



金利豐金融集團有限公司
KINGSTON FINANCIAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 01081)

KINGSTON

INTERIM REPORT
2011

71.28	3223	3230
78.215	77.900	77.985
634.60	628.10	629.85
489.05	488.80	488.95
629.00	617.75	626.75
2.0710	2.0707	2.0707
77.42	76.20	77.42
79.10	77.81	78.20
5.985	5.720	5.985
5.985	5.715	5.985
0.00	0.00	0.00
53.00	41.50	53.00

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chu, Nicholas Yuk-yui (*Chairman*)

Mrs. Chu Yuet Wah (*Chief Executive Officer*)

Independent Non-executive Directors

Dr. Wong Yun Kuen

Mr. Lau Man Tak

Mr. Yu Peter Pak Yan

COMPANY SECRETARY

Mr. Lai Yick Fung

AUDITORS

Graham H Y Chan & Co

Unit 1, 15th Floor, The Center

99 Queen's Road Central

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

Industrial and Commercial Bank of China

Bank of China (Hong Kong) Limited

Chong Hing Bank Limited

HONG KONG LEGAL ADVISERS

K & L Gates

44/F., Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

BERMUDA LEGAL ADVISERS

Conyers Dill & Pearman

Room 2901, One Exchange Square

8 Connaught Place, Central

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2801, 28th Floor

One International Finance Centre

1 Harbour View Street, Central

Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Tricor Abacus Limited

26/F., Tesbury Centre

28 Queen's Road East, Wan Chai

Hong Kong

STOCK CODE

1031

WEBSITE

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (“the Board”) of Kingston Financial Group Limited (“the Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, “the Group”) for the six months ended 30 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is principally engaged in the provision of a wide range of financial services which include securities underwriting and placements, margin and initial public offers financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services. The Group also provides entertainment and hospitality services in Macau. Following the completion of acquisition of Kingston group of companies on 1 April 2011, the Group’s profitability was enhanced immediately, coupled with the continuously strong growth in the Macau tourism and gaming industries.

The Group’s unaudited turnover was approximately HK\$494,285,000 for the six months ended 30 June 2011, representing a significant revenue growth of approximately 104% as compared with approximately HK\$241,993,000 in the corresponding period of year 2010.

The unaudited net profit attributable to the Company’s shareholders amounted to approximately HK\$158,197,000 (2010: HK\$14,663,000). The basic earnings per share for the six months ended 30 June 2011 was HK1.42 cents (2010: HK0.32 cents).

Business and Financial Review

Securities Brokerage, Underwriting and Placements

The Group mainly offers trading services in Hong Kong and does not have any representative office in overseas jurisdictions. However, to accommodate the investment need of its clients, the Group arranges dealing and brokerage services in overseas markets including Singapore, the United States of America and the United Kingdom through brokers which are licensed in the respective jurisdictions. Customers may place orders by telephone as well as via the internet system. The securities brokerage business generates revenue by charging commissions for transactions executed through the trading platform provided by the Group. Brokerage commission rate charged for telephone orders is the same as that charged for online trading and orders made in person.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Financial Review (Continued)

Securities Brokerage, Underwriting and Placements (Continued)

Securities underwriting and placement services is one of the main revenue streams of the Group. The Group undertakes the origination, structuring and marketing of placements of equity and equity-related securities. It also provides comprehensive solutions to clients' financing needs. The Group has successfully undertaken the roles of placing agents and underwriters for listed companies in a wide range of industries, including health care, utilities, information technology, transportation and financial services for the period under review.

During the period, this segment recorded revenue of approximately HK\$55,463,000 which accounted for 29% of the Group's financial service segment revenue.

Margin and IPO Financing

Margin and IPO financing services are provided by the Group to complement its securities brokerage business. Margin financing is made available to clients who have opened margin accounts with the Group to purchase securities with funds borrowed from it to leverage their investments. IPO financing is the grant of loans to clients for subscriptions of shares relating to an IPO.

During the period, revenue generated from the margin and IPO financing segment amounted to approximately HK\$ 130,567,000, accounting for 70% of the Group's financial service segment revenue.

Corporate Finance Advisory services, Futures Brokerage and Asset Management

Complementing the securities brokerage, underwriting and placements, and margin and IPO financing, the Group also provides a full range of financing services to its clients including corporate finance advisory services, futures brokerage and asset management.

The Group holds licence under the Securities and Futures Ordinance to engage in advising on corporate finance activities. The scope of services provided includes advising on corporate finance transactions, sponsoring IPOs and advising clients on financing strategies in the context of mergers and acquisitions, equity fund raising exercises, takeovers and other notifiable transactions.

The Group provides brokerage services for index futures trading on the Futures Exchange. Clients can place orders on the Internet in addition to telephone.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Financial Review (Continued)

Corporate Finance Advisory services, Futures Brokerage and Asset Management (Continued)

The Group also provides portfolio management services. The asset management business generates revenue by charging management fees and incentive fees based on the amount of assets under management, and returns of portfolios, respectively.

During the period, this segment recorded revenue of approximately HK\$1,490,000 which accounted for 1% of the Group's financial service segment revenue.

Hotel Business

The Group's hotel operation, mainly comprised of hotel rooms, food and beverage sale and other rental income, ensued the strong growth in year 2011. The revenue for the six months ended 30 June 2011 amounted to approximately HK\$89,273,000 (2010: HK\$71,823,000). Hotel business contributed 29% (2010: 30%) of the total hotel and gaming business turnover. During the period under review, the average occupancy rate of the two hotels was over 70%. The ongoing renovation allows the modern-fashioned guest rooms to bring consistent improvement in room rates and occupancy rate.

Gaming Business

The Group's casino operation is run by the licence holder Soceidade de Jogos de Macau, S.A.. The two casinos consistently provided solid contributions to the Group in line with the rapid development of the gaming industry in Macau. To retain quality customers and attract potential ones, the Group strengthened its membership programmes and provided a variety of incentives for members to increase their spending in the casinos as well.

Casino revenue, including gaming revenue and food and beverage sale in casino, amounted to approximately HK\$217,492,000 for the six months ended 30 June 2011 (2010: HK\$170,170,000), representing an increase of 28% from the corresponding period in year 2010. Casino revenue accounted for 71% (2010: 70%) of total hotel and gaming business turnover.

