



Complete Logistics Solutions



Frontier Services
Group Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 00500)

Interim Report **2016**

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr Erik D. Prince (*Chairman*)
Mr Ko Chun Shun, Johnson (*Deputy Chairman*)
Mr Luo Ning (*Deputy Chairman*)
Dr Hua Dongyi (*Acting Chief Executive Officer*)
Mr Hu Qinggang

Independent Non-Executive Directors

Mr Yap Fat Suan, Henry
Professor Lee Hau Leung
Dr Harold O. Demuren

Audit Committee

Mr Yap Fat Suan, Henry (*Chairman*)
Professor Lee Hau Leung
Dr Harold O. Demuren

Nomination Committee

Mr Erik D. Prince (*Chairman*)
Mr Ko Chun Shun, Johnson
Mr Yap Fat Suan, Henry
Professor Lee Hau Leung
Dr Harold O. Demuren

Remuneration Committee

Professor Lee Hau Leung (*Chairman*)
Mr Erik D. Prince
Mr Ko Chun Shun, Johnson
Mr Yap Fat Suan, Henry
Dr Harold O. Demuren

COMPANY SECRETARY

Mr Chan Kam Kwan, Jason

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Baker & McKenzie
Kaplan & Stratton
Michael Li & Co.

PRINCIPAL BANKERS

Bank of China Limited
Bank of Communications Co., Limited
China Everbright Bank
Hang Seng Bank Limited
Ping An Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suite 3902, 39th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal Registrars

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

Investor Relations Department
Frontier Services Group Limited
Telephone: (852) 3766 1077
Fax: (852) 3007 0386
Website: www.fsgroup.com
www.irasia.com/listco/hk/frontier
Email: ir@fsgroup.com

Management Discussion and Analysis

The board of directors (the “Board”) of Frontier Services Group Limited (the “Company”) presents the unaudited consolidated results and financial position of the Company and its subsidiaries (together, the “Group”) for the six-month period ended 30 June 2016, together with the comparative figures for the corresponding period in 2015. These condensed consolidated interim financial statements have not been audited but reviewed by the Company’s audit committee.

REVIEW OF RESULTS

Overall Performance

	Six-month period ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Revenue	209,619	102,449
Cost of sales	(205,669)	(117,594)
Gross profit/(loss)	3,950	(15,145)
Other income and other gains/(losses), net	2,451	10,967
Gain on disposal of available-for-sale financial assets	10,438	263,846
Marketing, selling and distribution costs	(8,065)	(6,453)
Administrative expenses	(107,654)	(94,716)
Other operating expenses	(7,757)	(1,217)
	(106,637)	157,282
Finance costs	(12,874)	(16,556)
Share of loss of associates	(15)	(896)
Profit/(loss) before income tax	(119,526)	139,830
Income tax credit	15,128	2,754
Profit/(loss) for the period	(104,398)	142,584

The Group’s performance for the first half of 2016 (“1H-2016”) reflects a growing and more mature, capable transportation and logistics business working across a dynamic African market. Following the acquisitions of Phoenix Aviation Limited (“Phoenix”) in Kenya, Cheetah Logistics SARL (“Cheetah”) in the Democratic Republic of the Congo (“DRC”), and Transit Freight Forwarding Proprietary Limited (“TFF”) in South Africa, results for 1H-2016 evidences the Group’s objective of connecting key commercial gateways across multiple modes of distribution and warehousing hubs. Revenue more than doubled in comparison to the prior period through the growth and diversification of the Group’s customer base. Notably, the Group has demonstrated growth and improving performance despite devalued local currencies that have depressed reported results after foreign exchange translation.

Management Discussion and Analysis

The Group reported positive gross profit of HK\$3,950,000 for 1H-2016 compared with a gross loss of HK\$15,145,000 for the prior period. Controlling for a sizable and scheduled maintenance event at Phoenix, reported gross margin for the first six months of 2016 of 1.9% would have been 6.4%. Importantly, gross profit for the period marks the first instance of positive reported margin in two years, highlighting the Group's strategic progress.

A loss of HK\$104,398,000 was reported for the period, mainly due to modest gross profit and the Group's investment in personnel and resources to integrate and invest in our acquired businesses and the build-out of our nascent business development team. Importantly for comparable purposes, profit for the first half of 2015 ("1H-2015") of HK\$142,584,000 included an exceptional gain on the disposal of available-for-sale financial assets of HK\$263,846,000. In the absence of exceptional gains, the Group's 1H-2016 loss narrowed by 5.3% over the same period for 1H-2015.

Revenue

	Six-month period ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Aviation and logistics business	198,827	90,850
Financial market information business	10,792	11,599
	209,619	102,449

Revenue for the first six months of 2016 increased by 105% relative to the prior period, with the Group's aviation and logistics business segment driving the entirety of this growth. The acquisition of TFF is the fundamental driver of this impressive growth in revenue, with 1H-2016 segment revenue reaching HK\$198,827,000 compared to HK\$90,850,000 during 1H-2015.

Gross Profit/(Loss) and Gross Profit/(Loss) Margin

Gross profit for 1H-2016 was HK\$3,950,000, representing a margin of 1.9%, compared to a gross loss in 1H-2015 of HK\$15,145,000. The prior period of 2015 included costs associated with the wind down of a large-scale East African aviation and logistics project, whereas 1H-2016 reflects mainly the Group's operational subsidiary businesses, mostly within the aviation and logistics vertical.

The Group's reported gross profit for the first six months of 2016 does include a significant aircraft maintenance event at Phoenix, which was budgeted for at the subsidiary level. Were it not for that expense, gross margin for the period would have been an estimated 6.4%. In addition, core operating gross profit for 1H-2016 was negatively impacted by the under-utilisation of TFF's in-house fleet assets, mainly given the soft seasonality for the period, in addition to a rate reduction in warehousing services. Both TFF-related items are being addressed proactively by the Company.

Other Income and Other Gains/(Losses), Net

	Six-month period ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest income on bank balances	8,619	10,517
Rental income	337	303
Net loss on disposal of subsidiaries	(7,621)	–
Others	1,116	147
	2,451	10,967

On 20 May 2016, the Group announced the disposal of the entire share capital in its subsidiary, Amazing View Limited. Subsequent to this disposal, an accounting loss of HK\$7,621,000 was recorded, which was mainly attributable to the provision for tax related to the divestment.

Gain on Disposal of Available-for-Sale Financial Assets

The gain on disposal of available-for-sale financial assets for the six-month period ended 30 June 2016 represents the net gain on disposal of shares of REORIENT GROUP LIMITED (“RGL”) in the market amounting to HK\$10,438,000 (2015: HK\$263,846,000).

Marketing, Selling and Distribution Costs/Administrative Expenses

Relative to reported results for 1H-2015, the increase in marketing, selling and distribution costs of 25%, to HK\$8,065,000, and growth in administrative expenses of 14%, to HK\$107,654,000, were mainly attributable to the inclusion of TFF’s operating expenses following its acquisition by the Group in late 2015. The Company has also made several important staff additions within the business development function since January 2016. That tactical investment in human resources is intended to drive overall growth in the business moving forward.

Management Discussion and Analysis

Other Operating Expenses

	Six-month period ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Amortisation of intangibles	1,283	871
Acquisition-related costs	3,118	67
Net loss on disposal of property, plant and equipment	2,806	279
Provision for impairment of trade receivables	321	–
Reversal of provision for impairment of inventories	(14)	–
Others	243	–
	7,757	1,217

Amortisation of intangibles of HK\$1,283,000 is attributable to the unwind of intangible asset value generated from acquisitions. Acquisition-related costs of HK\$3,118,000 for 1H-2016 primarily represent professional fees associated with the investment in the Maleth Group, which closed on 6 July 2016 subsequent to this report.

