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## FIRST SHANGHAI INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 227)

### ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2011

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 2011 together with the comparative figures for the corresponding period last year as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30th June	
		2011 HK\$'000	2010 (Restated) HK\$'000
Revenue	4	142,728	116,614
Cost of sales		(75,236)	(53,630)
Gross profit		67,492	62,984
Other gains — net	5	66,631	9,184
Selling, general and administrative expenses		(106,966)	(67,584)
Operating profit	4 and 6	27,157	4,584
Finance income	7	8,681	3,464
Finance costs	7	(342)	(145)
Finance income — net	7	8,339	3,319
Share of profits less losses of			
— Associated companies		(11,432)	(15,854)
— Jointly controlled entities		6,226	6,265
Profit/(loss) before taxation		30,290	(1,686)
Taxation	8	(18,325)	(10,495)
Profit/(loss) for the period		11,965	(12,181)
<b>Attributable to:</b>			
Shareholders of the Company		8,670	(10,673)
Non-controlling interests		3,295	(1,508)
		11,965	(12,181)
<b>Earnings/(losses) per share attributable to shareholders of the Company</b>			
— basic	9	HK\$0.62 cents	HK\$(0.76) cents
— diluted	9	HK\$0.62 cents	HK\$(0.76) cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	<b>11,965</b>	(12,181)
Other comprehensive income/(loss)		
— Fair value loss on available-for-sale financial assets	<b>(14,371)</b>	(45,934)
— Exchange reserve realised for disposal of a subsidiary	<b>(1,121)</b>	(4,588)
— Currency translation differences	<b>27,442</b>	7,218
— Share of post-acquisition reserves of an associated company	<b>(4,998)</b>	3,881
Other comprehensive income/(loss) for the period, net of tax	<b>6,952</b>	(39,423)
Total comprehensive income/(loss) for the period	<b>18,917</b>	(51,604)
<b>Attributable to:</b>		
Shareholders of the Company	<b>13,050</b>	(50,597)
Non-controlling interests	<b>5,867</b>	(1,007)
	<b>18,917</b>	(51,604)

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited 30th June 2011 HK\$'000	Audited 31st December 2010 HK\$'000
<b>Non-current assets</b>			
Intangible assets		2,126	2,126
Property, plant and equipment		427,029	369,626
Investment properties		405,254	268,152
Leasehold land and land use rights		60,342	59,292
Investments in associated companies		376,837	383,914
Investments in jointly controlled entities		219,801	208,723
Deferred tax assets		4,298	10,152
Available-for-sale financial assets		148,918	162,587
Loans and advances		16,644	21,993
<b>Total non-current assets</b>		<u>1,661,249</u>	<u>1,486,565</u>
<b>Current assets</b>			
Properties under development		289,384	235,807
Properties held for sale		294,967	378,355
Inventories		6,006	555
Loans and advances		325,549	345,822
Trade receivables	11	142,709	205,736
Other receivables, prepayments and deposits		35,744	34,131
Tax recoverable		2,284	3,205
Financial assets at fair value through profit or loss		304,278	330,239
Deposits with banks			
— secured		6,497	15,000
— unsecured		46,383	26,611
Client trust bank balances		1,517,226	1,143,906
Cash and cash equivalents		544,551	527,151
<b>Total current assets</b>		<u>3,515,578</u>	<u>3,246,518</u>
<b>Current liabilities</b>			
Trade and other payables	12	1,903,811	1,552,847
Tax payable		34,970	29,209
Borrowings		45,693	27,030
<b>Total current liabilities</b>		<u>1,984,474</u>	<u>1,609,086</u>
<b>Net current assets</b>		<u>1,531,104</u>	<u>1,637,432</u>
<b>Total assets less current liabilities</b>		<u>3,192,353</u>	<u>3,123,997</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		43,144	37,427
Borrowings		264,543	206,832
<b>Total non-current liabilities</b>		<u>307,687</u>	<u>244,259</u>
<b>Net assets</b>		<u>2,884,666</u>	<u>2,879,738</u>
<b>Equity</b>			
Share capital		279,783	279,783
Reserves		2,496,920	2,497,859
Capital and reserves attributable to the Company's shareholders		2,776,703	2,777,642
Non-controlling interests		107,963	102,096
<b>Total equity</b>		<u>2,884,666</u>	<u>2,879,738</u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

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

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

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

This unaudited condensed consolidated financial information is presented in thousands of units of Hong Kong dollars (HK\$’000), unless otherwise stated.