As at 30 June 2011, the Group has 65 tables in the 2 mass market halls, 8 tables in the 2 self-managed VIP rooms and 186 slot machines in the 2 slot halls. With all these well equipped gaming facilities, the Group continued to benefit from this stable source of revenue from the Macau market.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Financial Review (Continued)

Trading of listed securities

Close to the end of the first half of year 2011, the global equity market suffered a setback and hence the market value of the trading securities held by the Group recorded a revaluation deficit of approximately HK\$34,354,000 during the period under review. As at 30 June 2011, the Group was holding trading securities of approximately HK\$118,807,000 in value.

Cost of sales

Cost of sales mainly represents the cost of guest supplies and food and beverage consumed upon provision of accommodation and catering services to the customers. During the period under review, it increased from approximately HK\$7,798,000 to approximately HK\$9,625,000. The increase was in line with the growth in the hotel revenue.

Operating cost

Operating cost mainly represents the payroll and other operating expenses in the hotel business and commission expenses in the gaming business. During the period under review, it increased from approximately HK\$112,021,000 to approximately HK\$141,442,000. The increase was also in line with the growth in the gaming revenue.

Administrative expenses

During the period under review, administrative expenses increased from approximately HK\$80,013,000 to approximately HK\$87,053,000. The increase was mainly attributable to the newly acquired financial services segments.

Finance cost

During the period under review, finance cost represented interest expenses on secured bank loans for the purpose of offering financing to its clients to participate in margin and IPO activities and subordinated loans for the Group's ordinary course of financial services business, as well as effective interest expense on promissory notes.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Prospects

Looking forward, the global capital market is full of challenges and uncertainties. The US economic slowdown together with the debt crisis in Europe, economic recovery progress in Japan since the earthquake in March 2011, and the PRC Government's tightening measures continue to cast a shadow on global as well as Hong Kong's economy. Nevertheless the growing PRC economy and the Central Government's support to maintain Hong Kong as an international financial centre, as laid down in its 12th Five-Year Plan, provide us with excellent opportunities.

The Group has achieved an impressive performance for its securities underwriting and placements, margin and IPO financing and securities brokerage businesses during the period under review. Leveraging the long-established reputation and a strong client base, the Group will further reinforce the foundation in these key revenue generating businesses by recruiting qualified professionals, improving the trading infrastructure and delivering more value-added services to its clients.

The Group will continue to leverage its strong equity capital markets ("ECM") client base to capture the market share in corporate finance advisory business. The Group will also continually pursue opportunities to gain exposure to various types of corporate transactions and actively explore potential business with the existing ECM clients. It will deploy more resources and experienced personnel to cope with the potential growth of its corporate finance advisory business.

The first RMB-denominated REIT was successfully listed on the Stock Exchange in April 2011. The breakthrough in the development of RMB-traded products is a significant move in the Hong Kong financial market and the mounting demand for more diversified RMB-traded products indicates the increasing business opportunities from the PRC. The Group will continue to improve its trading and settlement infrastructure to accommodate trade settlement for RMB-traded products and participate in RMB Equity Trading Support Facility (TSF) in the second half of this year.

The Group continuously pursues various marketing and promotion activities through the comprehensive membership programmes. Our guests enjoy impressive services within the Group's properties with the use of our casino package. In view of the consistent growth in membership base of the programmes, the Group will further enhance the programmes to attract new customers.

The newly renovated guest rooms have proved to be in popular demand and the Group will continue to invest in this area to pave the way for revenue enhancement. The Group will also further strengthen its relationship with travel agencies and offer packages and joint promotions with business partners so as to broaden the scope of customers of the two hotels.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity, Financial Resources and Funding

As at 30 June 2011, the shareholders' fund and net current assets of the Group amounted to approximately HK\$13,544,202,000 and HK\$2,260,546,000 respectively. On the same date, the Group had cash and bank balances of approximately HK\$800,950,000 and the current ratio was 1.3 (31 December 2010: 22.8).

As at 30 June 2011, the Group had bank borrowings of approximately HK\$1,996,000,000, amounts due to shareholders of approximately HK\$2,950,000,000, loan from a related company of approximately HK\$363,357,000, promissory note of approximately HK\$903,519,000 and subordinates loan of approximately HK\$1,000,000,000 (2010: Nil). On the same date, the net gearing ratio, measured on the basis of total borrowings less bank and cash balances over net assets, was 47% (2010: net cash position).

Contingent Liabilities

No material contingent liabilities of the Group were noted as at 30 June 2011.

Capital Structure

During the six months ended 30 June 2011, the Company had issued and allotted 6,000,000,000 new shares pursuant to the acquisition of the financial services business. Further details can be found in the paragraph headed "Material Acquisitions and Disposals" below.

During the same period, the Company had placed a total of 890,000,000 new shares to certain independent third parties, details of which were more particularly described in the Company's announcements dated 7 April 2011 and 28 April 2011. The proceeds from the placings amounted to approximately HK\$871,900,000.

During the same period, certain employees exercised their options to subscribe for 1,837,500 new shares of the Company. The proceeds from the exercise of options amounted to approximately HK\$1,377,000.

Employees

As at 30 June 2011, the Group employed a total of approximately 750 staff. The employees' remuneration, promotion and salary adjustment are assessed based on their work performance, working and professional experiences and the prevailing market condition.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Pledge of Assets

As at 30 June 2011, the Group had pledged clients' securities at a value of approximately HK\$5,884,561,000 to secure certain banking facilities provided to the Group.

Material Acquisitions and Disposals

On 14 December 2010 (as supplemented by the supplemental agreement dated 7 January 2011), the Company entered into the sale and purchase agreement with Active Dynamic Limited and Better Sino Limited (collectively the "Vendors") and Mrs. Chu Yuet Wah (as guarantor), pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire issued share capital of Kingston Capital Asia Limited at a total consideration of HK\$12,000,000,000. The acquisition was completed on 1 April 2011.

Kingston Group is one of the well-established securities brokerage and financial advisory houses in Hong Kong providing a wide range of financial services which include: (i) securities underwriting and placements; (ii) margin and initial public offers financing; (iii) securities brokerage; (iv) corporate finance advisory services; (v) futures brokerage and (vi) asset management services. The Board believes that the acquisition will enable the Group to make a meaningful step in its strategic direction to focus on diversification of businesses. The Board believes that the acquisition will enable the Group to become one of the leaders in provision of financial and brokerage services in the region. In particular, it is the intention of the Board that the business of the enlarged Group will focus on high quality securities brokerage, futures dealing and other financial services.