Net loss on disposal of property, plant and equipment of HK\$2,806,000 is mainly attributable to rationalisation of specialised assets and infrastructure which were previously dedicated to special program opportunities.

REVIEW OF OPERATING SEGMENTS

Aviation and Logistics Business (“AL segment”)

The Group's AL segment generated HK\$198,827,000 of revenue for the first six months of 2016. This represents a 119% increase over the prior period's reported segment revenue of HK\$90,850,000. This impressive growth was mainly driven by the acquisition of TFF, which closed in late 2015. The AL segment accounted for 95% of total Group revenue, consistent with the strategic focus on aviation and multi-modal logistics business.

During the period, the Group's ground transportation businesses contributed 62% of AL segment revenue, with the Group's aviation businesses accounting for 38%. The acquisition of TFF not only yielded additional revenue and a built-out ground logistics platform, but also helped diversify the Group's customer base. TFF's roster of leading fast-moving consumer goods and retail clients complements the Group's government and humanitarian agency customers and further reduces revenue concentration risk.

Since acquisition, the Company's focus on TFF has been enhanced corporate governance and more strategic oversight to integrate the business into the Group's structure and lay the foundation for growth. A number of key initiatives have been undertaken, including, but not limited to, the appointment of a new business-unit chief financial officer, the addition of senior staffers to human resources and business development functions, and the ongoing implementation of professionalised management reporting and business analysis. TFF generated HK\$121,396,000 revenue for 1H-2016, which places the business ahead of pre-acquisition expectations once the substantial decline in its local currency's exchange rate is taken into account.

Cheetah, the Group's Congolese trucking business, is now under the operational supervision of TFF. Under the guidance of TFF, Cheetah has repositioned its end-customer focus away from the commodity sector and emphasised cost-cutting and business rationalisation. The Group continues to value Cheetah's presence in the DRC and believes further operational integration into TFF will only benefit the business going forward.

Phoenix continues to perform admirably in the midst of a challenging environment, with pressure on pricing and a more competitive market place arising from regional security issues and the commodity sector downturn. Despite these factors, Phoenix, which generated HK\$66,063,000 of revenue during 1H-2016, has expanded its business with key international agencies and select corporate accounts. The Group's investments on behalf of Phoenix, notably the acquisition of a Cessna Citation Sovereign, are showing healthy returns on capital, differentiating Phoenix from its competitors. Phoenix's overall performance for the first six months of 2016 was negatively impacted by a planned maintenance event that cost an estimated HK\$9,555,000, which management considers a periodic cost of doing business.

The Group's AL segment narrowed its 1H-2016 segment loss by nearly 27%, to HK\$52,964,000, over the comparable first six months of 2015. Importantly, 1H-2015's reported loss for the AL segment included substantial costs associated with the wind down of a large-scale East African aviation and logistics program.

Financial Market Information Business ("FMI segment")

The FMI segment is a legacy business unit that provides online financial market data and information. For the first six months of 2016, it generated revenue of HK\$10,792,000 representing a 7% decrease on the 1H-2015 comparable period. Segment loss for 1H-2016 was HK\$459,000 which was an improvement from the HK\$1,927,000 loss incurred in 1H-2015 given the management and subsequent reduction of fixed costs. The FMI segment is the last remaining predecessor business segment, and the Group will continue to review its options with respect to this segment.

Direct Investments

Direct Investments is the segment that holds the Group's available-for-sale financial securities and other direct investments. For 1H-2016, the Group's Direct Investments segment generated HK\$10,438,000 in profit. This resulted directly from the gain on disposal of RGL shares in the market. The Group continues to hold 310,000 shares of RGL as at 30 June 2016.

PROSPECTS

The Group is optimistic regarding potential performance for the second half of 2016. 1H-2016 has been a period of consolidation, with the focus largely centred on the optimisation of the Company's underlying subsidiaries and the build-out of a full business development team. With these operational initiatives well under way, management believes that the Group is well positioned to compete for, and ultimately win, multi-modal logistics opportunities.

Management Discussion and Analysis

In addition, significant Group activity is being directed towards achieving performance goals with mainland Chinese clients. As Chinese investment into the African continent remains strong, this is a key customer base yet to be penetrated substantially. The Group's business is now being more widely understood and credibility with prior work is being noted, it is expected the Group's efforts will be rewarded. At the same time, the Group is actively seeking opportunities to serve Chinese clients working across the One Belt One Road region by leveraging third-party logistics expertise developed in Africa. While these efforts are nascent, the Group is optimistic about the potential for growth in One Belt One Road countries.

The Company is also excited regarding the investment into the Maleth Group, which was completed on 6 July 2016. The addition of the Maleth Group is expected to add meaningful revenue and further complement the Group's aviation capabilities. The Maleth Group will further expand the Group's customer base, increase its geographic reach, and bring additional management expertise to the business overall.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. Employees are offered discretionary year-end bonus based on individual merit.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. The Company has granted 12,295,030 share options under its share option scheme during the six-month period ended 30 June 2016 (2015: Nil).

The Company also operates a share award scheme to recognise the contributions by certain employees and persons to the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Company has granted 10,067,000 shares under its share award scheme during the six-month period ended 30 June 2016 (2015: N/A).

The total number of employees of the Group as at 30 June 2016 was 427 (31 December 2015: 422).

FINANCIAL REVIEW

Liquidity and Financial Resources

At 30 June 2016, the Group recorded total assets of HK\$1,160,987,000 (31 December 2015: HK\$1,349,713,000) which were financed by liabilities of HK\$646,685,000 (31 December 2015: HK\$706,718,000), non-controlling interests of HK\$116,250,000 (31 December 2015: HK\$116,250,000) and shareholders' equity of HK\$398,052,000 (31 December 2015: HK\$526,745,000). The Group's net asset value per share (excluding non-controlling interests) as at 30 June 2016 amounted to HK\$0.32 (31 December 2015: HK\$0.43).

The Group recorded cash and bank balances of HK\$455,931,000 (31 December 2015: HK\$692,435,000) and secured borrowings of HK\$406,198,000 (excluding facility arrangement fees of HK\$2,326,000) (31 December 2015: HK\$548,010,000 (excluding facility arrangement fees of HK\$4,517,000)) as at 30 June 2016. During the six-month period ended 30 June 2016, bank loans amounting to HK\$138,834,000 in aggregate were matured and repaid by internal resources. The Group's borrowings, which comprise of bank loans and finance leases and are denominated in United States dollars ("US\$") and South African Rand ("ZAR"), will mature in 1 to 5 years (31 December 2015: 1 to 5 years) as at 30 June 2016. Except for the borrowings of HK\$47,449,000 (31 December 2015: HK\$49,775,000) which are interest bearing at fixed rates, the remaining balances of HK\$358,749,000 (31 December 2015: HK\$498,235,000) are interest bearing at floating rates as at 30 June 2016. Although the Group has sufficient internal funds for its daily operations, the Group may consider additional finance facilities to support its future business development and expansion if necessary. On the basis of the Group's net borrowings (total borrowings less cash and bank balances) relative to the shareholders' equity and non-controlling interests, the Group's gearing ratio was nil (31 December 2015: Nil) as at 30 June 2016.

At 30 June 2016, the Company had 349,519,143 outstanding share options (31 December 2015: 344,384,113), out of which 121,612,858 share options (31 December 2015: 116,477,828) were granted under its share option schemes. If all of the outstanding share options were exercised, a gross proceeds of approximately HK\$346 million (31 December 2015: HK\$338 million) in aggregate would be raised before deducting any issuance expenses.