This unaudited condensed consolidated financial information was approved for issue by the Board on 26th August 2011.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30th June 2011 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 2010, 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 2010, as described in those annual financial statements.

### (a) Amendment to existing Standard adopted by the Group

HKAS 34 (Amendment), “Interim Financial Reporting” is effective for annual periods beginning on or after 1st January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

### (b) The following amendments, revision and interpretations to existing Standards are mandatory for the first time for financial year beginning 1st January 2011 but are not relevant to the Group’s operations:

- HKAS 24 (Revised)            Related Party Disclosures;
- HKAS 32 (Amendment)      Classification of Rights Issues;
- HKFRS 1 (Amendment)      Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters;
- HK(IFRIC) — Int 14        Prepayments of a Minimum Funding Requirement;  
    (Amendment)
- HK(IFRIC) — Int 19        Extinguishing Financial Liabilities with Equity Instruments; and
- Third improvements to HKFRSs (2010) published by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except for HKAS 34 (Amendment), “Interim Financial Reporting” as disclosed in Note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

- (c) The following Standards and amendments to existing Standards have been issued but are not effective for financial year beginning 1st January 2011 and have not been early adopted:

		<b>Effective for accounting periods beginning on or after</b>
—	HKAS 1 (Amendment)	Presentation of Financial Statements; 1st July 2012
—	HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets; 1st January 2012
—	HKAS 19 (Amendment)	Employee Benefits; 1st January 2013
—	HKFRS 1 (Amendment)	Disclosures — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; 1st July 2011
—	HKFRS 7 (Amendment)	Disclosures — Transfer of Financial Assets; 1st July 2011
—	HKFRS 9	Financial Instruments; 1st January 2013
—	HKFRS 10	Consolidated Financial Statements; 1st January 2013
—	HKFRS 11	Joint Arrangements; 1st January 2013
—	HKFRS 12	Disclosure of Interests in Other Entities; and 1st January 2013
—	HKFRS 13	Fair Value Measurements 1st January 2013

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

#### 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

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 2011 are as follows:

	Unaudited					Group HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
	Revenue	<u>(11,647)</u>	<u>71,834</u>	<u>23,346</u>	<u>36,637</u>	
Segment results	<u>(15,324)</u>	<u>23,861</u>	<u>(1,138)</u>	<u>40,854</u>	<u>(9,786)</u>	<u>38,467</u>
Unallocated net operating expenses						<u>(11,310)</u>
Operating profit						<u>27,157</u>
Finance income — net						<u>8,339</u>
Share of profits less losses of						
— Associated companies	—	—	—	—	(11,432)	(11,432)
— Jointly controlled entities	—	—	—	3,984	2,242	<u>6,226</u>
Profit before taxation						<u>30,290</u>
Taxation						<u>(18,325)</u>
Profit for the period						<u><u>11,965</u></u>

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

The unaudited segment results of the Group for the six months ended 30th June 2010 are as follows:

	Unaudited					Group (Restated) HK\$'000
	Securities investment HK\$'000	Corporate finance and stockbroking (Restated) HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	
	Revenue	<u>(17,138)</u>	<u>93,751</u>	<u>33,642</u>	<u>2,778</u>	
Segment results	<u>(19,376)</u>	<u>44,164</u>	<u>6,898</u>	<u>(6,136)</u>	<u>(8,738)</u>	<u>16,812</u>
Unallocated net operating expenses						<u>(12,228)</u>
Operating profit						<u>4,584</u>
Finance income — net						<u>3,319</u>
Share of profits less losses of						
— Associated companies	—	—	—	—	(15,854)	(15,854)
— Jointly controlled entities	—	—	—	3,376	2,889	<u>6,265</u>
Loss before taxation						<u>(1,686)</u>
Taxation						<u>(10,495)</u>
Loss for the period						<u><u>(12,181)</u></u>