Risk Management

Credit risk

The Group's Risk Management Committee has put in place credit management policies and procedures which cover the examination of the approval of clients' trading and credit limits, approval and review of the margin lending ratio of individual stock, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. Day-to-day credit monitoring is performed by the Group's Credit and Risk Control Department in accordance with the policies and procedures approved by the Risk Management Committee with toleration and exception reports reviewed by Responsible Officers and senior management of the Group as well as by the Risk Management Committee at regular meetings.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Risk Management (Continued)

Market risk

If the market value of a margin client's portfolio falls below his margin loan amount and the margin client fails to meet margin calls, the Group will be exposed to the risk that the margin loan being delinquent. Similarly, if the value of the underlying products of a client's futures contract fluctuates such that the outstanding balances in his account falls below the required maintenance margin level, the Group may suffer loss if the client's account incurs loss even after liquidation of the open position. The management of the Group keeps close monitoring of the market condition so that immediate precautionary measures will be taken to reduce such risk that the Group may encounter. Follow up actions such as reducing the margin ratio for the pledged securities and requiring clients to top up their position would be taken if considered appropriate.

Liquidity risk

As part of its ordinary brokerage activities, the Group is exposed to liquidity risk arising from timing difference between settlement with clearing houses or brokers and clients. The goal of liquidity management is to enable the Group to adequately fund such business commitments as well as to comply with relevant financial resources rules applying to various licensed subsidiaries. To address the risk, the Group's Accounts Department and the senior management will review and monitor the Group's liquidity position on daily basis to ensure the availability of sufficient liquid funds. In addition, the Group has also put in place stand-by banking and other facilities in order to meet any contingency in its operations. The management believes the Group's working capital is adequate to meet its financial obligations.

Interest rate risk

The Group charged interest on its margin clients on the basis of its cost of fund plus mark-up. Financial assets such as margin loans and deposit with banks are primarily at floating rates. Financial liabilities such as bank loans are primarily at floating rates. The Group income and operating cash flows are not subject to significant interest rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Foreign Currency Exposure

As the Group's hotel revenues are mostly denominated in Macau Patacas ("MOP"), and given the exchange rate of MOP has been fairly stable, its exposure to exchange rate risk is considered to be limited.

The Group's financial service businesses and gaming revenue are mainly denominated in Hong Kong Dollars and hence no significant exchange rate risk is identified.

The Group is exposed to foreign currency risk primarily through loan receivable that are denominated in a currency other than its functional currency. The currency giving rise to this risk to the Group is primarily Canadian dollars. The Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Note	(Unaudited)	
		Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
Revenue	3	494,285	241,993
Cost of sales		(9,625)	(7,798)
Operating cost		(141,442)	(112,021)
Gross profit		343,218	122,174
Other income		25,418	8,185
Fair value loss on trading securities		(34,354)	(7,544)
Administrative expenses		(87,053)	(80,013)
Staff costs	4	(37,312)	(26,472)
Finance costs		(25,655)	—
Profit before taxation	5	184,262	16,330
Taxation	6	(24,200)	—
Profit for the period		160,062	16,330
Other comprehensive income for the period, net of tax:			
Unrealised gain arising from change in fair value of available-for-sale investments		479	—
Total comprehensive income for the period		160,541	16,330
Profit attributable to:			
Owners of the Company		158,197	14,663
Non-controlling interests		1,865	1,667
		160,062	16,330
Total comprehensive income attributable to:			
Owners of the Company		158,676	14,663
Non-controlling interests		1,865	1,667
		160,541	16,330
Earnings per share for profit attributable to owners of the Company	8		
— Basic		1.42 cents	0.32 cents
— Diluted		1.39 cents	0.30 cents

Details of dividends payable to owners of the Company are set out in note 7.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	2,179,956	2,206,347
Deferred tax assets		6,107	5,575
Deposit for acquisition		—	400,000
Deposit for hotel renovation		7,028	—
Statutory deposit for financial business		3,152	—
Goodwill arising from acquisition	10	10,996,683	—
		13,192,926	2,611,922
Current assets			
Inventories	11	2,672	2,925
Available-for-sale investments	12	6,439	5,960
Trading securities		118,807	152,070
Loan receivable	13	432,435	401,328
Trade and other receivables	14	6,695,581	83,948
Tax recoverable		77	—
Cash and bank balances — trust accounts		879,045	—
Cash and bank balances — general accounts		800,950	617,126
		8,936,006	1,263,357
Current liabilities			
Trade and other payables	15	1,294,588	55,526
Amounts due to shareholders	16	2,950,000	—
Loan from a related company	17	363,357	—
Bank loans	18	1,996,000	—
Tax payable		71,515	—
		6,675,460	55,526
Net current assets		2,260,546	1,207,831
Total assets less current liabilities		15,453,472	3,819,753

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Non-current liability			
Promissory notes	19	903,519	—
Subordinated loans	20	1,000,000	—
		1,903,519	—
Net assets		13,549,953	3,819,753
Capital and reserves			
Share capital — ordinary shares	21	241,035	103,198
Share capital — non-redeemable convertible preference shares	21	105,000	—
Reserves		13,198,167	3,712,669
Total equity attributable to owners of the Company		13,544,202	3,815,867
Non-controlling interests		5,751	3,886
Total equity		13,549,953	3,819,753

