



First Shanghai Investments Limited

Stock Code : 227

2016 INTERIM REPORT

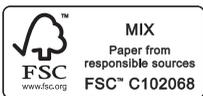


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香港社會服務聯會頒發

2014-16



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Mr. LO Yuen Yat

Executive Directors

Mr. XIN Shulin

Mr. YEUNG Wai Kin

Non-executive Director

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

Independent Non-executive Directors

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. YU Qihao

Mr. ZHOU Xiaohe

NOMINATION COMMITTEE

Prof. WOO Chia-Wei (*Chairman*)

Mr. LO Yuen Yat

Mr. YU Qihao

Mr. ZHOU Xiaohe

REMUNERATION COMMITTEE

Mr. ZHOU Xiaohe (*Chairman*)

Mr. LO Yuen Yat

Prof. WOO Chia-Wei

Mr. YU Qihao

AUDIT COMMITTEE

Mr. YU Qihao (*Chairman*)

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

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. ZHOU Xiaohe

COMPANY SECRETARY

Mr. YEUNG Wai Kin

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd.,
Hong Kong Branch

China CITIC Bank International Limited

China Construction Bank (Asia)
Corporation Limited

China Construction Bank Corporation,
Hong Kong Branch

Dah Sing Bank, Limited

Standard Chartered Bank (Hong Kong)
Limited

REGISTERED OFFICE

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Services Limited

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Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of
Hong Kong Limited: 227

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) submits herewith the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June 2016 together with the comparative figures for the corresponding period last year.

Market Overview

In the first half of 2016, the global financial market witnessed high volatility. Markets worried about the slowdown of economies, the divergence in monetary policies among major central banks, and the uncertainties on global financial implications from Brexit. The US market, among global financial markets, was relatively positive, while continuous to remain volatile. In early 2016, general US stock indexes fell amid lingering concerns about economic outlook when data announced was weaker than expected. The market recouped in March with improvement in corporate earnings, rebound of the commodities market and release on interest rate hike concerns following the conservative approach indicated by the US Fed amid mounting global risks. In late June, the financial market reacted vigorously when UK voted to leave the EU. The stock market dropped promptly but rebounded when investors anticipated delay in raising interest rate by the US Fed. In Europe, despite various fiscal measures were implemented by the European Central Bank, economic recovery in European countries remained weak in general in the first half of 2016. Market anxiety was firstly intensified with the concerns on Brexit which dampened market activities. However, with the weaker British pounds and investors’ expectation on much stimulus by central banks to support the economy, the financial markets recovered by end of June.

The Mainland economy experienced another unsteady year. Following the suspension of the circuit breaker mechanism in early 2016, the financial market undergone another vigorous fluctuation since 2015. General concerns about Renminbi depreciation and credit rating of Mainland corporate and large banks continued to influence the market sentiment. The declining economic growth and the uncertainties due to Brexit also put pressure on the market. The financial market recovered later when the PBOC announced reduction in the bank reserve requirement ratio and the property markets picked up tracking various government supportive measures launched.

During the reporting period, the Hong Kong economy remained challenging. Hang Seng Index dropped by 5% from 21,914 points to 20,794 points. Investor sentiment of the financial market was fragile amid volatility in the Mainland and overseas markets. Average daily market turnover in the first half of 2016 decreased by 46% and 22% when compared with the first and the second half of 2015 respectively. Corporate finance and fund raising activities reduced significantly. The market was interwoven with uncertainties on timing of interest rate hike, volatility in Renminbi, property and commodities valuation, and economic outlook of the Mainland and overseas markets.

Business Overview

For the first half of 2016, the Group experienced downward pressure on overall operation. The performance from Financial Services Sector was highly affected with the reduction on market activities of Hong Kong financial market. Revenue from stock brokerage business declined sharply tracking the decrease in market turnover, despite the fact that revenue from global futures and commodities brokerage business reported significant growth after enhancement on our online trading system. Investment sentiment tends to hold safe-haven assets and this also hindered our brokerage business, which is mainly focused on stock trading. Despite market sentiment, our margin financing business remained steady and has generated stable income to the Group in 2016. This was primarily benefited from the successful expansion of our customer base and research team over the past two years. While devoted to providing full range of financial services to our customers, we will continue to widen our products range and service scope so as to align ourselves with the market growth. We will also continue to closely monitor the market situation and implement cautious and proactive strategy so as to pursue sustainable and stable growth of the Group.

Our corporate finance business faced a challenging year in 2016. We continued to act as financial adviser to various Hong Kong listed companies. We were also engaged by numerous renowned Hong Kong listed companies to act as independent financial adviser for cases including but not limited to acquisitions and disposals, and a variety of continuing connected transactions. However, with the market volatility, corporate transactions and fund raising activities were delayed, especially on sizeable deals. Income from advisory services fee recognised in the reporting period dropped significantly. This impact was partially offset by the increase in sponsorship fee generated from various IPO cases of which one of them has been listed successfully on the GEM board of the Hong Kong Stock Exchange in July 2016. Corporate financial service is part of the extensive financial services we offer. Our corporate finance division and other divisions will continue to contribute to generate synergy and strive for further success.

