



Far East Holdings International Limited

Stock Code : 36

INTERIM REPORT
2013

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Executive Directors

Deacon Te Ken Chiu, J.P. (Chairman)

Mr. Derek Chiu

Mr. Richard Yen (Managing Director and
Chief Executive Officer)

Mr. Ip Ngai Sang

Non-executive Director

Mr. Desmond Chiu

Independent Non-executive Directors

Dr. Lam Lee G.

Mr. Eugene Yun Hang Wang

Mr. Lee Kwan Hung

COMPANY SECRETARY

Miss Man Tsz Sai Lavender

LEGAL ADVISERS

Sit, Fung, Kwong & Shum
King & Wood Mallesons

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Derek Chiu

Miss Man Tsz Sai Lavender

AUDIT COMMITTEE

Dr. Lam Lee G. (Chairman)

Mr. Eugene Yun Hang Wang

Mr. Lee Kwan Hung

REMUNERATION COMMITTEE

Dr. Lam Lee G. (Chairman)

Mr. Derek Chiu

Mr. Eugene Yun Hang Wang

NOMINATION COMMITTEE

Mr. Eugene Yun Hang Wang (Chairman)

Mr. Derek Chiu

Dr. Lam Lee G.

INVESTMENT COMMITTEE

Dr. Lam Lee G. (Chairman)

Mr. Derek Chiu

Mr. Eugene Yun Hang Wang

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

16th Floor, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

PRINCIPAL OFFICE

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Far East Consortium Building
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SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

Shops 1712–1716

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

LISTING INFORMATION

Stock Code: 36

Board Lot: 3000

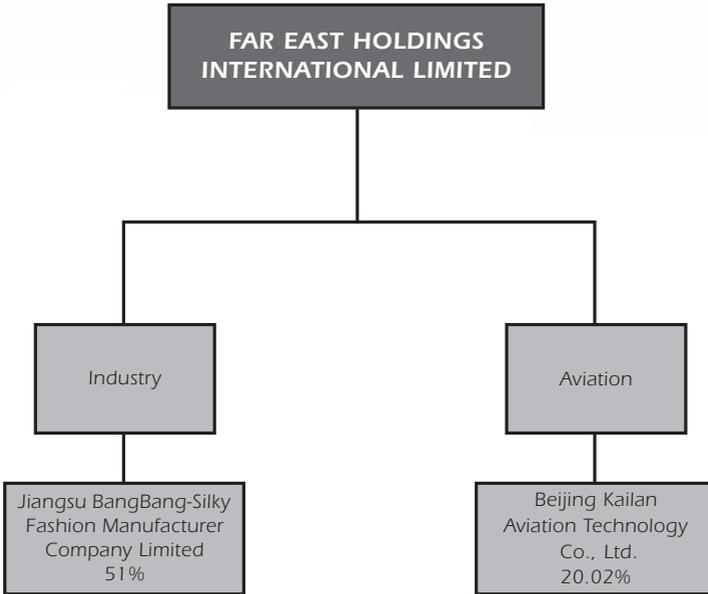
WEBSITE

<http://www.feholdings.com.hk>

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CORPORATE PROFILE



MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE RESULTS

For the six months period ended 30th June, 2013 (the "Period"), the operating activities of Far East Holdings International Limited (the "Company", together with its subsidiaries, the "Group") recorded a revenue of approximately HK\$7.93 million (30th June, 2012: HK\$8.09 million), representing a decrease of 1.98% over the corresponding period in 2012.

Loss attributable to owners of the Company for the Period amounted to approximately HK\$9.0 million (30th June, 2012: HK\$1.40 million).

The basic loss per share for the Period is 2.07 HK cents (30th June, 2012: basic loss per share of 0.41 HK cents).

However, substantial increase in the fair value of available-for-sale investments brings the total comprehensive income attributable to the owners of the Company for the Period to approximately HK\$30.76 million (30th June, 2012: total comprehensive expense amounted to approximately HK\$32.48 million).

BUSINESS REVIEW AND PROSPECTS

Business Review

The Group's core business continues to be in the People's Republic of China (the "PRC"). The major business activities include manufacturing and export of garment products, as well as aviation parts production, sales and maintenance services.

Garment Manufacturing Industry

Jiangsu BangBang-Silky Fashion Manufacturer Company Limited ("JBB")

For the Period, JBB recorded revenue of approximately HK\$7.93 million (30th June, 2012: HK\$8.09 million), representing a decrease of approximately 1.98% as compared to the same period in 2012 and loss before taxation of HK\$0.88 million (30th June, 2012: HK\$1.98 million).

The macro environment of the garment industry continues to face challenges such as increasing material and labor costs. The market condition in Japan and Europe has yet to improve and demand for children's wear remains low. Despite JBB's effort to cut costs, pricing pressure continues to mount as the US currency increases in value against other currency except Renminbi ("RMB").