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

The unaudited segment assets of the Group as at 30th June 2011 are as follows:

	Unaudited					
	Securities investment	Corporate finance and stockbroking	Property development	Property investment and hotel	Direct investment	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	301,953	2,327,746	697,607	834,728	364,335	4,526,369
Investments in associated companies	—	—	—	—	376,837	376,837
Investments in jointly controlled entities	—	—	—	183,342	36,459	219,801
Tax recoverable						2,284
Deferred tax assets						4,298
Corporate assets						47,238
Total assets						<u>5,176,827</u>

The audited segment assets of the Group as at 31st December 2010 are as follows:

	Audited					
	Securities investment	Corporate finance and stockbroking	Property development	Property investment and hotel	Direct investment	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	365,012	1,971,579	676,617	722,888	324,070	4,060,166
Investments in associated companies	—	—	—	—	383,914	383,914
Investments in jointly controlled entities	—	—	—	175,282	33,441	208,723
Tax recoverable						3,205
Deferred tax assets						10,152
Corporate assets						66,923
Total assets						<u>4,733,083</u>

## 5. OTHER GAINS — NET

	Unaudited	
	Six months ended 30th June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/gain on disposal of interests in subsidiaries	(1,121)	5,654
Loss on deemed disposal of an associated company	(836)	—
Gain on disposal of investment properties	1,863	—
Fair value gains on investment properties	57,303	—
Net foreign exchange gain	9,422	3,530
	<u>66,631</u>	<u>9,184</u>

## 6. OPERATING PROFIT

The following items have been charged to the operating profit during the interim period:

	Unaudited	
	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
<b>Charging:</b>		
Depreciation	15,281	3,668
Amortisation of leasehold land and land use rights	1,191	1,692
Staff costs	75,568	45,231
	<u>75,568</u>	<u>45,231</u>

## 7. FINANCE INCOME — NET

	Unaudited	
	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
Finance income		
— Interest income on bank deposits	4,505	2,693
— Other interest income	4,176	771
	<u>8,681</u>	<u>3,464</u>
Finance costs		
— Interest on loans and overdrafts	(8,861)	(1,866)
— Less: amounts capitalised as qualifying assets	8,519	1,721
	<u>(342)</u>	<u>(145)</u>
Finance income — net	<u>8,339</u>	<u>3,319</u>

## 8. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited	
	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
Hong Kong profits tax		
— Current	3,062	6,511
— Over-provision in previous years	(192)	(3)
Overseas profits tax		
— Current	3,986	2,864
— (Over)/under-provision in previous years	(102)	762
Deferred taxation	11,571	361
Taxation charge	<u>18,325</u>	<u>10,495</u>



## 9. 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\$8,670,000 (2010: Group's loss attributable to shareholders of approximately HK\$10,673,000). The basic earnings/(losses) per share is based on the weighted average number of 1,398,913,012 (2010: 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 8,360,049 dilutive potential ordinary shares.

Diluted losses per share for the six months ended 30th June 2010 is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

## 10. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2011 (2010: HK\$ Nil).

## 11. TRADE RECEIVABLES

	Unaudited 30th June 2011 HK\$'000	Audited 31st December 2010 HK\$'000
Due from stockbrokers and clearing houses	6,819	85,449
Due from stockbroking clients	104,032	90,768
Trade receivables	48,139	45,453
	<u>158,990</u>	<u>221,670</u>
Provision for impairment	(16,281)	(15,934)
	<u>142,709</u>	<u>205,736</u>

At 30th June 2011 and 31st December 2010, the ageing analysis of trade receivables is as follows:

	Unaudited 30th June 2011 HK\$'000	Audited 31st December 2010 HK\$'000
0-30 days	136,422	203,089
31-60 days	3,004	1,361
61-90 days	1,211	681
Over 90 days	2,072	605
	<u>142,709</u>	<u>205,736</u>

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.