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company																							
	Share capital-ordinary shares	Share redeemable convertible preference shares	Share premium account	Capital redemption reserve	Contributed surplus	Property revaluation reserve	Share-based payment reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity											
														HKS'000										
At 1 January 2010 (audited)	88,678	—	1,902,253	274	814	645,388	13,172	1,740	235	552,822	3,205,376	2,540	3,207,916											
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	14,663	14,663	1,667	16,330											
Realised upon depreciation based on revalued amount of land and building	—	—	—	—	—	(8,116)	—	—	—	8,116	—	—	—											
Issue of share under share option scheme	160	—	3,036	—	—	—	(700)	—	—	—	2,496	—	2,496											
Issue of share by warrant Subscription	14,356	—	488,131	—	—	—	—	—	—	—	502,487	—	502,487											
Share-based payments	—	—	—	—	—	—	22,401	—	—	—	22,401	—	22,401											
Forfeiture of share options	—	—	—	—	—	—	(35)	—	—	35	—	—	—											
At 30 June 2010 (unaudited)	103,194	—	2,393,420	274	814	637,272	34,838	1,740	235	575,636	3,747,423	4,207	3,751,630											
At 1 January 2011 (audited)	103,198	—	2,393,376	284	814	608,990	36,835	3,653	235	668,482	3,815,867	3,886	3,819,753											
Total comprehensive income for the period	—	—	—	—	—	—	—	479	—	158,197	158,676	1,865	160,541											
Realised upon depreciation based on revalued amount of land and building	—	—	—	—	—	(7,767)	—	—	—	7,767	—	—	—											
Issue of share under placing	17,800	—	854,100	—	—	—	—	—	—	—	871,900	—	871,900											
Issue of share under share option scheme	37	—	1,811	—	—	—	(471)	—	—	—	1,377	—	1,377											
Issue of ordinary shares for acquisition of subsidiaries	120,000	—	6,180,000	—	—	—	—	—	—	—	6,300,000	—	6,300,000											
Issue of non-redeemable convertible preference shares for acquisition of subsidiaries	—	105,000	2,290,106	—	—	—	—	—	—	—	2,395,106	—	2,395,106											
Share-based payments	—	—	—	—	—	—	1,276	—	—	—	1,276	—	1,276											
Forfeiture of share options	—	—	—	—	—	—	(1,644)	—	—	1,644	—	—	—											
At 30 June 2011 (unaudited)	241,035	105,000	11,719,393	284	814	601,223	35,996	4,132	235	836,090	13,544,202	5,751	13,549,953											

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2011*

	(Unaudited)	
	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Net cash from operating activities	24,222	85,002
Net cash (used in)/from investing activities	(1,600,459)	690
Net cash from financing activities	1,760,061	504,983
Net increase in cash and cash equivalents	183,824	590,675
Cash and cash equivalents at 1 January	617,126	651,033
Cash and cash equivalents at 30 June	800,950	1,241,708
Analysis of balances of cash and cash equivalents		
Time deposits	417,120	1,182,334
Cash held in securities accounts maintained in securities company	—	990
Cash at bank and in hand	383,830	58,384
Cash and bank balances	800,950	1,241,708

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 10 April 1996 under the Companies Act 1981 of Bermuda. The address of the Company's registered office and its principal place of business are disclosed in the "Corporate Information" section of the interim report.

The principal activities of the Group are described in note 3.

These condensed interim financial statements have been reviewed by the Audit Committee of the Company and were approved and authorised for issue by the board of directors on 30 August 2011.

2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance 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 "Stock Exchange") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed interim financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new and revised Standards, Amendments and Interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2011, noted below:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HK (IFRIC)-INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES** *(Continued)*

Amendment to HKAS 34 “Interim Financial Reporting” (as part of Improvements to HKFRSs 2010) is effective for annual periods beginning on or after 1 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.

The adoption of the other new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (Revised in 2011)	Employee Benefits ⁴
HKAS 27 (Revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures ⁴
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosures of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES *(Continued)*

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to the financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of the changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 10 “Consolidated Financial Statements” builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. HKFRS 10 provides additional guidance to assist in the determination of control where this is difficult to assess.

HKFRS 11 “Joint Arrangements” provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). HKFRS 11 addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

HKFRS 12 “Disclosures of Interests in Other Entities” is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES *(Continued)*

HKFRS 13 “Fair Value Measurement” improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

The above-mentioned standards are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. They are required to be applied retrospectively, but if the entity adopted HKFRS 9 prior to 1 January 2012, the entity will be exempt from the requirements to restate prior period comparative information. The Group is presently studying the implications of applying the above-mentioned standards. It is impracticable to quantify their impacts as at the date of publication of these financial statements.

Amendment to HKAS 1 (Revised) “Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income” require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has seven (30 June 2010: four) reportable operating segments as follows:

Financial services segments:

- Securities brokerage, underwriting and placements segment is the provision of brokerage, underwriting and placing services for dealings in securities on recognised stock exchanges.
- Margin and initial public offers (“IPO”) financing segment is the provision of credits in these transactions.
- Other financial services include provision of corporate finance advisory services, futures brokerage and asset management.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 SEGMENTAL INFORMATION *(Continued)*

Hotel and gaming segments:

- Hotel ownership and management segment is the operation of hotels and provision of hotel management services.
- Food and beverage segment is the operation of restaurants in hotels.
- Casino segment is the operation of casino in hotels.

Securities investment segment:

- Securities investment segment is the trading of listed securities.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment profits for financial services segments represent the profit earned by each segments without allocation of staff costs and other central administrative costs, other income, other gains and losses. Segment performance of hotel and gaming segments and securities investment segment are evaluated based on a measure of adjusted earnings before interest, income tax, depreciation and amortisation (EBITDA) and interest income and expenditure are not included in the result of these operating segments. Other information provided, except as noted below, to the management is measured in a manner consistent with that in the financial statements.

Revenue between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external customers reported to the management is measured in a manner consistent with that in the condensed consolidated interim statement of comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**3 SEGMENTAL INFORMATION** (Continued)**Operating segments** (Continued)

The following tables present segment assets of the Group's operating segments as at 30 June 2011 and 31 December 2010.

As at 30 June 2011 (unaudited)

	Financial services business HK\$'000	Hotel ownership and management HK\$'000	Food and beverage HK\$'000	Casino HK\$'000	Securities investment HK\$'000	Total HK\$'000
Segment assets	18,923,589	1,708,721	389,946	231,614	117,986	21,371,856
Unallocated corporate assets						312,095
Loan receivables						432,435
Deferred tax assets						6,107
Available-for-sale investments						6,439
						22,128,932

As the assets and liabilities of financial services segments, including securities brokerage, underwriting and placements, margin and IPO financing and other financial services, are regularly reviewed by the directors of the Company in total for the Group as a whole, the measure of total assets and liabilities by each operating segments under financial services business is therefore not presented.