Treasury Policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in Hong Kong dollars ("HK\$"), Renminbi ("RMB"), US\$ and Euro ("EUR"). Other than the bank deposits pledged for the Group's bank borrowings, surplus cash is generally placed in term deposits and investments in light of the Group's funding requirements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group currently operates mainly in Hong Kong, Africa and mainland China.

For operations in Hong Kong, most of the transactions are denominated in HK\$ and US\$. The exchange rate of US\$ against HK\$ is relatively stable and the related currency exchange risk is considered minimal.

For operations in Africa, most of the transactions are denominated in US\$, EUR, Kenyan Shillings ("KES") and ZAR. The exchange rates of EUR, KES and ZAR against HK\$ have increased by 1.7%, 1.3% and 5.6% respectively during the six-month period ended 30 June 2016. No financial instrument was used for hedging purposes for the period due to the prohibitive cost of available hedging opportunities. The Group is closely monitoring the currency exchange risk of EUR, KES and ZAR and will consider the use of financial instrument for hedging purposes, if necessary.

Management Discussion and Analysis

For operations in mainland China, most of the transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. The exchange rate of RMB against HK\$ has devalued since August 2015. No financial instrument was used for hedging purposes for the period. During the six-month period ended 30 June 2016, the Group has substantially reduced its exposure to the currency exchange risk of RMB through the disposal of a subsidiary incorporated in mainland China. The Group is closely monitoring the currency exchange risk of RMB and is looking for any opportunities to mitigate the currency exchange risk of RMB.

Material Acquisitions and Disposals of Subsidiaries and Associates

On 3 February 2016, the Group entered into a conditional investment agreement for the acquisition of 51% equity interest in Maleth Aero Limited, a company through its subsidiary, Maleth Aero AOC Limited principally engaged in the provision of aircraft management services in southern Europe, for a consideration of approximately EUR1,002,000 (equivalent to approximately HK\$8,500,000). On the same date, the Group also entered into a put and call option agreement (the "Put-Call Agreement") for the right to purchase the remaining 49% equity interest in Maleth Aero Limited at an option price ranging between EUR1,000,000 (equivalent to approximately HK\$8,500,000) and EUR10,000,000 (equivalent to approximately HK\$85,000,000). The acquisition of 51% equity interest in Maleth Aero Limited was subsequently completed on 6 July 2016.

On 20 May 2016, the Company entered into a sale and purchase agreement for the disposal of the entire interest in Amazing View Limited, a company principally engaged in investment holding and wholly owns a subsidiary incorporated in mainland China, for a consideration of HK\$250,250,000. The disposal was completed on 23 May 2016.

Save as mentioned above, the Group did not have any other material acquisitions or disposals of subsidiaries and associates during the six-month period ended 30 June 2016.

Charges on Assets

At 30 June 2016, the Group had bank deposits amounting to approximately HK\$310,529,000 (31 December 2015: HK\$459,570,000) and certain trade receivables of ZAR59,419,000 (equivalent to approximately HK\$31,230,000) (31 December 2015: Nil) pledged to banks as security for bank borrowings. An indirect wholly-owned subsidiary of the Company has also issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities.

Future Plans for Material Investments or Capital Assets

The Group did not have any concrete future plans for material investments or capital assets as at 30 June 2016 (31 December 2015: Nil). However, the Group always seeks for new investment opportunities in the aviation and logistics business to broaden the revenue and profit potential of the Group and enhance shareholders' value in long term.

Capital Expenditure Commitments

The Group had outstanding capital expenditure commitments of HK\$1,552,000 (31 December 2015: HK\$1,527,000) with respect to the acquisition of certain aviation equipment as at 30 June 2016.

Save as mentioned above, the Group did not have any other material capital expenditure commitments as at 30 June 2016.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

An indirect wholly-owned subsidiary of the Company has issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities of US\$3,000,000 (equivalent to approximately HK\$23,273,000). At 30 June 2016, this subsidiary had contingent liabilities up to US\$992,000 (equivalent to approximately HK\$7,695,000) in respect of certain guarantees issued by the bank under the banking facilities for the performance of certain sales contracts of the subsidiary (31 December 2015: Nil).

Condensed Consolidated Income Statement

For the six-month period ended 30 June 2016

	Note	Six-month period ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	3	209,619	102,449
Cost of sales		(205,669)	(117,594)
Gross profit/(loss)		3,950	(15,145)
Other income and other gains/(losses), net		2,451	10,967
Gain on disposal of available-for-sale financial assets	9	10,438	263,846
Marketing, selling and distribution costs		(8,065)	(6,453)
Administrative expenses		(107,654)	(94,716)
Other operating expenses		(7,757)	(1,217)
Finance costs	4	(106,637)	157,282
Share of loss of associates		(12,874)	(16,556)
		(15)	(896)
Profit/(loss) before income tax		(119,526)	139,830
Income tax credit	5	15,128	2,754
PROFIT/(LOSS) FOR THE PERIOD	6	(104,398)	142,584
Attributable to:			
Equity holders of the Company		(104,398)	142,584
Non-controlling interests		—	—
		(104,398)	142,584
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic earnings/(loss) per share		(8.51) cents	11.60 cents
Diluted earnings/(loss) per share		(8.51) cents	10.49 cents

Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2016

	Note	Six-month period ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD		(104,398)	142,584
Other comprehensive income/(loss)			
Items that have been reclassified or may be subsequently reclassified to profit or loss			
– Foreign exchange differences		(7,210)	(14,442)
– Change in value of available-for-sale financial assets	9	(11,517)	309,743
– Realisation of equity instrument reserve upon disposal of available-for-sale financial assets		(10,629)	(267,153)
Other comprehensive income/(loss) for the period, net of tax		(29,356)	28,148
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(133,754)	170,732
Attributable to:			
Equity holders of the Company		(133,754)	170,732
Non-controlling interests		–	–
		(133,754)	170,732

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		402,797	415,702
Goodwill and other intangibles		38,846	40,088
Interests in associates		8,212	8,462
Pledged bank deposits	12	226,286	230,848
Restricted cash	12	7,769	2,690
Deferred income tax assets		6,159	4,031
Non-current prepayments		26,808	32,051
Prepaid operating lease rentals		1,434	1,438
Available-for-sale financial assets	9	71	90
Total non-current assets		718,382	735,400
CURRENT ASSETS			
Inventories		9,156	9,644
Trade receivables	10	70,885	58,376
Prepayments, deposits and other receivables		137,420	49,759
Tax receivables		324	320
Available-for-sale financial assets	9	2,052	31,000
Assets held for sale		892	6,317
Restricted cash		697	4,581
Pledged bank deposits	12	84,243	228,722
Short-term bank deposits		–	2,229
Cash and cash equivalents		136,936	223,365
Total current assets		442,605	614,313
CURRENT LIABILITIES			
Trade payables	11	54,208	36,713
Other payables and accruals		123,492	47,605
Borrowings	12	96,022	235,857
Tax payables		5,038	3,170
Total current liabilities		278,760	323,345
Net current assets		163,845	290,968

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Note	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
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Total assets less current liabilities		882,227	1,026,368
NON-CURRENT LIABILITIES			
Borrowings	12	307,850	307,636
Deferred income tax liabilities		60,075	75,737
Total non-current liabilities		367,925	383,373
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Net assets		514,302	642,995
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EQUITY			
Equity attributable to the Company's equity holders			
Share capital		123,370	122,950
Reserves		274,682	403,795
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Non-controlling interests		398,052	526,745
		116,250	116,250
<hr/>			
Total equity		514,302	642,995
<hr/>			

Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2016

	Attributable to equity holders of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Shares held for share award scheme HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Equity instrument reserve HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Unaudited												
Balance at 1 January 2015	122,950	121,047	-	628,235	54,181	32,233	180,038	39,469	(474,195)	703,958	116,250	820,208
Profit for the period	-	-	-	-	-	-	-	-	142,584	142,584	-	142,584
Other comprehensive income/(loss)												
- Foreign exchange differences	-	-	-	-	(14,442)	-	-	-	-	(14,442)	-	(14,442)
- Change in value of available-for-sale financial assets	-	-	-	-	-	-	309,743	-	-	309,743	-	309,743
- Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	-	-	-	-	-	-	(267,153)	-	-	(267,153)	-	(267,153)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	(14,442)	-	42,590	-	-	28,148	-	28,148
Total comprehensive income/(loss) for the period	-	-	-	-	(14,442)	-	42,590	-	142,584	170,732	-	170,732
Transactions with equity holders												
- Share-based compensation	-	-	-	-	-	-	-	10,936	-	10,936	-	10,936
Balance at 30 June 2015	122,950	121,047	-	628,235	39,739	32,233	222,628	50,405	(331,611)	885,626	116,250	1,001,876
Unaudited												
Balance at 1 January 2016	122,950	121,047	-	628,235	4,186	32,233	176,072	59,137	(617,115)	526,745	116,250	642,995
Loss for the period	-	-	-	-	-	-	-	-	(104,398)	(104,398)	-	(104,398)
Other comprehensive loss												
- Foreign exchange differences	-	-	-	-	(7,210)	-	-	-	-	(7,210)	-	(7,210)
- Change in value of available-for-sale financial assets (Note 9)	-	-	-	-	-	-	(11,517)	-	-	(11,517)	-	(11,517)
- Realisation of equity instrument reserve upon disposal of available-for-sale financial assets	-	-	-	-	-	-	(10,629)	-	-	(10,629)	-	(10,629)
Other comprehensive loss for the period, net of tax	-	-	-	-	(7,210)	-	(22,146)	-	-	(29,356)	-	(29,356)
Total comprehensive loss for the period	-	-	-	-	(7,210)	-	(22,146)	-	(104,398)	(133,754)	-	(133,754)
Disposal of subsidiaries	-	-	-	-	(8,247)	(19,334)	-	-	19,334	(8,247)	-	(8,247)
Transactions with equity holders												
- Share-based compensation	-	-	-	-	-	-	-	15,550	-	15,550	-	15,550
- Exercise of share options	420	5,534	-	-	-	-	-	(1,879)	-	4,075	-	4,075
- Lapse of share options	-	-	-	-	-	-	-	(1,863)	1,863	-	-	-
- Shares acquired for share award scheme	-	-	(6,317)	-	-	-	-	-	-	(6,317)	-	(6,317)
	420	5,534	(6,317)	-	-	-	-	11,808	1,863	13,308	-	13,308
Balance at 30 June 2016	123,370	126,581	(6,317)	628,235	(11,271)	12,899	153,926	70,945	(700,316)	398,052	116,250	514,302

Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2016

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(89,699)	(54,920)
Income tax paid	(798)	(11,426)
Net cash used in operating activities	(90,497)	(66,346)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,818)	(7,835)
Purchase of intangibles	–	(1,350)
Proceeds from disposal of property, plant and equipment	653	50
Proceeds from disposal of assets held for sale	4,650	–
Acquisitions of subsidiaries, net of cash acquired	–	(10,066)
Deposit for acquisition of subsidiaries	(8,966)	–
Increase in short-term bank deposits	–	(49,982)
Prepayments for purchase of aircraft and aviation equipment	(3,939)	(66,021)
Interest received	12,457	693
Proceeds from redemption of available-for-sale financial assets	19	10
Net proceeds from disposal of available-for-sale financial assets	17,240	295,241
Disposal of subsidiaries, net of cash disposed	3,898	–
Net cash generated from investing activities	22,194	160,740
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(10,829)	(9,663)
Decrease/(increase) in pledged bank deposits	149,041	(77,412)
Increase in restricted cash	(1,195)	–
Repayment of bank loans	(138,834)	–
Drawdown of bank loans	4,006	65,187
Repayment of capital element of finance leases	(7,375)	(5,033)
Purchase of shares for share award scheme	(6,317)	–
Proceeds from exercise of share options	4,075	–
Net cash used in financing activities	(7,428)	(26,921)

Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2016

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(75,731)	67,473
Cash and cash equivalents at beginning of the period	223,365	283,295
Exchange differences	(10,698)	(1,463)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	136,936	349,305
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash at banks and on hand	33,221	96,077
Bank deposits with original maturities of three months or less	103,715	253,228
	136,936	349,305

Notes to Condensed Consolidated Interim Financial Statements

1 GENERAL INFORMATION

Frontier Services Group Limited (the “Company”) is a limited liability company incorporated in Bermuda. The address of its principal place of business is Suite 3902, 39th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of aviation and logistics services and the provision of online financial market information. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000), unless otherwise stated.

These condensed consolidated interim financial statements have not been audited but reviewed by the Company’s audit committee. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors (the “Board”) of the Company on 19 August 2016.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements for the six-month period ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These condensed consolidated interim financial statements should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

These condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments. The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2015.

Impact of New, Amended and Revised HKFRSs

In the current period, the Group has adopted all the new and amended HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA which are mandatory and relevant to the Group’s operations for the accounting period beginning on 1 January 2016. The adoption of these new and amended HKFRSs does not have any material impact on the Group’s financial statements for the period.

Notes to Condensed Consolidated Interim Financial Statements

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

Impact of New, Amended and Revised HKFRSs *(Continued)*

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2016 and have not been early adopted:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions
HKFRS 9 (2014)	Financial Instruments
HKFRS 10 (Amendment) and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases

The Group has commenced an assessment of the impact of these new and amended HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

3 SEGMENT INFORMATION

The chief operating decision maker has been identified as the Board of the Company. Management has determined the operating segments based on the internal reports reviewed by the Board of the Company that are used to assess performance and allocate resources. The Group's operating segments are structured and managed separately according to the products and services provided by different strategic business units that the products and services offered are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (i) Aviation and Logistics Business ("AL Business") – Provision of aviation and logistics services;
- (ii) Financial Market Information Business ("FMI Business") – Provision of online financial market information; and
- (iii) Direct Investments – Other direct investments.

Others include corporate income and expenses and others.

Management assesses segment performance based on reportable segment results after taking consideration of exceptional items.

Notes to Condensed Consolidated Interim Financial Statements

3 SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue, results, total assets and total liabilities information for the six-month period ended 30 June 2016 by operating segments is as follows:

	Unaudited				Total HK\$'000
	AL Business HK\$'000	FMI Business HK\$'000	Direct Investments HK\$'000	Others HK\$'000	
Revenue (from external customers)	198,827	10,792	–	–	209,619
Depreciation	15,403	122	–	152	15,677
Amortisation	1,283	–	–	–	1,283
Segment results	(52,964)	(459)	10,438	(63,652)	(106,637)
Finance costs	(12,874)	–	–	–	(12,874)
Share of loss of associates	–	–	(15)	–	(15)
Loss before income tax					(119,526)
Income tax credit					15,128
Loss for the period					(104,398)
Total assets	965,022	5,839	15,825	174,301	1,160,987
Total liabilities	533,186	7,521	8,815	97,163	646,685

Notes to Condensed Consolidated Interim Financial Statements

3 SEGMENT INFORMATION *(Continued)*

An analysis of the Group's revenue, results, total assets and total liabilities information for the six-month period ended 30 June 2015 by operating segments is as follows:

	Unaudited				Total HK\$'000
	AL Business HK\$'000	FMI Business HK\$'000	Direct Investments HK\$'000	Others HK\$'000	
Revenue (from external customers)	90,850	11,599	–	–	102,449
Depreciation	12,131	80	–	148	12,359
Amortisation	871	–	–	–	871
Segment results	(72,549)	(1,927)	263,846	(32,088)	157,282
Finance costs	(16,556)	–	–	–	(16,556)
Share of loss of associates	–	–	(896)	–	(896)
Profit before income tax					139,830
Income tax credit					2,754
Profit for the period					142,584
Total assets	1,238,445	8,619	97,024	294,903	1,638,991
Total liabilities	593,137	8,839	8,809	26,330	637,115

Notes to Condensed Consolidated Interim Financial Statements

4 FINANCE COSTS

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Bank loans	6,450	6,199
Finance leases	4,008	2,118
Financing arrangement fees	3,199	1,726
Net exchange losses/(gains) on borrowings	(783)	6,513
	12,874	16,556

5 INCOME TAX CREDIT

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current income tax		
– Outside Hong Kong		
– Provision for the period	(2,143)	(144)
– Adjustment in respect of prior periods	(11)	–
	(2,154)	(144)
Deferred income tax		
– Outside Hong Kong	17,282	2,898
Income tax credit	15,128	2,754

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

Income tax expenses are recognised based on management's estimate of the weighted average annual income tax expected for the full financial year.

Notes to Condensed Consolidated Interim Financial Statements

6 PROFIT/(LOSS) FOR THE PERIOD

The Group's loss for the period is arrived at after charging/(crediting):

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cost of provision of aviation and logistics services	201,702	113,191
Cost of provision of online financial market information	3,967	4,403
Gain on disposal of available-for-sale financial assets	(10,438)	(263,846)
Depreciation	15,677	12,359
Share-based compensation	15,550	10,936
Net exchange losses/(gains)	(681)	11,736
Other operating expenses including:		
Amortisation of intangibles	1,283	871
Acquisition-related costs	3,118	67
Net loss on disposal of property, plant and equipment	2,806	279
Provision for impairment of trade receivables	321	–
(Other income) and other (gains)/losses, net:		
Interest income on bank balances	(8,619)	(10,517)
Rental income	(337)	(303)
Net loss on disposal of subsidiaries	7,621	–
Others	(1,116)	(147)

7 EARNINGS/(LOSS) PER SHARE

The calculation of the basic loss per share for the period is based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the period less the number of ordinary shares held for share award scheme at the period end date.

The calculation of the diluted loss per share for the period is based on the Group's loss attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the period less the number of ordinary shares held for share award scheme at the period end date assuming the conversion of the exchangeable preference shares and the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the period) based on the monetary values of the exchange price of the exchangeable preference shares and the subscription rights attached to the outstanding share options.

The basic and diluted loss per share for the six-month period ended 30 June 2016 were the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding during the period was anti-dilutive.

Notes to Condensed Consolidated Interim Financial Statements

7 EARNINGS/(LOSS) PER SHARE *(Continued)*

The weighted average number of ordinary shares in issue during the period less the number of ordinary shares held for share award scheme at the period end date for the calculation of the basic and diluted earnings/(loss) per share is set out as follows:

	Six-month period ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Weighted average number of ordinary shares in issue	1,232,541,355	1,229,503,003
Less: Number of ordinary shares held for share award scheme	(5,375,000)	–
	1,227,166,355	1,229,503,003
Adjustment for preference shares	–	–
Adjustment for share options	–	130,118,540
	1,227,166,355	1,359,621,543
	HK\$'000	HK\$'000
Group's profit/(loss) attributable to the equity holders of the Company	(104,398)	142,584

8 DIVIDENDS

The Board of the Company does not recommend the payment of any interim dividend for the six-month period ended 30 June 2016 (2015: Nil).

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2016				31 December 2015			
	Hong Kong listed equity investment (Unaudited) HK\$'000 (Note (i))	Overseas listed security investment (Unaudited) HK\$'000 (Note (ii))	Overseas unlisted security investments (Unaudited) HK\$'000 (Note (iii))	Total (Unaudited) HK\$'000	Hong Kong listed equity investment (Audited) HK\$'000 (Note (i))	Overseas listed security investment (Audited) HK\$'000 (Note (ii))	Overseas unlisted security investments (Audited) HK\$'000 (Note (iii))	Total (Audited) HK\$'000
At 1 January	31,000	86	4	31,090	70,153	106	5	70,264
Change in value	(11,517)	-	-	(11,517)	279,433	-	-	279,433
Redemptions	-	(19)	-	(19)	-	(10)	-	(10)
Disposals	(17,431)	-	-	(17,431)	(318,586)	-	-	(318,586)
Exchange differences	-	-	-	-	-	(10)	(1)	(11)
At statement of financial position date	2,052	67	4	2,123	31,000	86	4	31,090
Less: current portion	(2,052)	-	-	(2,052)	(31,000)	-	-	(31,000)
Non-current portion	-	67	4	71	-	86	4	90

Notes:

- (i) During the six-month period ended 30 June 2016, the Company disposed of 2,834,000 shares (2015: 13,081,178 shares) of REORIENT GROUP LIMITED ("RGL") in the market for an aggregate consideration of approximately HK\$17,431,000 (2015: HK\$298,548,000) and a gain on disposal of available-for-sale financial assets of approximately HK\$10,438,000 (2015: HK\$263,846,000) was recorded. At 30 June 2016, the fair value of the listed equity investment of approximately HK\$2,052,000 (31 December 2015: HK\$31,000,000) was based on quoted market price of the RGL's shares.
- (ii) It represents listed corporate bond.
- (iii) It represents unlisted equity securities.

10 TRADE RECEIVABLES

An aging analysis, based on the invoice date, of the trade receivables as at the statement of financial position date is as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 30 days	45,772	34,721
31 days – 60 days	10,970	5,548
61 days – 90 days	6,643	7,969
Over 90 days	7,884	10,201
	71,269	58,439
Less: Provision for impairment	(384)	(63)
	70,885	58,376

The fair value of trade receivables approximates its carrying amount.

Credit period of 30 days are generally granted to major customers. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers, if necessary.

11 TRADE PAYABLES

An aging analysis, based on the invoice date, of the trade payables as at the statement of financial position date is as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 30 days	32,611	24,446
31 days – 60 days	10,566	4,940
61 days – 90 days	4,284	1,992
Over 90 days	6,747	5,335
	54,208	36,713
	54,208	36,713

The fair value of trade payables approximates its carrying amount.

Notes to Condensed Consolidated Interim Financial Statements

12 BORROWINGS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Non-current portion		
Bank loans	218,254	218,058
Finance leases	91,922	94,095
	310,176	312,153
Facility arrangement fees	(2,326)	(4,517)
	307,850	307,636
Current portion		
Bank loans	86,167	220,921
Finance leases	9,855	14,936
	96,022	235,857
Total borrowings	403,872	543,493

The fair values of the borrowings approximate their carrying amounts. The fair value of the non-current borrowings are based on market quotes or estimates using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings.

12 BORROWINGS *(Continued)*

(a) Bank Loans

The bank loans are repayable as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 year	86,167	220,921
After 1 year but within 2 years	218,254	151,135
After 2 years but within 5 years	–	66,923
	304,421	438,979
Facility arrangement fees	(2,326)	(4,517)
Less: current portion	(86,167)	(220,921)
	215,928	213,541
Bank loans denominated in:		
United States dollars (“US\$”)	300,415	438,979
South African Rand (“ZAR”)	4,006	–
	304,421	438,979

The bank loans denominated in US\$ bear interests with reference to London Interbank Offered Rate US\$ Interest Rate plus margins ranging from 2.6% to 4.1% per annum (31 December 2015: 2.4% to 4.1% per annum) with due dates in 2017 and 2018. These bank loans are secured by pledged bank deposits of approximately RMB265,400,000 (equivalent to approximately HK\$310,529,000) (31 December 2015: RMB385,019,000 (equivalent to approximately HK\$459,570,000)) and non-current restricted bank deposits of US\$1,001,000 (equivalent to approximately HK\$7,769,000) (31 December 2015: US\$347,000 (equivalent to approximately HK\$2,690,000)).