## 12. TRADE AND OTHER PAYABLES

	<b>Unaudited</b> <b>30th June</b> <b>2011</b> <i>HK\$'000</i>	Audited 31st December 2010 <i>HK\$'000</i>
Due to stockbrokers and dealers	—	1,758
Due to stockbroking clients	<b>1,712,309</b>	1,308,608
Trade payables	<b>93,171</b>	164,426
	<hr/>	<hr/>
Total trade payables	<b>1,805,480</b>	1,474,792
Advance receipts from customers	<b>32,902</b>	7,485
Accruals and other payables	<b>65,429</b>	70,570
	<hr/>	<hr/>
	<b>1,903,811</b>	1,552,847
	<hr/> <hr/>	<hr/> <hr/>

At 30th June 2011 and 31st December 2010, the ageing analysis of trade payables is as follows:

	<b>Unaudited</b> <b>30th June</b> <b>2011</b> <i>HK\$'000</i>	Audited 31st December 2010 <i>HK\$'000</i>
0–30 days	<b>66,029</b>	136,159
31–60 days	<b>3,382</b>	6,943
61–90 days	<b>2,333</b>	1,877
Over 90 days	<b>21,427</b>	19,447
	<hr/>	<hr/>
	<b>93,171</b>	164,426
	<hr/> <hr/>	<hr/> <hr/>

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 clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$1,524,807,000 (31st December 2010: HK\$1,158,889,000).

Trade and other payables are non-interest bearing except for the amount due to stockbroking clients which bear interest at the rate with reference to the bank deposit savings rate.

### 13. BUSINESS COMBINATION

On 11th January 2011, the Group acquired the business from Sirton Pharmaceuticals S.p.A., a pharmaceutical manufacturing company, for a cash consideration of HK\$40,908,000. The acquired business contributed revenue of HK\$17,957,000 and net loss of HK\$8,925,000 to the Group for the period from the date of acquisition to 30th June 2011. If the acquisition had occurred on 1st January 2011, consolidated revenue and consolidated profit for the six months ended 30th June 2011 would have been HK\$142,728,000 and HK\$11,965,000 respectively.

Details of net assets acquired and gain from a bargain purchase are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
— Cash paid	40,908
Fair value of net assets acquired	<u>(43,954)</u>
Gain from a bargain purchase	<u><u>(3,046)</u></u>

The assets and liabilities at 11th January 2011 arising from the acquisition are as follows:

	<b>Fair value</b> <i>HK\$'000</i>
Property, plant and equipment	50,430
Available-for-sale financial assets	633
Inventories	2,725
Other receivables, prepayments and deposits	45
Trade and other payables	<u>(9,879)</u>
Fair value of net assets acquired	<u><u>43,954</u></u>

	<i>HK\$'000</i>
Acquisition-related costs (included in selling, general and administrative expenses in the condensed consolidated income statement for the period ended 30th June 2011)	<u><u>1,535</u></u>

	<i>HK\$'000</i>
Cash consideration and total net cash outflow on acquisition	<u><u>(40,908)</u></u>

## **BUSINESS REVIEW**

In the first half of 2011, the global economy became more complicated and the world's overall economic growth showed signs of slowdown. Despite the consistent accommodative monetary policies implemented by the US Government, the US economic growth was still slow and the unemployment problems were still fatal, which headlined the worries of a double-dip in the economy. The Euro Zone market was still threatened by the intensified sovereign debt crisis, even after the debt restructuring of Greece. Although the economy of Chinese Mainland maintained a stable growth, the inflationary pressure was notable. Market was cautious about the series of tightening fiscal measures launched by the Chinese Central Government.

The Hong Kong securities and property markets rose initially amid optimism over a robust economic outlook and solid corporate earnings. However, the earthquake and nuclear crisis in Japan in mid-March resulted in a retreat in the market. Furthermore, lingering with the concerns over austerity measures in the Chinese Mainland and the announcement of numerous policies targeting to cool down the local property market by the Hong Kong Government, the market gains were mostly erased.

The Group reported consolidated net profit attributable to shareholders of the Company of approximately HK\$9 million for the six months ended 30th June 2011, comparing with a net loss of approximately HK\$11 million for the corresponding period in 2010. The Group's performance was mainly attributable to the contribution by the corporate finance and stockbroking business and the appreciation of the group's investment properties. However, this gain was partially trimmed with the fair value loss reported by the portfolio investment in various financial assets and the operating loss reported by our pharmaceutical and hotel businesses, both are still at initial investment stage. The Group's consolidated revenue raised by 22% to approximately HK\$143 million due to the consolidation of our growing pharmaceutical and hotel businesses. The total net assets of the Group remain steady, reported approximately HK\$2,885 million and HK\$2,880 million as at 30th June 2011 and 31st December 2010 respectively.