As at 31 December 2010 (audited)

	Hotel ownership and management HK\$'000	Food and beverage HK\$'000	Casino HK\$'000	Securities investment HK\$'000	Total HK\$'000
Segment assets	1,689,513	446,839	239,279	152,427	2,528,058
Unallocated corporate assets					534,358
Deposit for acquisition					400,000
Loan receivables					401,328
Deferred tax assets					5,575
Available-for-sale investments					5,960
					3,875,279

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 STAFF COSTS

	(Unaudited)	
	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Staff costs (including directors' remuneration)		
— salaries, wages and other benefits	66,427	41,822
— contributions to defined contribution retirement plan	198	98
— equity-settled share-based payment expenses in relation to the grant of share options	743	12,601
	67,368	54,521
Amount shown as staff costs in the condensed consolidated statement of comprehensive income	37,312	26,472
Staff costs included in operating costs in the condensed consolidated statement of comprehensive income	30,056	28,049
	67,368	54,521

5 PROFIT BEFORE TAXATION

The profit before taxation has been arrived at after charging the following:

	(Unaudited)	
	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Impairment loss on trade and other receivables	1,748	1,748
Depreciation	46,240	49,984

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 TAXATION

	(Unaudited)	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Current tax:		
Hong Kong profits tax	24,200	—

Hong Kong profits tax has been provided for six months ended 30 June 2011 at a rate of 16.5%. No provision for Hong Kong profits tax had been made for the six months ended 30 June 2010 as the Group had no assessable profit for that period.

No provision for Macau Complementary Tax has been made as the subsidiaries operating in Macau has no assessable profit for the period (six months ended 30 June 2010: nil).

7 DIVIDENDS

No dividend was paid during the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

The board has declared the payment of an interim dividend of HK0.5 cents per share for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 EARNINGS PER SHARE

	(Unaudited)	
	Six months ended 30 June	
	2011	2010
	HK cent	HK cent (restated)
Basic earnings per share	1.42	0.32
Diluted earnings per share	1.39	0.30

(a) **Basic earnings per share**

The earnings and weighted average number of shares used in the calculation of basic earnings per share are as follows:

	(Unaudited)	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Profit for the purpose of basic earnings per share	158,197	14,663

	30 June	30 June
	2011	2010 (restated)
Weighted average number of ordinary shares	8,511,610,752	4,523,860,153
Weighted average number of non-redeemable convertible preference shares	2,639,502,762	—
Weighted average number of shares for the purpose of basic earnings per share	11,151,113,514	4,523,860,153

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are the same as those for basic earnings per share, as outlined above.

The weighted average number of shares for the purposes of diluted earnings per share reconciles to the weighted average number of shares used in the calculation of basic earnings per share are as follows:

	(Unaudited) Six months ended 30 June	
	2011	2010 (restated)
Weighted average number of shares used in the calculation of basic earnings per share	11,151,113,514	4,523,860,153
Shares deemed to be issued for no consideration in respect of:		
— Share options	209,780,675	176,938,449
— Warrants	—	134,291,087
	11,360,894,189	4,835,089,689

Note: For the six months ended 30 June 2010, the weighted average number of shares for the purpose of calculating the basic and diluted earnings per share has been retrospectively adjusted for the effect of the share consolidation completed in March 2011.

9 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's acquisition of property, plant and equipment amounted to HK\$18,732,000 (six months ended 30 June 2010: HK\$31,367,000).

10 GOODWILL ARISING FROM ACQUISITION

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Acquired on acquisition of Kingston Capital Asia Limited (note 22)	10,996,683	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 INVENTORIES

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Food and beverage	2,672	2,925

12 AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Investment funds, at fair value	6,439	5,960

The available-for-sale investments are denominated in United States dollars and there is no public market for the investments. Changes in fair value of available-for-sale investments are recognised in investment revaluation reserve.

13 LOAN RECEIVABLE

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Loan receivable	432,435	401,328

Loan receivable represents advances to Affluent Public Limited, an independent third party (the "Borrower"). On 20 September 2010, the Group and the Borrower entered into the loan agreement to which the Group agreed to make available to the Borrower the term loan facility up to a principal amount of CAD50 million. The loan is secured by legal charge on the entire shares in the Borrower and entire interests of the Borrower in a company incorporated under the laws of the Province of British Columbia, Canada ("Company A"), and personal guarantees executed by all directors of the Borrower. The loan bears an effective interest of 13% per annum and shall be repayable in 6 months from the date of advance.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 LOAN RECEIVABLE *(Continued)*

In connection with the Loan, the Group was granted the option, exercisable within six months from the date of drawdown, to either (i) subscribe for shares in the Borrower representing 25% of the total issued share capital of the Borrower (on a fully diluted basis) at the time of such subscription, or (ii) to purchase from the Borrower, shares of Company A, representing approximately 18.89% of the total issued share capital of Company A (on a fully diluted basis) at the time of such purchase, at the option purchase price of CAD80 million. Once (i) the Borrower has subscribed for approximately 75.56% interest in the Company A which in turn will acquire 90% interest in a company incorporated in Canada; and (ii) the option is exercised, the Group will have an indirect attributable interest of approximately 17% in 34 subsurface mineral permits for exploration of potash in Saskatchewan, Canada.

Since the Borrower failed to subscribe for the shares in the Company A, in December 2010, the Group commenced proceedings in Canada against the Borrower and its relevant parties to recover the funds advanced. As at the date of this report, the Group was in discussion with the Borrower on the settlement terms proposed by the Borrower, whilst the proceedings are still in progress.

14 TRADE AND OTHER RECEIVABLES

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Trade receivables from financial services segments	6,630,491	—
Trade receivables from hotel and gaming segments	50,697	72,201
Other receivables, deposits and prepayments	14,393	11,747
	6,695,581	83,948

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)* Trade receivables from financial services segments

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Amounts receivable arising from the business of dealing in securities:		
Cash clients	37,488	—
Margin clients:		
Directors of the subsidiaries and their associates	81,837	—
Other margin clients	6,419,872	—
	6,539,197	—
Less: impairment allowances	—	—
	6,539,197	—
Clearing houses	80,694	—
Brokers and dealers	1,959	—
Amounts receivable arising from the business of dealing in futures contracts:		
Clearing house	6,802	—
Amounts receivable arising from the business of corporate finance:		
Clients	1,839	—
	6,630,491	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)***Trade receivables from financial services segments** *(Continued)*

The settlement terms of amounts receivable from cash clients arising from ordinary course of dealing in securities are two days after trade date. All amounts receivable from cash clients are not past due at the reporting dates for which the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

No aging analysis is disclosed for receivables from margin clients as, in the opinion of the directors, an aging analysis is not meaningful in view of the business nature of securities dealings and margin financing. Amounts receivable from margin clients are repayable on demand and carry interest at approximately Prime rate +3%. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 30 June 2011, total market value of securities pledged as collateral in respect of the loan to margin clients was approximately HK\$24,825,721,000.

Amounts receivables from clearing houses, brokers, dealers and corporate finance clients are current.

