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FIRST SHANGHAI GROUP

FIRST SHANGHAI INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 227)

2011 FINAL RESULTS ANNOUNCEMENT

RESULTS

The Board of Directors (the "Board") of First Shanghai Investments Limited (the "Company") submits herewith the audited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (the "Group") for the year ended 31st December 2011 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2011** ***HK$'000***	2010 *HK$'000*
Revenue	3	**285,409**	291,904
Cost of sales		**(168,966)**	(110,285)
Gross profit		**116,443**	181,619
Other gains — net	4	**84,830**	119,085
Selling, general and administrative expenses		**(222,599)**	(196,529)
Operating (loss)/profit	5	**(21,326)**	104,175
Finance income		**19,572**	9,215
Finance costs		**(13,559)**	(1,569)
Finance income — net		**6,013**	7,646
Share of profits less losses of			
Associated companies		**(16,940)**	1,223
Jointly controlled entities		**21,206**	52,350
(Loss)/profit before taxation		**(11,047)**	165,394
Taxation	6	**(25,044)**	(34,887)
(Loss)/profit after taxation		**(36,091)**	130,507
Loss attributable to minority investors of an investment fund		**5,285**	—
(Loss)/profit for the year		**(30,806)**	130,507
Attributable to:			
Shareholders of the Company		**(28,719)**	114,367
Non-controlling interests		**(2,087)**	16,140
		(30,806)	130,507
(Losses)/earnings per share for (loss)/profit attributable to shareholders of the Company during the year			
— Basic	7	**HK$(2.05) cents**	HK$8.18 cents
— Diluted	7	**HK$(2.05) cents**	HK$8.11 cents
Dividends	8	**—**	13,989

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(30,806)**	130,507
Other comprehensive (loss)/income		
— Fair value loss on available-for-sale financial assets	**(66,451)**	(30,939)
— Exchange reserve realised upon disposal of subsidiaries	**1,121**	(4,861)
— Exchange reserve realised upon disposal of associated companies	**—**	(2,608)
— Actuarial losses on retirement benefit obligations	**(274)**	—
— Currency translation differences	**42,733**	31,744
— Share of post-acquisition reserves of an associated company	**(68,753)**	26,327
Other comprehensive (loss)/income for the year, net of tax	**(91,624)**	19,663
Total comprehensive (loss)/income for the year	**(122,430)**	150,170
Attributable to:		
Shareholders of the Company	**(125,121)**	130,793
Non-controlling interests	**2,691**	19,377
	(122,430)	150,170

CONSOLIDATED BALANCE SHEET

	Note	**2011** *HK$'000*	2010 *HK$'000*
Non-current assets			
Intangible assets		**2,126**	2,126
Property, plant and equipment		**423,801**	369,626
Investment properties		**447,570**	268,152
Leasehold land and land use rights		**56,699**	59,292
Investments in associated companies		**308,486**	383,914
Investments in jointly controlled entities		**240,299**	208,723
Deferred tax assets		**14,043**	10,152
Available-for-sale financial assets		**96,763**	162,587
Loans and advances		**17,228**	21,993
Total non-current assets		**1,607,015**	1,486,565
Current assets			
Properties under development		**210,995**	235,807
Properties held for sale		**400,230**	378,355
Inventories		**5,501**	555
Loans and advances		**432,855**	345,822
Trade receivables	*9*	**70,195**	205,736
Other receivables, prepayments and deposits		**29,224**	34,131
Tax recoverable		**2,882**	3,205
Financial assets at fair value through profit or loss		**273,272**	330,239
Deposits with banks		**6,784**	41,611
Client trust bank balances		**1,524,807**	1,143,906
Cash and cash equivalents		**370,942**	527,151
Total current assets		**3,327,687**	3,246,518
Current liabilities			
Trade and other payables	*10*	**1,760,025**	1,552,847
Tax payable		**33,507**	29,209
Borrowings		**201,394**	27,030
Net assets attributable to holders of redeemable participation shares		**14,715**	—
Total current liabilities		**2,009,641**	1,609,086
Net current assets		**1,318,046**	1,637,432
Total assets less current liabilities		**2,925,061**	3,123,997
Non-current liabilities			
Deferred tax liabilities		**53,036**	37,427
Retirement benefit obligations		**7,485**	—
Borrowings		**121,154**	206,832
Total non-current liabilities		**181,675**	244,259
Net assets		**2,743,386**	2,879,738
Equity			
Share capital		**279,783**	279,783
Reserves		**2,359,673**	2,497,859
Capital and reserves attributable to the Company's shareholders		**2,639,456**	2,777,642
Non-controlling interests		**103,930**	102,096
Total equity		**2,743,386**	2,879,738

1. GENERAL INFORMATION

First Shanghai Investments Limited (the "Company") and its subsidiaries, associated companies and jointly controlled entities (together, the "Group") are principally engaged in securities investment, corporate finance, stockbroking, property development, property investment, hotel operation, direct investment, investment holding and management.

