

# SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 770)

## 2016 Annual Report

INVESTMENT MANAGER

SHANGHAI INTERNATIONAL ASSET MANAGEMENT (H.K.) CO., LTD.

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## CORPORATE INFORMATION

### DIRECTORS

#### *Executive Directors:*

Dr. WANG Ching  
Mr. WU Bin

#### *Independent Non-Executive Directors:*

Dr. HUA Min  
Mr. ONG Ka Thai  
Mr. YICK Wing Fat Simon

#### *Other Non-Executive Directors:*

Mr. FENG Huang  
Mr. NI Jianwei

### COMPANY SECRETARY

Mr. LIANG Kwan Wah Andrew

### INVESTMENT MANAGER

Shanghai International Asset Management (Hong Kong)  
Company Limited

#### *In Hong Kong:*

Room 1501, 15/F  
Shanghai Industrial Investment Building  
48-62 Hennessy Road  
Wanchai, Hong Kong

#### *In Shanghai:*

16/F, Golden Bell Plaza  
No. 98 Huai Hai Zhong Road  
Shanghai 200021, China

### LEGAL ADVISERS

#### *In Hong Kong:*

Charltons Solicitors & Notary Public

#### *In the Cayman Islands:*

Maples and Calder

### AUDITOR

Ernst & Young  
Certified Public Accountants

### CUSTODIAN

Standard Chartered Bank (Hong Kong) Limited

### SHARE REGISTRAR AND TRANSFER OFFICE

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

### REGISTERED OFFICE

P.O. Box 309, Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

### PRINCIPAL PLACE OF BUSINESS

Room 1501, 15/F  
Shanghai Industrial Investment Building  
48-62 Hennessy Road  
Wanchai, Hong Kong

### COMPANY'S WEBSITE

<http://shanghaigrowth.etnet.com.hk>

### STOCK CODE

770

## BOARD OF DIRECTORS' STATEMENT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company") is pleased to present its annual report of the Company for the year ended 31 December 2016.

### REVIEW OF RESULTS

The Company recorded a net loss of US\$1,513,745 for the year ended 31 December 2016, compared with a loss of US\$3,886,245 in 2015. Such loss was mainly attributable to unrealised fair value loss on the Company's unlisted investment, Global Market Group Limited ("GMG").

GMG cancelled its listing on the Alternative Investment Market ("AIM") of the London Stock Exchange in September 2015 and had since devoted its resources to achieve a listing of its main subsidiary's shares in the China market. In August 2016, Global Market Group (Guangzhou) Limited ("GMGZ"), GMG's main operating subsidiary, successfully listed its shares on the National Equities Exchange & Quotations ("NEEQ" or "New Third Board") in mainland China. As GMGZ shares listed on the New Third Board may only be traded by way of transfer by agreement and as there has not been any sale/purchase transaction in these shares since listing, they therefore do not have a readily quoted market price. In the absence of an active quoted market price for GMGZ as of 31 December 2016, the Investment Manager adopted a relative valuation model to calculate the fair value of GMG by reference to listed companies in Chinese E-commerce industry.

Affected by a tremendous downturn of global capital market since the beginning of 2016, relatively conservative assumptions were applied. In consideration of GMG's lower earnings, the Company has re-assessed its value and recorded a fair value of US\$3,328,577 as at 31 December 2016 for this investment, which resulted in US\$938,180 unrealised loss on the change in fair value as compared to that as at the end of 2015 (2015: unrealised loss of US\$3,216,735).

As for Hong Kong listed securities portfolio, the Company received dividend income of US\$19,795 for the 2016 year (2015: US\$42,957) and recorded realised gain on disposal of listed investments of US\$19,028 (2015: loss of US\$50,056 and impairment of US\$25,017). During the year, the Company's listed securities portfolio remained steady, in line with Heng Seng Index ("HSI") but outperformed Hang Seng China Enterprises Index ("HSCEI").

The Company's audited net asset value per share ("NAV") as at 31 December 2016 was US\$0.77, a 12.5% decrease as compared with US\$0.88 at the end of 2015. Such decrease was mainly due to the further unrealised loss on the fair value of GMG at the end of the year. At the end of December 2016, the Company's share price was US\$1.16 (2015: US\$1.70), reflecting a 50.65% premium to NAV per share.

### KEY PERFORMANCE INDICATOR

The Board considers that periodic NAV of the Company is a significant financial indicator by which the development and performance of the Company's business can be measured effectively.

Performance of the Company's NAV for the past five years are summarised in this report on page 88 under the heading "Five Year Financial Summary". In the opinion of the Board, fluctuations in past NAV performances are mainly attributable to fluctuations in unrealised fair value gain or loss in one of the Company's investments.

## BOARD OF DIRECTORS' STATEMENT

### LIQUIDITY AND FINANCIAL RESOURCES

In July 2016, the Company raised approximately US\$1.87 million (net of issuing expenses) successfully by way of new issue of shares. The Company did not participate in any new unlisted investment in 2016. The Company's bank balances as of 31 December 2016 were US\$3,828,641 (2015: US\$2,524,602). No dividends were paid during the year. Apart from listed securities investments, cash were used for operating and administrative expenses.

### CHARGE ON ASSETS, CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2016, there were no charges on the Company's assets and the Company had no material capital commitment on unlisted investments or any significant contingent liabilities (31 December 2015: nil).

As at 31 December 2016, as far as the Directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company.

### GEARING RATIO

The Company did not have any bank borrowings as at 31 December 2016 and 31 December 2015. As at 31 December 2016, the Company's current ratio (current assets to current liabilities) was approximately 56.85 (2015: 36.65). The ratio of total liabilities to total assets of the Group was approximately 0.84% (2015: 0.89%).

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company's assets, liabilities and transactions are denominated either in Hong Kong dollars or US dollars. As long as the Hong Kong dollar continues its peg to the US dollar in the foreseeable future, the Company does not envisage any material exposure to exchange fluctuations. Accordingly, no hedging instruments were made nor transacted to cushion for such exposure.

### EMPLOYEES

Other than maintaining a qualified accountant, the Company has no other employee. The Company continues to delegate the day-to-day administration of its investment portfolio to its Investment Manager. The Company determines its staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages of the Company's employee including basic salary, double pay and mandatory provident fund are reviewed on a regular basis.

### DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: nil).

## BOARD OF DIRECTORS' STATEMENT

### PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On 19 July 2016 in accordance with the terms and conditions of the subscription agreement dated 2 July 2016 (the "Subscription Agreement") between the Company and an independent third party ZKJK Capital Management Limited (the "Subscriber"), a total of 1,781,000 new shares in the Company (the "Subscription Shares"), representing approximately 16.67% of the enlarged issued share capital of the Company, have been successfully allotted and issued to the Subscriber at the subscription price of US\$1.08 per Subscription Share. The Subscription Shares are subject to a lock-up period of 12 months from the date of issue of the Subscription Shares. The Subscription Shares are allotted and issued under the General Mandate granted to the Directors at the Company's annual general meeting held on 24 May 2016 and after completion of the subscription, the General Mandate has been fully utilised.

The net proceeds from the Subscription Shares after deducting all the relevant costs and expenses were approximately US\$1.87 million, which will be used for the Company's future investments when such investment opportunities arise. The Subscriber is an investment holding company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Yuan Chufeng. Mr. Yuan has been an entrepreneur in the People's Republic of China for more than 20 years with extensive property and securities investment experience. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of the Company and its connected persons as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at the Ball Room, 1/F, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 26 May 2017 at 10:30 a.m.. Notice of annual general meeting will be published and sent to shareholders in the manner as required by the Listing Rules in due course.

### CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the right to attend and vote at the Company's annual general meeting to be held on 26 May 2017 ("2017 AGM"), the Register of Members of the Company will be closed as set out below:

Latest time to lodge transfer documents for registration	4:30 pm on Friday, 19 May 2017
Closure of Register of Members	Monday, 22 May 2017 to Friday, 26 May 2017 (both dates inclusive)
Record date	Friday, 26 May 2017

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2017 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest times.

## BOARD OF DIRECTORS' STATEMENT

### OUTLOOK FOR 2017

Despite a stable economic recovery in the US, increase in global inflation and appearance of trade protectionism and populism as a result of the fact that US is expected to enter into a cycle of interest rate hikes, the uncertainty of President Trump's policies and the forthcoming elections of major European countries in 2017 will make global economy more vulnerable in the future.

Focusing on China, infrastructure investments will be conducive to the stable growth of the economy as other domestic growth drivers are still weak. It is expected that CPI will be relatively stable in 2017 compared to that of 2016. Fiscal policies will be focused on education, health, livelihood and other public service sectors as well as supply-side reforms, rather than on economic growth. Meanwhile, monetary policies will emphasise on system transformation and construction, instead of "quantitative" targets.

In terms of the Hong Kong stock market, in response to the launch of Shenzhen-Hong Kong Stock Connect, restrictions of the real estate markets in Hong Kong and the first and second tier cities on the Mainland as well as capital control in China amid US dollar appreciation, trading volume of Hong Kong stocks via stock connect is expected to increase. Meanwhile, thanks to the supply-side reforms and a stable near-term macro-economy, earnings of China-listed companies are expected to increase in 2017. Overall, valuation of the Hong Kong equity market definitely has an advantage over A shares and other global stock markets.

Looking ahead to 2017, in respect of investment strategy in listed securities, the Investment Manager will invest in both new and traditional economy sectors. In traditional economy sectors, some quality companies are expected to perform well from supply-side reforms including capacity and inventory cuts as well as deleveraging. Equities in new economy sectors experienced a sector-wide de-rating after Donald Trump became the US president elect, with valuation of some leading companies becoming relatively attractive.

In respect of investment in unlisted securities, the Investment Manager will continue to look for premium direct investment projects with listing potentials and appropriate risks and scale. As to investment strategy, the Company shall continue to co-invest with other renowned fund management companies or industrial investment groups in the face of lacking available fund for new investments.

For and On behalf of the Board,

**NI Jianwei**

*Non-Executive Director*

Hong Kong, 23 March 2017

*The Chinese version of this annual report is a translation of the English version. Should there be any discrepancies or inconsistencies between the two versions, the English version shall prevail.*

## MANAGEMENT DISCUSSION AND ANALYSIS

### ECONOMIC REVIEW

#### China Economy

China's major economic indicators:

<b>Growth (year-on-year, percent)</b>	<b>2016</b>	2015
Gross domestic product ("GDP")	<b>6.7</b>	6.9
Industrial Production	<b>6.0</b>	6.1
Retail sales	<b>10.4</b>	10.7
Consumer price index ("CPI")	<b>2.0</b>	1.6
Fixed asset investments ("FAI")	<b>8.1</b>	10.0
Actual foreign direct investments	<b>4.1</b>	6.4
Exports	<b>-2.0</b>	-1.8
Imports	<b>0.6</b>	-13.2
Trade surplus (US\$ billion)	<b>482.4</b>	594.5
Foreign exchange reserve (US\$ billion)	<b>3,011</b>	3,330

Source: Published information

2016 is the outset of the "13th Five Year Plan" and the Chinese economic growth remained within a reasonable range, with GDP recording a 6.7% year-on-year growth, 0.2% lower than that in 2015. GDP grew by 6.7% year-on-year in each of the first three quarters and 6.8% in the fourth quarter.

China's overall economy presented an increasing downward trend in 2016. However, as the supply-side structural reforms progressively come into effect, combined with influences from a rebound in infrastructure investments as well as housing and automobile demands, China's macro-economy has shown signs of bottoming out and stabilising. The overall economy has evolved into a state of steady progress with structural optimisation and a switch in growth drivers.

In the context of speeding up economic development mode and transformation in economic structure, this round of economic transformation has shown initial success, with accelerated shifts in growth drivers. On one hand, structural transformation of traditional industries has benefited from supply-side reforms, driving earnings of leading enterprises. On the other hand, tertiary industries and consumption have gradually become leading contributors to the economy. As the pace of fostering new economic drivers and optimisation of new investment environment increased, entrepreneurship and innovation flourished, thus boosting the development of emerging industries such as industrial robots, car-hailing services and distance learning.

Looking ahead to 2017, macro policies are expected to continue to aim for stable progress and effectiveness, due to an increase in domestic and global uncertainties and the upcoming convening of the 19th Party Congress. Further supply-side reforms and measures such as containing asset bubbles, curbing real estate market and financial deleveraging, coupled with efforts to cut taxes and lower tax burden, will help the economy develop steadily and healthily.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ECONOMIC REVIEW (Cont'd)

#### Global Economy

In 2016, global economy reflected the following characteristics: low economic growth, low international trade volume, low inflation, low investment growth, low interest rates, high debt level and high reliance on monetary policies. Global economic growth is expected to reach a mere 2.2%, the lowest level since the recession in 2009. In the first half of 2016, growth of the global economy has slowed down while developed countries recovered slowly. The US Federal Reserve postponed interest rate hike as a result. Economic growth of emerging markets also slowed down with deep recession witnessed in Russia and Brazil etc. On the other hand, in the second half of 2016, global economies began to recover slowly, led by a rebound in the US. Future development in the US economy will depend on any stimulus from President Trump's fiscal policies. In China, PPI began to recover after a decline for more than 4 years, thanks to the rebound in commodity prices amid supply side reform. Meanwhile, it is expected that China's economy will continue to recover as a result of its prolonged fiscal stimuli.