During 2016, tracking implementation of various accommodative fiscal and monetary measures by the Central Government, the Chinese property market witnessed general recovery in the first and second tiers cities. On the other hand, market conditions in the third and fourth-tier cities where most of the Group's project located, remained challenging. Our property development and investment business was hindered by the huge inventory level. During the reporting period, our sale of property picked up, but yet to be further improved. For the first half of 2016, after recognition of slight property valuation gain, operating profit was reported when compared with a loss reported from 2015. We have completed development of Phase III of Wuxi project and target to launch Phases A and B of Huangshan project in the second half of 2016, aiming to reduce the overall inventory level of the Group.

In 2016, the Group has disposed its major direct investment vehicle, China Assets (Holdings) Limited, with a cash consideration of HK\$104 million. We will take this opportunity to reinvest the surplus fund with new good direct investment projects so as to generate the best interest of our shareholders. We will concentrate our resources on the development of pharmaceutical/healthcare business and completion of our existing property development projects.

For the six months ended 30th June 2016, the Group reported a net loss attributable to shareholders of approximately HK\$97 million, as compared with a net profit of approximately HK\$91 million in the corresponding period of 2015. The basic losses per share attributable to the shareholders of the Company was HK6.83 cents, when compared with the basic earnings per share of HK6.52 cents recorded in the corresponding period of 2015.

Prospects

Looking forward, we are cautiously optimistic over the economic outlook of the Mainland and Hong Kong. We expect the Central Government will continue to deepen its economic reform and further implement various supportive measures as economic stimulus, although economic growth rate is expected to remain slow for a period. With the political and economic uncertainties in the US and Europe, we expect the US Fed will take steady and cautious approach on the pace of interest rate hike while the European Central Bank will continue its easing stimulus measures.

Benefited with the sound liquidity from overseas markets, we believe the Hong Kong financial market will pick up in the second half of 2016. In addition, the launch of Shenzhen-Hong Kong Stock Connect before the end of 2016 will also increase liquidity of the medium-sized enterprises in Hong Kong and improve the market sentiment. We will maintain a cautious and proactive approach regarding the credit control of our margin financing business, continue to upgrade our online trading platform, and strengthen our customer base. Backed up by experienced expertise and having sound reputation in the industry, together with the synergies brought forward by the full range of financial services offered by the Group including brokerage, asset management, financial advisory and IPO sponsorships, we will continue to enhance our service and strengthen our business platform for further expansion.

We will consistently push forward our existing investment strategy. Placing focus on pharmaceutical and healthcare sectors. We shall further expand our Direct Investment business. We will also continue to seek future opportunities to enlarge our presence in industries with advantage synergies aiming to optimize returns to the Company and its shareholders.

Management Discussion and Analysis

Financial review

Overview

For the six months ended 30th June 2016, the Group reported a net loss attributable to shareholders of approximately HK\$97 million, as compared with a net profit of approximately HK\$91 million in the corresponding period of 2015. The record in net loss was mainly attributable to the recognition of a non-cash accounting loss on disposal of a listed associated company, China Assets (Holdings) Limited ("China Assets", stock code: 170), amounted to approximately HK\$118 million. In addition, the overall result was reduced with the decrease in commission income from stock brokerage business marked to the sliding market turnover and the decrease in trading profit of our investment portfolio. This impact was partially offset by the decrease in depreciation charge of hotel facilities in Wuxi City, Jiangsu Province, PRC. The basic losses per share attributable to the shareholders of the Company was HK6.83 cents. Revenue of the Group was approximately HK\$177 million, representing a reduction of 42% over the same period of 2015 due to the decrease in revenue from stock brokerage business. Total net assets of the Group diminished by 10% to approximately HK\$2,842 million after the reduction of capital reserves after the disposal of China Assets, when compared with approximately HK\$3,168 million as at 31st December 2015.

Financial Services

The Group's Financial Services Sector includes securities investment, securities broking, margin financing, corporate finance, underwriting and placements and asset management. We offer full range of financial services to our customers. For the first half of 2016, the operating profit reported from Financial Services Sector dropped by 60% when compared with the same period of 2015. This was mainly attributable to the significant downturn of trading activities in Hong Kong stock market.

During the reporting period, trading activities of Hong Kong stock market fell amid the volatile global and Mainland markets. The average daily market turnover decreased by 46% from HK\$125 billion in the first half of 2015 to HK\$68 billion when compared with 2016. This has significantly hindered our brokerage business, which recorded a reduction in brokerage commission income by 71%. With the unsatisfactory market sentiment, especially after the circuit breaker mechanism driven by the Central Government in early January 2016, market activity including initial public offering, placing and underwriting has witnessed a slowdown, and this has highly curtailed income from relevant businesses. Affected by the high market volatility, trading gain from our securities investment business was unsatisfactory, reporting a decrease in 84%.

Amid market uncertainties, the margin loan demand from our clients was slightly weakened. The average margin loan portfolio decreased by 9% from approximately HK\$1,428 million during the first half of 2015 to approximately HK\$1,296 million in 2016. Nevertheless, the margin loan interest income generated remained stable as a result of increase in average loan interest rate.