Aviation Parts and Services Holdings

Beijing Kailan Aviation Technology Co., Ltd. ("BKAT")

For the Period, profit attributable to shareholders of BKAT was approximately RMB1.77 million (30th June, 2012: RMB1.20 million), representing an increase of approximately 47.50% over that of the last period which mainly due to the gain on fair value in long-term equity investments.

BKAT believed that the demand for aviation equipment, parts and maintenance services will grow gradually in the PRC. However, the aviation industry is increasingly competitive and price sensitivity is increasing rapidly. Despite BKAT's effort to expand, revenue growth and profit margin are affected by the higher material, fuel, and labor costs.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Event after the Period

On 22nd August, 2013, the Company announced that the Company has a preliminary intention to dispose of 20.02% equity interest in the capital of BKAT, a joint venture engaging in aviation related business in the PRC, to a third party independent of the Company and its connected person (the "Proposed Disposal"). The Company was in discussion and negotiation with other party in respect of the Proposed Disposal.

Up to the date of this report, no agreement in relation to the Proposed Disposal has been reached yet. It is likely that the Proposed Disposal may constitute a notifiable transaction for the Company under Chapter 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Further announcement(s) will be made as and when necessary in accordance with the Listing Rules and the applicable laws and regulations.

Prospects

While there are some sign that suggests recovery in the US and Japan markets, it will be some time before consumer confidence and consumption have significant impact on children's wear order placement. There are fundamental issues in the manufacturing sector, such as rising costs and shortage of suitable labor, which the management team is tackling daily.

The Company recognizes the need to change and adapt while the market environment continues to evolve. Therefore, the management is looking for other opportunities in other industries that may provide a better growth prospect. Nonetheless, the Company continues to have faith and focus on opportunities in the region.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2013, the Group had cash and bank balances and deposits held at financial institutions amounting to HK\$113.12 million (31st December, 2012: HK\$96.0 million). Fundamentally, the Group's funding policy was to finance the business operations with internally net generated cash and bank facilities. As at 30th June, 2013, the Group had no bank and other loans (31st December, 2012: Nil).

Gearing Ratio

As the Group did not have any interest bearing bank loans, the Group was in net cash position during the six months period ended 30th June, 2013 (31st December, 2012: Nil), no gearing ratio information was presented.

Current Ratio

The Group's current ratio (current assets to current liabilities) as at 30th June, 2013 increased to 43.11 (31st December, 2012: 33.16). On the whole, the financial position and liquidity of the Group remained stable.

Capital Structure

An open offer was completed and a total of 151,418,943 offer shares were issued on 31st January, 2013. As a result, the total number of issued ordinary shares of the Company increased to 454,256,829 shares. As at 30th June, 2013, the total number of issued ordinary shares of the Company was 454,256,829 shares.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Exposure on Foreign Exchange Fluctuations

The Group had no significant exposure to foreign exchange fluctuation during the Period.

Charges over Assets of the Group

As at 30th June, 2013, the Group did not have any charges on its assets (31st December, 2012: Nil).

Contingent Liabilities

As at 30th June, 2013, the Group did not have any material contingent liabilities (31st December, 2012: Nil).

Capital Commitments

As at 30th June, 2013, the Group had no significant capital commitments (31st December, 2012: Nil).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the Period, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Disposal of Available-For-Sale Investments

On 24th May, 2013, the Company and Mr. Chu Kar Cheong (the "Purchaser"), who held 1,000 shares of Market Talent Limited, representing approximately 81.90% of the entire issued share capital of Market Talent Limited, entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Company conditionally agreed to sell the 221 shares of Market Talent Limited, representing approximately 18.10% of the entire issued share capital of Market Talent Limited, at a cash consideration of HK\$2,800,000. The transaction was completed on 17th June, 2013.

Employees and Remuneration Policy

As at 30th June, 2013, the Group had approximately 203 employees in Hong Kong and the PRC (31st December, 2012: approximately 210 employees). The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employee. Year-end discretionary bonus would be paid to reward and motivate those well performed employees. The Group adopted a share option scheme on 23rd May, 2005 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive Directors) and business consultants, agents and legal or financial advisors who will contribute or have contributed to the Company or any of its subsidiaries. On 16th April, 2013, the Company granted share options (the "Share Options") to the eligible participants (the "Grantees") to subscribe for a total of 18,170,270 ordinary shares of HK\$0.01 each (the "Shares") in the capital of the Company at an exercise price of HK\$0.27 per Share, which are exercisable from 16th April, 2013 to 15th April, 2023 (both days inclusive).

INTERIM DIVIDEND

No dividends were paid, declared or proposed during the Period. The Directors do not recommend the payment of an interim dividend.

DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR ANY ASSOCIATED CORPORATION

As at 30th June, 2013, the interests and short positions of the Directors and their associates in the Shares and underlying Shares or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Long position in the Shares and underlying Shares

Name of Director	Number of Shares				Total	Approximate ⁽⁴⁾ percentage of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Equity ⁽³⁾ derivatives (share options)		
Deacon Te Ken Chiu, J.P. ("Deacon Chiu, J.P.")	20,848,664	4,175,160 ⁽¹⁾	1,869,366 ⁽²⁾	-	26,893,190	5.920%
Mr. Derek Chiu	88,440	-	-	3,179,797	3,268,237	0.720%
Mr. Richard Yen ("Mr. Yen")	-	-	-	4,542,568	4,542,568	1.000%
Mr. Ip Ngai Sang ("Mr. Ip")	-	-	-	1,817,027	1,817,027	0.400%
Mr. Desmond Chiu	4,000	-	-	-	4,000	0.001%
Dr. Lam Lee G. ("Dr. Lam")	-	-	-	1,817,027	1,817,027	0.400%
Mr. Eugene Yun Hang Wang ("Mr. Wang")	-	-	-	1,817,027	1,817,027	0.400%
Mr. Lee Kwan Hung ("Mr. Lee")	-	-	-	1,817,027	1,817,027	0.400%

Notes:

- (1) These Shares were held by Madam Chiu Ju Ching Lan, spouse of Deacon Chiu, J.P.. By virtue of the SFO, Deacon Chiu, J.P. was deemed to be interested in the Shares held by Madam Chiu Ju Ching Lan.
- (2) These Shares were held by the various companies which were wholly and beneficially owned by Deacon Chiu, J.P.. By virtue of the SFO, Deacon Chiu, J.P. was deemed to be interested in the Shares held by the various companies.
- (3) The interests of the Directors in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the section headed "SHARE OPTION SCHEME".
- (4) The percentage is calculated on the basis of 454,256,829 Shares in issue as at 30th June, 2013.

Save as disclosed above, as at 30th June, 2013, none of the Directors and their associates had any interests or short positions in the Shares and underlying Shares or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the Period under review, the Directors (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares or associated corporation required to be disclosed pursuant to the SFO.

DISCLOSURE OF ADDITIONAL INFORMATION

SUBSTANTIAL SHAREHOLDERS INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30th June, 2013, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executives of the Company) in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the Shares and underlying Shares

	Number of Shares			Total	Approximate ⁽³⁾ percentage of the issued share capital of the Company
	Personal Interests	Family Interests	Corporate Interests		
Mr. Duncan Chiu	100,169,369	–	–	100,169,369	22.05%
Mr. Daniel Tat Jung Chiu	4,840,000	–	22,880,088 ⁽¹⁾	27,720,088	6.10%
Madam Chiu Ju Ching Lan	4,175,160	22,718,030 ⁽²⁾	–	26,893,190	5.92%

Notes:

- (1) Out of the 22,880,088 Shares, 4,400,000 Shares were held by Cape York Investments Limited ("Cape York"), 50% of which was owned by Mr. Daniel Tat Jung Chiu, and the remaining 18,480,088 Shares were held by Gorich Holdings Limited ("Gorich"), which was wholly owned by Mr. Daniel Tat Jung Chiu. By virtue of the SFO, Mr. Daniel Tat Jung Chiu was deemed to be interested in the Shares held by Cape York and Gorich.
- (2) These Shares were held by Deacon Chiu, J.P., spouse of Madam Chiu Ju Ching Lan. By virtue of the SFO, Madam Chiu Ju Ching Lan was deemed to be interested in the Shares held by Deacon Chiu, J.P.. The interests of Deacon Chiu, J.P. in the Company was stated under the section headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR ANY ASSOCIATED CORPORATION" above.
- (3) The percentage is calculated on the basis of 454,256,829 Shares in issue as at 30th June, 2013.

Save as disclosed above, as at 30th June, 2013, there were no persons or corporations (other than the Directors and the chief executives of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

DISCLOSURE OF ADDITIONAL INFORMATION

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company pursuant to a resolution passed on 23rd May, 2005 for the purpose of providing incentives and rewards to employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors or any of its subsidiaries) and business consultants, agents and legal or financial advisers or other suppliers of goods or services who in the sole discretion of the Board, will contribute or have contributed to the success and/or growth of the Company or any of its subsidiaries.

On 16th April, 2013, the Company granted share options to the eligible participants to subscribe for a total of 18,170,270 ordinary shares of HK\$0.01 each in the capital of the Company at an exercise price of HK\$0.27 per Share, which are exercisable from 16th April, 2013 to 15th April, 2023 (both days inclusive).