As for global indices, the S&P 500 Index rose 9.5% while UK FTSE Index surged over 14% in terms of local currency on the depreciation of the British Pound following Brexit. Among emerging markets, due to the recovery of commodities prices, Russian RTS Index was up 52% and Brazil's IBOVESPA climbed 39%.

#### Relevant stock markets' performance in 2016

Indices	31 December 2016	31 December 2015	Change
Hang Seng Index	<b>22,000.56</b>	21,914.40	0.39%
Hang Seng China Enterprises Index	<b>9,394.87</b>	9,661.03	-2.75%
Hang Seng China-Affiliated Corporations Index	<b>3,587.99</b>	4,052.12	-11.45%
Shanghai SE Composite Index	<b>3,103.64</b>	3,539.18	-12.31%
Shenzhen SE Composite Index	<b>1,969.11</b>	2,308.91	-14.72%
Taiwan Exchange Index	<b>9,253.50</b>	8,338.06	10.98%
Dow Jones Industrial Average Index	<b>19,762.60</b>	17,425.03	13.42%
Standard and Poor's 500 Index	<b>2,238.83</b>	2,043.94	9.54%
NASDAQ Composite Index	<b>5,383.12</b>	5,007.41	7.50%

#### Portfolio Allocation

	31 December 2016	31 December 2015
Unlisted investments	<b>41%</b>	54%
Listed investments	<b>12%</b>	14%
Cash and cash equivalents	<b>47%</b>	32%
Total	<b>100%</b>	100%

## MANAGEMENT DISCUSSION AND ANALYSIS

### LISTED INVESTMENTS REVIEW

#### *Hong Kong Stock Market*

Reviewing on 2016, the HSI saw upward fluctuations throughout the year. The HSI fell to the year's low of 18,279 points in February on factors including expectations of further depreciation of the Renminbi ("RMB"), the backfire of the A-share circuit breaker system and concerns over rate hikes by the US Federal Reserve. Hong Kong stock market later recovered on the back of stabilised Chinese economic data and RMB exchange rate, as well as a pickup in commodities markets and postponement of US Federal Reserve rate hike. In the middle of the year, the Brexit referendum only brought a short-lived negative impact to the Hong Kong stock market. Afterwards, the expectations of further quantitative easing around the world and the launch of Shenzhen-Hong Kong Stock Connect gave a boost to sentiment and liquidity of Hong Kong stocks, lifting the HSI to over 24,000 points. Donald Trump's winning the US presidential election raised expectations of a speed up in rate hikes, which resulted in money outflow from emerging markets to the US, leading to a slight correction in the HSI towards the year end.

As a result of the market rebound, performance of the Company's listed investments portfolio improved compared to that of last year and remained steady during the year, in line with HSI but outperformed HSCEI.

Opportunities and risks both exist in the Hong Kong market. Although valuation of Hong Kong stock market is still attractive, only if domestic and global risks are relieved, can the Hong Kong stock market attract more global capital to increase asset allocation. The Company will continue to adopt a prudent investment strategy and always be aware of the risks.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LISTED INVESTMENTS REVIEW (Cont'd)

#### Listed Securities Portfolio

As at 31 December 2016

Name of listed securities	Nature of business	Number of shares held	% held of total issued shares %	Cost US\$	Market value US\$	% of net asset value %	Dividend received US\$
<b>Listed on Hong Kong Stock Exchange</b>							
CK Hutchison Holdings Limited	Conglomerate	15,000	0.00039	182,485	170,000	2.08	–
China Mobile Limited	Telecom	11,500	0.00006	127,107	121,881	1.49	–
Ping An Insurance (Group) Company of China, Ltd – H shares	Financial & insurance services	24,000	0.00032	127,544	120,064	1.47	–
China Everbright International Limited	Utilities	160,000	0.00357	183,313	181,333	2.22	1,044
Sinopharm Group Co. Ltd – H shares	Healthcare	28,000	0.00235	128,130	115,345	1.41	–
CRRC Corporation Limited – H shares	Industrial & commercial vehicles	100,000	0.00229	99,226	89,738	1.10	3,202
China Minsheng Banking Corp., Ltd – H shares	Banking & financial services	122,000	0.00176	127,961	130,401	1.59	2,175
Zijin Mining Group Co., Ltd – H shares	Material – gold & precious metals	190,000	0.04793	62,576	61,243	0.74	–
Other listed securities				–	–	–	13,374
<b>Total investment in listed securities</b>				<b>1,038,342</b>	<b>990,005</b>	<b>12.10</b>	<b>19,795</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### LISTED INVESTMENTS REVIEW (Cont'd)

#### Listed Securities Portfolio (Cont'd)

As at 31 December 2015

Name of listed securities	Nature of business	Number of shares held	% held of total issued shares %	Cost US\$	Market value US\$	% of net asset value %	Dividend received US\$
<u>Listed on Hong Kong Stock Exchange</u>							
Tencent Holdings Limited	E-Commerce & Internet services	21,500	0.00023	452,018	423,026	5.41	836
HSBC Holdings PLC	Banking & financial services	16,000	0.00008	125,761	127,782	1.64	–
Sichuan Pharmaceutical Holdings Group Ltd. – H shares	Medical & healthcare	200,000	0.00193	82,354	82,354	1.05	852
Sinopharm Group Co. Ltd – H shares	Medical & healthcare	17,200	0.00144	64,136	69,016	0.88	–
CSPC Pharmaceutical Group Limited – H shares	Medical & healthcare	74,000	0.00125	63,922	75,616	0.97	–
CRRC Corporation Limited – H shares	Commercial vehicles	80,000	0.00183	101,833	98,881	1.27	1,360
China Minsheng Bank Corp., Ltd – H shares	Banking & financial services	45,000	0.00065	40,925	44,590	0.57	1,781
CSOP FTSE China A50 ETF	Country fund – China	80,000	0.00484	126,163	128,195	1.64	3,147
Other listed securities				–	–	–	34,981
Total investment in listed securities				1,057,112	1,049,460	13.43	42,957

## MANAGEMENT DISCUSSION AND ANALYSIS

### UNLISTED INVESTMENTS REVIEW

In 2016, China's economy continued to slow down whilst in the process of structural reform, which made small and medium enterprises ("SME"s) encounter difficulties in developing. Although Chinese government encouraged startup businesses, many SMEs remained at a primary stage with uncertain prospects. The Investment Manager studied several new potential projects during 2016. However, no new investments were consummated in view of the Company's limited cash resources.

#### *Unlisted Investments Portfolio*

*As at 31 December 2016*

Invested projects	Nature of business	% of equity interest	Amount invested		Fair value changes	Carrying value of investment	% of net asset value	Accumulated dividend income	
			at cost	Impairment		31.12.2016		Dividend income	dividend income
			US\$	US\$	US\$	US\$		US\$	US\$
Investment in unlisted securities									
Global Market Group Limited (N)	B2B platform	9.36%	5,847,458	(2,518,881)	-	3,328,577	40.68	-	1,814,613

*As at 31 December 2015*

Invested projects	Nature of business	% of equity interest	Amount invested		Fair value changes	Carrying value of investment	% of net asset value	Accumulated dividend income	
			at cost	Impairment		at 31.12.2015		Dividend income	dividend income
			US\$	US\$	US\$	US\$		US\$	US\$
Investment in unlisted securities									
Global Market Group Limited (N)	B2B platform	9.36%	5,847,458	(1,580,701)	-	4,266,757	54.61	-	1,814,613

*Note:*

(N): An investment in shares through private placement in a B2B internet trading service provider, whose common shares were once listed on London Alternative Investment Market and delisted in September 2015 and reclassified as the Company's unlisted investment. GMG is seeking other relisting opportunities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### *Global Market Group Limited ("GMG")*

GMG is a B2B internet trading service provider in the PRC. It focuses on providing an international trading service platform linking high-end quality export manufacturers in China with international buyers. Currently, its internet trading service consists of M2B and M2B2C businesses. In response to the Chinese government's call for developing cross-border E-commerce industry and in an effort to fully exert GMG's advantage of its established B2B E-commerce platform, GMG vigorously developed new cross-border E-commerce businesses during 2016. Corresponding cross-border E-commerce platform on consignment basis has been established and a mobile app has been released for testing.

The Company invested in GMG Preferred Shares for a consideration of US\$5 million in March 2008. In June 2010, the Company reinvested its dividend entitlement of US\$847,458 for additional GMG Preferred Shares to increase its equity interest to 9.67%. GMG's ordinary shares were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange on 22 June 2012. As at 31 December 2016, a total of 8,734,897 ordinary shares of GMG are held by the Company, representing 9.36% of GMG's total issued ordinary shares.

Pursuant to GMG's announcement, GMG's shares had been cancelled from trading on the AIM on 24 September 2015 as it was unsuccessful in appointing a replacement nominated adviser within the time frame permitted under AIM listing rules. It is understood that such cancellation was a result of a transaction entered into by GMG that may trigger AIM reverse takeover provisions and which led to the resignation of the former nominated adviser.

Global Market Group (Guangzhou) Limited ("GMGZ"), GMG's main operating subsidiary, has been successfully listed on the National Equities Exchange & Quotations ("NEEQ" or "New Third Board") in mainland China in August 2016. As GMGZ shares listed on the New Third Board may only be traded by way of transfer by agreement and there has not been any sale/purchase transaction in these shares since listing, they therefore do not have a readily quoted market price. In the absence of an active quoted market price for GMGZ as of 31 December 2016, the Investment Manager adopted a relative valuation model to calculate fair value of GMG by reference to listed companies in Chinese E-commerce industry. In consideration of GMG's lower earnings, the fair value was re-assessed to US\$3,328,577 at 31 December 2016, which resulted in a US\$938,180 unrealised loss on the change in fair value as compared to that as at the end of 2015.

GMG's M2B business is progressing towards maturity having been developed for several years. Development of its cross-border E-commerce consignment trading platform is expected to help in accelerating its overall business growth from 2017. GMGZ has announced its private placement plan in October 2016. However, given the weak liquidity and lack of continuous fund raising capability on the NEEQ to support GMGZ's future strategic development, an announcement has been made by its board on 2 March 2017 of the intention to seek shareholders' approval to delist GMGZ from NEEQ. It is expected that GMGZ will thereafter consider applying for a listing on other more efficient stock markets in the future.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### WANG Ching (RC)

Aged 62, was appointed as an Executive Director of the Company and an executive director of the Investment Manager in July 2007. SIIC Investment Company Limited is the holding company of the Investment Manager and a wholly-owned subsidiary of Shanghai Industrial Investment (Holdings) Company Limited, which became a substantial shareholder of the Company since December 2015.

Dr. Wang is currently registered as one of the responsible officers of the Investment Manager with the Securities and Futures Commission (“SFC”). Dr. Wang has over 20 years’ managerial experience in investment and commercial banking and fund management in the United States, Taiwan, Hong Kong and the PRC, with a wealth of experience in the securities and venture capital industries.

Prior to joining the Company, Dr. Wang had been the president of Investment and Proprietary Trading Group for Jih Sun Financial Holding Co. Ltd. in Taiwan, the managing director of JS Cresvale Securities International Limited, the managing director of SinoPac Securities Asia Ltd. in Hong Kong, SEVP of SinoPac Securities Co. Ltd. in Taiwan, the director of Investment Banking Department at Standard Chartered Bank Hong Kong and the associate director of Bear Stearns & Co. Inc., New York and Hong Kong.

Dr. Wang also serves as independent non-executive director of several companies listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) that are third parties independent of the Company and connected persons of the Company. He is also appointed as non-executive director of Global Market Group Limited, the Company’s unlisted investment, whose shares were listed on the AIM up till 23 September 2015.

Dr. Wang obtained his Master’s degree in business administration from the University of Houston and Ph.D. in finance from Columbia University in the city of New York.

### WU Bin (RC)

Aged 43, was appointed as an Executive Director of the Company and Deputy Managing Director of the Investment Manager in May 2007. SIIC Investment Company Limited is the holding company of the Investment Manager and a wholly-owned subsidiary of Shanghai Industrial Investment (Holdings) Company Limited, which became a substantial shareholder of the Company since December 2015.

Mr. Wu is currently registered as one of the responsible officers of the Investment Manager with the SFC. Prior to joining the Company, Mr. Wu was the Assistant General Manager of Center for International Business Management with Shanghai International Group Co., Ltd. (“SIG”) since 2006. Before that, he had been the Assistant General Manager of Investment Banking Department with Shanghai International Trust Corporation Ltd. since 2004, which is a subsidiary company of SIG and one of the substantial Shareholders of the Company up till December 2015. From 1996 to 2004, he had held senior positions with foreign banking and securities institutions in the PRC. Mr. Wu has over 16 years’ managerial experience in banking, securities and trust investment sectors in PRC.

Mr. Wu holds an MBA degree in Finance from Shanghai Jiao Tong University and currently is a CFA charter holder. He also qualified as a PRC lawyer in 2000.

*RC – Remuneration Committee*

*AC – Audit Committee*

*NC – Nomination Committee*

*INED – Independent Non-Executive Director*

## BIOGRAPHICAL DETAILS OF DIRECTORS

### FENG Huang

Aged 46, has been appointed a Non-Executive Director of the Company on 17 December 2015. Mr. Feng is a director of SIIC Investment Company Limited, the holding company of the Investment Manager of the Company and is a wholly-owned subsidiary of Shanghai Industrial Investment (Holdings) Company Limited, which became a substantial shareholder of the Company since December 2015.