Tracking our corporate finance business, we continued to focus on financial advisory cases during the reporting period. For the six months ended 30th June 2016, 9 financial advisory cases were completed and 4 IPO cases were under processing. Income from advisory services was reduced by 72% with decrease in the number of sizable independent financial advisory cases. The impact was partially offset by the increase in sponsorship fee generated from new IPO projects.

Property and Hotel

The Group's Property and Hotel Sector primarily involves in property development, property investment, property management, hotel and golf operation. Currently we participate in development of various kinds of properties, mainly located at the third and fourth-tier cities in PRC, including residential, service apartment, commercial office, industrial office, hotel and recreation resort. For the six months ended 30th June 2016, operating profit was reported from Property and Hotel Sector, as compared with an operating loss recorded in the corresponding period last year. The improved result was mainly contributed by the recognition of slight properties revaluation gain, tracking to the recovery of the Chinese property market, and the reduction in depreciation charge on hotel facilities in Wuxi.

During the first half of 2016, the Central Government continued to implement various accommodative fiscal and monetary measures so as to stabilize the declining economic growth. The property market of the first-tier cities boosted with rigid market demand, while cities from other tiers improved in both selling prices and volume benefited from improvement in general market sentiment and liquidity flow. With worries over high inventories level in the third and fourth-tier cities, valuation gain fell behind the general market trend. During the reporting period, the Group completed the final phase of its property development project in Wuxi. Revenue from sales of properties increased by 205% as compared to the corresponding period in 2015. We will continue to focus on completion of development projects on hand and reduction of inventory level in the second half of 2016.

Our property investment and management business, one of the steady income generators of the Group, reported slight decrease in revenue by 3% as compared with the corresponding period in 2015. For investment properties held by the Group, slight valuation gain was reported for the six months ended 30th June 2016, when compared with a valuation loss made in the corresponding period in 2015.

For the six months ended 30th June 2016, revenue from hotel and golf operation dropped by 5% as compared with the corresponding period in 2015. It was mainly attributable to the decrease in hotel room revenue as a result of reduction in average room rate due to keen market competition.

Direct Investment

The Group aims to explore profitable investment opportunities in various industries so as to optimize returns to its shareholders. During the six months ended 30th June 2016, operating loss amounted approximately HK\$122 million was recorded from Direct Investment Sector after the recognition of non-cash accounting loss on disposal of China Assets. Revenue from other businesses remained steady during the reporting period.

Liquidity, financial resources and capital structure

The Group relied principally on its internal resources to fund its operations and investment activities. Bank loans will be raised to meet the different demands of our property projects and financial services business. As at 30th June 2016, the Group had raised bank loans of approximately HK\$654 million (31st December 2015: HK\$379 million) and held approximately HK\$261 million (31st December 2015: HK\$179 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 23% (31st December 2015: 12%).

The Group's licensed subsidiaries are subject to various statutory capital requirements in accordance with the Securities and Futures (Financial Resources) Rules (Cap. 571N). During the reporting period, all licensed corporations within the Group complied with their respective requirements.

During the reporting period, there was no material change on the Group's overall share capital structure. As at 30th June 2016, the total number of issued ordinary shares was 1,418,973,012 shares (31st December 2015: 1,413,473,012 shares).

Material acquisitions and disposal

On 22nd January 2016, the Group entered into an agreement with New Synergies Investments Company Limited, a company wholly-owned by Mr. Lo Yuen Yat, a director of the Company, and his family members, to dispose the Group's entire interest in China Assets (Holdings) Limited for a cash consideration of approximately HK\$104 million. The transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 7th April 2016. The Group recorded an accounting loss on disposal of approximately HK\$118 million.

Charges of Group assets

The Group has charged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$734 million (31st December 2015: HK\$629 million) and fixed deposits of approximately HK\$15 million (31st December 2015: HK\$15 million) against its bank loans and general banking facilities. The banking facilities amounted approximately HK\$249 million (31st December 2015: HK\$269 million) had been utilised.

Contingent liabilities

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 30th June 2016, total contingent liabilities relating to these guarantees amounted to approximately HK\$2 million (31st December 2015: HK\$2 million).