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

The Company is listed on The Stock Exchange of Hong Kong Limited.

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, buildings, available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(a) *Amendments, revision and interpretations to existing Standards effective in 2011 but not currently relevant to the Group's operation*

The following amendments, revision and interpretations to existing Standards are mandatory for the first time for the financial year beginning 1st January 2011:

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

In addition, Hong Kong Institute of Certified Public Accountants also published a number of amendments for the existing Standards under its annual improvement project. These amendments do not have a significant financial impact on the results and financial position of the Group.

(b) *Standards, amendments, revisions and interpretation to existing Standards that are not yet effective and have not been adopted by the Group*

The following Standards, amendments, revisions and interpretation to existing Standards have been issued but are not effective for the financial year beginning 1st January 2011 and have not been early adopted:

			Effective for accounting periods beginning on or after
—	HKAS 1 (Amendment)	Presentation of Financial Statements;	1st July 2012
—	HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets;	1st January 2012
—	HKAS 19 (Amendment)	Employee Benefits;	1st January 2013
—	HKAS 27 (Revised 2011)	Separate Financial Statements;	1st January 2013
—	HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures;	1st January 2013
—	HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities;	1st January 2014
—	HKFRS 1 (Amendment)	Disclosures — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;	1st July 2011
—	HKFRS 7 (Amendment)	Disclosures — Transfer of Financial Assets;	1st July 2011
—	HKFRS 7 (Amendment)	Disclosure — Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities;	1st January 2013
—	HKFRS 9	Financial Instruments;	1st January 2015
—	HKFRS 10	Consolidated Financial Statements;	1st January 2013
—	HKFRS 11	Joint Arrangements;	1st January 2013
—	HKFRS 12	Disclosure of Interests in Other Entities;	1st January 2013
—	HKFRS 13	Fair Value Measurements; and	1st January 2013
—	HK(IFRIC) — Int 20	Stripping Costs in the Production Phrase of a Surface Mine	1st January 2013

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

3. SEGMENT INFORMATION

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

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

— Securities investment

— Corporate finance and stockbroking

— Property development

— Property investment and hotel

— Direct investment

The Board assesses the performance of the operating segments based on a measure of segment results and share of results of associated companies and jointly controlled entities.

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

The Group operates primarily in Hong Kong and the Chinese Mainland. In presenting information of geographical segments, segment revenue is based on the geographical destination of delivery of goods.

(a) Operating segments

	Securities investment	**Corporate finance and stockbroking**	**Property development**	**Property investment and hotel**	**Direct investment**	**Group**
	2011	**2011**	**2011**	**2011**	**2011**	**2011**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Income statement						
Revenue	**(57,317)**	**135,504**	**70,756**	**79,880**	**56,586**	**285,409**
Segment results	**(62,848)**	**39,464**	**11,671**	**42,076**	**(27,022)**	**3,341**
Unallocated net operating expenses						**(24,667)**
Operating loss						**(21,326)**
Finance income — net						**6,013**
Share of profits less losses of						
— Associated companies	**—**	**—**	**—**	**—**	**(16,940)**	**(16,940)**
— Jointly controlled entities	**—**	**—**	**—**	**18,480**	**2,726**	**21,206**
Loss before taxation						**(11,047)**
Balance sheet						
Segment assets	**270,982**	**2,195,624**	**682,525**	**876,465**	**296,650**	**4,322,246**
Investments in associated companies	**—**	**—**	**—**	**—**	**308,486**	**308,486**
Investments in jointly controlled entities	**—**	**—**	**—**	**202,472**	**37,827**	**240,299**
Tax recoverable						**2,882**
Deferred tax assets						**14,043**
Corporate assets						**46,746**
Total assets						**4,934,702**
Other information						
Depreciation and amortisation	**7**	**1,957**	**1,130**	**32,662**	**7,487**	**43,243**

Note: There were no sales among the operating segments.