Mr. Feng was a director of Haitong Securities Co., Ltd (a company currently listed on The Stock Exchange of Hong Kong Ltd.) from 16 May 2011 to 30 December 2014 and re-designated as a supervisor since 30 December 2014.

Mr. Feng obtained a bachelor's degree in engineering from Shanghai Jiao Tong University in July 1993, and a master's degree in business administration from Webster University in November 1998. Mr. Feng is an economist recognised by Ministry of Personnel of the PRC in November 2001, and an in-house legal counsel recognized by Ministry of Personnel, Ministry of Justice and State owned Assets Supervision and Administration Commission of the PRC in October 2007, qualified as an independent director for listed companies recognized by Shanghai Stock Exchange since June 2013. Mr. Feng joined SIIC Investment (Shanghai) Co., Ltd. in January 1999 and served in various positions and has been the vice chairman and president since September 2014. He has been the chairman and president of Shanghai SIIC Investment Management Consulting Co., Ltd. since December 2014 and a director of Shanghai Lujiazui Finance & Trade Zone United Development Co., Ltd. since July 2004.

Mr. Feng has also been the chairman of SIIC Investment Company Limited and South Pacific Hotel Hong Kong Co., Ltd. since April 2012. He has been the chairman of Shanghai SIIC Asset Operation Co. Ltd. since December 2014, the vice chairman of Shanghai Guojin Leasing Co., Ltd. since January 2014, a director of Shanghai Shangshi Group Finance Co., Ltd. since May 2014, a supervisor of Shanghai Pudong Science and Technology Investment Co., Ltd. since January 2015 and a director of SIIC Financial Services Holdings Ltd. since February 2015. Mr. Feng has been appointed a director of Shanghai Investment Asset Operation Co., Ltd. since December 2015.

### NI Jianwei

Aged 51, has been appointed a Non-Executive Director of the Company on 19 March 2015 and a director of the Investment Manager since 26 February 2015. He is registered as one of the licenced responsible officers and was appointed Managing Director of the Investment Manager on 20 December 2016. Mr. Ni is an executive director and vice president of SIIC Investment Company Limited, the holding company of the Investment Manager and a wholly-owned subsidiary of Shanghai Industrial Investment (Holdings) Company Limited, which became a substantial shareholder of the Company since December 2015.

Mr. Ni graduated from Harbin University of Science and Technology with a Bachelor's degree in Electrical Engineering and obtained his Master's degree in Business Administration (International) from the University of Hong Kong. He joined SIIC Group in 2000 as a senior manager in the investment banking department of Shanghai Industrial Asset Management Limited. He worked as general manager in the business division of Shanghai Industrial Pharmaceutical Investment Company Limited from 2005 to 2009 and general manager of Shanghai Nanyang Industrial Development Company Limited from 2009 to 2011. He has over 16 years' experience in corporate management, investment banking and capital markets operation.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### **HUA Min** (AC, NC and RC)

Aged 67, has been an INED since September 2004 and Chairman of the NC. Dr. Hua graduated from Fudan University with a Bachelor's degree in Economics and holds a Doctorate in World Economics from Fudan University. He is currently Chief of Academic Committee of economic school Fudan University. Dr. Hua is an advisor for doctoral candidates. He has been teaching and conducting research in world economics, China economics and finance at Fudan University since 1990.

### **ONG Ka Thai** (AC, NC and RC)

Aged 62, has been an INED since June 1997 and Chairman of the RC. Mr. Ong is currently the Chairman of various companies including Ong Pacific (H.K.) Ltd., Ong Pacific Capital Ltd., Ong First Tradition Holdings Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Pte. Ltd.. He is also the Senior Advisor to KGI (Hong Kong) Limited as well as to AIGF (ASEAN Industrial Growth Fund) respectively, a private equity fund that is co-managed by Mitsubishi Corporation, CIMB Group and Development Bank of Japan Inc.. These companies are third parties independent of the Company and connected persons of the Company. Mr. Ong holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles.

He had served as CEO for a number of multinational joint ventures. Currently, he is an independent non-executive director of Singamas Container Holdings Ltd., a company listed on the Stock Exchange and a third party independent of the Company and connected persons of the Company. Mr. Ong was previously an independent non-executive director of China Bohai Bank Limited.

Mr. Ong has over 40 years of experience in manufacturing, corporate and trade finance, regional equity, futures and commodities trading, investment banking and corporate advisory services, as well as direct and private equity investments.

### **YICK Wing Fat Simon** (AC, NC and RC)

Aged 58, has been an INED since July 1999 and Chairman of the AC. Mr. Yick holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong, majoring in Accounting. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England. Mr. Yick has over 34 years of experience in audit, direct investment, investment banking and corporate advisory services.

Mr. Yick also serves as an independent non-executive director and Chairman of the audit committee of Shenzhen Neptunus Interlong Bio-technique Co., Ltd. and China Singyes Solar Technologies Holdings Limited (both are listed on the Stock Exchange). Since August 2015 Mr. Yick has been appointed independent non-executive director, convener of the nomination committee and a member of the strategy committee and audit committee of Chengdu Xingrong Environment Co, Ltd., a company listed on the Shenzhen stock exchange. These companies are third parties independent of the Company and connected persons of the Company.

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining sound corporate governance standards and procedures to ensure integrity, transparency and quality of disclosure to promote the ongoing development of the long term best interests of the Company and to enhance value for all its Shareholders. The Board has established procedures on corporate governance that comply with the requirements of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Board has reviewed and taken measures to adopt the CG Code as the Company’s code of corporate governance practices. During the financial year ended 31 December 2016, the Company has complied with the code provisions under the CG Code, save and except for the following:

Code A.4.1 which provides that non-executive directors should be appointed for a specific term and subject to re-election.

The Company’s Non-Executive Directors do not have a specific term of appointment. However, they are subject to retirement by rotation once every three years pursuant to the Company’s Articles of Association.

### BOARD OF DIRECTORS

The Board has overall responsibility for the stewardship of the Company, which includes, inter alia, the determination of long term corporate objectives and strategies, assessment of investment projects, adoption of corporate governance practices, supervision of the Company’s Investment Manager to ensure that the Company’s operations are conducted in accordance with the objectives of the Company, and in reviewing financial performance. The Company’s investment portfolio and daily operations are managed by the Investment Manager pursuant to the terms and conditions of an investment management and administration agreement (the “Investment Management Agreement”) between the Company and the Investment Manager, details of which are set out on pages 36 to 38 under the heading “Investment Management and Administration Agreement and Continuing Connected Transactions”.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company’s expense for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS *(Cont'd)*

#### *Composition*

The Board currently comprises seven Directors of whom two are Executive Directors, two are Non-Executive Directors and three are INEDs. There is no designated Chairman or Chief Executive of the Board. All Directors are, collectively and individually, aware of their responsibilities to the Shareholders. The Directors' respective biographical information is set out on pages 14 to 16 under the heading "Biographical Details of Directors". In addition, a list containing the names of the Directors and their roles and functions is published on the website of the Company at <http://shanghaigrowth.etnet.com.hk> and of the Hong Kong Exchanges and Clearing Limited ("HKEx") at <http://www.hkexnews.hk>.

All Directors have entered into respective letters of appointment with the Company. Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Executive and Non-Executive Directors do not have a specific term of appointment and are not entitled to any form of remuneration. However, they are subject to retirement by rotation once every three years pursuant to the Company's Articles of Association. All INEDs are engaged for a term of three years and each of them are remunerated at HK\$120,000 per annum.

#### *Board Diversity*

The Board adopted a board diversity policy setting out the approach to diversity of members of the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

The Company maintains that Board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board.

The full Board of the Company is responsible for reviewing the structure, size and composition of the Board and the appointment of new directors of the Company from time to time to ensure that it has a balanced composition of skills, experience and expertise appropriate to the requirements of the businesses of the Company, with due regard to the benefits of diversity on the Board. The Board as a whole is also responsible for reviewing the succession plan for the directors of the Company.

The Board will review and monitor from time to time the implementation of this policy to ensure its effectiveness and will at an appropriate time set measurable objectives for achieving Board diversity.

## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS *(Cont'd)*

#### *Independent Non-Executive Directors*

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three INEDs representing one-third of the Board.

INEDs are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgment. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules. Each of the INEDs has filed a written confirmation to the Company confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change in circumstances which may affect their independence. The Company is of the view that all of its INEDs meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are independent.

#### *Retirement and Re-election of Directors*

The Company's Articles of Association provides that any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election by ordinary resolution. At such annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, including those appointed for a specific term. Re-election of retiring Directors at general meetings is dealt with by separate individual resolutions. All Directors are subject to retirement by rotation at least once every three years or such other period as the Stock Exchange may from time to time prescribe. The Directors to retire by rotation shall include any Director who wishes to retire and does not offer himself for re-election. Further Directors to retire shall be those having been in office the longest since their last re-election of appointment and subject to retirement by rotation.

At the Company's forthcoming 2017 AGM, Mr. WU Bin, Mr. NI Jianwei and Mr. YICK Wing Fat Simon will retire from office by rotation. All retiring Directors, being eligible, offer themselves for re-election by the Shareholders at the 2017 AGM.

Mr. YICK has served as an INED for more than 9 years. During his years of appointment he has demonstrated his ability to provide an independent view on the Company's matters. Notwithstanding his years of service as an INED, the Board is of the opinion that Mr. YICK's knowledge and experience in the Company's business will continue to generate valuable contribution to the Board, the Company and the Shareholders as a whole and thus recommends him for re-election at the 2017 AGM.

## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS (Cont'd)

#### *Board Meetings and Attendance*

The Board meets regularly at least 4 times every year with Directors participating either in person or through electronic means of communication. Schedule of Board meetings are made available to Directors in advance to provide sufficient notice to Directors and facilitate maximum attendance. Formal notices of regular Board meetings are served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board and committee meetings.

The Board held 5 Board meetings during the year ended 31 December 2016. Appropriate and sufficient information were provided in Board papers to Directors in a timely manner to keep them apprised of the Company's latest developments to enable them to make informed decisions on matters to be placed before the Board. Monthly reports are provided to Directors to keep them updated on the Company's operational and financial performance.

Attendance of individual Directors at such meetings was:

Number of meetings held 5

<b>Name of Director</b>	<b>Attendance</b>	<b>Name of Director</b>	<b>Attendance</b>
Dr. WANG Ching	4/5	Mr. NI Jianwei	5/5
Mr. WU Bin	5/5	Mr. FENG Huang	5/5
Dr. HUA Min	5/5		
Mr. ONG Ka Thai	5/5		
Mr. YICK Wing Fat Simon	5/5		

As at 31 December 2016, certain Directors of the Company, namely Dr. WANG Ching, Mr. WU Bin and Mr. NI Jianwei are also directors of the Company's Investment Manager. Mr. FENG Huang is a director of SIIC Investment Company Limited, the holding company of the Investment Manager and is a wholly-owned subsidiary of Shanghai Industrial Investment (Holdings) Company Limited which became a substantial shareholder of the Company since December 2015. Details of such relationships are set out on page 40 under the heading "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares".

Save as disclosed above, to the best knowledge of the Company, there are no financial, business or family relationship among members of the Board as at 31 December 2016. All of them are free to exercise their individual judgment.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference. These are posted on the Company's website and on the HKEx's website and are available to the Shareholders upon request. Board committees report to the Board on their work, findings, decisions and recommendations pursuant to their respective terms of reference.

Board committees are provided with sufficient resources to discharge their duties and, upon request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### AUDIT COMMITTEE

The Audit Committee has been established since July 1999 and currently comprises three members, all of whom are INEDs of the Company, namely, Mr. YICK Wing Fat Simon (Chairman), Dr. HUA Min and Mr. ONG Ka Thai. At least one of the members possesses appropriate qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

In light of the amendments of the Listing Rules which became effective on 1 April 2012, the Board adopted a revised terms of reference of the Audit Committee which are of no less exacting terms than those set out in the CG Code and this is available on the websites of the Company and of the HKEx. The primary duties of the Audit Committee include:

- a) To review the Company's financial statements and reports and consider any significant matters raised by the Investment Manager or the external auditor before submission to the Board.
- b) To review the relationship with the Company's external auditor by reference to the work performed, its independence, remuneration and terms of engagement, and make recommendations to the Board on the appointment, reappointment and removal of external auditor.
- c) To review the adequacy and effectiveness of the Company's financial reporting system and internal control procedures.
- d) To review arrangements that employees of the Company or the Investment Manager may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company, and to ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up action.

## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE *(Cont'd)*

Two meetings were held during the year ended 31 December 2016. Attendance of Audit Committee members at such meetings was:

Number of meetings held 2

Name of Director	Attendance	Name of Director	Attendance
Mr. YICK Wing Fat Simon (Chairman)	2/2	Dr. HUA Min	2/2
Mr. ONG Ka Thai	2/2		

The Audit Committee reviewed the half-year results for the six months ended 30 June 2016 and the annual results for the year ended 31 December 2016 of the Company before their respective announcements. It has also reviewed the accounting principles and policies adopted by the Company and discussed with the Investment Manager on internal audit results, internal controls, compliance procedures and financial reporting matters. The Audit Committee also held a meeting with the external auditor in the absence of the Investment Manager, to discuss issues regarding audit or any matters that the external auditor may wish to raise to the Audit Committee.