Human resources

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include discretionary bonus, medical schemes, defined contribution provident fund schemes and employee share option scheme. Staff are enrolled in external and internal training courses or seminars in order to update their technical knowledge and skills so as to increase their awareness of market development and business trend. As at 30th June 2016, the Group employed 660 (30th June 2015: 654) staff, of whom 508 are based in China. The staff costs of the Group for the six months ended 30th June 2016 amounted to approximately HK\$85 million (30th June 2015: HK\$113 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30th June	
		2016	2015
		HK\$'000	HK\$'000
	Note		
Revenue	5	177,152	302,989
Cost of sales		(45,429)	(87,606)
Gross profit		131,723	215,383
Other (losses)/gains — net	6	(110,946)	6,546
Selling, general and administrative expenses		(109,734)	(150,179)
Operating (loss)/profit	5 and 7	(88,957)	71,750
Finance income	8	9,245	7,399
Finance costs	8	(7,662)	(12,281)
Finance income/(costs) — net	8	1,583	(4,882)
Share of results of			
— Associated companies		(1,523)	27,246
— Joint ventures		4,720	5,388
(Loss)/profit before taxation		(84,177)	99,502
Taxation	10	(11,295)	(11,759)
(Loss)/profit for the period		(95,472)	87,743
Attributable to:			
Shareholders of the Company		(96,822)	91,292
Non-controlling interests		1,350	(3,549)
		(95,472)	87,743
(Losses)/earnings per share attributable to shareholders of the Company			
— Basic	11	HK(6.83) cents	HK6.52 cents
— Diluted	11	HK(6.83) cents	HK6.46 cents

The notes on pages 17 to 35 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30th June	
	2016 HK\$'000	2015 HK\$'000
(Loss)/profit for the period	(95,472)	87,743
Other comprehensive (loss)/income		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
– Fair value gain/(loss) on available-for-sale financial assets	11,268	(53,591)
– Exchange reserve realised upon disposal of a subsidiary	–	(5,764)
– Reserves realised upon disposal of an associated company	(157,843)	–
– Currency translation differences	(17,439)	(11,846)
– Share of post-acquisition reserves of an associated company	(53,463)	136,033
Other comprehensive (loss)/income for the period, net of tax	(217,477)	64,832
Total comprehensive (loss)/income for the period	(312,949)	152,575
Attributable to:		
Shareholders of the Company	(312,668)	156,059
Non-controlling interests	(281)	(3,484)
	(312,949)	152,575

The notes on pages 17 to 35 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Non-current assets			
Intangible assets	13	2,126	2,126
Property, plant and equipment	13	371,190	376,811
Investment properties	13	476,645	470,459
Leasehold land and land use rights	13	47,608	48,922
Investment in an associated company		–	434,822
Investments in joint ventures		237,763	247,562
Deferred tax assets		7,400	6,968
Available-for-sale financial assets		303,029	291,761
Loans and advances		6,721	6,455
Total non-current assets		1,452,482	1,885,886
Current assets			
Inventories	14	661,143	674,127
Loans and advances		1,429,974	1,131,432
Trade receivables	15	174,095	159,001
Other receivables, prepayments and deposits		54,102	60,373
Tax recoverable		10,812	11,041
Financial assets at fair value through profit or loss		102,735	20,192
Deposits with banks		2,751	2,807
Client trust bank balances		3,353,523	2,791,106
Cash and cash equivalents		258,116	176,589
Total current assets		6,047,251	5,026,668
Current liabilities			
Trade and other payables	16	3,900,408	3,272,593
Tax payable		45,480	39,088
Borrowings	17	422,551	169,682
Total current liabilities		4,368,439	3,481,363
Net current assets		1,678,812	1,545,305

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
	Note		
Total assets less current liabilities		3,131,294	3,431,191
Non-current liabilities			
Deferred tax liabilities		57,438	54,526
Borrowings	17	231,668	208,885
Total non-current liabilities		289,106	263,411
Net assets		2,842,188	3,167,780
Equity			
Share capital	18	1,162,940	1,157,658
Reserves		1,600,237	1,928,637
Capital and reserves attributable to the Company's shareholders		2,763,177	3,086,295
Non-controlling interests		79,011	81,485
Total equity		2,842,188	3,167,780

The notes on pages 17 to 35 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30th June	
	2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities		
Net cash outflow from operating activities	(296,939)	(942,141)
Overseas taxation paid	(1,103)	(5,294)
Net cash used in operating activities	(298,042)	(947,435)
Cash flows from investing activities		
Interest received	9,173	7,468
Purchase of property, plant and equipment	(3,210)	(7,560)
Purchase of available-for-sale financial assets	-	(60,406)
Proceeds from disposal of property, plant and equipment	20	36
Proceeds from disposal of investment properties	2,867	-
Proceeds from disposal of an associated company	104,287	-
Dividends received from a joint venture	9,397	-
Balance receipts for disposal of subsidiaries	-	5,723
Decrease in deposits with banks	56	4,689
Net cash generated from/(used in) investing activities	122,590	(50,050)
Cash flows from financing activities		
Interest paid	(9,120)	(15,614)
Proceeds from borrowings	580,506	979,400
Repayments of borrowings	(299,546)	(85,700)
Dividend paid	(14,190)	-
Dividend paid to non-controlling interests	(2,193)	-
Issue of new shares on exercise of share options	3,740	1,950
Net cash generated from financing activities	259,197	880,036
Net increase/(decrease) in cash and cash equivalents	83,745	(117,449)
Cash and cash equivalents at 1st January	176,589	364,075
Exchange differences	(2,218)	(786)
Cash and cash equivalents at 30th June	258,116	245,840