Movements relating to the options granted under the Share Option Scheme during the Period were as follows:

Name or category of participant	Date of grant	Exercise price	Exercise period	Movement of shares options during the Period				As at 30/06/2013
				As at 01/01/2013	Granted	Exercised	Lapsed/ cancelled/ forfeited	
<i>Continuous Contract Employees</i>	21/04/2006	0.5032*	23/05/2006–22/05/2016	660,000	-	-	-	798,864*
	16/04/2013	0.5032*	23/05/2007–22/05/2017	660,000	-	-	-	798,864*
		0.2700	16/04/2013–15/04/2023	-	3,179,797	-	-	3,179,797
<i>Directors</i>								
— Mr. Derek Chiu	16/04/2013	0.2700	16/04/2013–15/04/2023	-	3,179,797	-	-	3,179,797
— Mr. Yen	16/04/2013	0.2700	16/04/2013–15/04/2023	-	4,542,568	-	-	4,542,568
— Mr. Ip	16/04/2013	0.2700	16/04/2013–15/04/2023	-	1,817,027	-	-	1,817,027
— Dr. Lam	16/04/2013	0.2700	16/04/2013–15/04/2023	-	1,817,027	-	-	1,817,027
— Mr. Wang	16/04/2013	0.2700	16/04/2013–15/04/2023	-	1,817,027	-	-	1,817,027
— Mr. Lee	16/04/2013	0.2700	16/04/2013–15/04/2023	-	1,817,027	-	-	1,817,027

* The number of share options and the exercise price had been adjusted as a result of the open offer completed on 31st January, 2013.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled or forfeited during the Period.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR ANY ASSOCIATED CORPORATION" above, at no time during the Period and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF ADDITIONAL INFORMATION

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

COMPETING INTERESTS

During the Period, none of the Directors, substantial shareholders of the Company or any of their respective associates (as defined in the Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted a new code of conduct regarding the securities transactions (the "Code") on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all the Directors and they have confirmed in writing that they had fully complied with the Model Code and the Code during the Period.

DISCLOSURE OF INFORMATION ON DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

During the Period, the updated information on Directors discloseable under Rule 13.51B(1) of the Listing Rules were as follows:

- (a) Dr. Lam, an independent non-executive Director, retired as independent non-executive director of Wai Chun Mining Industry Group Company Limited (stock code: 660) with effect from 23rd May, 2013. Following his retirement, he also ceased to act as the member of each of the audit committee and the remuneration committee and the chairman of the nomination committee.

Dr. Lam was appointed as a member of the Derivatives Market Consultative Panel of the Hong Kong Exchanges and Clearing Limited with effect from 1st June, 2013.

- (b) Mr. Lee, an independent non-executive Director, was appointed as independent non-executive director of Shenzhen High-Tech Holdings Limited (now known as "Landsea Green Properties Co., Ltd.") (stock code: 106) with effect from 31st July, 2013.

Save as disclosed above, none of the Directors have any changes in the information required to be disclosed under Rule 13.51B(1) of the Listing Rules during the Period.

DISCLOSURE OF ADDITIONAL INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Period, the Company has complied with all the code provisions as set out in Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, except for the following:

- (a) Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Mr. Desmond Chiu, the non-executive Director, Dr. Lam and Mr. Wang, both are the independent non-executive Directors, were not appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all Directors are subject to retirement by rotation at each annual general meeting under articles 79 and 80 of the articles of association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

- (b) Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting.

The chairman of the Board did not attend the Company's annual general meeting held on 21st June, 2013 due to other business commitment. However, an executive Director and the chief executive officer of the Company present at the said meeting was elected chairman thereof to ensure an effective communication with the shareholders of the Company (the "Shareholders") thereat.

AUDIT COMMITTEE

An Audit Committee was established by the Board with written terms of reference which are consistent with the provisions as set out in the CG Code. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Dr. Lam (chairman of the Audit Committee), Mr. Wang and Mr. Lee.

The Audit Committee is principally responsible for reviewing with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the consolidated financial statements.

DISCLOSURE OF ADDITIONAL INFORMATION

REVIEW OF INTERIM RESULTS

The Interim Results of the Group for the six months ended 30th June, 2013 and this interim report have been reviewed by the Audit Committee with the management of the Company and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial report by the auditor has been included in the interim report for the six months ended 30th June, 2013. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosures have been made.

By order of the Board
Far East Holdings International Limited
Richard Yen
Managing Director

