–	HK(IFRIC) — Int 21 Levies	1st January 2014

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

4. Estimates

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

In preparing this unaudited condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2012.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. Segment information

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

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

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

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

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

The unaudited segment results of the Group for the six months ended 30th June 2013 are as follows:

	Unaudited					Group HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
	Revenue	15,986	87,651	20,691	47,756	
Segment results	14,268	36,388	(8,598)	(36,349)	18,775	24,484
Unallocated net operating expenses						(13,285)
Operating profit						11,199
Finance costs – net						(698)
Share of profits less losses of						
– Associated companies	–	–	–	–	6,001	6,001
– Jointly controlled entities	–	–	–	4,134	739	4,873
Profit before taxation						21,375

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. Segment information (continued)

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

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

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

The unaudited segment assets of the Group as at 30th June 2013 are as follows:

	Unaudited					
	Securities investment	Corporate finance and stockbroking	Property development	Property investment and hotel	Direct investment	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	87,910	2,349,579	652,080	973,055	323,556	4,386,180
Investments in associated companies	–	–	–	–	240,622	240,622
Investments in jointly controlled entities	–	–	–	196,336	40,872	237,208
Tax recoverable						338
Deferred tax assets						14,704
Corporate assets						38,896
Total assets						4,917,948

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. Segment information (continued)

The audited segment assets of the Group as at 31st December 2012 are as follows:

	Audited					Group HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
	Segment assets	247,891	2,071,027	656,723	811,365	
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						<u>4,629,316</u>

6. Other losses — net

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Gain on disposal of interests in subsidiaries	290	—
Loss on disposal of investment properties	(376)	(80)
Fair value losses on investment properties	(17,545)	(57)
Gain on disposal of financial assets at fair value through profit or loss	12,048	—
Net foreign exchange gain/(loss)	3,881	(867)
	<u>(1,702)</u>	<u>(1,004)</u>

7. Operating profit/(loss)

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

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Charging:		
Depreciation	16,552	21,221
Amortisation of leasehold land and land use rights	879	874
Staff costs (Note 9)	84,234	80,736

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. Finance costs – net

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Finance income	7,265	10,894
Finance costs		
– Interest on loans and overdrafts	(11,865)	(11,359)
– Less: amounts capitalised as qualifying assets	3,902	–
Total finance costs	(7,963)	(11,359)
Finance costs - net	(698)	(465)

9. Staff costs

Staff costs, including directors' remuneration, comprise:

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Wages, salaries and allowances	71,100	68,489
Retirement benefit costs	9,293	8,330
Other employee benefits	3,841	3,917
	84,234	80,736

10. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Hong Kong profits tax		
– Current	4,421	5,377
– Under/(over)-provision in previous years	88	(780)
Overseas profits tax		
– Current	803	8,503
– Under-provision in previous years	411	619
Deferred taxation	(8,350)	(1,116)
Taxation (credit)/charge	(2,627)	12,603

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. Earnings/(losses) per share

The calculation of basic and diluted earnings/(losses) per share is based on the Group's profit attributable to shareholders of approximately HK\$21,858,000 (2012: Group's loss attributable to shareholders of approximately HK\$37,803,000). The basic earnings/(losses) per share is based on the weighted average number of 1,398,913,012 (2012: 1,398,913,012) shares in issue during the period.

The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 4,000,897 dilutive potential ordinary shares.

Diluted losses per share for the six months ended 30th June 2012 is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

12. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2013 (2012: Nil).

13. Capital expenditure

	Unaudited			
	Intangible assets HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000
Net book value at 1st January 2013	2,126	391,730	419,495	54,934
Acquisition of a subsidiary	10,988	153,062	—	—
Additions	—	1,810	—	—
Transfer from properties held for sale	—	—	19,125	—
Fair value losses	—	—	(17,545)	—
Disposals	—	(224)	(1,326)	—
Depreciation and amortisation (<i>Note 7</i>)	—	(16,552)	—	(879)
Exchange differences	—	4,638	6,440	558
Net book value at 30th June 2013	13,114	534,464	426,189	54,613

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. Capital expenditure (continued)

	Unaudited			
	Intangible	Property,	Investment	Leasehold land
	assets	plant and	properties	and land use
	HK\$'000	equipment	HK\$'000	rights
		HK\$'000	HK\$'000	HK\$'000
Net book value at 1st January 2012	2,126	423,801	447,570	56,699
Additions	—	3,192	—	—
Transfer from properties held for sale	—	—	13,080	—
Fair value losses	—	—	(57)	—
Disposals	—	(744)	(724)	—
Depreciation and amortisation (Note 7)	—	(21,221)	—	(874)
Exchange differences	—	(3,038)	(2,238)	(180)
Net book value at 30th June 2012	2,126	401,990	457,631	55,645