The notes on pages 17 to 35 form an integral part of this condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited								
	Attributable to shareholders of the Company							Non-controlling interests	Total
	Share capital HK\$'000	Employee share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	HK\$'000	HK\$'000
At 1st January 2016	1,157,658	35,925	367,874	12,334	231,355	60,984	1,220,165	81,485	3,167,780
Loss for the period	-	-	-	-	-	-	(96,822)	1,350	(95,472)
Other comprehensive loss	-	-	(330,003)	-	11,268	(14,757)	117,646	(1,631)	(217,477)
Total comprehensive loss for the period ended 30th June 2016	-	-	(330,003)	-	11,268	(14,757)	20,824	(281)	(312,949)
Issue of new shares on exercise of share options	5,282	(1,542)	-	-	-	-	-	-	3,740
Dividend paid	-	-	-	-	-	-	(14,190)	(2,193)	(16,383)
	5,282	(1,542)	-	-	-	-	(14,190)	(2,193)	(12,643)
At 30th June 2016	1,162,940	34,383	37,871	12,334	242,623	46,227	1,226,799	79,011	2,842,188

	Unaudited								
	Attributable to shareholders of the Company							Non-controlling interests	Total
	Share capital HK\$'000	Employee share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	HK\$'000	HK\$'000
At 1st January 2015	1,145,005	39,968	305,703	12,334	453,332	135,359	1,116,310	76,940	3,284,951
Profit for the period	-	-	-	-	-	-	91,292	(3,549)	87,743
Other comprehensive income	-	-	136,033	-	(53,591)	(17,675)	-	65	64,832
Total comprehensive income for the period ended 30th June 2015	-	-	136,033	-	(53,591)	(17,675)	91,292	(3,484)	152,575
Issue of new shares on exercise of share options	3,042	(1,092)	-	-	-	-	-	-	1,950
Changes in ownership interests in subsidiaries without change of control	-	-	-	-	-	-	(9,756)	9,756	-
Dividend paid	-	-	-	-	-	-	(21,025)	-	(21,025)
	3,042	(1,092)	-	-	-	-	(30,781)	9,756	(19,075)
At 30th June 2015	1,148,047	38,876	441,736	12,334	399,741	117,684	1,176,821	83,212	3,418,451

The notes on pages 17 to 35 form an integral part of this condensed consolidated financial information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. General information

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

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

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

The financial information relating to the year ended 31st December 2015 that is included in the condensed consolidated financial information for the six months ended 30th June 2016 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the consolidated financial statements for the year ended 31st December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).
- The Company’s auditor has reported on these consolidated financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

This unaudited condensed consolidated financial information was approved for issue by the Board on 26th August 2016.

2. Basis of preparation

This unaudited condensed consolidated financial information for the six months ended 30th June 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. This unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2015, as described in those annual financial statements.

- (a) There are no Standards, amendments, revisions and interpretations to existing Standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.
- (b) Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.
- (c) The following Standards and amendments to existing Standards have been issued but are not effective for financial year beginning 1st January 2016 and have not been early adopted:

		Effective for accounting periods beginning on or after
–HKAS 7 (Amendment)	Statement of Cash Flows;	1st January 2017
–HKAS 12 (Amendment)	Income Taxes;	1st January 2017
–HKAS 28 and HKFRS 10 (Amendment)	Sale and Contribution of Assets Between an Investor and its Associate or Joint Venture;	A date to be determined by the IASB*
–HKFRS 9	Financial Instruments;	1st January 2018
–HKFRS 15	Revenue from Contracts with Customers; and	1st January 2018
–HKFRS 16	Leases	1st January 2019

* IASB refers to International Accounting Standards Board

3. Accounting policies (continued)

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

4. Estimates

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

In preparing this unaudited condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2015.

5. Segment information

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

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

- Financial services
- Property development
- Property investment and hotel
- Direct investment

The Board assesses the performance of the operating segments based on a measure of segment results and share of results of associated companies and joint ventures.

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

5. Segment information (continued)

The unaudited segment results of the Group for the six months ended 30th June 2016 are as follows:

	Unaudited				
	Financial services HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	HK\$'000
Revenue	112,831	5,408	56,244	2,669	177,152
Segment results	48,936	(2,774)	7,253	(122,197)	(68,782)
Unallocated net operating expenses					(20,175)
Operating loss					(88,957)
Finance income – net					1,583
Share of results of					
– Associated company	–	–	–	(1,523)	(1,523)
– Joint ventures	–	–	4,468	252	4,720
Loss before taxation					(84,177)

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

The unaudited segment results of the Group for the six months ended 30th June 2015 are as follows:

	Unaudited				
	Financial services HK\$'000	Property development HK\$'000	Property investment and hotel HK\$'000	Direct investment HK\$'000	HK\$'000
Revenue	239,617	1,775	58,941	2,656	302,989
Segment results	122,123	(12,260)	(17,530)	(4,996)	87,337
Unallocated net operating expenses					(15,587)
Operating profit					71,750
Finance costs – net					(4,882)
Share of results of					
– Associated companies	–	–	–	27,246	27,246
– Joint ventures	–	–	5,741	(353)	5,388
Profit before taxation					99,502

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

5. Segment information (continued)

The unaudited segment assets of the Group as at 30th June 2016 are as follows:

	Unaudited				
	Financial services	Property development	Property investment and hotel	Direct investment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	5,172,061	726,642	922,282	332,181	7,153,166
Investments in joint ventures	–	–	197,753	40,010	237,763
Tax recoverable					10,812
Deferred tax assets					7,400
Corporate assets					90,592
Total assets					7,499,733

The audited segment assets of the Group as at 31st December 2015 are as follows:

	Audited				
	Financial services	Property development	Property investment and hotel	Direct investment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	4,184,172	734,836	916,613	318,318	6,153,939
Investment in an associated company	–	–	–	434,822	434,822
Investments in joint ventures	–	–	206,998	40,564	247,562
Tax recoverable					11,041
Deferred tax assets					6,968
Corporate assets					58,222
Total assets					6,912,554

6. Other (losses)/gains – net

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Gain on disposal of interests in subsidiaries	—	5,764
Loss on disposal of an associated company	(117,900)	—
Gain on disposal of investment properties	113	—
Fair value gains/(losses) on investment properties	7,208	(6,682)
Net foreign exchange (loss)/gain	(367)	7,464
	(110,946)	6,546

7. Operating (loss)/profit

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

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Charging:		
Depreciation	7,653	19,996
Amortisation of leasehold land and land use rights	813	856
Staff costs (<i>Note 9</i>)	85,382	113,478

8. Finance income/(costs) – net

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Finance income – interest income	9,245	7,399
Finance costs		
– Interest on loans and overdrafts	(9,142)	(15,287)
– Less: amounts capitalised as qualifying assets	1,480	3,006
Total finance costs	(7,662)	(12,281)
Finance income/(costs) – net	1,583	(4,882)

9. Staff costs

Staff costs, including directors' remuneration, comprise:

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Wages, salaries and allowances	75,330	102,908
Retirement benefit costs	5,621	5,721
Other employee benefits	4,431	4,849
	85,382	113,478

10. Taxation

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

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong profits tax		
– Current	6,685	14,737
Overseas profits tax		
– Current	1,043	675
– Under/(over)—provision in previous years	34	(52)
Land appreciation tax	335	75
Deferred taxation	3,198	(3,676)
Taxation charge	11,295	11,759

11. (Losses)/earnings per share

The calculation of basic and diluted (losses)/earnings per share is based on the Group's losses attributable to shareholders of approximately HK\$96,822,000 (2015: Group's profit attributable to shareholders of approximately HK\$91,292,000). The basic (losses)/earnings per share is based on the weighted average number of 1,417,250,484 (2015: 1,400,939,255) shares in issue during the period.

The Company has share options outstanding for the six months ended 30th June 2015 which are dilutive potential ordinary shares. Calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 11,808,264 dilutive potential ordinary shares.

Diluted losses per share during the period is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

12. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2016 (2015: Nil).

13. Capital expenditure

	Unaudited			
	Intangible assets HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000
Net book value at 1st January 2016	2,126	376,811	470,459	48,922
Additions	–	3,210	–	–
Transfer from inventories	–	–	9,731	–
Fair value gains	–	–	7,208	–
Disposals	–	(40)	(2,754)	–
Depreciation and amortisation (<i>Note 7</i>)	–	(7,653)	–	(813)
Exchange differences	–	(1,138)	(7,999)	(501)
Net book value at 30th June 2016	2,126	371,190	476,645	47,608

13. Capital expenditure (continued)

	Unaudited			
	Intangible assets HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000
Net book value at				
1st January 2015	2,126	426,096	453,603	52,256
Additions	—	5,739	—	—
Transfer from inventories	—	—	5,540	—
Fair value losses	—	—	(6,682)	—
Disposals	—	(42)	—	—
Depreciation and amortisation (Note 7)	—	(19,996)	—	(856)
Exchange differences	—	(11,960)	115	7
Net book value at 30th June 2015	2,126	399,837	452,576	51,407

14. Inventories

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Properties under development	263,923	462,097
Properties held for sale	395,965	211,115
Other inventories	1,255	915
	661,143	674,127

15. Trade receivables

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Due from stockbrokers and clearing houses	86,096	50,498
Due from stockbroking clients	82,749	100,067
Trade receivables	20,467	23,936
	189,312	174,501
Provision for impairment	(15,217)	(15,500)
	174,095	159,001

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

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

At 30th June 2016 and 31st December 2015, the ageing analysis of trade receivables based on invoice date is as follows:

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
0 – 30 days	172,786	157,866
31 – 60 days	540	555
61 – 90 days	127	51
Over 90 days	642	529
	174,095	159,001

16. Trade and other payables

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Due to stockbrokers and dealers	23,498	86,709
Due to stockbroking clients	3,507,833	2,875,589
Trade payables	148,755	156,262
Total trade payables	3,680,086	3,118,560
Advance receipts from customers	15,079	9,029
Accruals and other payables	205,243	145,004
	3,900,408	3,272,593

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

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$3,353,523,000 (31st December 2015: HK\$2,791,106,000).