The bank loans denominated in ZAR bear interests with reference to South African Prime Rate at 10.5% per annum (31 December 2015: N/A) and are repayable 3 months after the respective drawdown dates. At 30 June 2016, these bank loans are secured by certain trade receivables of ZAR59,419,000 (equivalent to approximately HK\$31,230,000) (31 December 2015: N/A) and are guaranteed by an indirect wholly-owned subsidiary of the Company to the maximum extent of ZAR14,000,000 (equivalent to approximately HK\$7,358,000) (31 December 2015: N/A).

Notes to Condensed Consolidated Interim Financial Statements

12 BORROWINGS *(Continued)*

(b) Finance Leases

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Future payments	121,560	132,421
Future finance charges on finance leases	(19,783)	(23,390)
Present value of finance lease liabilities	101,777	109,031
Less: current portion	(9,855)	(14,936)
Non-current portion	91,922	94,095

The present value of finance lease liabilities is repayable as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 year	9,855	14,936
After 1 year but within 2 years	30,761	30,512
After 2 years but within 5 years	61,161	63,583
	101,777	109,031

The finance leases are denominated in US\$ and interest rates underlying the obligations under finance leases are fixed at their respective rates ranging from 3.48% to 9.77% per annum (31 December 2015: 3.38% to 9.77% per annum).

The finance leases arranged for certain aircraft are effectively secured as the rights to the leased aircraft revert to the lessors in the event of default and part of the finance leases are also secured by the personal guarantees of 3 directors of a subsidiary and certain members of their respective families.

The net carrying amount of the aircraft under finance leases as at 30 June 2016 amounted to HK\$132,559,000 (31 December 2015: HK\$136,144,000).

12 BORROWINGS *(Continued)*

(c) Effective Interest Rates

The effective annual interest rates incurred on borrowings are as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Bank loans	2.66%-10.50%	2.46%-4.14%
Finance leases	3.53%- 9.90%	3.43%-9.90%

13 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments as a Lessor

The Group leases its leasehold properties and hangars under non-cancellable operating lease agreements. The lease terms are ranging from 6 to 35 years, and the majority of the lease agreements are renewable at the end of the lease periods at market rate.

At 30 June 2016, the Group had total commitments receivable under non-cancellable operating leases as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Not later than 1 year	671	331
Later than 1 year but not later than 5 years	376	1,031
Later than 5 years	337	343
	1,384	1,705

Notes to Condensed Consolidated Interim Financial Statements

13 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(b) Operating Lease Commitments as a Lessee

The Group leases certain of its offices, staff quarters, motor vehicle and office equipment under operating lease arrangements.

At 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Land and buildings		
– Not later than 1 year	15,337	13,555
– Later than 1 year but not later than 5 years	49,708	46,302
– Later than 5 years	4,164	6,438
	69,209	66,295
Motor vehicle		
– Not later than 1 year	118	–
Office equipment		
– Not later than 1 year	92	–
– Later than 1 year but not later than 5 years	225	–
	317	–
Total		
– Not later than 1 year	15,547	13,555
– Later than 1 year but not later than 5 years	49,933	46,302
– Later than 5 years	4,164	6,438
	69,644	66,295

13 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(c) Capital Expenditure Commitments

The Group's capital expenditure commitments regarding purchase of aviation equipment outstanding at the statement of financial position date not provided for in the financial statements were as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Contracted for	1,552	1,527

(d) Financial Commitments

On 3 February 2016, the Group entered into a conditional investment agreement for the acquisition of 51% equity interest in Maleth Aero Limited, a company through its subsidiary, Maleth Aero AOC Limited principally engaged in the provision of aircraft management services in southern Europe, for a consideration of approximately EUR1,002,000 (equivalent to approximately HK\$8,500,000). On the same date, the Group also entered into a put and call option agreement for the right to purchase the remaining 49% equity interest in Maleth Aero Limited at an option price ranging between EUR1,000,000 (equivalent to approximately HK\$8,500,000) and EUR10,000,000 (equivalent to approximately HK\$85,000,000). The acquisition of 51% equity interest in Maleth Aero Limited was subsequently completed on 6 July 2016.

Save as mentioned above, the Group did not have any other significant financial commitments at 30 June 2016 (31 December 2015: Nil).

(e) Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations, and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgements or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

An indirect wholly-owned subsidiary of the Company has issued a fixed and floating debenture on all its assets and property and has mortgaged an aircraft as securities for its banking facilities of US\$3,000,000 (equivalent to approximately HK\$23,273,000). At 30 June 2016, this subsidiary had contingent liabilities up to US\$992,000 (equivalent to approximately HK\$7,695,000) in respect of certain guarantees issued by the bank under the banking facilities for the performance of certain sales contracts of the subsidiary (31 December 2015: Nil).

14 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Related Parties

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation and are not disclosed in this note. In addition to the transactions and balances disclosed elsewhere in these condensed consolidated interim financial statements, the Group entered into the following material transactions with related parties during the period:

	Six-month period ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Receipt of consultancy services from		
– A company owned by a director of the Company	2,940	2,758
– A company owned by a director of a subsidiary	1,429	1,085
– A company owned by a director of certain subsidiaries	–	1,233
Receipt of security trading services from		
– A related company of a director of the Company	–	2,985
Payment of rental expenses of leasehold property to		
– A company owned by 3 directors of a subsidiary	353	1,150
Provision of logistics services to		
– Companies owned by a director of certain subsidiaries	670	–

All the transactions were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

14 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of Key Management Compensation of the Group

	Six-month period ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Short-term employee benefits	9,430	8,849
Post-employment benefits	199	245
Share-based compensation	15,163	9,985
Termination benefits	963	–
	25,755	19,079

The directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of the Company are regarded as the key management personnel of the Group.

(c) Period-End/Year-End Balances Arising from Sales, Purchases and Services Rendered

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Trade receivables		
– A company owned by a director of a subsidiary	–	473
– A company owned by 3 directors of a subsidiary	19	–
– Companies owned by a director of certain subsidiaries	415	15
Trade payables		
– A company owned by 3 directors of a subsidiary	405	405

Notes to Condensed Consolidated Interim Financial Statements

14 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Other Period-End/Year-End Balances

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Prepayments, deposits and other receivables		
– A company owned by a director of a subsidiary	–	72
– Companies owned by a director of certain subsidiaries	–	152
– An associate	5,562	5,886
– Companies owned by a director of certain subsidiaries	2,929	–
Other payables		
– Companies owned by a director of certain subsidiaries	–	5,697
– A related company of a director of the Company	–	1,570
– An associate	6,964	6,957
– A related company of a director of a subsidiary	1,117	–

15 FAIR VALUE ESTIMATION

The different levels of financial instruments carried at fair value have been defined as follows:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) 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
- (c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the available-for-sale financial assets with respect to the listed equity investment amounting to approximately HK\$2,052,000 at 30 June 2016 (31 December 2015: HK\$31,000,000) is based on the quoted market price of the listed equity investment.

The fair value of the derivative financial liabilities included in other payables and accruals amounting to approximately HK\$1,851,000 at 30 June 2016 (31 December 2015: HK\$1,851,000) is determined using a discounted cash flow approach which is not based on observable inputs.