Hong Kong, 30th August, 2013

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF FAR EAST HOLDINGS INTERNATIONAL LIMITED

遠東控股國際有限公司

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Far East Holdings International Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 14 to 34, which comprise the condensed consolidated statement of financial position as of 30th June, 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30th August, 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	Notes	Six months ended	
		30.6.2013 HK\$'000 (unaudited)	30.6.2012 HK\$'000 (unaudited)
Revenue	3	7,925	8,089
Cost of sales		(7,660)	(9,138)
Gross profit (loss)		265	(1,049)
Dividend income from available-for-sale investments		35	62
Dividend income from held-for-trading investments		51	4
Other income		434	375
Other gains and losses	4	2,448	5,864
Selling and distribution costs		(58)	(52)
Administrative expenses		(13,036)	(7,879)
Finance costs		(14)	(21)
Share of results of a joint venture		447	295
Loss before tax		(9,428)	(2,401)
Income tax expense	5	-	-
Loss for the period	6	(9,428)	(2,401)
Other comprehensive income (expense):			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising from the translation of foreign operations		1,701	(39)
Fair value gain (loss) on available-for-sale investments		38,413	(30,941)
Other comprehensive income (expense) for the period		40,114	(30,980)
Total comprehensive income (expense) for the period		30,686	(33,381)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	Note	Six months ended	
		30.6.2013 HK\$'000 (unaudited)	30.6.2012 HK\$'000 (unaudited)
Loss for the period attributable to:			
Owners of the Company		(8,995)	(1,403)
Non-controlling interests		(433)	(998)
		<u>(9,428)</u>	<u>(2,401)</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		30,757	(32,479)
Non-controlling interests		(71)	(902)
		<u>30,686</u>	<u>(33,381)</u>
		HK cents	HK cents (restated)
Loss per share	8		
– basic		<u>(2.07)</u>	<u>(0.41)</u>
– diluted		<u>(2.07)</u>	<u>(0.41)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Notes	30.6.2013 HK\$'000 (unaudited)	31.12.2012 HK\$'000 (audited)
NON-CURRENT ASSETS			
Investment properties	9	9,380	8,255
Property, plant and equipment	9	7,735	7,648
Prepaid lease payments		809	843
Interests in a joint venture		46,329	44,919
Available-for-sale investments		248,254	212,329
		312,507	273,994
CURRENT ASSETS			
Prepaid lease payments		29	29
Held-for-trading investments		14,432	10,542
Derivative financial instruments	10	499	–
Inventories		2,799	2,630
Trade and other receivables	11	3,756	3,133
Amount due from a non-controlling interest		5,061	3,685
Amounts due from related parties		9	9
Tax recoverable		71	70
Deposits held at financial institutions		19,430	32,742
Pledged bank deposits		5	5
Bank balances and cash		93,686	63,257
		139,777	116,102
CURRENT LIABILITIES			
Trade and other payables	12	1,778	2,059
Amounts due to related parties		1,166	1,151
Obligations under finance leases – due within one year		298	291
		3,242	3,501
NET CURRENT ASSETS			
		136,535	112,601
TOTAL ASSETS LESS CURRENT LIABILITIES			
		449,042	386,595

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Note	30.6.2013 HK\$'000 (unaudited)	31.12.2012 HK\$'000 (audited)
CAPITAL AND RESERVES			
Share capital	13	4,543	3,028
Share premium and reserves		427,432	366,278
Equity attributable to owners of the Company		431,975	369,306
Non-controlling interests		16,835	16,906
		448,810	386,212
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		232	383
		449,042	386,595

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2013

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Exchange reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January, 2012 (audited)	3,028	176,154	9,773	23,117	568	213,342	425,982	17,602	443,584
Loss for the period	-	-	-	-	-	(1,403)	(1,403)	(998)	(2,401)
Other comprehensive income (expense) for the period									
Exchange differences arising from the translation of foreign operations	-	-	(135)	-	-	-	(135)	96	(39)
Fair value loss on available-for-sale investments	-	-	-	(30,941)	-	-	(30,941)	-	(30,941)
	-	-	(135)	(30,941)	-	-	(31,076)	96	(30,980)
Total comprehensive expense for the period	-	-	(135)	(30,941)	-	(1,403)	(32,479)	(902)	(33,381)
At 30th June, 2012 (unaudited)	<u>3,028</u>	<u>176,154</u>	<u>9,638</u>	<u>(7,824)</u>	<u>568</u>	<u>211,939</u>	<u>393,503</u>	<u>16,700</u>	<u>410,203</u>
At 1st January, 2013 (audited)	3,028	176,154	10,118	(14,923)	568	194,361	369,306	16,906	386,212
Loss for the period	-	-	-	-	-	(8,995)	(8,995)	(433)	(9,428)
Other comprehensive income for the period									
Exchange differences arising from the translation of foreign operations	-	-	1,339	-	-	-	1,339	362	1,701
Fair value gain on available-for-sale investments	-	-	-	38,413	-	-	38,413	-	38,413
	-	-	1,339	38,413	-	-	39,752	362	40,114
Total comprehensive income for the period	-	-	1,339	38,413	-	(8,995)	30,757	(71)	30,686
Issue of share upon Open Offer (note 13)	1,515	28,770	-	-	-	-	30,285	-	30,285
Transaction costs attributable to Open Offer (note 13)	-	(2,377)	-	-	-	-	(2,377)	-	(2,377)
Recognition of equity-settled share-based payments	-	-	-	-	4,004	-	4,004	-	4,004
At 30th June, 2013 (unaudited)	<u>4,543</u>	<u>202,547</u>	<u>11,457</u>	<u>23,490</u>	<u>4,572</u>	<u>185,366</u>	<u>431,975</u>	<u>16,835</u>	<u>448,810</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2013