Trade and other payables are non-interest bearing except for the amount due to stockbroking clients placed in trust and segregated accounts with authorised institutions which bear interest at the rate with reference to the bank deposit savings rate.

No ageing analysis is disclosed for amounts due to stockbrokers, dealers and stockbroking clients as in the opinion of directors, it does not give additional value in view of the nature of these businesses.

16. Trade and other payables (continued)

At 30th June 2016 and 31st December 2015, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
0 – 30 days	137,226	144,893
31 – 60 days	2,491	1,912
61 – 90 days	1,432	2,014
Over 90 days	7,606	7,443
	148,755	156,262

17. Borrowings

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Bank loans – secured		
Non-current	231,668	208,885
Current	422,551	169,682
	654,219	378,567

As at 30th June 2016, the Group has pledged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$734 million (31st December 2015: HK\$629 million) and fixed deposits of approximately HK\$15 million (31st December 2015: HK\$15 million).

17. Borrowings (continued)

As at 30th June 2016, bank borrowings of HK\$405 million (31st December 2015: HK\$110 million) were secured by certain listed securities pledged by the customers to the Group as margin loan collateral which had an aggregate fair value amounting to HK\$1,362 million (31st December 2015: HK\$918 million).

Bank borrowings are either repayable on demand or will mature and be repayable in July 2016 to February 2026 and bear floating interest rates. The weighted average effective interest rate at 30th June 2016 was 2.89% (31st December 2015: 4.25%) per annum. The carrying amounts of borrowings approximate to their fair values. Out of the total amount, approximately HK\$405 million (31st December 2015: HK\$110 million) and HK\$249 million (31st December 2015: HK\$269 million) are denominated in Hong Kong dollars and Renminbi, respectively.

18. Share capital

	Unaudited 30th June 2016		Audited 31st December 2015	
	Number of shares'000	HK\$'000	Number of shares'000	HK\$'000
Ordinary shares, issued and fully paid:				
At 1st January 2016 and 2015	1,413,473	1,157,658	1,400,663	1,145,005
Exercise of share options (Note)	5,500	5,282	12,810	12,653
At 30th June 2016 and 31st December 2015	1,418,973	1,162,940	1,413,473	1,157,658

Note: During the period, 5,500,000 (31st December 2015: 12,810,000) new shares were issued upon exercise of options under the Employee Option Scheme adopted by the Company on 24th May 2002 at exercise price HK\$0.68 (31st December 2015: exercise price ranging from HK\$0.564 to HK\$1.95) per share. These shares rank *pari passu* in all respects with the existing shares of the Company. The related weighted average share price at the time of exercise was HK\$1.10 (31st December 2015: HK\$1.37) per share.

19. Commitments

- (a) Capital commitments for property, plant and equipment, leasehold land and land use rights and properties under development:

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Contracted but not provided for	563,668	336,256

- (b) Commitments under operating leases

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

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Not later than one year	19,474	18,700
Later than one year but not later than five years	31,951	34,446
More than five years	682	3,372
	52,107	56,518

19. Commitments (continued)

(b) Commitments under operating leases (continued)

The future aggregate minimum lease payments under non-cancellable operating leases in respect of property, plant and equipment, and leasehold land and land use rights as follows:

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Not later than one year	7,434	8,780
Later than one year but not later than five years	5,369	6,300
	12,803	15,080

(c) Other commitments

The Group undertakes underwriting obligations on placing and IPO activities. As at 30th June 2016, the underwriting obligations were approximately HK\$89,942,000 (31st December 2015: Nil).

20. Contingent liabilities

	Unaudited 30th June 2016 HK\$'000	Audited 31st December 2015 HK\$'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (<i>Note</i>)	1,872	1,910

Note: The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in the PRC. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates.

21. Related party transactions

- (a) During the six months ended 30th June 2016, the Group entered into an agreement with New Synergies Investments Company Limited, a company wholly-owned by Mr. Lo Yuen Yat, a director of the Company, and his family members, to dispose the Group's entire interest in China Assets (Holdings) Limited for a cash consideration of approximately HK\$104 million. The transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 7th April 2016. The Group recorded an accounting loss on disposal of approximately HK\$118 million.
- (b) The key management compensation is disclosed as follows:

	Unaudited	
	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
Fees	810	810
Salaries and other employee benefits	4,388	4,274
Retirement benefit costs	372	362
	5,570	5,446

22. Financial risk management

22.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and price risk).

This unaudited condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December 2015.

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

22. Financial risk management (continued)

22.2 Fair value estimation

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

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

The following table presents the unaudited financial assets that are measured at fair value at 30th June 2016.

	Unaudited		
	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss			
– listed securities	102,735	–	102,735
Available-for-sale financial assets			
– unlisted securities	–	303,029	303,029
	102,735	303,029	405,764

22. Financial risk management (continued)**22.2 Fair value estimation (continued)**

The following table presents the audited financial assets that are measured at fair value at 31st December 2015.

	Audited		
	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss			
– listed securities	20,192	–	20,192
Available-for-sale financial assets			
– unlisted securities	–	291,761	291,761
	20,192	291,761	311,953

For the six months ended 30th June 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the financial assets.