### REMUNERATION COMMITTEE

The Company's Remuneration Committee, established in March 2005, comprises all three INEDs, namely, Mr. ONG Ka Thai (Chairman), Mr. YICK Wing Fat Simon and Dr. HUA Min, and the two Executive Directors, namely, Dr. WANG Ching and Mr. WU Bin.

In light of the amendments of the Listing Rules which became effective on 1 April 2012, the Board adopted revised terms of reference of the Remuneration Committee and this is available on the websites of the Company and of the HKEx.

The primary duties of the Remuneration Committee include:

- a) To establish formal and transparent procedures and structure in developing staff remuneration policies.
- b) To review and make recommendations to the Board on remuneration packages of the Directors, taking into consideration such factors like salaries and compensation packages paid by comparable companies, time commitment and responsibilities required of Directors.

The Remuneration Committee met once during the year ended 31 December 2016, which was attended by all its members, and reviewed current remuneration policies of the Company for its staff and of its Directors by reference to market comparables.

## CORPORATE GOVERNANCE REPORT

### NOMINATION COMMITTEE

The Company's Nomination Committee, established in February 2012, comprises all three INEDs, namely Dr. HUA Min (Chairman), Mr. ONG Ka Thai and Mr. YICK Wing Fat Simon. Its written terms of reference adopted by the Board by reference to the CG Code are published on the websites of the Company and of the HKEx.

The primary duties of the Nomination Committee include:

- a) To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to make recommendations to the Board with regard to any proposed changes.
- b) To identify suitably qualified individuals for appointment as additional Directors or fill Board vacancies as and when they arise and make recommendations to the Board.
- c) To assess the independence of INEDs.
- d) To report its decisions and make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning of Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. In carrying out the responsibility for identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the board diversity policy.

The Nomination Committee held one meeting during the year ended 31 December 2016, which was attended by all its members, and reviewed current Board composition, and considered the qualifications the retiring Directors standing for election at the Annual General Meeting.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential in enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The Executive Directors, Non-Executive Directors, INEDs and Chairman of respective Board committees (or their delegates) will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

To promote effective communication, the Company maintains a corporate website <http://shanghaigrowth.etnet.com.hk>, where up-to-date information and published financial results, corporate governance practices and other information are posted. A Shareholders' communication policy has been adopted by the Board in September 2012 setting out relevant contact details and the Company's procedures in providing Shareholders with prompt and equal access to publicly available information on the Company. Such policy is published on the Company's website.

## CORPORATE GOVERNANCE REPORT

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS *(Cont'd)*

#### *Annual General Meeting ("AGM")*

The Company's 2016 AGM was held on 24 May 2016. The Chairman of the AGM exercised his power under the Company's Articles of Association to put each proposed resolution to the vote by way of a poll. All resolutions put to the Shareholders at the 2016 AGM were passed. The Company's Share Registrar was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The results of the voting by poll were published on the websites of the Company and of the HKEx. An Executive Director as well as respective Chairman of the Audit Committee, Remuneration Committee and Nomination Committee, and the Company's external auditor attended the 2016 AGM to answer questions.

Attendance of Directors at the 2016 AGM was:

Name of Director	Attendance at 2016 AGM
<b>Executive Directors:</b>	
Dr. WANG Ching	X
Mr. WU Bin	✓
<b>INEDs:</b>	
Dr. HUA Min	✓
Mr. ONG Ka Thai	✓
Mr. YICK Wing Fat Simon	✓
<b>Other Non-Executive Directors:</b>	
Mr. FENG Huang	✓
Mr. NI Jianwei	✓

### SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the election of individual directors. All resolutions put forward at Shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the HKEx after each Shareholder meeting.

Under Article 42 of the Company's Articles of Association, any two or more Shareholders holding not less than one-tenth of the paid-up capital of the Company, or any one Shareholder which is a clearing house, may requisition the Board of Directors of the Company to convene a general meeting of the Company, in accordance with the requirements and procedures set out in the Articles of Association of the Company. The objects of the meeting must be stated in the written requisition, which must be signed by the requisitionists and deposited for the attention of the Company Secretary at the registered office of the Company at P. O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

## CORPORATE GOVERNANCE REPORT

### SHAREHOLDERS' RIGHTS *(Cont'd)*

A Shareholder who wishes to propose a resolution to be considered at a general meeting must requisition the convening of a general meeting in accordance with Article 42 of the Company's Articles of Association.

Without prejudice to the foregoing, if a Shareholder wishes to propose a person other than a retiring Director for election as a director of the Company at any general meeting (including an annual general meeting), the Shareholder shall lodge a written notice of his intention to propose such person for election as a director with the Company, during a period of at least seven days commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting. Such written notice must be accompanied by a notice in writing signed by the person to be proposed of his willingness to be elected.

#### *Putting Forward Enquiries to the Board*

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

#### *Contact Details*

Shareholders may send their enquiries or requests as mentioned above to the Company's principal place of business as follows:

Address: Company Secretary  
Room 1501, 15/F  
Shanghai Industrial Investment Building  
48-62 Hennessy Road, Wanchai  
Hong Kong

Fax: +852 2840 1286

For the avoidance of doubt, Shareholder(s) must send the original duly signed notice, statement or enquiry (as the case may be) to the address immediately above, while written requisition(s) to convene a general meeting must be deposited at the registered office of the Company as stated in the relevant paragraph above. Full name, contact details and identification of each Shareholder must be provided in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing its corporate governance functions as required under the CG Code and has adopted the code provision D.3.1 contained in the CG Code as the terms of reference for its corporate governance functions:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company ("Model Code"). The Company has made specific enquiry of all directors of the Company regarding any non-compliance with the Model Code during the year ended 31 December 2016, all directors confirmed they had fully complied with the required standard set out in the Model Code.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## CORPORATE GOVERNANCE REPORT

### DIRECTORS' TRAINING

The Company will provide a comprehensive, formal and tailored induction to each newly appointed Director on his/her first appointment to enable him/her to gain an understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place in providing continuing briefing and professional development to Directors at the Company's expense to develop and refresh their knowledge and skills. From time to time the Company Secretary updates and provides Directors with relevant reference material, amendments to Listing Rules and news releases from the Stock Exchange on any developments in statutory and regulatory regime to facilitate the discharge of their responsibilities. During the year the Company organised two in-house seminars for its Directors.

All Directors provide a record of their training to the Company Secretary. The individual training record of each Director during the year ended 31 December 2016 is summarised below:

Name of Director	Reading regulatory updates or other relevant reference material	Attending in-house or external seminars/ conferences
<b>Executive Directors:</b>		
Dr. WANG Ching	✓	✓
Mr. WU Bin	✓	✓
<b>INEDs:</b>		
Dr. HUA Min	✓	✓
Mr. ONG Ka Thai	✓	✓
Mr. YICK Wing Fat Simon	✓	✓
<b>Other Non-Executive Directors:</b>		
Mr. FENG Huang	✓	✓
Mr. NI Jianwei	✓	✓

## CORPORATE GOVERNANCE REPORT

### INSURANCE

The Company has arranged appropriate directors' and officers' liabilities and professional indemnity insurances coverage for the Directors and officers of the Company.

### COMPANY SECRETARY

The Company Secretary, Mr. LIANG Kwan Wah Andrew, has been appointed in providing company secretarial services to the Company on a contract basis since 21 April 1995. As Company Secretary Mr. LIANG supports the Board in ensuring Board procedures are followed and Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully apprised of relevant legislative, regulatory and corporate governance developments and for facilitating the induction and continuing professional development of Directors.

The appointment and dismissal of the Company Secretary are subject to Board approval in accordance with the Company's Articles of Association. Whilst the Company Secretary reports to Dr. WANG Ching, Executive Director of the Board, Directors have access to his advice and services. During the year, Mr. LIANG has fulfilled professional training requirements in compliance with Rule 3.29 of the Listing Rules.

### INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective system of internal controls in respect of financial, operational, compliance and risk management to safeguard the interests of the Company and of its Shareholders.

During the year, the Board has reviewed the effectiveness of the system of internal controls through the Audit Committee. Procedures in the review of internal control were performed by Mr. LIANG as he solely provides company secretarial services to the Company on a contract basis with no involvement in any of the Company's day-to-day investment and operational matters. The review procedures covered the Company's internal controls, as well as those of the Investment Manager's so far as they are pertinent to its administration and management of the Company's investment portfolios and operations. The Board had concluded that the internal control systems were adequate and effective.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibilities for the preparation of financial statements of the Company and ensures that they are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensured the timely publication of such financial statements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

## CORPORATE GOVERNANCE REPORT

### AUDITOR'S REMUNERATION

The statement of the external auditor of the Company, Messrs. Ernst & Young, with regard to its reporting responsibilities on the Company's financial statements, is set out in the Independent Auditor's Report on pages 42 to 45.

For the year ended 31 December 2016, services provided to the Company by its external auditor and the respective fees paid were:

	<b>2016 US\$</b>
Audit services	<b>44,478</b>
Taxation compliance and other services	<b>9,526</b>
	<hr/>
	<b>54,004</b>
	<hr/> <hr/>

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is pleased to present its Environmental, Social and Governance Report (“ESG Report”) for the year to 31 December 2016 to demonstrate its commitment to sustainable development. This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) of Hong Kong Exchanges and Clearing Limited (“HKEx”), which covers two subject areas, Environmental and Social.

The Guide encourages an issuer to identify and disclose ESG information that is material and relevant to an issuer’s business. During the self-assessment of the Company’s business, the management has decided that out of the 11 ESG aspects suggested by the Guide, the below 6 ESG aspects are material to the Company:

Main ESG subject area in the Guide	ESG aspects
Environmental	A1. Emissions A2. Use of resources
Social	B3. Development and training B6. Product responsibility B7. Anti-corruption B8. Community investment

The reporting period of this ESG Report is from 1 January 2016 to 31 December 2016. Unless otherwise specified, the reporting boundary of this ESG Report is the same as this annual report.

### A. ENVIRONMENTAL

#### *Emissions and Use of Resources*

According to the requirements of the Guide, the Company has quantified the greenhouse gas (GHG) emissions and resource usage of its office operation. The results<sup>1</sup> are summarised as follows:

	Jan 2016 – Dec 2016	Jan 2015 – Dec 2015
Electricity Consumed (kWh) <sup>2</sup>	<b>2,607</b>	2,183
Paper Used (kg)	<b>35</b>	34.2
Scope 1 GHG Emissions <sup>3</sup> (kg CO <sub>2</sub> <sup>e</sup> )	<b>0</b>	0
Scope 2 GHG Emissions <sup>4</sup> (kg CO <sub>2</sub> <sup>e</sup> ) <sup>5</sup>	<b>2,059</b>	1,724
Scope 3 GHG Emissions <sup>6</sup> (kg CO <sub>2</sub> <sup>e</sup> )	<b>168</b>	164
Total GHG Emissions (kg CO <sub>2</sub> <sup>e</sup> )	<b>2,227</b>	1,888

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### A. ENVIRONMENTAL *(Cont'd)*

#### *Emissions and Use of Resources (Cont'd)*

Notes:

1. Please note that the Company's office also accommodates 5 other non-Company staff, all of whom are from its Investment Manager. As such, a factor of 1/6 or 0.167 is used to estimate the utility consumption accounted for the Company's staff. This ratio indicator method is based on the "Guidelines To Account for And Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong" (the "Carbon Audit Guidelines") published by the Environmental Protection Department and Electrical and Mechanical Services Department in 2010.
2. Consumption from the central building services including electricity usage due to the elevator and central air-conditioning are excluded from the reporting scope, because it was not within the operational boundary of the Company.
3. According to the Carbon Audit Guidelines, Scope 1 GHG Emissions refer to direct emissions from sources and removals by sinks.
4. According to the Carbon Audit Guidelines, Scope 2 Emissions refer to energy indirect emissions. The disclosed figures are resulted from electricity purchased from power companies.
5. The power company-specific emission factor of Hong Kong Electric Company is adopted for the calculation.
6. According to the Carbon Audit Guidelines, Scope 3 Emissions refer to other indirect emissions (optional for reporting purposes). The disclosed figures are resulted from paper waste disposed at landfills.

The Company's operation is mainly office-based and the Company is committed to minimising the impact of businesses on the environment through adopting eco-friendly measures at the office. For example, staff is encouraged to reduce paper consumption by double-sided printing and reusing papers printed on one side.

In terms of energy saving measures, there are a number of good office practices as follows:

- A mix of LED and fluorescent lights are installed to reduce energy consumption for lighting;
- Staff is reminded to switch off lights and air-conditioning in the meeting room and computers at workstations when not in use;
- Room temperature is maintained at 25 degrees Celsius in the summer to save energy; and
- Conference calls instead of face-to-face meetings are arranged where possible.

The Company is dedicated to sustain implementation of the measures above, while it will explore other eco-friendly initiatives.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. SOCIAL

#### 1. *Employment and Labour Practices*

##### Development and Training

The Company supports its staff to develop and enhance their professional knowledge and skills to cope with the evolving market environment and compliance level. In addition to on-the-job training, staff is encouraged to take external professional training to strengthen work-related expertise. During the reporting period, the only staff of the Company has completed about 20 hours of training related to the Continuing Professional Development (CPD) requirements in order to discharge her duties professionally.