The available-for-sale financial assets with respect to the listed equity investment were classified as level 1 at 30 June 2016 and 31 December 2015 and the derivative financial liabilities included in other payables and accruals were classified as level 3 at 30 June 2016 and 31 December 2015.

During the six-month period ended 30 June 2016, there were no transfers of financial instruments between levels 1, 2 and 3.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

At 30 June 2016, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of the Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of director	Number of ordinary shares held				Number of underlying shares held		% of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Total	Personal interests	Grand total	
Mr Erik D. Prince ("Mr Prince")	575,000	–	–	575,000	307,673,485 (Note (i))	308,248,485	24.99%
Mr Ko Chun Shun, Johnson ("Mr Ko")	–	2,040,816 (Note (ii))	223,776,719 (Note (iii))	225,817,535	–	225,817,535	18.30%
Mr Hu Qinggang	9,556,000	–	–	9,556,000	–	9,556,000	0.77%
Mr Yap Fat Suan, Henry ("Mr Yap")	–	–	–	–	1,400,000 (Note (iv))	1,400,000	0.11%
Professor Lee Hau Leung	1,400,000	–	–	1,400,000	–	1,400,000	0.11%
Dr Harold O. Demuren	1,400,000	–	–	1,400,000	–	1,400,000	0.11%

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS *(Continued)*

Long Positions in Shares and Underlying Shares of the Company *(Continued)*

Notes:

- (i) This represents Mr Prince's interest in the option for the rights to subscribe for up to 307,673,485 new shares of the Company, details of which are disclosed in the section titled "SHARE OPTIONS AND SHARE AWARD" below.
- (ii) These shares were held by the spouse of Mr Ko.
- (iii) This represents:
 - (a) the deemed interests of Mr Ko in the 48,276,719 ordinary shares of the Company held by First Gain International Limited under the SFO by virtue of his interests in First Gain International Limited; and
 - (b) the deemed interests of Mr Ko in the 175,500,000 ordinary shares of the Company held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited.
- (iv) This represents Mr Yap's interest in share options of the Company granted to him under the Company's share option scheme, details of which are disclosed in the section titled "SHARE OPTIONS AND SHARE AWARD" below.

Save as disclosed above, at 30 June 2016, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above and the section titled "SHARE OPTIONS AND SHARE AWARD" below, at no time during the six-month period ended 30 June 2016 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2016, other than the interests and short positions of the directors or chief executive of the Company as disclosed in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Number of ordinary shares held			Number of underlying shares held	Grand total	% of the issued share capital of the Company
	Direct beneficially owned	Through controlled corporations	Total	Through controlled corporations		
Easy Flow Investments Limited	237,592,607	–	237,592,607	–	237,592,607	19.26%
CITIC Investment (HK) Limited	–	237,592,607 (Note (i))	237,592,607	–	237,592,607	19.26%
CITIC Corporation Limited	–	237,592,607 (Note (ii))	237,592,607	–	237,592,607	19.26%
CITIC Limited	–	237,592,607 (Note (iii))	237,592,607	–	237,592,607	19.26%
CITIC Group Corporation	–	237,592,607 (Note (iv))	237,592,607	–	237,592,607	19.26%
Rich Hill Capital Limited	175,500,000	–	175,500,000	–	175,500,000 (Note (v))	14.23%
REORIENT GROUP LIMITED ("RGL")	–	56,976,571	56,976,571	22,790,628	79,767,199 (Note (vi))	6.47%

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(Continued)*

Long Positions in Shares and Underlying Shares of the Company *(Continued)*

Notes:

- (i) CITIC Investment (HK) Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in Easy Flow Investments Limited.
- (ii) CITIC Corporation Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Investment (HK) Limited.
- (iii) CITIC Limited is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Corporation Limited.
- (iv) CITIC Group Corporation is deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interests in CITIC Limited. Mr Luo Ning, a deputy chairman and an executive director of the Company, is an employee of CITIC Group Corporation.
- (v) Mr Ko is deemed to be interested in the 175,500,000 shares of the Company held by Rich Hill Capital Limited under the SFO by virtue of his interests in Rich Hill Capital Limited. Such interest forms a part of the corporate interests in the ordinary shares of the Company interested by Mr Ko as set out in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above. Mr Ko is a director of Rich Hill Capital Limited.
- (vi) This represents:
 - (a) the deemed interests of RGL in the 56,976,571 ordinary shares of the Company held by REORIENT GLOBAL LIMITED ("RGlobal") under the SFO by virtue of its interests in RGlobal; and
 - (b) the deemed interests of RGL in the 22,790,628 share options of the Company held by Reorient Financial Markets Limited ("RFML") under the SFO by virtue of its interests in RFML.

Save as disclosed above, at 30 June 2016, no other person (other than the directors or chief executive of the Company whose interests are set out in the section titled "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTIONS AND SHARE AWARD

(a) Share Option Schemes

The Company adopted a share option scheme (the "Old Scheme") on 26 June 2002. On 28 March 2012, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted by the Company. The New Scheme continues to recognise and acknowledge the contributions of the Eligible Participants (as defined in the New Scheme) to the Group. The New Scheme is also designed to provide incentives and help the Group in retaining its existing employees and recruiting additional employees.

Movements in the number of outstanding share options and their related weighted average exercise prices were as follows:

	Six-month period ended 30 June			
	2016		2015	
	Weighted average exercise price per share (Unaudited) HK\$	Number of options (Unaudited)	Weighted average exercise price per share (Unaudited) HK\$	Number of options (Unaudited)
Old Scheme				
At 1 January and 30 June	1.990	1,000,000	1.990	1,000,000
New Scheme				
At 1 January	1.456	115,477,828	1.456	115,477,828
Granted and accepted	1.254	12,295,030	–	–
Exercised	0.970	(4,200,000)	–	–
Lapsed	1.265	(2,960,000)	–	–
At 30 June	1.457	120,612,858	1.456	115,477,828
Total		121,612,858		116,477,828

Out of the 121,612,858 outstanding share options at 30 June 2016 (2015: 116,477,828), 87,426,915 options were exercisable (2015: 44,985,942). 4,200,000 share options were exercised during the six-month period ended 30 June 2016 (2015: Nil). Options exercised during the six-month period ended 30 June 2016 resulted in 4,200,000 shares issued by the Company with weighted average exercise price of HK\$0.97 per share.

Other Information

SHARE OPTIONS AND SHARE AWARD (Continued)

(a) Share Option Schemes (Continued)

Share options outstanding at the statement of financial position date have the following expiry dates and exercise prices:

Expiry date	Exercise price per share HK\$	Number of options	
		30 June 2016 (Unaudited)	31 December 2015 (Audited)
Old Scheme			
11 February 2017	1.990	1,000,000	1,000,000
New Scheme			
9 January 2018	1.500	102,557,828	102,557,828
28 April 2019	1.254	12,295,030	–
7 April 2020	0.970	4,200,000	9,800,000
17 September 2020	1.530	1,560,000	3,120,000
		120,612,858	115,477,828
Total		121,612,858	116,477,828

The details of movements of the outstanding share options during the six-month period ended 30 June 2016 are as follows:

	Outstanding options at 1 January 2016	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options reclassified during the period	Outstanding options at 30 June 2016	Weighted average closing price before dates of exercise HK\$
Old Scheme							
Date of grant	12 February 2007						
Exercise price per option	HK\$1.990						
Exercise period	12 August 2007 - 11 February 2017						
Held by a service provider							
In aggregate	500,000	–	–	–	–	500,000	–

SHARE OPTIONS AND SHARE AWARD (Continued)

(a) Share Option Schemes (Continued)