For the six months ended 30th June 2016, there were no reclassifications of financial assets.

22.3 Group's valuation processes

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

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

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

DISCLOSURE OF INTERESTS

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

At 30th June 2016, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Interests in respect of the Company:

Directors		Number of shares and underlying shares held			% of issued share capital of the Company
		Personal interests	Corporate interests	Total	
Mr. LO Yuen Yat (<i>Note</i>)	Long position	108,349,636	72,952,000	181,301,636	12.78%
Mr. XIN Shulin	Long position	8,032,000	—	8,032,000	0.57%
Mr. YEUNG Wai Kin	Long position	19,904,304	—	19,904,304	1.40%
Mr. KWOK Lam Kwong, Larry, B.B.S., J.P.	Long position	1,000,000	—	1,000,000	0.07%
Prof. WOO Chia-Wei	Long position	1,000,000	—	1,000,000	0.07%
Mr. LIU Ji	Long position	500,000	—	500,000	0.04%
Mr. ZHOU Xiaohe	Long position	160,000	—	160,000	0.01%

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

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

Saved as disclosed above, as at 30th June 2016, none of the directors and chief executives (including their spouse and children under 18 years of age) had any interest in shares, underlying shares and debentures of the Company, its specified undertaking and its other associated corporation required to be disclosed pursuant to the SFO.

Share Options

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the “2002 Scheme”) to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Due to the expiry of the 2002 Scheme, the shareholders of the Company approved a new share option scheme (the “2014 Scheme”) on 23rd May 2014. No share options were granted under the 2014 Scheme during the period. The purpose of the 2014 Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the 2014 Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company. The 2014 Scheme will remain in force for a period of 10 years from the date of adoption.

Movement of share options during the six months ended 30th June 2016 is as follows:

	Options held at 1st January 2016	Options exercised during the period	Options held at 30th June 2016	Exercise price HK\$	Date of grant	Exercise period	Vesting period
Directors:							
Mr. LO Yuen Yat	11,944,000	–	11,944,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. XIN Shulin	8,032,000	–	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. YEUNG Wai Kin	8,032,000	–	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. KWOK Lam Kwong, Larry, B.B.S., J.P.	1,000,000	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Prof. WOO Chia-Wei	1,000,000	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. LIU Ji	500,000	–	500,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Employees	5,500,000	(5,500,000)	–	0.680	03/03/2006	03/03/2008-02/03/2016	03/03/2006-02/03/2008
	1,000,000	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
	37,008,000	(5,500,000)	31,508,000				

Notes:

- During the period, 5,500,000 share options were exercised under the 2002 Scheme with an exercise price of HK\$0.68 per share. The related weighted average closing price immediately before the dates on which the share options were exercised was HK\$1.06 per share. No share options were granted or lapsed under the 2002 Scheme and the 2014 Scheme during the six months ended 30th June 2016.
- No share options granted under the 2002 Scheme were cancelled during the six months ended 30th June 2016.
- The accounting policy adopted for share options is consistent with that as described in the annual financial statements for the year ended 31st December 2015.

DISCLOSURE OF INTERESTS

Substantial Shareholders' Interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2016, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Ordinary shares in the Company:

		Personal interests	Family interests	Corporate interests	Other interests	Total	% of issued share capital of the Company
China Assets (Holdings) Limited ("China Assets") (Note 1)	Long position	–	–	247,674,500	–	247,674,500	17.45%
Ms. CHAN Chiu, Joy ("Ms. Chan") (Note 2 & 3)	Long position	56,008,000	12,432,000	5,568,000	63,640,000	137,648,000	9.70%
Mr. YIN Jian, Alexander ("Mr. Yin") (Note 2 & 3)	Long position	12,432,000	56,008,000	5,568,000	63,640,000	137,648,000	9.70%

Notes:

- (1) China Assets is a Hong Kong listed company.
- (2) 5,568,000 shares are held by Richcombe Investments Limited, a company jointly owned by Ms. Chan and Mr. Yin with 50% equity interests each.
- (3) 63,640,000 shares are held by The Golden Bridge Settlement, a trust with Ms. Chan and Mr. Yin as beneficiaries.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited during the period.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2016 (2015: Nil).

Compliance with Code on Corporate Governance Practices

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

The Chairman and chief executive officer of the Company is Mr. LO Yuen Yat. This deviates from code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board believes that vesting the role of both positions in Mr. Lo provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

Nomination Committee

The Nomination Committee was established on 1st March 2012. The Nomination Committee comprises three independent non-executive directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe and an executive director, Mr. LO Yuen Yat. The Nomination Committee was set up to review the structure, size, composition and diversity of the Board, identify individuals and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors and assess the independence of independent non-executive directors.

Remuneration Committee

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

Audit Committee

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

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters, including a review of the unaudited consolidated interim results for the six months ended 30th June 2016 for approval by the Board.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the six months ended 30th June 2016.

By order of the Board

LO Yuen Yat

Chairman

Hong Kong, 26th August 2016