	Securities investment 2010 *HK$'000*	Corporate finance and stockbroking 2010 *HK$'000*	Property development 2010 *HK$'000*	Property investment and hotel 2010 *HK$'000*	Direct investment 2010 *HK$'000*	Group 2010 *HK$'000*
Income statement						
Revenue	22,282	197,581	47,668	14,707	9,666	291,904
Segment results	17,928	63,333	3,045	64,005	(17,186)	131,125
Unallocated net operating expenses						(26,950)
Operating profit						104,175
Finance income — net						7,646
Share of profits less losses of						
— Associated companies	—	—	—	—	1,223	1,223
— Jointly controlled entities	—	—	—	48,385	3,965	52,350
Profit before taxation						165,394
Balance sheet						
Segment assets	365,012	1,971,579	676,617	722,888	324,070	4,060,166
Investments in associated companies	—	—	—	—	383,914	383,914
Investments in jointly controlled entities	—	—	—	175,282	33,441	208,723
Tax recoverable						3,205
Deferred tax assets						10,152
Corporate assets						66,923
Total assets						4,733,083
Other information						
Depreciation and amortisation	19	2,002	697	10,928	3,363	17,009

Note: There are no sales among the operating segments.

(b) Geographical segments

	Hong Kong 2011 HK$'000	Chinese Mainland and others 2011 HK$'000	Group 2011 HK$'000
Revenue	**80,009**	**205,400**	**285,409**
Non-current assets *	**389,390**	**1,106,819**	**1,496,209**

	Hong Kong 2010 HK$'000	Chinese Mainland and others 2010 HK$'000	Group 2010 HK$'000
Revenue	213,378	78,526	291,904
Non-current assets *	465,006	848,820	1,313,826

* *Non-current assets exclude available-for-sale financial assets and deferred tax assets.*

4. OTHER GAINS — NET

	2011 *HK$'000*	2010 *HK$'000*
Net (loss)/gain on disposal of interests in subsidiaries	**(806)**	5,570
Loss on deemed disposal of an associated company	**(836)**	—
Gain on disposal of interests in associated companies	**55**	657
Gain on disposal of investment properties	**1,373**	—
Fair value gains on investment properties	**70,596**	101,401
Net foreign exchange gain	**14,448**	11,457
	84,830	119,085

5. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2011	2010
	HK$'000	*HK$'000*
Crediting		
Write back of provision for obsolete stock	**—**	301
Charging		
Depreciation	**41,303**	14,210
Amortisation of leasehold land and land use rights	**2,407**	3,164
Cost of properties sold	**42,167**	36,762
Cost of inventories	**50,203**	628
Stockbroking commission and related expenses	**21,248**	30,787
Staff costs	**151,705**	137,891
Operating lease rental in respect of land and buildings	**7,134**	6,495
Auditors' remuneration		
Audit and audit related work		
— the Company's auditor	**2,330**	2,222
— other auditors	**1,331**	703
Non-audit services — the Company's auditor	**226**	176
Provision for doubtful debts	**653**	964
Net loss on disposal of property, plant and equipment	**444**	70

6. TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2011	2010
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current	**6,267**	8,958
Over-provision in previous years	**(180)**	(907)
Overseas taxation		
Current	**8,419**	3,084
(Over)/under-provision in previous years	**(39)**	765
Deferred taxation	**10,577**	22,987
Taxation charge	**25,044**	34,887

7. (LOSSES)/EARNINGS PER SHARE

The calculation of basic and diluted (losses)/earnings per share is based on the Group's loss attributable to shareholders of HK$28,719,000 (2010: Group's profit attributable to shareholders of HK$114,367,000). The basic (losses)/earnings per share is based on the weighted average number of 1,398,913,012 (2010: 1,398,913,012) shares in issue during the year.

The Company has share options outstanding for 2010 which are dilutive potential ordinary shares. Calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 10,590,944 dilutive potential ordinary shares.

Diluted losses per share for 2011 is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

8. DIVIDENDS

The Board does not recommend the payment of a final dividend (2010: HK$0.01 per ordinary share totaling HK$13,989,000) for the year ended 31st December 2011.