	Outstanding options at 1 January 2016	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options reclassified during the period	Outstanding options at 30 June 2016	Weighted average closing price before dates of exercise HK\$
Date of grant	12 February 2007						
Exercise price per option	HK\$1.990						
Exercise period	12 February 2008 - 11 February 2017						
Held by a service provider							
In aggregate	500,000	-	-	-	-	500,000	-
New Scheme							
Date of grant	10 January 2014						
Exercise price per option	HK\$1.500						
Exercise period	10 January 2015 - 9 January 2018						
Held by a director							
Mr Prince	34,185,942	-	-	-	-	34,185,942	-
Date of grant	10 January 2014						
Exercise price per option	HK\$1.500						
Exercise period	10 January 2016 - 9 January 2018						
Held by a director							
Mr Prince	34,185,943	-	-	-	-	34,185,943	-
Date of grant	10 January 2014						
Exercise price per option	HK\$1.500						
Exercise period	10 January 2017 - 9 January 2018						
Held by a director							
Mr Prince	34,185,943	-	-	-	-	34,185,943	-

Other Information

SHARE OPTIONS AND SHARE AWARD (Continued)

(a) Share Option Schemes (Continued)

	Outstanding options at 1 January 2016	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options reclassified during the period	Outstanding options at 30 June 2016	Weighted average closing price before dates of exercise HK\$
Date of grant	8 April 2014						
Exercise price per option	HK\$0.970						
Exercise period	8 April 2015 - 7 April 2020						
Held by directors							
Mr Yap Fat Suan, Henry	1,400,000	-	-	-	-	1,400,000	
Professor Lee Hau Leung	1,400,000	-	(1,400,000)	-	-	-	
Mr William J. Fallon (Note (i))	1,400,000	-	-	(1,400,000)	-	-	
Dr Harold O. Demuren	1,400,000	-	(1,400,000)	-	-	-	
Held by employees							
In aggregate	4,200,000	-	(1,400,000)	-	-	2,800,000	
	9,800,000	-	(4,200,000)	(1,400,000)	-	4,200,000	1.335
Date of grant	18 September 2014						
Exercise price per option	HK\$1.530						
Exercise period	18 September 2015 - 17 September 2020						
Held by employees							
In aggregate	1,560,000	-	-	(780,000)	-	780,000	-
Date of grant	24 September 2014						
Exercise price per option	HK\$1.530						
Exercise period	18 September 2015 - 17 September 2020						
Held by employees							
In aggregate	1,560,000	-	-	(780,000)	-	780,000	-

SHARE OPTIONS AND SHARE AWARD (Continued)

(a) Share Option Schemes (Continued)

	Outstanding options at 1 January 2016	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options reclassified during the period	Outstanding options at 30 June 2016	Weighted average closing price before dates of exercise HK\$
Date of grant	29 April 2016						
Exercise price per option	HK\$1.254						
Exercise period	29 April 2016 - 28 April 2019						
Held by a director							
Mr Gregg H. Smith (Note (ii))	-	12,295,030	-	-	(12,295,030)	-	
Held by a service provider							
In aggregate	-	-	-	-	12,295,030	12,295,030	
	-	12,295,030	-	-	-	12,295,030	-

Notes:

- (i) Mr William J. Fallon resigned as an independent non-executive director of the Company with effect from 30 April 2016.
- (ii) Mr Gregg H. Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016 but remains as a consultant for the Company until 31 December 2016.

Other Information

SHARE OPTIONS AND SHARE AWARD (Continued)

(b) Other Options

The details of movements of the outstanding options of the Company other than those issued by the Company under its share option schemes during the six-month period ended 30 June 2016 are as follows:

	Outstanding options at 1 January 2016	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options at 30 June 2016	Weighted average closing price before dates of exercise HK\$
Mr Prince (Note (i))	205,115,657	-	-	-	205,115,657	-
RFML (Note (ii))	22,790,628	-	-	-	22,790,628	-
	227,906,285	-	-	-	227,906,285	

Notes:

- (i) These 205,115,657 options were issued on 3 December 2013 and are exercisable for a five-year period from 3 December 2013 to 2 December 2018 at an exercise price of HK\$0.73 per share.
- (ii) On 14 January 2014, option rights to subscribe up to 22,790,628 new shares of the Company at an exercise price of HK\$0.80 per share were granted to RFML for the settlement of the financial advisory service provided by RFML with a fair value of HK\$0.9003 per option.

All outstanding other options were exercisable at 30 June 2016 (31 December 2015: Same). No other option was exercised during the six-month period ended 30 June 2016 and the year ended 31 December 2015.

(c) Share Award Scheme

The Company has adopted a share award scheme (the "Share Award Scheme") on 10 December 2015 (the "Adoption Date"). The Share Award Scheme does not constitute a share option scheme for the purpose of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The purposes and objectives of the Share Award Scheme are to recognise the contributions by Eligible Persons (as defined in the Share Award Scheme) and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract personnel for further development of the Group.

SHARE OPTIONS AND SHARE AWARD *(Continued)*

(c) Share Award Scheme *(Continued)*

During the six-month period ended 30 June 2016, 10,067,000 shares were granted to certain Eligible Persons where 6,705,000 shares will be vested on 31 December 2016 and 3,362,000 shares will be vested on 31 December 2017.

Based on the recommendation of the Board of Directors (the "Board") of the Company, the trustee of the Share Award Scheme has acquired 5,375,000 shares of the Company for the Share Award Scheme during the six-month period ended 30 June 2016. At 30 June 2016, there were 5,375,000 shares of the Company held in trust for the Share Award Scheme by the trustee of the Share Award Scheme.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company subsequent to the date of the 2015 annual report of the Company are set out below:

Mr William J. Fallon resigned as an independent non-executive director, a member of the audit committee, the nomination committee and the remuneration committee of the Company with effect from 30 April 2016.

Dr Harold O. Demuren, an independent non-executive director of the Company, has been appointed as a member of the audit committee, the nomination committee and the remuneration committee of the Company with effect from 30 April 2016.

Mr Gregg H. Smith resigned as an executive director and the Chief Executive Officer of the Company with effect from 1 May 2016. He remains with the Company as a consultant until 31 December 2016.

Mr Ko Chun Shun, Johnson, an executive director and a deputy chairman of the Company, has been re-designated from an executive director to a non-executive director of RGL, a company listed on the Main Board of the Stock Exchange, with effect from 1 April 2016. He also resigned as an executive director and the chairman of Varitronix International Limited, a company listed on the Main Board of the Stock Exchange, with effect from 28 April 2016.

Dr Hua Dongyi has been appointed as an executive director and the Acting Chief Executive Officer of the Company with effect from 26 July 2016.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Other Information

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the six-month period ended 30 June 2016. Neither the Company nor any of its subsidiaries, except the trustee of the Share Award Scheme of the Company, has purchased or sold any of the Company's listed securities during the six-month period ended 30 June 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six-month period ended 30 June 2016, the Board of the Company has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") from time to time, as set out in Appendix 14 to the Listing Rules, with the exception of the following CG Code's code provisions:

(a) Chairman and Chief Executive

Under the CG Code's code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The chief executive officer of the Company resigned with effect from 1 May 2016, which had left the position vacant until Dr Hua Dongyi was appointed as the acting chief executive officer of the Company and filled the vacancy on 26 July 2016. During that period, the responsibilities of chief executive officer of the Company was assumed by the chairman of the Company.

(b) Responsibilities of Directors

Under the CG Code's code provision A.6.7, independent non-executive directors should attend general meetings. Certain independent non-executive directors were unable to attend the special general meeting and annual general meeting of the Company on 8 April 2016 and 1 June 2016 respectively due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. Having made specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive directors of the Company.

These unaudited condensed consolidated interim financial statements for the six-month period ended 30 June 2016 of the Group have been reviewed by the audit committee.