Trade receivables from hotel and gaming segments

The Group generally allows an average credit period of 30 days to its customers. The following is an aging analysis of trade receivables at the end of the reporting period:

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
0 – 30 days	43,904	59,981
31 – 60 days	6,263	12,148
61 – 90 days	1,434	782
Over 90 days	20,344	18,790
	71,945	91,701
Allowance for doubtful debt	(21,248)	(19,500)
	50,697	72,201

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 TRADE AND OTHER PAYABLES

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Trade payables from financial services segments	1,238,832	—
Trade payables from hotel and gaming segments	13,365	16,162
Other payable and accruals	42,391	39,364
	1,294,588	55,526

Trade payables from financial services segments

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Amounts payable arising from the business of dealing in securities:		
Cash clients	574,795	—
Margin clients	646,592	—
	1,221,387	—
Clearing houses	—	—
Brokers and dealers	1	—
Amounts payable arising from the business of dealing in futures contracts:		
Clients	16,151	—
Amounts payable arising from the business of asset management:		
Clients	1,293	—
	1,238,832	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**15 TRADE AND OTHER PAYABLES** *(Continued)***Trade payables from financial services segments** *(Continued)*

No aging analysis is disclosed as, in the opinion of the directors, an aging analysis is not meaningful in view of the business nature of securities dealings and margin financing.

As at 30 June 2011, included in amounts payable of HK\$879,045,000 was payable to clients and other institutions in respect of trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities.

Trade payables from hotel and gaming segments

The following is an aging analysis of trade payables at the end of the reporting period:

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
0 – 30 days	10,787	9,395
31 – 60 days	2,524	4,498
61 – 90 days	35	1,461
Over 90 days	19	808
	13,365	16,162

16 AMOUNTS DUE TO SHAREHOLDERS

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Active Dynamic Limited	1,760,000	—
Better Sino Limited	1,190,000	—
	2,950,000	—

The amounts are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17 LOAN FROM A RELATED COMPANY

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Kingston Finance Limited	363,357	—

The loan from Kingston Finance Limited is unsecured, interest bearing at the rate of 1.5% per annum and repayable on demand.

18 BANK LOANS

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Bank loans, secured	1,996,000	—
Amount due within 1 year and included in current liabilities	1,996,000	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**19 PROMISSORY NOTES**

On 1 April 2011, the Company issued promissory notes with a principal amount of HK\$1,000,000,000 as part of the consideration to acquire the entire issued share capital of Kingston Capital Asia Limited. The promissory notes are unsecured, bear interest of 2% per annum and will mature at the 3rd anniversary from the date of issue.

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
At initial recognition	890,358	—
Imputed finance cost	13,161	—
	903,519	—

20 SUBORDINATED LOANS

	Approved date	Draw date	Terms	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Loan from Mr. Lee Wai Man	2 Feb 2004	30 Jan 2004	P+1%	250,000	—
	20 Feb 2004	20 Feb 2004	1.5%	150,000	—
Revolving loan from Mr. Lee Wai Man	2 Mar 2004	13 Sep 2006	Non interest-bearing	300,000	—
Loan from Mrs. Chu Yuet Wah	3 May 2010	24 May 2010	1.5%	300,000	—
				1,000,000	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares		
Shares of HK\$0.02 each (31 December 2010: HK\$0.01 each)		
Authorised:		
At 1 January 2011	30,000,000,000	300,000
Share consolidation	(15,000,000,000)	—
Creation	9,750,000,000	195,000
	<hr/>	<hr/>
At 30 June 2011	24,750,000,000	495,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1 January 2011	10,319,797,333	103,198
Share consolidation	(5,159,898,667)	—
Issue of share pursuant to acquisition of financial services business	6,000,000,000	120,000
Issue of share pursuant to placements	890,000,000	17,800
Issue of share pursuant to exercise of options	1,837,500	37
	<hr/>	<hr/>
At 30 June 2011	12,051,736,166	241,035
	<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE CAPITAL (Continued)

	Number of shares	Amount HK\$'000
Non-redeemable convertible preference shares		
Shares of HK\$0.02 each		
Authorised:		
At 1 January 2011	—	—
Creation	5,250,000,000	105,000
	<hr/>	<hr/>
At 30 June 2011	5,250,000,000	105,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1 January 2011	—	—
Issue of share pursuant to acquisition of financial services business	5,250,000,000	105,000
	<hr/>	<hr/>
At 30 June 2011	5,250,000,000	105,000
	<hr/>	<hr/>

Pursuant to special resolutions passed on 22 March 2011, share consolidation and increase in authorised share capital were approved.

- The issued and unissued ordinary shares of HK\$0.01 each in the capital of the Company were consolidated on the basis of every 2 shares being consolidated into 1 share of HK\$0.02 each. The share consolidation became effective on 23 March 2011.
- The Company's authorised share capital was increased from HK\$300,000,000 divided into 15,000,000,000 consolidated shares of HK\$0.02 each to HK\$600,000,000 divided into 24,750,000,000 consolidated shares of HK\$0.02 each and 5,250,000,000 non-redeemable convertible preference shares of par value HK\$0.02 each by the creation of an additional 9,750,000,000 consolidated shares of HK\$0.02 each and 5,250,000,000 non-redeemable convertible preference shares of par value HK\$0.02 each. The increase in authorised share capital has been effective on 22 March 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22 ACQUISITION OF SUBSIDIARIES

On 14 December 2010 and 7 January 2011, the Group had entered into sale and purchase agreement and supplemental sale and purchase agreement respectively with Active Dynamic Limited, a company wholly owned by Mrs. Chu and Better Sino Limited, a company wholly owned by mother of Mrs. Chu (together the "Vendors") for acquisition of entire issued share capital of Kingston Capital Asia Limited at a consideration of approximately HK\$12,000,000,000. The consideration is to be satisfied in the following manner:

- (i) as to the cash consideration of HK\$2,000,000,000;
- (ii) as to HK\$1,000,000,000 by way of the Promissory Notes;
- (iii) as to HK\$4,800,000,000 by way of allotment and issue of the consideration shares at the issue price of HK\$0.80; and
- (iv) as to HK\$4,200,000,000 by way of issue of the non-redeemable convertible preference shares with the conversion price of HK\$0.80 per conversion share.