9. TRADE RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Due from stockbrokers and clearing houses	**2,576**	85,449
Due from stockbroking clients	**39,258**	90,768
Trade receivables	**44,530**	45,453
Bills receivable	**1,110**	—
	87,474	221,670
Provision for impairment	**(17,279)**	(15,934)
	70,195	205,736

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

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

The ageing analysis of the trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
0–30 days	**63,469**	203,089
31–60 days	**3,156**	1,361
61–90 days	**1,336**	681
Over 90 days	**2,234**	605
	70,195	205,736

10. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Due to stockbrokers and dealers	**30,719**	1,758
Due to stockbroking clients	**1,558,048**	1,308,608
Trade payables	**100,977**	164,426
Total trade payables	**1,689,744**	1,474,792
Advance receipts from customers	**4,304**	7,485
Accruals and other payables	**65,977**	70,570
	1,760,025	1,552,847

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

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK$1,524,807,000 (2010: HK$1,158,889,000).

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

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

The ageing analysis of the trade payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
0–30 days	**78,183**	136,159
31–60 days	**5,302**	6,943
61–90 days	**4,294**	1,877
Over 90 days	**13,198**	19,447
	100,977	164,426

BUSINESS OVERVIEW

2011 was a complex and challenging year marked by local and global influence. Despite the historical downgrade of the sovereign credit rating of US, its stock market recovers gradually with a positive economic outlook about the accommodative monetary policy. European economy deteriorated with the intensified sovereign debt problems, spreading from Greece to bigger nations including Italy, Spain and France. Government bonds yield and unemployment rate plunged to a distressing high rate. Japan's economy was severely hit by the massive earthquake, followed by the disastrous tsunami and radiation leakage shock in March 2011. Although the Chinese economy maintained a fair growth for the year, with the implementation of various measures against the risk of hard landing, the Chinese financial market was volatile. Performance of the Chinese stock market was poor, market liquidity was tight and inflation rate was escalating throughout the year. The Hong Kong economy, as an open market, was inevitably affected by the uncertain external environment. This together with the high domestic inflation pressure has dampened the local securities market.

The Group reported consolidated net loss attributable to shareholders of the Company of approximately HK$29 million for the year ended 31st December 2011, comparing with a net profit of approximately HK$114 million last year. The decline in result was mainly attributable to the capture of realised and unrealised losses on its securities trading portfolio as a result of the drop in Hong Kong stock market. Despite recognition of appreciation gain from its investment properties portfolio, the Group's overall results was still trimmed with the operating loss reported by its pharmaceutical and hotel businesses, both are still at investment stage. The Group's consolidated revenue reduced by 2% to approximately HK$285 million due to the consolidation of fair value losses on trading securities. The total net assets of the Group reduced from approximately HK$2,880 million in 2010 to approximately HK$2,743 million in 2011 due to reduction in investment reserve of an associate and shrinkage in share price of the Group's long term investment in Shenyin Wanguo (H.K.) Limited.

The Group adheres to its strategic plan and dedicates its efforts and resources to accelerating growth in its three major business sectors: Financial Services, Property and Hotel, and Direct Investment.

Financial Services

In 2011, clouded by the sovereign credit rating downgrade of the US, spread of European debt problems, tightening credit and monetary policies of the Central Government and the high inflationary pressure, the Hong Kong securities market was encumbered. The local stock market underperformed most major overseas markets. Hang Seng Index dropped from 23,035 at 31st December 2010 to 18,434 at 31st December 2011. Investors were cautious and risk appetite shrank. Market trading activity is moderate, with an average daily market turnover increased by 1% to approximately HK$69.7 billion in 2011. Under the unfavourable market sentiment, IPO and secondary fund raising activities both reduced over 40% when compared with 2010.

Concern about the market uncertainties, stockbroking business faced a challenging year in 2011. During the year, brokerage commission dropped due to intensive market competition. Our securities brokerage business reported an operating profit of approximately HK$39 million in 2011, decreased by approximately 38% from 2010. Our secondary fund raising activities, one of the major profit generators in 2010, dwindled following the unstable market sentiment, resulting in a decrease in underwriting and placing commission income in 2011. Both margin loan interest income and total margin loan size increased from 2010 reflecting the expansion of our client base. Our securities investment business reported a fair value loss of approximately HK$57 million tracking the market downturn in the second half of 2011.