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**

Given the strong interconnections with the Chinese market, the Hong Kong securities markets rose initially amid optimism over a robust economic outlook and solid corporate earnings. However, with the earthquake and nuclear crisis in Japan in mid-March and the enforcement of various tightening fiscal measures by the Chinese Central Government, the local stock market underwent fluctuations during the first half of 2011. Overall, Hang Seng Index moved within a narrow range, ending at 22,398 at 30th June 2011, down from 23,035 at 31st December 2010. Investors remain cautious and risk appetite shrank, hence dampened the daily market turnover of an average of approximately HK\$74 billion, representing a 15% decrease from the corresponding period of 2010.

Amid the market volatility, stockbroking business was less optimal than expected at the beginning of the year. During the reporting period, brokerage commission reduced, vulnerable to the contraction in trading volume of retail customers. The intensive market competition among pricing also had negative impact on brokerage commission income. Our securities brokerage business reported an operating profit of approximately HK\$24 million in 2011, dropped approximately 46% from the corresponding period of 2010. Our secondary fund raising activities, one of the major profit generators in 2010, dwindled following the unstable market sentiment, resulting in a decrease in underwriting and placing commission income for the period. Total margin loan size remained relatively stable when compared with 2010. Our securities investment business reported a fair value loss of approximately HK\$15 million tracking the stock price consolidations which began in the second quarter of 2011 and became notable in June, following the introduction of various tightening measures implemented by the Chinese Central Government to contain high inflation rate and overheated property market.

Our corporate finance division continued to be an active player in the financial advisory market for the six months ended 30 June 2011. During the period, we acted as a joint sponsor of Modern Education Group Limited (Stock Code: 1082) in relation to its initial public offering in Hong Kong with a total fund raising amount of approximately HK\$151 million. In addition, we have completed 14 corporate financial advisory cases and acted as compliance advisors to four Hong Kong listed companies during the period. On our pipeline, we are currently engaged in a variety of corporate financial advisory deals, which include sponsorships of initial public offerings.

Leveraging on our expertise in the industry and the synergy brought by our full range of financial services including securities investment and stockbroking, we will continue to actively pursue opportunities in our financial advisory services, IPO sponsorships and fund raising in the secondary market, point to strengthen our market niche.

### **Property and Hotel**

During 2011, selling prices in the Chinese property market sustained an upward spiral trend. The Chinese Central Government, concerned about overheating in the economy and persistent inflationary trends, had implemented additional and stricter measures to tighten the market liquidity and to suppress the rising property prices, spreading from first-tier cities to second and third-tier cities. Following the implementation of the new “Eight measures of the State Council” and the properties purchase restrictions policy, the property sales volume has decreased and the growth trend in the property market has slowed down greatly in recent months. Though the impact of these tightening measures is not likely to swell in the short term, the future macro-economy should grow at a more acceptable rate. The Group remains conservatively optimistic about the medium and long term development of the industry with a belief that massive genuine housing demand is strong.

The Group is currently participating in six projects with total GFA (gross floor area) of approximately 419,000 square meters. The Group will continue to develop properties in fast growing second-tier cities in the Chinese Mainland, especially in the Yangtze River Delta region. We will continue to focus on developing and operating property projects ranging from commercial parks, hotels and serviced apartments to recreation resorts.

During the reporting period, the Group recognised GFA and gross income amounted to approximately 6,000 square meters and HK\$58 million respectively from the property development business, attributable mainly to the office and industrial project in Wuxi. Capital expenditure for property projects incurred for the period was approximately HK\$78 million.

### **Direct Investment**

China Assets (Holdings) Limited (“China Assets”) continues to be the major investment of our Direct Investment Sector. During the period, the overall result of China Assets was adversely affected by the fair value loss in its investment in a convertible bond. For the reporting period, China Assets recorded net loss and decrease in investment reserve attributable to the Group of approximately HK\$2 million and HK\$5 million respectively.