Subsidiaries of Kingston Capital Asia Limited are principally engaged in provision of securities and futures brokerage, margin and IPO financing, securities underwriting and placements, corporate finance advisory services and asset management services. The acquisition was completed on 1 April 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**22 ACQUISITION OF SUBSIDIARIES** *(Continued)*

The assets and liabilities of Kingston Capital Asia Limited and its subsidiaries acquired at the date of completion of the acquisition are as follows:

	HK\$'000
Property, plant and equipment	1,137
Deferred tax assets	532
Statutory deposit for financial business	2,792
Trade and other receivables	6,440,811
Trading securities	615
Bank balances and cash — trust accounts	780,966
Bank balances and cash — general accounts	38,392
Trade and other payables	(1,198,075)
Tax payables	(68,310)
Amounts due to shareholders	(1,450,000)
Loan from a related company	(932,079)
Bank borrowings	(2,028,000)
Subordinated loans	(1,000,000)
	<hr/>
	588,781
Goodwill (note 10)	10,996,683
	<hr/>
	11,585,464
	<hr/>
Total consideration satisfied by:	
Cash consideration	2,000,000
Fair value of promissory notes	890,358
Fair value of consideration shares	6,300,000
Fair value of non-redeemable convertible preference shares	2,395,106
	<hr/>
	11,585,464
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration	2,000,000
Bank balances and cash acquired	(38,392)
	<hr/>
	1,961,608
	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23 CAPITAL COMMITMENTS

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
— Contracted but not provided for	7,409	2,084
— Authorised but not contracted for	1,188	17,191
	8,597	19,275

24 OPERATING LEASE COMMITMENT

- (a) The Group leases its land and buildings under operating lease arrangements, and the term of the lease was one year and the leases are repayable in fixed monthly instalments. The lease agreements are renewable at the end of the respective lease terms. There is no arrangement for contingent rent payments.

At 30 June 2011, the Group had total future minimum lease receivable under non-cancellable operating leases which fall due as follows:

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Within one year	1,379	1,792
After one year but within five years	2,484	3,650
	3,863	5,442

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24 OPERATING LEASE COMMITMENT (Continued)

- (b) The Group entered into non-cancellable operating lease arrangements with landlords and the terms of the leases range from one to two years.

At 30 June 2011, the Group had total future minimum lease rent payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (unaudited) HK\$'000	31 December 2010 (audited) HK\$'000
Within one year	20,539	2,287
After one year but within five years	2,495	104
	23,034	2,391

25 SHARE-BASED PAYMENT TRANSACTIONS

The Company has share options scheme for eligible employees, consultants and the directors of the Company. Details of the share options outstanding as at 30 June 2011 which have been granted under the Scheme are as follows:

Name or category of participants	Date of grant	Exercise period	Exercise price (adjusted) (note)	Balance at					Balance at 30 June 2011
				1 January 2011 (adjusted) (note)	Granted in 2011	Exercised in 2011	Cancelled in 2011	Lapsed in 2011	
Director:									
Mrs. Chu Yuet Wah	2/2/2010	2/2/2010 to 1/2/2013	HK\$0.822	6,080,000	—	—	—	—	6,080,000
Consultants									
	3/6/2009	3/6/2009 to 2/6/2012	HK\$0.312	71,237,772	—	—	—	—	71,237,772
	11/8/2009	11/8/2009 to 10/8/2012	HK\$0.43	221,583,095	—	—	(44,316,619)	—	177,266,476
	2/2/2010	2/2/2010 to 1/2/2013	HK\$0.822	200,003,000	—	—	(2,500,000)	—	197,503,000
Staff									
	3/6/2009	3/6/2009 to 2/6/2012	HK\$0.312	1,125,000	—	(262,500)	—	(250,000)	612,500
	2/2/2010	2/2/2010 to 1/2/2013	HK\$0.822	15,000,000	—	(1,575,000)	—	(250,000)	13,175,000
				515,028,867	—	(1,837,500)	(46,816,619)	(500,000)	465,874,748

Note: The exercise price and the number of options outstanding at 1 January 2011 have been adjusted in accordance with the share consolidation.

25 SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share options granted to directors

The estimated fair value of the options granted to directors on 2 February 2010 was HK\$0.1225 per option. The fair value was calculated using the Trinomial pricing model. The inputs into the model were as follows:

Weighted average share price	HK\$0.414
Exercise price	HK\$0.411
Expected volatility	82.629%
Expected life	1 year
Risk-free rate	0.255%
Expected dividend yield	2.414%

No vesting condition is set for directors. The fair value of share options grant to directors is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity at the date of grant.

Share options granted to staff

The estimated fair value of the options granted on 3 June 2009 was HK\$0.0437 per option. The fair value was calculated using the Trinomial pricing model. The inputs into the model were as follows:

Weighted average share price	HK\$0.153
Exercise price	HK\$0.156
Expected volatility	66.83%
Expected life	1.5 years
Risk-free rate	0.911%
Expected dividend yield	4.334%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**25 SHARE-BASED PAYMENT TRANSACTIONS** *(Continued)***Share options granted to staff** *(Continued)*

The estimated fair value of the options granted to staff on 2 February 2010 was HK\$0.1422 per option. The fair value was calculated using the Trinomial pricing model. The inputs into the model were as follows:

Weighted average share price	HK\$0.414
Exercise price	HK\$0.411
Expected volatility	73.33% to 82.63%
Expected life	0.496 to 2.918 years
Risk-free rate	0.210% to 0.976%
Expected dividend yield	2.405% to 4.868%

The share options granted on 3 June 2009 to staff are subject to the following vesting schedule:

Vesting schedule	Maximum number of share options exercisable
From 3 December 2009 to 2 June 2010	20%
From 3 June 2010 to 2 December 2010	35%
From 3 December 2010 to 2 June 2011	50%
From 3 June 2011 to 2 December 2011	65%
From 3 December 2011 to 2 March 2012	80%
From 3 March 2012 to 2 June 2012	100%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share options granted to staff *(Continued)*

The share options granted on 2 February 2010 to staff are subject to the following vesting schedule:

Vesting schedule	Maximum number of share options exercisable
From 2 August 2010 to 1 February 2011	15%
From 2 February 2011 to 1 August 2011	30%
From 2 August 2011 to 1 February 2012	45%
From 2 February 2012 to 1 August 2012	60%
From 2 August 2012 to 1 January 2013	80%
From 2 January 2013 to 1 February 2013	100%

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods.

Share options granted to consultants

The estimated fair value of the options granted to consultants on 11 August 2009 was HK\$6,150,000.