Our corporate finance division is an inseparable arm of our Financial Services Sector and has continued to bolster the revenue stream via the provision of services primarily to Hong Kong listed companies. Despite that Hong Kong's equity market had experienced a general downturn, our corporate finance division remained an active and healthy player in both the IPO market and the corporate financial advisory market in 2011. During the year, we acted as a joint sponsor of Modern Education Group Limited (Stock Code: 1082) for its IPO in Hong Kong. We have also completed 34 corporate financial advisory cases and acted as compliance advisors to six Hong Kong listed companies in 2011. On our business pipeline, we have already engaged in a variety of assignments, which include IPO sponsorships and corporate financial advisory deals.

Our expertise and reputation in the industry, together with the synergies brought forward by the full range of financial services offered by the Group which include but not limited to securities investment, securities brokerage services, financial advisory services, IPO sponsorships and secondary fund raising syndications, have established a solid platform for us to expand our business in the market. We will continue to leverage on the core competitiveness of the Group and take a proactive approach to further capture business opportunities, broaden its client base and strengthen its market niche.

Property and Hotel

During 2011, the Central Government continued to launch various macro controls to hamper the overheated property market. Following the new "Eight Measures of the State Council", particularly the property purchase restriction and pricing caps policies, sales volume was suppressed and selling price raise was restrained, spreading from first-tier cities to second and third-tier cities. Loan restriction policy even tightened the market liquidity. Though these measures vulnerably had affected performance of the property industry in 2011, the flattening signal of inflation rate at the beginning of 2012 steers towards a healthier and more sustainable economic growth. Despite the short term market correction, the Group remains conservatively optimistic about the long term development of the industry in view of China's accelerating urbanization and massive housing demand.

The Group will work on the completion of existing property projects and will proactively adjust our business strategy and cash flow management to keep up with the changing market conditions for the best of the Group's long term development.

In 2011, amid the purchase restriction policy, the Group's recognised GFA (gross floor area) and revenue were reduced to approximately 10,000 square meters and HK$71 million respectively. Capital expenditure for property projects incurred for the year was approximately HK$155 million. The Group is currently participating in six projects with total GFA as summarised below:

Location	Product nature	Expected completion date *(Year)*	% of interest attributable to the Group	Total gross floor area *(sq.m.)*	Area sold in 2011 *(sq.m.)*	Accumulated area sold *(sq.m.)*
Zhangjiang, Shanghai	Office and commercial	Completed	50%	56,000	—	27,000
Kunshan, Jiangsu	Residential	Completed	70%	55,000	—	45,000
Wuxi, Jiangsu	Hotel, commercial and apartment	Completed	100%	95,000	2,000	2,000
Wuxi, Jiangsu	Office and industrial					
— Phase I		Completed	70%	38,000	8,000	9,000
— Phase II		Completed	70%	59,000	—	—
Huangshan, Anhui	Residential and recreation resorts	2012	100%	52,000	—	—
Zhongshan, Guangdong	Residential and recreation resorts	2012	95.2%	64,000	—	—
Total				419,000	10,000	83,000

The Group has also continued to develop its hotel business in order to diversify the Group's property income portfolio and generate a recurring income stream. Our five-star hotel, Double Tree by Hilton in Wuxi, has reported satisfactory growth rate since its opening in late 2010 and has contributed approximately HK$65 million to the Group's total revenue.

Direct Investment

China Assets (Holdings) Limited ("China Assets") continues to be the major investment of our Direct Investment Sector. During 2011, the result of China Assets was adversely affected, particularly attributable to the fair value loss of various financial investments. For the year ended 31st December 2011, China Assets recorded net loss and decrease in investment reserve attributable to the Group of approximately HK$3 million and HK$69 million respectively.

In early 2011, we have increased our exposure to the pharmaceutical business. Since the business was still under development and operational consolidation, net operating loss was reported during the year. However, with the implementation of medical reform following the "Twelfth Five-Year Plan" of China, we are confident that the Group will have a bright prospect in the pharmaceutical market. We will continue to push forward our key constructive and innovative research and development plans while making full use of our existing platform in strengthening our business foundation. We may also seek future opportunities to enlarge our presence in the industry to optimise our investment synergy.

PROSPECTS

Market environment in 2012 is still challenging. Global financial issues are still unstable and China is expected to continue its stringent austerity measures towards the property market. Nevertheless, we believe the Central Government will consistently maintain a stable macro-economic policy and persist with its proactive but moderate fiscal and monetary policies that will reinforce economic growth at an accelerating and healthy momentum. Hong Kong, being firmly supported by the Central Government as an international financial centre and offshore Renminbi business centre, has already witnessed an upturn in economy in early 2012.