#### 2. *Operating Practices*

##### Product Responsibility

The Company puts high priority in maintaining business integrity and corporate governance standards to promote the long-term best interests to all its shareholders and stakeholders. Brief corporate governance practices regarding product responsibility are summarised in the “Corporate Governance Code” section of this Annual Report.

During the reporting period, the Company received no complaint of any violations of the corporate governance code and the services provided. The operations and services provided by the Company also demonstrate its respect for intellectual property rights. The Company will continue to ensure applicable governmental and regulatory laws, rules, codes and regulations are complied with.

##### Anti-corruption

The Company upholds high standards on promoting anti-corruption, with all its employees and directors are required to maintain a high level of business ethics. The Audit Committee has the overall responsibility for matters related to the internal controls of anti-corruption. To demonstrate our commitment, a written whistleblowing policy and relevant communication channels have been established for employees to raise, in confidence, concerns on possible improprieties directly to the Audit Committee. This policy has been approved and adopted by the Board and is clearly stated in the Internal Policies and Procedures Manual of the Company.

During the reporting period, the Company had no legal cases regarding corrupt practices brought against the Company or its employees.

#### 3. *Community*

The Company is fully aware of the importance of interacting with the wider community in fulfilling corporate social responsibility. In this aspect, the Company and its Investment Manager would explore the possibility to identify suitable partners and support community and environmental programmes that align with the Company’s missions and values.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. SOCIAL (Cont'd)

#### 3. Community (Cont'd)

The Company believes the best way to serve the community is to drive positive impact through our investment portfolio. During the reporting period, the Company explored investment opportunities in several proposed environmental protection projects. To create shared values with the community and stakeholders, the Company will continue to consider ESG factors in selecting future investment projects.

### C. HKEX ESG GUIDE REFERENCE

HKEx ESG Subject Areas		ESG Aspects	Disclosure Reference
Environmental		A1. Emissions	Refer to “Environmental” section of this ESG Report.
		A2. Use of resources	
		A3. The environment and natural resources	The office-based nature of the Company’s operations are not considered to have significant impact on environment and natural resources.
Social	Employment and labour practices	B1. Employment	There is only one staff in the Company and all matters related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare complied with the Employment Ordinance by the Labour Department.
		B2. Health and safety	The office-based operation of the Company is not considered to have significant occupational hazards. The Company has complied with all the major relevant laws and regulations such as Occupational Safety And Health Ordinance by the Labour Department.
		B3. Development and training	Refer to “Social” section of this ESG Report.
		B4. Labour standards	Child labour and forced labour are prohibited in the Company.
	Operating practices	B5. Supply Chain Management	The office-based operation of the Company is not considered to have a significant environmental and social risk of the supply chain.
		B6. Product responsibility	Refer to “Social” section of this ESG Report.
		B7. Anti-corruption	
	Community	B8. Community investment	Refer to “Social” section of this ESG Report.

## DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment company whose principal business is to make direct investments in operating companies and other entities established or having significant operations in, or doing business with, the People's Republic of China ("PRC"). The Company also invests in PRC-related listed securities with the same investment objective in achieving long term capital appreciation of the Company's assets.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Board of Director's Statement and the Management Discussion and Analysis set out on pages 3 to 13 of this annual report. This discussion forms part of this Directors' Report.

### RESULTS AND DIVIDENDS

The Company's loss for the year ended 31 December 2016 and the Company's financial position at that date are set out in the financial statements on pages 46 to 87.

The Directors do not recommend the payment of any dividend in respect of the year.

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 88. This summary does not form part of the audited financial statements.

### SHARE CAPITAL

There were no movement in the Company's authorised share capital during the year. On 19 July 2016 a total of 1,781,000 new shares in the Company were allotted and issued under the General Mandate granted to the Directors at the Company's annual general meeting held on 24 May 2016. As at 31 December 2016, the issued and fully paid share capital of the Company is 10,686,000 ordinary shares of US\$0.10 each. Details of the new share issue are described under the heading "Placing of New Shares under the General Mandate" on page 39 of this annual report.

### DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Company Law (Revised) of the Cayman Islands and the Company's Articles of Association amended on 12 May 2011, amounted to US\$7,114,113.

## DIRECTORS' REPORT

### DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

*Executive Directors:*

Dr. WANG Ching  
Mr. WU Bin

*Independent Non-Executive Directors ("INED"s):*

Dr. HUA Min  
Mr. ONG Ka Thai  
Mr. YICK Wing Fat Simon

*Other Non-Executive Directors:*

Mr. FENG Huang  
Mr. NI Jianwei

All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association ("Articles"). All three of the Company's INEDs are each appointed for a term of three years.

At the forthcoming annual general meeting of the Company, Mr. WU Bin, Mr. NI Jianwei and Mr. YICK Wing Fat Simon will retire as Directors in accordance with Article 98(b) and 98(c) of the Company's Articles and pursuant to Appendix 14 of the Listing Rules, all of these retiring Directors, being eligible, offer themselves for re-election. All other remaining Directors continue in office.

The Company has received annual confirmations of independence from Dr. HUA Min, Mr. ONG Ka Thai and Mr. YICK Wing Fat Simon, and as at the date of this report still considers them to be independent.

### DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 14 to 16 of the annual report.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

The INEDs of the Company each has a service contract with the Company for a term of three years. Dr. HUA Min's current service contract commenced on 28 September 2014, Mr. ONG Ka Thai's current service contract commenced on 1 June 2016 and Mr. YICK Wing Fat Simon's current service contract commenced on 1 August 2016. All of them are subject to termination by either party giving not less than one month's written notice. Each INED is entitled to annual remuneration of HK\$120,000.

In compliance with corporate governance Code Provision D.1.4, Executive Directors and other Non-Executive Directors have also executed respective service contracts with the Company for an indefinite term, with no entitlement to any remuneration from the Company. They are, however, subject to retirement by rotation at least once every three years pursuant to the Company's Articles.

### DIRECTORS' REMUNERATION

Directors' fees are subject to Shareholders' approval at general meeting. Other emoluments are determined by the Company's Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Company.

### INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager"), in accordance with the terms and conditions of an investment management and administration agreement (the "Investment Management Agreement") between the Company and the Investment Manager dated 12 November 1993, as supplemented by supplemental agreements dated 22 January 2001, 12 September 2001, 3 November 2003, 11 April 2005, 28 March 2008, 28 March 2011 and 19 March 2014 respectively (collectively referred to as the "Supplemental Agreements"). For the aforesaid continuing connected transaction, certain details are disclosed below in compliance with the requirements of Chapter 14A of the Listing Rules. In accordance with the terms of the agreements, the Investment Manager is entitled to receive management fee inclusive of administration fee and an incentive fee.

The investment management and administration fee is calculated in United States dollars ("US\$") and payable quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deduction of fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter.

## DIRECTORS' REPORT

### INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS *(Cont'd)*

On 19 March 2014, the Company and the Investment Manager entered into a Seventh Supplemental Agreement, which was approved by the independent Shareholders of the Company at the annual general meeting held on 13 May 2014. The terms were amended as follows:

- (1) the appointment of the Investment Manager under the Investment Management Agreement is extended for a term of three years commencing from 1 July 2014 to 30 June 2017. The Investment Manager shall be entitled to resign its appointment under the Investment Management Agreement, and the Company may by resolution of the Board terminate the appointment of the Investment Manager, in either case by giving not less than two months' notice in writing to the Company or the Investment Manager (as the case may be);
- (2) the Investment Manager shall be entitled to an Incentive Fee equal to twenty per cent (20%) of the amount by which the Net Asset Value as at 31 December in the year for which the Incentive Fee is being calculated (each such year, being a "Calculation Year") exceeds the High Water Mark. In calculating the Incentive Fee for a particular Calculation Year, any consideration received by the Company on a new issue of Shares ("New Capital") during the period commencing on the day following the end of the High Water Mark Year and ending on (and including) the date on which such Calculation Year ends shall be deducted from, and any consideration paid by the Company for any Shares repurchased ("Share Repurchase") during the period commencing on the day following the end of the High Water Mark Year and ending on (and including) the date on which such Calculation Year ends shall be added back to, the Net Asset Value as at 31 December in such Calculation Year.

"Dividend Amount" means, for the purposes of calculating the High Water Mark in a particular Calculation Year, the aggregate amount of all dividends actually paid by the Company during the period commencing on the day following the end of the High Water Mark Year and ending on (and including) the date on which such Calculation Year ends.

"High Water Mark" means the highest Net Asset Value as at 31 December in any year from (and including) the year ended 31 December 2010 (in which the Incentive Fee was accrued) other than the applicable Calculation Year, less the Dividend Amount.

For the purpose of the Seventh Supplemental Agreement, the Net Asset Value as at 31 December 2010, being US\$31,048,060 (less Dividend Amount), shall be the initial High Water Mark ("Initial High Water Mark").

"High Water Mark Year" means the year ended 31 December in which the highest Net Asset Value of the Company to date has been reached and in which the Incentive Fee has been accrued.

- (3) New caps were determined on the total fees payable to the Investment Manager during each of the following periods:
  - Not exceeding US\$400,000 from 1 July 2014 to 31 December 2014
  - Not exceeding US\$1,600,000 for the year of 2015
  - Not exceeding US\$2,000,000 for the year of 2016
  - Not exceeding US\$350,000 from 1 January 2017 to 30 June 2017

## DIRECTORS' REPORT

### INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS *(Cont'd)*

During the year ended 31 December 2016, investment management and administration fees of US\$160,964 were paid to the Investment Manager, no incentive fee was entitled during the relevant period.

The INEDs of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Company in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

As at 31 December 2016, Dr. WANG Ching, Mr. WU Bin and Mr. Ni Jianwei are also directors of the Investment Manager.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

None of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 31 December 2016.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company was a party during the year.

## **DIRECTORS' REPORT**

### **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

None of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

At no time during the year was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **CONTRACTS OF SIGNIFICANCE**

No contracts of significance in relation to the Company's business in which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

### **PLACING OF NEW SHARES UNDER THE GENERAL MANDATE**

On 19 July 2016 in accordance with the terms and conditions of the subscription agreement dated 2 July 2016 (the "Subscription Agreement") between the Company and an independent third party ZKJK Capital Management Limited (the "Subscriber"), a total of 1,781,000 new shares in the Company (the "Subscription Shares"), representing approximately 16.67% of the enlarged issued share capital of the Company, have been successfully allotted and issued to the Subscriber at the subscription price of US\$1.08 per Subscription Share. The Subscription Shares are subject to a lock-up period of 12 months from the date of issue of the Subscription Shares. The Subscription Shares are allotted and issued under the General Mandate granted to the Directors at the Company's annual general meeting held on 24 May 2016 and after completion of the subscription, the General Mandate has been fully utilised.

The net proceeds from the Subscription Shares after deducting all the relevant costs and expenses were approximately US\$1.87 million, which will be used for the Company's future investments when such investment opportunities arise. The Subscriber is an investment holding company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Yuan Chufeng. Mr. Yuan has been an entrepreneur in the People's Republic of China for more than 20 years with extensive property and securities investment experience. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of the Company and its connected persons as defined under the Listing Rules.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the following interests and short positions of 5% or more of the issued capital and share options 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 the ordinary shares of US\$0.10 each of the Company*

Name	Capacity	Number of shares	Percentage of total issued shares	Notes
Shanghai Industrial Investment (Holdings) Co., Ltd.	Held by controlled corporation	1,884,792	17.64%	(1)
Mr. Yuan Chufeng	Held by controlled corporation	1,781,000	16.67%	(2)
Mr. Bart M. Schwartz	Receiver of Gabriel Capital, L.P. and Ariel Fund Limited	1,061,817	9.94%	(3)
Gabriel Capital Corporation	Held by controlled corporation	1,127,739	10.55%	(4)
Ariel Fund Limited	Beneficial owner	632,896	5.92%	(4)

#### *Notes:*

- (1) Shanghai Industrial Investment (Holdings) Co., Ltd. holds these Shares through its 100% indirect ownership in Eternity Business (HK) Investment Limited.
- (2) Mr. Yuan Chufeng holds these shares through his 100% ownership in ZKJK Capital Management Limited, Subscriber of the Subscription Shares under the General Mandate whose holding of 1,781,000 shares in the Company represents 16.67% of the enlarged issued share capital of the Company subsequent to the completion of the Subscription.
- (3) Mr. Bart M. Schwartz was appointed on 29 May 2009 as the Receiver of Gabriel Capital, L.P. and Ariel Fund Limited, each of them were holding 428,921 shares and 632,896 shares in the Company respectively. His total indirect holding of 1,061,817 shares in the Company represents 9.94% of the enlarged issued share capital of the Company subsequent to the completion of the Subscription.
- (4) Gabriel Capital Corporation directly holds 494,843 shares in the Company and is also deemed to be indirectly interested in the Company through its management of Ariel Fund Limited, which holds 632,896 shares in the Company. As referred to under Note (3) above, such shares held by Ariel Fund Limited are under receivership. Together with its direct holding of 494,843 shares, Gabriel Capital Corporation is directly and indirectly interested in 1,127,739 shares in the Company, representing 10.55% of the enlarged issued share capital of the Company subsequent to the completion of the Subscription.
- (5) The aggregate of the percentage figures does not double count the interests directly held by Ariel Fund Limited as stated in Notes (3) and (4) above. This is because both Mr. Bart M. Schwartz (as Receiver of Ariel Fund Limited) and Gabriel Capital Corporation (through its management of Ariel Fund Limited) are both indirectly interested in the Company through Ariel Fund Limited.