The estimated fair values of the options granted to Group A and Group B consultants on 2 February 2010 were HK\$8,610,000 and HK\$3,690,000 respectively. No vesting condition is set for Group A consultants while the share options granted to Group B consultants are subject to the following vesting schedule:

Vesting schedule	Maximum number of share options exercisable
From 2 August 2010 to 1 February 2011	15%
From 2 February 2011 to 1 August 2011	30%
From 2 August 2011 to 1 February 2012	45%
From 2 February 2012 to 1 August 2012	60%
From 2 August 2012 to 1 January 2013	80%
From 2 January 2013 to 1 February 2013	100%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**25 SHARE-BASED PAYMENT TRANSACTIONS** *(Continued)***Share options granted to consultants** *(Continued)*

The fair value was calculated using the Market Approach, reference has been made to the prices at which other services of similar nature are agreed as available in the market. In the process of valuing the share options, the uniqueness of services provided by the consultants has been taken into account. The consultant fee are computed based on the number of working hours and the consultant fees to be charged in the provision of the consultancy service together with out-of-pocket expenses.

The fair value of share options granted to consultants is recognised in the profit or loss with corresponding increase in share-based payment reserve within equity.

Because the Trinomial pricing model and Market Approach require the input of highly substantive assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

A share-based payment expenses amounting to HK\$1,276,000 (six months ended 30 June 2010: HK\$22,401,000) has been recognised by the Company for the six months ended 30 June 2011 in relation to share options granted by the Company.

26 RELATED PARTY TRANSACTIONS**(a) Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors is as follows:

	(Unaudited)	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Short-term employee benefits	10,352	4,128
Post-employment benefits	18	12
Share-based payment expenses	—	11,137
	10,370	15,277

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS *(Continued)*

- (b) During the period, the Group entered into the following material related party and connected transactions.

Name of related party	Nature of transaction	(Unaudited)	
		Six months ended 30 June	
		2011	2010
		HK\$'000	HK\$'000
Chu & Li's Family	Brokerage income	434	—
	Maximum amount of IPO financing	21,692	—
	Maximum amount of margin financing	66,383	—
	Interest income	289	—
Mr. Lau Man Tak & associates	Brokerage income	—	—
	Maximum amount of IPO financing	—	—
	Maximum amount of margin financing	3,788	—
	Interest income	38	—
Directors of subsidiaries & associates	Brokerage income	11	—
	Maximum amount of IPO financing	5,656	—
	Maximum amount of margin financing	37,983	—
	Interest income	248	—
Kingston Securities Limited (note 1)	Brokerage fee in respect of dealing in securities (note 2)	—	14
Mrs. Chu Yuet Wah	Staff quarter rental expenses	447	447

Notes:

- The director, Mrs. Chu Yuet Wah had controlling interest in this company before the Group acquired it on 1 April 2011.
- Brokerage fee was charged at 0.25%.

OTHER INFORMATION

INTERIM DIVIDEND

The Board has declared the payment of an interim dividend of HK0.5 cents per share for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

The record date for determination of entitlements under the interim dividend will be on Friday, 16 September 2011. Shareholders whose names appear on the register of members of the Company as at the close of business on Friday, 16 September 2011 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 16 September 2011. Dividend warrants will be despatched on Wednesday, 28 September 2011.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

At 30 June 2011 the following directors had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the requirements of the Model Code for Securities Transactions by Directors of Listed Companies:

Long positions in the Shares:

Name of Directors	Number of shares of the Company		Number of underlying shares of the Company	Total	Approximate percentage of shareholding
	Personal Interests	Corporate Interests			
Mrs. Chu Yuet Wah	—	6,772,269,895 (Note 1)	5,256,080,000 (Note 2)	12,028,349,895	99.81%
Mr. Chu, Nicholas Yuk-yui	—	6,772,269,895 (Note 1)	5,256,080,000 (Note 2)	12,028,349,895	99.81%

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES *(Continued)*

Long positions in the Shares: *(Continued)*

Notes:

- (1) As at 30 June 2011, of the 6,772,269,895 shares, 4,875,000,000 shares are held by Active Dynamic Limited, 1,881,329,896 shares are held by Sure Expert Limited and 15,939,999 shares are held by Kingston Capital Limited, all of which are controlled by Mrs. Chu Yuet Wah ("Mrs. Chu"). Mr. Chu, Nicholas Yuk-yui ("Mr. Chu"), the spouse of Mrs. Chu, is deemed to be interested in these 6,772,269,895 shares.
- (2) As at 30 June 2011, Active Dynamic Limited held 5,250,000,000 convertible preference shares conferring rights to subscribe for 5,250,000,000 shares and Mrs. Chu personally held 6,080,000 share options conferring rights to subscribe for 6,080,000 shares. Mr. Chu is deemed to be interested in these 5,256,080,000 underlying shares held by Mrs. Chu.

Save for those disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES", at no time during the period was the Company or any of its associated corporations a party to any arrangement to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or underlying shares in, or debentures of, the Company or any other body corporate, and none of the directors or chief executives, nor any of their spouses or children under the age of 18, had any rights to subscribe the securities of the Company, or had exercised any such rights during the period.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholders	Number of shares of the Company		Number of underlying shares of the Company	Total	Approximate percentage of shareholding
	Personal Interests	Corporate Interests			
Active Dynamic Limited (Note 1)	—	4,875,000,000	5,250,000,000	10,125,000,000	84.01%
Sure Expert Limited (Note 1)	—	1,881,329,896	—	1,881,329,896	15.61%
Better Sino Limited (Note 2)	—	1,125,000,000	—	1,125,000,000	9.33%

Notes:

- (1) Active Dynamic Limited and Sure Expert Limited are wholly and beneficially owned by Mrs. Chu. The interests of Mrs. Chu, Active Dynamic Limited and Sure Expert Limited in the Company are stated under the section headed "Directors' and Chief Executive's interests and short positions in the securities" above.
- (2) Better Sino Limited is wholly and beneficially owned by Ms. Ma Siu Fong, the mother of Mrs. Chu.

Save for those disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2011.

OTHER INFORMATION

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

During the six months ended 30 June 2011, neither the Company nor subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2011, the Company has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group, and discussed judgmental issues, accounting estimates, adequacy of disclosures and internal consistency of the interim financial report for the six months ended 30 June 2011.

By Order of the Board
Kingston Financial Group Limited
CHU, Nicholas Yuk-yui
Chairman

Hong Kong, 30 August 2011