	Six months ended	
	30.6.2013	30.6.2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(13,374)	16,084
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(649)	(17)
Proceeds from disposal of property, plant and equipment	–	5
Proceeds from disposal of an available-for-sale investments	2,800	–
Placement of pledged bank deposits	(1)	(1)
Withdrawal of pledged bank deposits	1	1
Placement of deposits held at financial institutions	(22,996)	(30,660)
Withdrawal of deposits held at financial institutions	36,308	9,661
Others	147	375
NET CASH FROM (USED IN) INVESTING ACTIVITIES	15,610	(20,636)
FINANCING ACTIVITIES		
Proceeds from issues of shares upon Open Offer	30,285	–
Transaction costs paid upon Open Offer	(2,377)	–
Others	(143)	(312)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	27,765	(312)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,001	(4,864)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	63,257	54,929
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	428	196
CASH AND CASH EQUIVALENTS AT 30TH JUNE, represented by bank balances and cash	<u>93,686</u>	<u>50,261</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for these condensed consolidated financial statements:

- HKFRS 10 *Consolidated Financial Statements*;
- HKFRS 11 *Joint Arrangements*;
- HKFRS 12 *Disclosure of Interests in Other Entities*;
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*;
- HKFRS 13 *Fair Value Measurement*;
- HKAS 19 (as revised in 2011) *Employee Benefits*;
- Amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities*;
- HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*;
- Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to HKFRSs *Annual Improvements to HKFRSs 2009-2011 Cycle*; and
- HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 11 Joint Arrangements

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

The Directors reviewed and assessed the classification of the Group's investments in the joint arrangement in accordance with the requirement of HKFRS 11. The Directors concluded that the adoption of HKFRS 11 has no material effect on the amounts reported in this condensed consolidated interim financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 13 Fair Value Measurement (Continued)

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 16. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the condensed consolidated interim financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to HKAS 34 Interim Financial Reporting

(as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker ("the CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review assets and liabilities of the Group's reportable segments for performance assessment and resource allocation purposes, the Group has not included total asset information as part of segment information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the Managing Director and Chief Executive Officer of the Group, being the CODM, for the purposes of resource allocation and assessment of segment performance is organised into the following segments which focus on the category of different industries and is consistent with the basis of organisation in the Group:

Industrial	– manufacturing and sale of garments
Aviation	– provision of aviation maintenance services provided by a joint venture
Other operation	– property investment

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

3. SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

Six months ended 30th June, 2013

	Industrial HK\$'000	Aviation HK\$'000	Other operation HK\$'000	Consolidated HK\$'000
Segment and external revenue	<u>7,925</u>	<u>-</u>	<u>-</u>	<u>7,925</u>
Segment results	<u>(1,296)</u>	<u>447</u>	<u>914</u>	<u>65</u>
Other income				434
Finance costs				(14)
Unallocated expenses				(11,236)
Increase in fair value of derivative financial instruments				1,050
Gain on disposal of available-for-sale investments				300
Decrease in fair value of held-for-trading investments				<u>(27)</u>
Loss before tax				<u>(9,428)</u>

Six months ended 30th June, 2012

	Industrial HK\$'000	Aviation HK\$'000	Other operation HK\$'000	Consolidated HK\$'000
Segment and external revenue	<u>8,089</u>	<u>-</u>	<u>-</u>	<u>8,089</u>
Segment results	<u>(2,301)</u>	<u>295</u>	<u>(283)</u>	<u>(2,289)</u>
Other income				375
Finance costs				(21)
Unallocated expenses				(6,220)
Increase in fair value of held-for-trading investments				<u>5,754</u>
Loss before tax				<u>(2,401)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

3. SEGMENT INFORMATION (Continued)

Segment results represent the (loss) profit from each segment without allocation of other income, corporate expenses, finance costs, changes in fair value of derivative financial instruments, gain on disposal of available-for-sale investments and changes in fair value of held-for-trading investments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2013 HK\$'000	30.6.2012 HK\$'000
Increase in fair value of derivative financial instruments	1,050	–
Increase in fair value of investment properties	1,125	110
Gain on disposal of available-for-sale investments	300	–
(Decrease) increase in fair value of held-for-trading investments	(27)	5,754
	<u>2,448</u>	<u>5,864</u>

5. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group has no assessable profit for both periods.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's subsidiaries in the PRC is 25% from 1st January, 2008 onwards. EIT has not been provided for as the Group has no assessable profit for both periods.

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2013 HK\$'000	30.6.2012 HK\$'000
Loss for the period has been arrived at after charging:		
Amortisation of prepaid lease payments	52	53
Depreciation	697	657
Equity-settled share-based payments	<u>4,004</u>	<u>–</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

7. DIVIDEND

No dividends were paid, declared or proposed during the interim periods. The Directors have determined that no dividend will be paid in respect of the interim period.

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30.6.2013	30.6.2012
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share	<u>(8,995)</u>	<u>(1,403)</u>
Number of shares:		(Restated)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>434,806,606</u>	<u>340,692,622</u>

The computation of the diluted loss per share for the both periods does not assume the conversion of the Company's outstanding share options since their exercise would result in a decrease in the loss per share.

For the six months ended 30th June, 2012, the weighted average number of ordinary shares has been adjusted for the bonus element of the Open Offer of shares of the Company that was completed on 31st January, 2013, details of which are described in note 13.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

There was no significant acquisition or disposal of property, plant and equipment during both periods.