Save as disclosed above, as at 31 December 2016, no person had registered an interest or short position in shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company's income is derived from the Company's investments and bank deposits and the disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

### EMOLUMENT POLICY

The emolument policy of the employee of the Company is set up by the Remuneration Committee based on the employee's credential qualifications and competence.

The emoluments of the INEDs are decided by the Board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

No emoluments are determined for the Executive Directors or the Non-Executive Directors of the Company.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company did not purchase, sell or redeem any of its own shares.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Listing Rules.

### AUDITOR

Ernst & Young retires and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board  
**NI Jianwei**  
*Non-Executive Director*

Hong Kong, 23 March 2017

## INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

**To the shareholders of Shanghai International Shanghai Growth Investment Limited**

*(An exempted company incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the financial statements of Shanghai International Shanghai Growth Investment Limited (the "Company") set out on pages 46 to 87, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Key audit matter

#### How our audit addressed the key audit matter

#### Existence and valuation of the unlisted investment in Global Market Group Limited (“GMG”)

The unlisted investment in GMG are classified as financial assets at fair value through profit or loss in the statement of financial position at 31 December 2016. The shares of this investment were kept by a custodian and were measured at fair value. We focused on this area because the value of GMG constitutes the 41% of the Company's net asset value, which is the Company's key performance indicator. In addition, the valuation of the unlisted investment requires making estimates about expected price to sales ratios and discounts for lack of marketability. As at 31 December 2016, the investment was categorised within Level 3 in the fair value hierarchy.

We obtained independent confirmation from the custodian of the investment portfolio held at 31 December 2016, and agreed the number of shares held to the accounting records. We also sent confirmation to the investee company to confirm the shareholding. In addition, we assessed the appropriateness of the valuation techniques and inputs applied through comparison with the valuation techniques that are commonly used in the market and the validation of observable inputs using external market data where appropriate. We also reviewed the financial statement disclosures regarding fair value hierarchy as set out in the note 19 to the financial statements.

### OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

### RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the Company are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

*(Cont'd)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Christine Lin.

#### **Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

23 March 2017

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
<b>INCOME AND GAIN/(LOSS) ON INVESTMENTS</b>			
Interest income		371	259
Dividend income		19,795	42,957
Net change in unrealised loss on financial assets at fair value through profit or loss	6	(938,180)	(3,216,735)
Net gain/(loss) on disposal of available-for-sale investments	6	19,028	(50,065)
Impairment loss of an available-for-sale investment	6	–	(25,017)
Other income		–	35,818
Exchange loss		(4,000)	(14,611)
		<u>(902,986)</u>	<u>(3,227,394)</u>
<b>EXPENSES</b>			
Investment manager's fees	17(a)	(160,964)	(232,729)
Administrative expenses		(449,795)	(426,122)
		<u>(610,759)</u>	<u>(658,851)</u>
Loss before tax	5	(1,513,745)	(3,886,245)
Income tax	8	–	–
		<u>(1,513,745)</u>	<u>(3,886,245)</u>
<b>LOSS FOR THE YEAR</b>			
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
Available-for-sale investments:			
Changes in fair value		(21,657)	(232,408)
Reclassification adjustments for (gain)/loss included in profit or loss			
– (gain)/loss on disposal		(19,028)	50,065
– impairment loss		–	25,017
		<u>(40,685)</u>	<u>(157,326)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>			
		<u>(40,685)</u>	<u>(157,326)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>			
		<u>(1,554,430)</u>	<u>(4,043,571)</u>
<b>LOSS PER SHARE – BASIC AND DILUTED</b>			
	10	<u>(US15.59 cents)</u>	(US43.64 cents)

## STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 US\$	2015 US\$
<b>NON-CURRENT ASSETS</b>			
Available-for-sale investments	11	990,005	1,049,460
Financial assets at fair value through profit or loss	12	<u>3,328,577</u>	4,266,757
Total non-current assets		<u>4,318,582</u>	5,316,217
<b>CURRENT ASSETS</b>			
Prepayments and other receivables	13	104,683	42,900
Cash and bank balances	14	<u>3,828,641</u>	2,524,602
Total current assets		<u>3,933,324</u>	2,567,502
<b>CURRENT LIABILITIES</b>			
Payable and accruals		48,689	45,657
Amount due to the investment manager	17(b)	<u>20,504</u>	24,399
Total current liabilities		<u>69,193</u>	70,056
<b>NET CURRENT ASSETS</b>		<u>3,864,131</u>	2,497,446
<b>NET ASSETS</b>		<u>8,182,713</u>	7,813,663
<b>EQUITY</b>			
Share capital	15	1,068,600	890,500
Reserves		<u>7,114,113</u>	6,923,163
Total equity		<u>8,182,713</u>	7,813,663
<b>NET ASSET VALUE PER SHARE</b>	16	<u>0.77</u>	0.88

**NI Jianwei**  
Director

**WU Bin**  
Director

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

Notes	Share capital US\$	Share premium account US\$	Available- for-sale revaluation investment reserve US\$ <i>(Note a)</i>	Capital reserve US\$ <i>(Note b)</i>	Accumulated losses US\$	Proposed dividend US\$	Total US\$
At 1 January 2016	890,500	11,176,435	(7,652)	(1,580,701)	(2,664,919)	-	7,813,663
Loss for the year	-	-	-	-	(1,513,745)	-	(1,513,745)
Other comprehensive income for the year:							
Net loss on change in fair value of available-for-sale investments, net of tax <i>(Note a)</i>	-	-	(21,657)	-	-	-	(21,657)
Reclassification adjustment for gain included in profit or loss upon disposal	6	-	(19,028)	-	-	-	(19,028)
Total comprehensive income for the year	-	-	(40,685)	-	(1,513,745)	-	(1,554,430)
Issuance of new ordinary shares for US\$0.10 each							
Increase in share capital	15	178,100	-	-	-	-	178,100
Increase in share premium	15	-	1,745,380	-	-	-	1,745,380
Transfer from accumulated losses <i>(Note b)</i> :							
Net unrealised loss on change in fair value of financial assets at fair value through profit or loss	6	-	-	(938,180)	938,180	-	-
At 31 December 2016	1,068,600	12,921,815*	(48,337)*	(2,518,881)*	(3,240,484)*	-	8,182,713

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

Notes	Share capital US\$	Share premium account US\$	Available- for-sale revaluation investment reserve US\$ (Note a)	Capital reserve US\$ (Note b)	Accumulated losses US\$	Proposed dividend US\$	Total US\$
At 1 January 2015	890,500	11,176,435	149,674	1,636,034	(1,995,409)	890,500	12,747,734
Loss for the year	-	-	-	-	(3,886,245)	-	(3,886,245)
Other comprehensive income for the year:							
Net loss on change in fair value of available-for-sale investments, net of tax (Note a)	-	-	(232,408)	-	-	-	(232,408)
Reclassification adjustment for loss included in profit or loss upon disposal	6	-	50,065	-	-	-	50,065
Impairment of an available-for-sale investment		-	25,017	-	-	-	25,017
Total comprehensive income for the year	-	-	(157,326)	-	(3,886,245)	-	(4,043,571)
Transfer from accumulated losses (Note b):							
Net unrealised loss on change in fair value of financial assets at fair value through profit or loss	6	-	-	(3,216,735)	3,216,735	-	-
2014 special final dividend paid		-	-	-	-	(890,500)	(890,500)
At 31 December 2015	890,500	11,176,435*	(7,652)*	(1,580,701)*	(2,664,919)*	-	7,813,663

\* These reserve accounts comprise the consolidated reserves of US\$7,114,113 (2015: US\$6,923,163) in the statement of financial position.

*Notes:*

- a) Fair value changes of available-for-sale investments are dealt with in the available-for-sale investment revaluation reserve until the available-for-sale investments are sold or impaired, at which time the cumulative net gain or loss shall be reclassified to profit or loss.
- b) Pursuant to the Company's Amended and Restated Memorandum and Articles of Association passed on 12 May 2011, profits arising from the realization of investments shall be available for distribution as dividends. Profits arising from revaluation of investments may be available for distribution as dividends only at the discretion of the board of directors. As a result, net unrealised gain or loss on change in fair value of financial assets at fair value through profit or loss is transferred from retained profits/(accumulated losses) to capital reserve.

At 31 December 2016, the balance of the capital reserve represented the unrealised loss of financial assets at fair value through profit or loss.

## STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(1,513,745)	(3,886,245)
Adjustments for:			
Interest income		(371)	(259)
Dividend income		(19,795)	(42,957)
Net (gain)/loss on disposal of available-for-sale investments		(19,028)	50,065
Net loss on change in fair value of financial assets at fair value through profit or loss		938,180	3,216,735
Impairment of an available-for-sale investment		–	25,017
		<hr/>	<hr/>
Operating cash flows before movements in working capital		(614,759)	(637,644)
Proceeds from disposal of available-for-sale investments		2,859,774	3,538,008
Purchase of available-for-sale investments		(2,821,976)	(2,352,097)
(Increase)/decrease in prepayments and other receivables		(61,783)	63,399
Increase in accruals		3,032	4,445
(Decrease)/increase in an amount due to investment manager		(3,895)	12,580
		<hr/>	<hr/>
Cash (used in)/generated from operations		(639,607)	628,691
Interest received		371	259
Dividend received		19,795	44,169
		<hr/>	<hr/>
Net cash (used in)/generated from operating activities		(619,441)	673,119
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of new shares	15	1,923,480	–
Dividend paid and net cash flows used in financing activities	9	–	(890,500)
		<hr/>	<hr/>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,304,039</b>	<b>(217,381)</b>
Cash and cash equivalents at beginning of year		2,524,602	2,741,983
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	14	<b>3,828,641</b>	<b>2,524,602</b>
		<hr/> <hr/>	<hr/> <hr/>

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 1. CORPORATE INFORMATION

Shanghai International Shanghai Growth Investment Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability and the Company’s shares with stock code 770 are listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment company whose principal business is to make direct investments in operating companies and other entities established or having significant operations in, or doing business with, the People’s Republic of China (“PRC”). The Company also invests in PRC-related listed securities with the same investment objective in achieving long term capital appreciation of the Company’s assets.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and available-for-sale investments which have been measured at fair value.

These financial statements are presented in United States dollars (“US\$”) and all values are rounded to the nearest dollar except when otherwise indicated.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

Other than as explained below regarding the impact of amendments to HKAS 1 and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Cont'd)

- (a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in HKAS 1;
  - (ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
  - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
  - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The amendments have had no significant impact on the Company's financial statements.

- (b) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:
- *HKFRS 7 Financial Instruments: Disclosures*: Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in HKFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements. The amendments are not applicable to the Company's annual financial statements.
  - *HKAS 34 Interim Financial Reporting*: Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendment also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is not applicable to the Company's annual financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>2</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>2</sup></i>
HKFRS 9	<i>Financial Instruments<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>2</sup></i>
HKFRS 16	<i>Leases<sup>3</sup></i>
Amendments to HKAS 7	<i>Disclosure Initiative<sup>1</sup></i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses<sup>1</sup></i>

- 1 Effective for annual periods beginning on or after 1 January 2017
- 2 Effective for annual periods beginning on or after 1 January 2018
- 3 Effective for annual periods beginning on or after 1 January 2019
- 4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Company is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company expects to adopt HKFRS 9 from 1 January 2018. The Company is currently assessing the impact of the standard.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Company expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company expects to adopt the amendments from 1 January 2017.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Fair value measurement*

The Company measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### *Related parties*

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Related parties (Cont'd)*

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Company are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Company are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

#### *Investments and other financial assets*

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company's financial assets include cash and bank balances, dividend and other receivables, and quoted and unquoted financial investments.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Investments and other financial assets (Cont'd)*

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as net change in unrealised gain/(loss) on financial assets at fair value through profit or loss in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables where applicable.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Investments and other financial assets (Cont'd)*

##### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognized in profit or loss in accumulated profits/losses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if and to what extent it has retained the risk and reward of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Impairment of financial assets*

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Impairment of financial assets (Cont'd)*

##### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

##### Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Impairment of financial assets (Cont'd)*

##### *Available-for-sale financial investments (Cont'd)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluate, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include an amount due to the investment manager.

##### *Subsequent measurement*

Financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

##### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### *Cash and cash equivalents*

For the purpose of the statement of cash flows and the statement of financial position, cash and cash equivalents comprise cash at bank, which is not restricted as to use, is subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Company's cash management.

#### *Fees and commission*

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis.

#### *Income tax*

##### The Cayman Islands

Under the current Cayman Islands law, there are no income tax, corporation tax, capital gains tax or any other kinds of tax on profits or gains or tax in the nature of estate duty or inheritance tax currently in effect.

##### Hong Kong

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Income tax (Cont'd)*

#### *Hong Kong (Cont'd)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if any, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, if any, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Revenue recognition*

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income from investments in securities is recognised when the shareholders' right to receive payment has been established.

#### *Dividends*

Final dividends proposed by the directors are classified as a separate allocation of retained profits/(accumulated losses) within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare the interim dividends. Consequently, interim dividends are recognised immediately as liability when they are proposed and declared.