In early 2011, we have increased our exposure to the pharmaceutical business. Since the business was still under development and operational consolidation and net operating loss was reported during the first half of 2011. However, while pharmaceutical industry is expected to undergo transformational development with the favorable government policy, we are confident that it will bring in respectable contributions to the Group. We may even enlarge our presence in the industry to optimise our investment synergy.

## **PROSPECTS**

Market conditions in 2011 were still challenging. Global financial issues are not expected to be figured out in the short run. We are conservative about prospects in financial and property markets. Nevertheless, we believe the Chinese Central Government will consistently maintain a stable macro-economic policy and persist with its proactive but moderate fiscal and monetary policies that will reinforce economic growth at an accelerating and healthy momentum. The economy in Hong Kong, being strongly supported by the Chinese Central Government as an international financial centre and the regional base of offshore Renminbi business, will be apparently benefited.

The Group will adhere to its business strategy, while closely monitoring trends in the macro economy and regulatory environment, we can effectively respond to changes in a timely manner. Using the strength of our brand recognition and business network, the Group will continue the pace of its expansion in both the financial services and property development industries in Hong Kong and the Chinese Mainland. We will devote more efforts to harnessing potential market demand by enhancing the quality of our products and services, capitalising on our professional team and refining our operational efficiency to strengthen market penetration and capture future business opportunities. Meanwhile, we will continue to pursue, with an active and prudent approach, strategic direct investment projects with the aim to optimise returns to the Company and its shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial results**

For the six months ended 30th June 2011, the Group recorded a net profit and basic earnings per share attributable to shareholders of the Company amounting to approximately HK\$9 million and HK\$0.62 cents respectively, compared with a net loss and basic losses per share attributable to shareholders of the Company of approximately HK\$11 million and HK\$0.76 cents respectively in the corresponding period of 2010. Revenue of the Group was approximately HK\$143 million, representing an increase by 22% over the same period of 2010.

### **Material acquisitions, disposals and significant investments**

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

### **Liquidity and financial resources**

The Group relies principally on its internal resources to fund its operations and investment activities. Bank loans will be raised occasionally to meet the different demands of our various property projects and our financial services business. As at 30th June 2011, the Group had raised bank loans of approximately HK\$310 million and held approximately HK\$597 million cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 10.8%. Investment in "financial assets at fair value through profit or loss" as at 30th June 2011 amounted to approximately HK\$304 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. The Group expects that Renminbi will appreciate in a stable pattern for the remaining period of 2011. 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\$825 million (31st December 2010: HK\$657 million) and fixed deposits of approximately HK\$16 million (31st December 2010: HK\$15 million) against its bank loans and general banking facilities. The banking facilities amounting approximately HK\$308 million (31st December 2010: HK\$230 million) had been utilised.

## **Human resources**

As at 30th June 2011, the Group employed 775 (30th June 2010: 428) staff, of whom 650 are located in Chinese Mainland. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the six months ended 30th June 2011 amounted to approximately HK\$76 million.

## **Contingent liabilities**

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for purchasers of the Group's properties in Chinese Mainland. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 30th June 2011, total contingent liabilities relating to these guarantees amounted to approximately HK\$0.4 million (31st December 2010: HK\$19 million).

## **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 2011 (2010: HK\$ Nil).

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

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

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

#### **AUDIT COMMITTEE**

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

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited consolidated interim results for the six months ended 30th June 2011 for approval by the Board.

#### **REMUNERATION COMMITTEE**

A Remuneration Committee, now comprising three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe and an executive director, Mr. LO Yuen Yat, was established on 30th June 2005. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes. Meetings will be held in the second half of this year to discuss the above for the year of 2011 in details.

#### **COMPLIANCE WITH THE MODEL CODE**

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

#### **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises three executive directors, being Mr. LO Yuen Yat, Mr. XIN Shulin and Mr. YEUNG Wai Kin, one non-executive director, Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* and four independent non-executive directors, being Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe.

By order of the Board  
**LO Yuen Yat**  
*Chairman*

Hong Kong, 26th August 2011