While adhering to its business strategy, the Group will closely monitor the macro economy and regulatory environment so as to effectively respond to changes in a timely manner. Using the strength of our brand recognition and business network, the Group will continue to establish a firm base in the financial services and property development industries in Hong Kong and the Chinese Mainland. We will devote more efforts to harnessing potential market demand by enhancing the quality of our products and services, capitalising on our professional team and refining our operational efficiency in order to strengthen market penetration and capture greater business opportunities in future. Meanwhile, we will continue to pursue, with an active and prudent approach, strategic direct investment projects with the aim to optimising returns to the Company and its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31st December 2011, the Group recorded a net loss and basic losses per share attributable to shareholders of approximately HK$29 million and HK$2.05 cents respectively, compared with a net profit and basic earnings per share attributable to the shareholders of approximately HK$114 million and HK$8.18 cents respectively in 2010. Revenue of the Group is approximately HK$285 million, represents a decrease of 2% from 2010.

Liquidity and financial resources

The Group relied principally on its internal resources to fund its operations and investment activities. Bank loans will be raised to meet the different demands of our various property projects and our financial services business. As at 31st December 2011, the Group had raised bank loans of approximately HK$323 million (2010: HK$234 million) and held approximately HK$378 million (2010: HK$569 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 11.8% (2010: 8.1%). Investment in "financial assets at fair value through profit or loss" as at 31st December 2011 amounted to approximately HK$273 million (2010: HK$330 million).

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. The Group expects that Renminbi will appreciate in a stable pattern in future. The Group has no significant exposure to other foreign exchange fluctuations.

Pledge of group assets

The Group has pledged properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK$1,017 million (2010: HK$657 million) and fixed deposits of approximately HK$16 million (2010: HK$15 million) against its bank loans and general banking facilities. The banking facilities amounting approximately HK$320 million (2010: HK$230 million) had been utilised.

Contingent liabilities

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in the Chinese Mainland. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 31st December 2011, total contingent liabilities relating to these guarantees amounted to approximately HK$0.4 million (2010: HK$19 million).

Material acquisition and disposal of group companies

During the year, the Group had no material acquisitions, disposals and significant investments.

Employees

As at 31st December 2011, the Group employed 812 staff, of whom 690 are located in the Chinese Mainland. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined benefit/contribution provident fund schemes and employee share option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the year ended 31st December 2011 amounted to approximately HK$152 million (2010: HK$138 million).

DIVIDEND

The Board does not recommend the payment of a final dividend (2010: HK$0.01 per ordinary share totaling HK$13,989,000, which together with the interim dividend payment amounting to a total of HK$13,989,000) for the year ended 31st December 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited during the year ended 31st December 2011.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited for the year ended 31st December 2011, except for the deviation from provision A.2.1 of the CG Code.

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

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") comprises the non-executive Director, Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* and the four independent non-executive Directors, Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. During the year ended 31st December 2011, the Audit Committee has reviewed the annual and interim consolidated financial statements, including the accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee has also discussed with the Group's independent advisor and considers the system of internal control of the Group to be effective and that the Group has adopted the necessary control mechanisms to its financial, operational, statutory compliance and risk management functions.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the "Remuneration Committee"), comprises three independent non-executive Directors, Prof. WOO Chia-Wei, Mr. YU Qihao and Mr. ZHOU Xiaohe, and an executive Director, Mr. LO Yuen Yat. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long-term incentive schemes.

To comply with the new Listing Rules effective from 1st April 2012, a board resolution was passed on 9th December 2011 that effective from 1st March 2012, Mr. Lo ceased to be the chairman of the Remuneration Committee but remains a member of the Committee. Mr. Zhou was appointed as chairman of the Remuneration Committee.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 21st May 2012 to Friday, 25th May 2012, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 18th May 2012.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This announcement of final results is published on the websites of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk under "Listed Company Information" and the Company at http://www.firstshanghai.com.hk under "Press Release — Results Announcements". The 2011 Annual Report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the websites of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk under "Listed Company Information" and the Company at http://www.firstshanghai.com.hk under "Financial Report" in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises three executive directors, being Mr. LO Yuen Yat, Mr. XIN Shulin and Mr. YEUNG Wai Kin, one non-executive director, Mr. KWOK Lam Kwong, Larry, *B.B.S., J.P.* and four independent non-executive directors, being Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe.

By order of the Board
First Shanghai Investments Limited
LO Yuen Yat
Chairman

Hong Kong, 23rd March 2012