#### *Foreign currencies*

These financial statements are presented in United States dollars, which is the Company's functional currency. Foreign currency transactions are initially recorded using its functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on the translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### *Judgements*

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Going concern*

The Company's management has made an assessment on the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Fair value of financial instruments*

When the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs such as the share price of the underlying investment, correlation, volatility and transactions of shares. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy.

HKFRS 13 requires disclosures relating to fair value measurements using a three-tier fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the Company performs sensitivity analysis.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 4. OPERATING SEGMENT INFORMATION

For management purposes and information used by the Company's executive directors as the chief operating decision makers, the Company is organised into business units based on the categories of investments and has two reportable operating segments as follows:

- Listed securities – Investments in equity securities listed on relevant stock exchanges
- Unlisted securities – Investments in unlisted equity securities

Further details of the Company's investments are included in notes 11 and 12 to the financial statements.

The following is an analysis of the Company's results by operating segments:

<b>Year ended 31 December 2016</b>	<b>Listed securities US\$</b>	<b>Unlisted securities US\$</b>	<b>Total US\$</b>
Segment results	<u>38,823</u>	<u>(938,180)</u>	<u>(899,357)</u>
Interest income from bank deposits			371
Exchange loss			(4,000)
Unallocated expenses			<u>(610,759)</u>
Loss before tax			<u>(1,513,745)</u>
Year ended 31 December 2015	Listed securities US\$	Unlisted securities US\$	Total US\$
Segment results	<u>(32,125)</u>	<u>(3,216,735)</u>	(3,248,860)
Interest income from bank deposits			259
Other Income			35,818
Exchange loss			(14,611)
Unallocated expenses			<u>(658,851)</u>
Loss before tax			<u>(3,886,245)</u>

For the year ended 31 December 2016, segment results represented the net gain on disposal of listed securities classified as available-for-sale investments, net loss on fair value of unlisted equity securities classified as financial assets at fair value through profit or loss, and the corresponding dividend income earned by each segment without the allocation of administrative expenses and interest income from bank deposits as well as the investment manager's fees.

As management considers the Company's nature of business is investment holding, there was no information regarding major customers as determined by the Company and no segment revenue is presented.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 4. OPERATING SEGMENT INFORMATION (Cont'd)

The following is an analysis of the Company's assets by operating segments:

<b>At 31 December 2016</b>	<b>Listed securities US\$</b>	<b>Unlisted securities US\$</b>	<b>Total US\$</b>
Available-for-sale investments	990,005	–	990,005
Financial assets at fair value through profit or loss	–	3,328,577	3,328,577
Total segment assets	<u>990,005</u>	<u>3,328,577</u>	4,318,582
Unallocated assets			<u>3,933,324</u>
Total assets			<u>8,251,906</u>
At 31 December 2015	Listed securities US\$	Unlisted securities US\$	Total US\$
Available-for-sale investments	1,049,460	–	1,049,460
Financial assets at fair value through profit or loss	–	4,266,757	4,266,757
Total segment assets	<u>1,049,460</u>	<u>4,266,757</u>	5,316,217
Unallocated assets			<u>2,567,502</u>
Total assets			<u>7,883,719</u>

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than prepayments and other receivables, and cash and bank balances.

All liabilities as at 31 December 2016 and 31 December 2015 were unallocated liabilities.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 5. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging:

	<b>2016</b>	2015
	<b>US\$</b>	US\$
Auditor's remuneration	<b>44,478</b>	41,285
Custodian fee	<b>15,898</b>	13,994
Staff costs (excluding directors' remuneration) ( <i>Note</i> )		
Salaries and other benefits of an employee	<b>76,796</b>	76,828
Retirement benefit costs	<b>7,075</b>	7,090
	<b>148,227</b>	147,097

*Note:*

During the year ended 31 December 2016, four (2015: four) individuals received remuneration from the Company. One employee's remuneration is disclosed thereon and the remuneration of three directors is disclosed in note 7 to the financial statements.

### 6. GAIN OR LOSS ON INVESTMENTS

	Listed securities US\$	Unlisted securities US\$	Total US\$
<b>At 31 December 2016</b>			
Included in profit or loss:			
Realised gain:			
Available-for-sale investments	<b>19,028</b>	–	<b>19,028</b>
Financial assets at fair value through profit or loss	–	–	–
	<b>19,028</b>	–	<b>19,028</b>
Unrealised loss:			
Available-for-sale investments	–	–	–
Financial assets at fair value through profit or loss	–	<b>(938,180)</b>	<b>(938,180)</b>
	<b>19,028</b>	<b>(938,180)</b>	<b>(938,180)</b>
Total realised and unrealised gain/(loss) included in profit or loss	<b>19,028</b>	<b>(938,180)</b>	<b>(919,152)</b>
Included in other comprehensive income:			
Unrealised loss:			
Available-for-sale investments	<b>(40,685)</b>	–	<b>(40,685)</b>
	<b>(40,685)</b>	–	<b>(40,685)</b>
Total realised and unrealised loss for the year	<b>(21,657)</b>	<b>(938,180)</b>	<b>(959,837)</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 6. GAIN OR LOSS ON INVESTMENTS (Cont'd)

At 31 December 2015	Listed securities US\$	Unlisted securities US\$	Total US\$
Included in profit or loss:			
Realised loss:			
Available-for-sale investments	(50,065)	–	(50,065)
Financial assets at fair value through profit or loss	–	–	–
	(50,065)	–	(50,065)
Unrealised loss:			
Available-for-sale investments	(25,017)	–	(25,017)
Financial assets at fair value through profit or loss	–	(3,216,735)	(3,216,735)
	(25,017)	(3,216,735)	(3,241,752)
Total realised and unrealised loss included in profit or loss	(75,082)	(3,216,735)	(3,291,817)
Included in other comprehensive income:			
Unrealised loss:			
Available-for-sale investments	(157,326)	–	(157,326)
Total realised and unrealised loss for the year	(232,408)	(3,216,735)	(3,449,143)

## NOTES TO FINANCIAL STATEMENTS

*31 December 2016*

### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	<b>2016</b>	2015
	<b>US\$</b>	US\$
Fees:		
Dr. HUA Min	<b>15,466</b>	15,482
Mr. ONG Ka Thai	<b>15,466</b>	15,482
Mr. YICK Wing Fat, Simon	<b>15,466</b>	15,482
	<b>46,398</b>	46,446

Except for the directors' fees paid to the independent non-executive directors totaling US\$46,398 (2015: US\$46,446), none of the directors has received any emoluments for both years.

There were no other emoluments payable to the directors during the year (2015: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 8. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Company did not generate assessable profits arising in Hong Kong for the year ended 31 December 2016 (2015: Nil).

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, is as follows:

	2016		2015	
	US\$	%	US\$	%
Loss before tax	<u>(1,513,745)</u>		<u>(3,886,245)</u>	
Tax at the statutory tax rate	(249,768)	16.5	(641,230)	16.5
Tax losses not recognised	37,052	(2.4)	89,573	(2.3)
Income not subject to tax	(3,327)	0.2	(41,208)	1.1
Expenses not deductible for tax	<u>216,043</u>	<u>(14.3)</u>	592,865	(15.3)
Tax charge at the effective rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred tax assets have not been previously recognized as the Company has been loss-making for some time and it is not considered probable that taxable profits will be available and cannot be set off against the accumulated tax loss from previous years of assessment in the foreseeable future.

### 9. DIVIDEND

No dividend has been proposed by the directors for the year ended 31 December 2016 (2015: Nil).

### 10. LOSS PER SHARE – BASIC AND DILUTED

The calculation of the basic earnings per share is based on the loss for the year of US\$1,513,745 (2015: loss of US\$3,886,245) and the weighted average number of ordinary shares of 9,712,776 (2015: 8,905,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2016 and 2015 in respect of dilution as the Company had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 11. AVAILABLE-FOR-SALE INVESTMENTS

	<b>2016</b>	2015
	<b>US\$</b>	US\$
Non-current:		
Listed equity investments, at fair value	<b>990,005</b>	1,049,460

The Company's investments in listed equity securities are held for the long-term and are non-trading in nature and are designated as available-for-sale investments. Fair values of the investments in listed equity securities are determined by reference to closing prices quoted in active markets.

During the year, the fair value loss in respect of the Company's available-for-sale investments recognised in other comprehensive income amounted to US\$21,657 (2015: US\$232,408), of which a net realized gain of US\$19,028 (2015: loss of US\$50,065 and impairment of US\$25,017) was reclassified from other comprehensive income to profit or loss.

### 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>2016</b>	2015
	<b>US\$</b>	US\$
Non-current:		
Ordinary shares		
– Global Market Group Limited ("GMG")	<b>3,328,577</b>	4,266,757

The above financial assets at 31 December 2016 and 2015 were upon initial recognition, designated by the Company as at fair value through profit or loss.

As of 31 December 2016, a total of 8,734,897 ordinary shares of GMG are held by the Company (2015: 8,734,897 shares), representing 9.36% of GMG's total issued ordinary shares (2015: 9.36%).

As of 31 December 2016 and 2015, the value of GMG ordinary shares was measured using relative valuation model.

### 13. PREPAYMENTS AND OTHER RECEIVABLES

	<b>2016</b>	2015
	<b>US\$</b>	US\$
Prepayments	<b>41,153</b>	42,900
Other receivables	<b>63,530</b>	–
	<b>104,683</b>	42,900

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 14. CASH AND BANK BALANCES

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash and bank balances are deposited with a creditworthy bank, which management believes is of high credit quality.

### 15. SHARE CAPITAL

	2016 US\$	2015 US\$
Authorised:		
18,000,000 (2015: 18,000,000) ordinary shares of US\$0.10 each	<u>1,800,000</u>	1,800,000
Issued and fully paid:		
10,686,000 (2015: 8,905,000) ordinary shares of US\$0.10 each	<u>1,068,600</u>	890,500

There were no movements in the Company's share capital during the year ended 31 December 2015. A summary of movement in the Company's share capital for the year ended 31 December 2016 is as follows:

	Number of shares in issue	Share capital US\$	Share premium account US\$	Total US\$
At 1 January 2016	8,905,000	890,500	11,176,435	12,066,935
Shares issued ( <i>Note</i> )	<u>1,781,000</u>	<u>178,100</u>	<u>1,745,380</u>	<u>1,923,480</u>
At 31 December 2016	<u>10,686,000</u>	<u>1,068,600</u>	<u>12,921,815</u>	<u>13,990,415</u>

*Note:* On 19 July 2016, 1,781,000 shares were issued to ZKJK Capital Management Limited at US\$1.08 per share. The par value of the shares is US\$0.10 each, and the remaining of the subscription price of US\$0.98 per share were considered share premium.

### 16. NET ASSET VALUE PER SHARE

The calculation of the net asset value ("NAV") per share is based on the Company's NAV as at 31 December 2016 of US\$8,182,713 (31 December 2015: US\$7,813,663) and the number of ordinary shares of 10,686,000 in issue as at 31 December 2016 (31 December 2015: 8,905,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 17. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following transactions with related parties during the year:

	<i>Note</i>	<b>2016</b> <b>US\$</b>	2015 US\$
Investment management and administration fees charged by the investment manager	(i)	<b><u>160,964</u></b>	<u>232,729</u>

*Note:*

- (i) Certain directors of the investment manager, Shanghai International Asset Management (H.K.) Co., Ltd. (the "Investment Manager"), are common directors of the Company.

In accordance with the terms of the investment management agreement and the seventh supplemental agreement (collectively the "Investment Management Agreements"), the management and administration fees are calculated and payable quarterly in advance at 0.5% of the NAV (calculated before deductions of the fees payable to the Investment Manager, and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter.

With effect from the year ended 31 December 2014, the Investment Manager is entitled to an incentive fee equal to 20% of the excess amount by which the NAV of the Company as at 31 December of each year exceeding the high water mark, i.e. the highest NAV as at 31 December in any year less the aggregate amount of all dividends paid by the Company during the year (as defined in the seventh supplemental agreement to the investment management agreement, the initial high water mark should be the NAV as at 31 December 2010, being US\$31,048,060).

During the year ended 31 December 2016, the Investment Manager was not entitled to receive any incentive fee in relation to the performance of the Company (2015: Nil), in accordance with the incentive fee calculation of the Investment Management Agreements.

The above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

- (b) Outstanding balance with a related party:

The amount due to the Investment Manager is unsecured, interest-free, and repayable on demand.