The fair value of the Group's investment properties at 30th June, 2013 and 31st December, 2012 have been arrived at on the basis of a valuation carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations were arrived at by reference to market evidence of recent transaction prices for similar properties. The resulting increase in fair value of investment properties of HK\$1,125,000 has been recognised directly in profit or loss for the six months ended 30th June, 2013 (six months ended 30th June, 2012: HK\$110,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

10. DERIVATIVE FINANCIAL INSTRUMENTS

	30.6.2013	31.12.2012
	HK\$'000	HK\$'000
Derivatives settled in net (not under hedge accounting):		
Foreign currency forward contracts	<u>499</u>	<u>–</u>

Major terms of the Group's foreign currency forward contracts outstanding at 30th June, 2013 are as follows:

Notional amount	Maturity	Exchange rates
Sell JPY50,000,000	24th July, 2013	US\$1:JPY97.19
Sell JPY50,000,000	1st August, 2013	US\$1:JPY98.16
Sell JPY100,000,000	19th August, 2013	US\$1:JPY94.85

Derivative financial instruments are measured at fair value at the end of the interim period. The fair values were based on prices quoted by the relevant financial institution for equivalent instruments at the end of the interim period.

The Group enters into foreign currency forward contracts to cover the anticipated foreign currency exposures. The Group is a party to number of foreign currency forward contracts in the management of its foreign currency exposures.

For the six months ended 30th June, 2013, the increase in fair value of approximately HK\$1,050,000 (six months ended 30th June, 2012: Nil) was recognised directly in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

11. TRADE AND OTHER RECEIVABLES

For sales of goods, the Group allows an average credit period of 30 days to its trade customers. Rentals receivable from tenants are payable on receipt of invoices. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, at the end of the reporting period:

	30.6.2013	31.12.2012
	HK\$'000	HK\$'000
Past due:		
0 to 30 days	59	114
31 to 60 days	334	648
61 to 90 days	1,707	467
Over 90 days	1,012	807
	<hr/>	<hr/>
Total trade receivables	3,112	2,036
Other receivables	644	1,097
	<hr/>	<hr/>
	3,756	3,133
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2013	31.12.2012
	HK\$'000	HK\$'000
0 to 30 days	266	173
Over 90 days	43	40
	<hr/>	<hr/>
Total trade payables	309	213
Other payables and accruals	1,469	1,846
	<hr/>	<hr/>
	1,778	2,059
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 31st December, 2012 and 30th June, 2013	<u>70,000,000,000</u>	<u>700,000</u>
Issued and fully paid:		
At 30th June, 2012 and 31st December, 2012	302,837,886	3,028
Share issued upon Open Offer	<u>151,418,943</u>	<u>1,515</u>
At 30th June, 2013	<u>454,256,829</u>	<u>4,543</u>

Pursuant to an ordinary resolution passed at a board meeting of the Company on 14th December, 2012, an issue of shares by the Company at a price of HK\$0.20 per share on the basis of one share for every two shares then held by the qualifying shareholders on the record date and payable in full on the acceptance (the "Open Offer") was approved. The Open Offer was completed and a total of 151,418,943 new shares were issued on 31st January, 2013, resulting in gross proceeds of approximately HK\$30,285,000 to the Company. Transaction costs attributable to the Open Offer amounted to approximately HK\$2,377,000.

14. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 23rd May, 2005 for the primary purpose of providing incentives to directors and eligible employees and will expire on 20th July, 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The number of shares to be issued in respect of which options had been granted and remained outstanding under the Scheme is 19,490,270 (31st December, 2012: 1,320,000) shares at the end of the interim period. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

14. SHARE OPTION SCHEME (Continued)

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 21st April, 2006, 5,100,000 share options were granted at an initial exercise price of HK\$1.34. 50% of the 5,100,000 share options were immediately vested upon grant with an exercisable period from 23rd May, 2006 to 22nd May, 2016 and the remaining 50% of the 5,100,000 share options were vested one year from the date of grant with an exercisable period from 23rd May, 2007 to 22nd May, 2017 respectively. Pursuant to the bonus issue in 2007, the exercise price and number of share options granted were adjusted accordingly from HK\$1.34 to HK\$1.2182 and from 5,100,000 to 5,610,000 respectively. Furthermore, pursuant to the bonus issue in 2009, the exercise price and the remaining number of the share options granted were further adjusted from HK\$1.2182 to HK\$0.6091 and from 1,150,000 to 2,300,000, respectively. Pursuant to the Open Offer during the period, the exercise price and the remaining number of shares options granted were further adjusted from HK\$0.6091 to HK\$0.5032 and from 1,320,000 to 1,597,728 respectively.