14. Trade receivables

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Due from stockbrokers and clearing houses	95,523	15,991
Due from stockbroking clients	101,378	114,476
Trade receivables	38,922	29,551
Bills receivable	1,943	3,616
Provision for impairment	237,766 (16,391)	163,634 (16,120)
	221,375	147,514

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. Trade receivables (continued)

At 30th June 2013 and 31st December 2012, the ageing analysis of trade receivables is as follows:

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
0-30 days	211,753	138,646
31-60 days	6,325	7,003
61-90 days	1,979	1,547
Over 90 days	1,318	318
	221,375	147,514

15. Trade and other payables

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Due to stockbrokers and dealers	4,475	53,662
Due to stockbroking clients	1,599,261	1,361,263
Trade payables	33,469	41,768
Total trade payables	1,637,205	1,456,693
Advance receipts from customers	4,037	2,855
Accruals and other payables	94,044	85,808
	1,735,286	1,545,356

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

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$1,417,889,000 (31st December 2012: HK\$1,300,485,000).

Trade and other payables are non-interest bearing except for amounts 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. Trade and other payables (continued)

At 30th June 2013 and 31st December 2012, the ageing analysis of trade payables is as follows:

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
0-30 days	9,955	7,734
31-60 days	5,249	4,396
61-90 days	3,063	4,563
Over 90 days	15,202	25,075
	33,469	41,768

16. Borrowings

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Non-current		
Bank loans — secured	328,566	338,187
Current		
Other loans — unsecured	—	3,700
Bank loans — secured	87,714	11,099
	87,714	14,799
	416,280	352,986

As at 30th June 2013, the Group has pledged certain 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\$675 million (31st December 2012: HK\$665 million) and fixed deposits of approximately HK\$15 million (31st December 2012: HK\$15 million).

Bank borrowings will mature and be repayable in July 2013 to June 2021 and bear floating interest rates. The weighted average effective interest rate at 30th June 2013 was 5.67% (31st December 2012: 6.74%) per annum. The carrying amount of borrowings approximates to its fair value. Out of the total amount, approximately HK\$67 million (31st December 2012: Nil) and HK\$349 million (31st December 2012: HK\$353 million) are denominated in Hong Kong dollars and Renminbi, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17. Share capital

	Unaudited 30th June 2013		Audited 31st December 2012	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.2 each	2,000,000	400,000	2,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK\$0.2 each	1,398,913	279,783	1,398,913	279,783

No share options were exercised under the Employee Share Option Scheme adopted by the Company on 24th May 2002 during the six months ended 30th June 2013 and the year ended 31st December 2012.

18. Business combinations

On 27th June 2013, the Group acquired 100% equity interest of Gold S.A.S. ("Gold"), which owns a country club and resort and operates a 18-hole golf course in France, at a cash consideration of EUR15 million.

In accordance with the HKFRS3 (Revised) "Business Combinations", the Group is required to recognise Gold's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date.

As of the date of this report, verification of individual assets/liabilities of the acquired business is in progress and the Group has not finalised the fair value assessments. The relevant fair value of individual assets/liabilities stated below are based on the director's best estimation and provisional. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded will be adjusted in the consolidated financial statements for the year ending 31st December 2013 upon the finalisation of the purchase price allocation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. Business combinations (continued)

The following table summarises the consideration paid for Gold, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	HK\$'000
Total purchase consideration – cash	151,699

Recognised amounts of identifiable assets acquired and liabilities assumed

	Provisional fair value HK\$'000
Property, plant and equipment	153,062
Inventories	436
Trade receivables	496
Other receivables, prepayments and deposits	424
Cash and cash equivalents	2,562
Trade and other payables	(5,281)
Deferred tax liabilities	(10,988)
Total identifiable net assets	140,711
Goodwill	10,988
	151,699

	HK\$'000
Acquisition-related costs (included in selling, general and administrative expenses in the condensed consolidated income statement for the six months ended 30th June 2013)	9,827

	HK\$'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	151,699
– Cash and cash equivalents in subsidiary acquired	(2,562)
Cash outflow on acquisition	149,137

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. Business combinations (continued)

The fair value of trade receivables is the same as the gross contractual amount to be received.

No revenue and results were included in the Group's condensed consolidated income statement since acquisition. If the acquisition had occurred on 1st January 2013, the Group's consolidated revenue and consolidated profit for the six months ended 30th June 2013 would have been HK\$228,489,000 and HK\$19,192,000 respectively.

19. Commitments

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

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Contracted but not provided for	343,465	336,974
Authorised but not contracted	586,341	570,619

(b) Commitments under operating leases

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

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Not later than one year	17,758	16,184
Later than one year but not later than five years	15,324	15,226
More than five years	5,008	5,036
	38,090	36,446

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. 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:

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Not later than one year	8,578	9,075
Later than one year but not later than five years	6,498	8,158
	15,076	17,233

20. Contingent liabilities

	Unaudited 30th June 2013 HK\$'000	Audited 31st December 2012 HK\$'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (<i>Note</i>)	1,004	2,110

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. Related party transactions

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

	Unaudited Six months ended 30th June	
	2013 HK\$'000	2012 HK\$'000
Fees	810	810
Salaries and other employee benefits	4,000	3,918
Discretionary bonuses	1,100	—
Retirement benefit costs	340	333
	6,250	5,061

22. Financial risk management

22.1 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).