- (c) Compensation of key management personnel of the Company:

The key management personnel of the Company comprise the directors of the Company. Details of directors' emoluments are disclosed in note 7 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

<b>Financial assets</b>	<b>Financial assets at fair value through profit or loss* US\$</b>	<b>Loans and receivables US\$</b>	<b>Available-for-sale financial assets US\$</b>	<b>Total US\$</b>
Financial assets at fair value through profit or loss	<b>3,328,577</b>	–	–	<b>3,328,577</b>
Available-for-sale investments	–	–	<b>990,005</b>	<b>990,005</b>
Financial assets included in prepayments and other receivables	–	<b>63,530</b>	–	<b>63,530</b>
Cash and bank balances	–	<b>3,828,641</b>	–	<b>3,828,641</b>
	<b>3,328,577</b>	<b>3,892,171</b>	<b>990,005</b>	<b>8,210,753</b>

\* Designated as such upon initial recognition

<b>Financial liability</b>	<b>Financial liabilities at amortised cost US\$</b>
Amount due to Investment Manager	<b>20,504</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 18. FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

2015

Financial assets	Financial assets at fair value through profit or loss* US\$	Loans and receivables US\$	Available- for-sale financial assets US\$	Total US\$
Financial assets at fair value through profit or loss	4,266,757	–	–	4,266,757
Available-for-sale investments	–	–	1,049,460	1,049,460
Cash and bank balances	–	2,524,602	–	2,524,602
	<u>4,266,757</u>	<u>2,524,602</u>	<u>1,049,460</u>	<u>7,840,819</u>

\* Designated as such upon initial recognition

Financial liability	Financial liabilities at amortised cost US\$
Amount due to Investment Manager	<u>24,399</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The available-for-sale investments and financial assets at fair value through profit or loss held by the Company are carried at fair value.

Management has assessed that the fair values of all other financial assets and liabilities, carried at amortised cost, approximate to their respective carrying amounts due to the relatively short-term nature of these financial instruments.

The Investment Manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments and reports directly to the audit committee of the Company. At each reporting date, the Investment Manager analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the Directors of the Company. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of listed equity investments are based on quoted market prices. The fair values of suspended trading equity investment and unlisted equity investments, are based on the reference to market comparable companies. The valuation methods are based on assumptions that are not supported by observable market prices or rates. The valuation requires making estimates about the movements of share prices of other comparable companies during the suspension, discounts for lack of marketability, expected market multiples. Management believes that the estimated fair value resulting from the valuation technique, which is recorded in other comprehensive income, is reasonable, and that it was the most appropriate value at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative analysis as at 31 December 2016 and 31 December 2015:

#### Year ended 31 December 2016:

	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Range/ Amount</b>	<b>Sensitivity of fair value to the input</b>
Financial assets at fair value through profit/loss	Relative valuation model	PS ratio	3x	10% increase/decrease in PS ratio would result in increase/decrease in fair value by US\$332,858
		Revenue	US\$13.9 million	10% increase/decrease in revenue would result in increase/decrease in fair value by US\$332,858
		Discount for lack of marketability	15%	10% increase/decrease in the discount for lack of marketability would result in increase/decrease in fair value by US\$58,740

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

Year ended 31 December 2015:

	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Range/ Amount</b>	<b>Sensitivity of fair value to the input</b>
Financial assets at fair value through profit/loss	Relative valuation model	Forward PE ratio	20x	10% increase/decrease in PE ratio would result in increase/decrease in fair value by US\$466,676
		Forecast earnings	17.4%	10% increase/decrease in forecast earnings would result in increase/decrease in fair value by US\$426,676
		Discount for lack of marketability	15%	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in fair value by US\$75,269
Available-for-sale investment	Relative valuation model	Change in share price of comparable companies during the suspension period	-8.9%	10% increase/decrease in the change in share price would result in decrease/increase in fair value by US\$800
		Discount for lack of marketability	20%	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in fair value by US\$2,059

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

#### *Fair value hierarchy*

The following tables illustrate the fair value measurement hierarchy of the Company's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			Total US\$
	Quoted price in active markets (Level 1) US\$	Significant observable inputs (Level 2) US\$	Significant unobservable inputs (Level 3) US\$	
<b>Financial assets at fair value through profit or loss:</b>				
Unlisted equity securities	–	–	3,328,577	3,328,577
<b>Available-for-sale financial assets:</b>				
Listed equity securities	990,005	–	–	990,005
Total	990,005	–	3,328,577	4,318,582

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

*Fair value hierarchy (Cont'd)*

Assets measured at fair value: (Cont'd)

As at 31 December 2015

	Fair value measurement using			Total US\$
	Quoted price in active markets (Level 1) US\$	Significant observable inputs (Level 2) US\$	Significant unobservable inputs (Level 3) US\$	
<b>Financial assets at fair value through profit or loss:</b>				
Unlisted equity securities	–	–	4,266,757	4,266,757
<b>Available-for-sale financial assets:</b>				
Listed equity securities	967,106	–	–	967,106
Suspended trading listed equity securities	–	–	82,354	82,354
Total	967,106	–	4,349,111	5,316,217

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets at fair value through profit or loss and available-for-sale investments (2015: Nil).

The Company did not have any financial liabilities measured at fair value as at 31 December 2016 and 2015.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

*Fair value hierarchy (Cont'd)*

*Assets measured at fair value: (Cont'd)*

During the year, there were no transfers of fair value measurements into Level 3 for financial assets at fair value through profit or loss (2015: 4,266,757) and the movements in fair value measurements in Level 3 are as follows:

	2016 US\$	2015 US\$
Financial assets at fair value through profit or loss		
At 1 January	4,266,757	–
Transfer into Level 3	–	7,483,492
Net change in unrealised loss recognised in profit or loss	<b>(938,180)</b>	(3,216,735)
	<b>3,328,577</b>	4,266,757
At 31 December	<b>3,328,577</b>	4,266,757

During the year, there was no transfer of fair value measurements into Level 3 for available-for-sale investments (2015: 82,354) and the movements in fair value measurements in Level 3 are as follows:

	2016 US\$	2015 US\$
Available-for-sale investments		
At 1 January	82,354	659,124
Net change in unrealised gain recognised in the statement of other comprehensive income	–	(82,142)
Transfer out	<b>(82,354)</b>	–
Disposals	–	(783,511)
Gain on disposal	–	206,529
Purchase	–	107,371
Impairment	–	(25,017)
	<b>–</b>	82,354
At 31 December	<b>–</b>	82,354
Total loss for the period included in profit or loss for assets held at the end of the reporting period	<b>–</b>	20,017

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

#### *Fair value hierarchy (Cont'd)*

#### *Assets measured at fair value: (Cont'd)*

The Company purchased an investment in Sihuan, the shares of which were suspended for trading, and management reclassified the investment to Level 3 in 2015. During the year ended 31 December 2016, the trading of the shares resumed and the management reclassified the investment to level 1.

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments include investments in listed securities, unlisted securities and redeemable convertible preference shares, cash and bank balances and an amount due to the Investment Manager. The main risks arising from the Company's financial instruments are equity price risk, foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

#### *Market risk*

The Company's exposures to market risk include equity price risk, foreign currency risk and interest rate risk.

#### (i) *Equity price risk*

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Company is exposed to equity price risk arising from mainly the individual listed equity investments classified as available-for-sale equity investments (note 11), as well as financial assets at fair value through profit or loss as at the end of the reporting period (note 12).

#### *Available-for-sale investments*

The Company's listed equity investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index for the Hong Kong Stock Exchange at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year are as follows:

	<b>31 December 2016</b>	<b>High/low 2016</b>	31 December 2015	High/low 2015
Hong Kong – Hang Seng Index ("HSI")	<b>22,001</b>	<b>24,364 18,279</b>	21,914	28,589 20,368

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Market risk (Cont'd)

#### (i) Equity price risk (Cont'd)

##### Available-for-sale investments (Cont'd)

The Company views the HSI as an indication of a reasonably possible market movement for its securities listed in Hong Kong. The following table demonstrates the sensitivity to a reasonably possible 0.40% (2015: 7.16%) change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for the factors such as impairment which might impact on profit or loss.

	Carrying amount of equity investments US\$	Increase/ decrease in profit/(loss) before tax and equity US\$	Increase/ decrease in available- for-sale investment revaluation reserve US\$
<b>2016</b>			
Listed investments in Hong Kong	990,005	—	8,910
<b>2015</b>			
Listed investments in Hong Kong	1,049,460	5,905	19,245

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Market risk (Cont'd)

##### (i) Equity price risk (Cont'd)

###### Financial assets at fair value through profit or loss

As at 31 December 2016, the investment in GMG was valued using the relative valuation model where the comparable companies used in the model were listed on different stock exchanges. Management's estimate of the effect on the change in profit before tax and equity due to a reasonably possible increase of 10% in the share prices of comparable companies, with all variable held constant, amounted to US\$332,858 (2015: US\$426,676). An equivalent decrease in share prices of comparable companies would have resulted in an equivalent, but opposite, impact.

##### (ii) Foreign currency risk

Certain financial assets and liabilities of the Company including cash and bank balances and an amount due to the Investment Manager, other receivables, investments in redeemable convertible preference shares and investments in listed securities are denominated in Renminbi (RMB), New Taiwan dollars ("NT\$"), Great Britain pounds ("GBP"), HK\$ and US\$. The Company currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In 2016, the Company was mainly exposed to fluctuations in the exchange rate of RMB(2015: RMB) against US\$. As HK\$ is pegged to US\$, the exposure to fluctuations in the exchange rate of HK\$ is not considered to be significant and thus this effect is not considered in the sensitivity analysis below.

Management adjusted the sensitivity rate between US\$ and RMB as shown in the table below for assessing the currency risk, after considering the average exchange rates between the currencies in 2016 and 2015 policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Market risk (Cont'd)

#### (ii) Foreign currency risk (Cont'd)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB exchange rates against US\$, with all other variables held constant, on the Company's profit/(loss) before tax and the Company's equity after tax effect:

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit/(loss) before tax US\$	Increase/ (decrease) in equity* US\$
<b>2016</b>			
If the US\$ weakens against RMB	<b>10.4</b>	–	<b>348,396</b>
If the US\$ strengthens against RMB	<b>10.4</b>	–	<b>(348,396)</b>
<b>2015</b>			
If the US\$ weakens against RMB	1.4	–	57,498
If the US\$ strengthens against RMB	1.4	–	(57,498)

#### (iii) Interest rate risk

Management closely monitors interest rate movements and manages the potential risk. The Company currently does not have an interest rate hedging policy. However, management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

The Company is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are variable rate bank balances of US\$3,828,641 (2015: US\$2,524,602).

As the interest rates on the bank balances are minimal, the Company's exposure to interest rate risk is also minimal.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### *Credit risk*

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation.

The Company is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within financing relationships and other transactions.

It is the Company's policy to enter into financial instruments with reputable counterparties.

The Investment Manager closely monitors the creditworthiness of the Company's counterparties (e.g., brokers, custodian and banks) by reviewing their credit ratings, financial statements and press releases on a regular basis.

The Company is exposed to credit risk on its cash and cash equivalents and investments placed with Standard Chartered Bank (Hong Kong) Limited, the Company's custodian, which management believes is of high credit quality.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's strategy is to minimise its exposure to liquidity risk by monitoring the Company's liquid capital from time to time. In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations.

The following table summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows. The fair values of balances due within six months are equal to their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Company's financial assets (undiscounted where appropriate) in order to provide a complete view of the Company's contractual commitments and liquidity.

The maturity grouping of financial liabilities is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Company can be required to pay.

Analysis of available-for-sale equity securities and financial assets at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### Liquidity risk (Cont'd)

The maturity profile of the Company's financial assets and liabilities as at the end of the reporting period is as follows:

	On demand US\$	Less than 1 year US\$	1 to 5 years US\$	Total US\$
<b>2016</b>				
Financial assets at fair value through profit or loss	–	–	3,328,577	3,328,577
Available-for-sale investments	–	–	990,005	990,005
Cash and cash equivalents	3,828,641	–	–	3,828,641
<b>Total financial assets</b>	<b>3,828,641</b>	<b>–</b>	<b>4,318,582</b>	<b>8,147,223</b>
Amount due to Investment Manager	20,504	–	–	20,504
<b>Total financial liabilities</b>	<b>20,504</b>	<b>–</b>	<b>–</b>	<b>20,504</b>
	On demand US\$	Less than 1 year US\$	1 to 5 years US\$	Total US\$
<b>2015</b>				
Financial assets at fair value through profit or loss	–	–	4,266,757	4,266,757
Available-for-sale investments	–	–	1,049,460	1,049,460
Cash and cash equivalents	2,524,602	–	–	2,524,602
<b>Total financial assets</b>	<b>2,524,602</b>	<b>–</b>	<b>5,316,217</b>	<b>7,840,819</b>
Amount due to Investment Manager	24,399	–	–	24,399
<b>Total financial liabilities</b>	<b>24,399</b>	<b>–</b>	<b>–</b>	<b>24,399</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2016

### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

#### *Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Company actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Company's business and economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders. The Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

### 21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2012 US\$'000	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
<b>RESULTS</b>					
Income	478	97	3,164	79	<b>39</b>
Expenses	(3,925)	(8,142)	(965)	(3,965)	<b>(1,553)</b>
Profit/(loss) before tax	(3,447)	(8,045)	2,199	(3,886)	<b>(1,514)</b>
Tax	–	–	210	–	<b>–</b>
Profit/(loss) for the year	(3,447)	(8,045)	2,409	(3,886)	<b>(1,514)</b>
Earnings/(loss) per share (US cents)					
– Basic and diluted	(38.71)	(90.35)	27.05	(43.64)	<b>(15.59)</b>
<b>ASSETS AND LIABILITIES</b>					
	At 31 December				
	2012 US\$'000	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
Total assets	20,430	11,707	12,801	7,884	<b>8,252</b>
Total liabilities	262	422	53	70	<b>69</b>
	20,168	11,285	12,748	7,814	<b>8,183</b>
Net asset value per share	US\$2.26	US\$1.27	US\$1.43	US\$0.88	<b>US\$0.77</b>