During the six months ended 30th June, 2013, 18,170,270 share options were granted on 16th April, 2013 at an initial exercise price of HK\$0.27 and immediately vested upon grant with an exercisable period from 16th April, 2013 to 15th April, 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

14. SHARE OPTION SCHEME (Continued)

Details of the share options granted on 16th April, 2013 and outstanding at 31st December, 2012 and 30th June, 2013 are as follows:

Capacity of grantee	Grant date	Adjusted exercise price HK\$	Exercisable period (both days inclusive)	Number of share options			
				Balance at 1.1.2013 and before Open Offer	Adjustment for Open Offer	Granted during the period	Balance at 30.06.2013
Directors	16.4.2013	0.27	16th April, 2013 to 15th April, 2023	-	-	14,990,473	14,990,473
Employees	21.4.2006	0.5032	23rd May, 2006 to 22nd May, 2016	660,000	138,864	-	798,864
	21.4.2006	0.5032	23rd May, 2007 to 22nd May, 2017	660,000	138,864	-	798,864
	16.4.2013	0.27	16th April, 2013 to 15th April, 2023	-	-	3,179,797	3,179,797
				<u>1,320,000</u>	<u>277,728</u>	<u>18,170,270</u>	<u>19,767,998</u>

No share option was lapsed or was exercised during the period.

The estimated fair values of the options granted on 21st April, 2006 which vested in 2006 and 2007 are HK\$0.4964 and HK\$0.5613 respectively. The market price of the shares at the date of grant was HK\$1.34. These fair values were calculated using the Black-Scholes pricing model.

The estimated fair values of the options granted on 16th April, 2013 are HK\$0.2204. The market price of the shares at the date of grant was HK\$0.27. The fair value was calculated using the Trinomial Option Pricing model.

The inputs into the model for options granted on 16th April, 2013 were as follows:

Share price	HK\$0.27
Exercise price	HK\$0.27
Expected volatility	82.03%
Expected life	10 years
Risk-free rate	1.14%
Expected dividend yield	0%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

14. SHARE OPTION SCHEME (Continued)

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous ten years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK\$4,004,000 for the six months ended 30th June, 2013 (six months ended 30th June, 2012: Nil) in relation to share options granted by the Company.

15. PLEDGE OF ASSETS

At 30th June, 2013:

- (a) short term loan and margin trading facilities in respect of securities transactions to the extent of approximately HK\$27.3 million (31st December, 2012: HK\$5.7 million) are secured by the listed investments and deposit of the Group held at financial institutions of approximately HK\$35.3 million (31st December, 2012: HK\$16.1 million). None of these facilities has been utilised at the end of the reporting periods. The listed investments comprise held-for-trading securities and available-for-sale investments held by the Group;
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$37,000 (31st December, 2012: HK\$17.1 million), of which none has been utilised at the end of the reporting periods, are secured by the listed investments and deposit of the Group held at financial institutions of approximately HK\$159,000 (31st December, 2012: HK\$5,000). The listed investments comprise held-for-trading securities held by the Group; and
- (c) short term loan and margin facilities in respect of securities transactions of approximately HK\$220.3 million (31st December, 2012: HK\$233.1 million), of which none has been utilised at the end of the reporting periods, are secured by the listed investments, derivative financial instruments and deposit held at financial institutions of the Group of approximately HK\$220 million (31st December, 2012: HK\$213 million). The listed investments comprise held-for-trading securities and available-for-sale investment held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Financial assets	Fair value as at 30.6.2013 HK\$'000	Fair value hierarchy	Valuation techniques and key inputs
1. Foreign currency forward contracts classified as derivative financial instruments in the statement of financial position	499	Level 2	Discounted cash flow: future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of the counterparty.
2. Listed equity securities in Hong Kong classified as held-for-trading investments in the statement of financial position	10,329	Level 1	Quoted bid prices in an active market
3. Listed equity securities in overseas classified as held-for-trading investments in the statement of financial position	4,103	Level 1	Quoted bid prices in an active market
4. Listed equity securities in Hong Kong classified as available-for-sale investments in the statement of financial position	248,254	Level 1	Quoted bid prices in an active market

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

All of the Group's derivative financial instruments entered into during the six months ended 30th June, 2013 are grouped into Level 2 category.

There was no transfer between Level 1 and 2 in the current and prior periods.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

17. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in these condensed consolidated financial statements, the Group had the following related party transactions during the period:

Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group are as follows:

	Six months ended	
	30.6.2013	30.6.2012
	HK\$'000	HK\$'000
Short-term benefits	1,704	1,935
Post-employment benefits	30	31
Equity-settled share-based payments	4,004	—
	<u>5,738</u>	<u>1,966</u>

18. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the current interim period, the Company announced that it has a preliminary intention to dispose of its entire equity interest in Beijing Kailan Aviation Technology Co., Ltd. ("Beijing Kailan") (the "Proposed Disposal"), a joint venture engaging in aviation related business in the People's Republic of China, to an independent third party. No agreement in relation to the Proposed Disposal has been reached up to the date these condensed consolidated financial statement were authorised for issuance. Details of the Proposed Disposal are set out in the announcement dated 22nd August, 2013.