This unaudited condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December 2012.

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

22.2 Fair value estimation

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. Financial risk management (continued)

22.2 Fair value estimation (continued)

The following table presents the unaudited Group's assets that are measured at fair value at 30th June 2013.

	Unaudited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
– listed securities	66,686	–	–	66,686
– unlisted securities	–	–	5,050	5,050
Available-for-sale financial assets				
– listed securities	971	–	–	971
– unlisted securities	–	125,795	620	126,415
	67,657	125,795	5,670	199,122

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

	Audited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
– listed securities	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

For the six months ended 30th June 2013, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

For the six months ended 30th June 2013, there were no reclassifications of financial assets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. Financial risk management (continued)

22.3 Fair value measurement using significant unobservable inputs (Level 3)

	Financial assets at fair value through profit or loss HK\$'000	Available-for-sale financial assets HK\$'000
Opening balance at 1st January 2013	10,183	629
Disposal	(5,133)	—
Exchange difference	—	(9)
Closing balance at 30th June 2013	5,050	620

The fair values were based on the net assets value of the investments.

There were no other changes in valuation techniques during the period.

22.4 Group's valuation processes

The Group's finance department performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values, and reports, discusses and explains the reasons for the fair value movements to the Chief Financial Officer at least for each reporting dates.

The main Level 3 input used by the Group was the net assets value, which approximates to their fair values, of the investments.

The fair values of the following financial assets and liabilities approximate to their carrying amounts:

- loans and advances;
- trade receivables;
- other receivables, prepayments and deposits;
- deposits with banks, client trust bank balances and cash and cash equivalents;
- trade and other payables; and
- borrowings

DISCLOSURE OF INTERESTS

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

At 30th June 2013, the interests of each directors and chief executives in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Interests in respect of the Company:

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

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

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

DISCLOSURE OF INTERESTS

(b) Interests in respect of an associated corporation:

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

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

Share Options

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

DISCLOSURE OF INTERESTS

Movement of share options during the six months ended 30th June 2013 is as follows:

	Options held at		Exercise price HK\$	Date of grant		Vesting period
	1st January 2013 and 30th June 2013			Exercise period		
Directors:						
Mr. LO Yuen Yat	11,944,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Mr. XIN Shulin	8,032,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Mr. YEUNG Wai Kin	11,810,000	0.564	30/11/2005	30/05/2006–11/12/2015	30/11/2005–29/05/2006	
	8,032,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Mr. KWOK Lam Kwong, Larry, B.B.S., J.P.	1,000,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Prof. WOO Chia-Wei	1,000,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Mr. LIU Ji	500,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Mr. YU Qihao	1,000,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
Employees	7,250,000	0.680	03/03/2006	03/03/2008–02/03/2016	03/03/2006–02/03/2008	
	1,000,000	1.950	23/05/2007	23/11/2007–22/05/2017	23/05/2007–22/11/2007	
	<u>51,568,000</u>					

Notes:

- (1) No share options were granted, exercised or lapsed under the Scheme during the six months ended 30th June 2013.
- (2) No share options granted under the Scheme were cancelled during the six months ended 30th June 2013.
- (3) The accounting policy adopted for share options is consistent with that as described in the annual financial statements for the year ended 31st December 2012.

DISCLOSURE OF INTERESTS

Substantial Shareholders' Interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2013, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

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

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

Notes:

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

Purchase, Sale or Redemption of the Company's Shares

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

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2013 (2012: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance With Code On Corporate Governance Practices

The Company has complied with all the code provisions as set out in the code provisions and recommended best practices as stipulated in Appendix 14 (the “CG Code”) of the Listing Rules throughout the period, except for the deviation from code provision A.2.1 of the CG Code.

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.

Nomination Committee

The Nomination Committee was established on 1st March 2012. The Nomination Committee comprises three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe and an executive director, Mr. LO Yuen Yat. The 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.

Remuneration Committee

The Remuneration Committee was established on 30th June 2005. The Remuneration Committee comprises three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe and an executive director, Mr. LO Yuen Yat. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Audit Committee

The Audit Committee was established on 27th December 1998. The Audit Committee comprises the non-executive director, Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* and the four independent non-executive directors, Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohu. The Audit Committee was set up to ensure proper financial reporting and internal control principles are in place and follow.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited consolidated interim results for the six months ended 30th June 2013 for approval by the Board.

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 six months ended 30th June 2013.

By order of the Board

LO Yuen Yat

Chairman

Hong Kong, 23rd August 2013