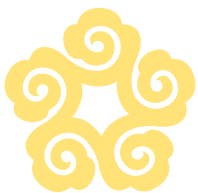


Interim Report 2017



九號運通有限公司
Nine Express Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 00009

CONTENTS

Corporate Information	2
Condensed Consolidated Statement of Profit or Loss	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9
Management Discussion and Analysis	25
Corporate Governance and Other Information	32



CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Wan Peizhong (*Chairman*)
Mr. Xiang Junjie (*Chief Executive Officer*)
Mr. Ji Jianguo
Ms. Qian Ling Ling
Mr. Zhang Li

Independent Non-executive Directors:

Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

Company Secretary

Mr. Chan Chun Fat

Solicitors

Fairbairn Catley Low & Kong
23/F, Shui On Centre
6-8 Harbour Road
Hong Kong

Auditor

RSM Hong Kong
Certified Public Accountants
29/F, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Principal Bankers

Industrial and Commercial Bank
of China Limited
Industrial and Commercial Bank
of China (Asia) Limited
Dongguan Rural Commercial Bank
Company Limited
Bank of China (Hong Kong) Limited

Audit Committee

Mr. Tang Ping Sum (*Chairman*)
Mr. Tsui Pui Hung
Mr. Chiu Sin Nang, Kenny

Remuneration Committee

Mr. Chiu Sin Nang, Kenny (*Chairman*)
Mr. Tang Ping Sum
Mr. Tsui Pui Hung

Nomination Committee

Mr. Tsui Pui Hung (*Chairman*)
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 4101, 41/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

The board (the “Board”) of directors (the “Directors”) of Nine Express Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company, its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017 with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
	Note	(unaudited)	(unaudited)
Revenue	5	14,312	12,237
Cost of sales		(4,886)	(2,893)
Gross profit		9,426	9,344
Other income		3	53
Impairment loss on investment in an associate		(106,486)	–
Properties development in progress written down		(63,287)	–
Properties held for sale written down		(17,211)	–
Loss on early redemption of convertible notes		(972)	–
Administrative expenses		(19,904)	(27,251)
Selling and marketing expenses		(1,864)	(466)
Operating loss	7	(200,295)	(18,320)
Finance income	6	56	52
Finance costs	6	(22,980)	(5,084)
Finance costs – net	6	(22,924)	(5,032)
Share of profit/(loss) of investments in associates		457	(1,963)
Loss before income tax		(222,762)	(25,315)
Income tax credit/(expense)	8	1,970	(1,807)
Loss for the period attributable to owners of the Company		(220,792)	(27,122)
Loss per share	10		
Basic		HK(8.93) cents	HK(1.33) cents
Diluted		HK(8.93) cents	HK(1.33) cents

Details of the dividend are disclosed in note 9 to the condensed consolidated financial statements.

The notes on pages 9 to 24 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period attributable to owners of the Company	(220,792)	(27,122)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	4,230	(35)
Share of other comprehensive income of an associate accounted for using the equity method	(21)	–
Total comprehensive income for the period attributable to owners of the Company	(216,583)	(27,157)

The notes on pages 9 to 24 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		76,598	71,994
Land use rights		75,458	79,285
Investment properties		256,868	256,868
Investments in associates	<i>11</i>	785,370	891,420
Available-for-sale financial assets		167,722	167,722
Prepayments and other receivables		16,384	16,495
Film rights		102	102
Financial assets at fair value through profit or loss		19,465	63,400
Total non-current assets		1,397,967	1,547,286
Current assets			
Properties development in progress		945,642	1,035,652
Properties held for sale		48,632	–
Inventories		1	2
Trade and rental receivables	<i>12</i>	9,936	10,642
Prepayments and other receivables		15,400	11,738
Tax recoverable		7	7
Financial assets at fair value through profit or loss		43,935	24,231
Restricted bank deposits		20,588	8,692
Cash and cash equivalents		15,844	24,010
Total current assets		1,099,985	1,114,974
Current liabilities			
Trade payables	<i>13</i>	16,422	18,146
Other payables, accruals and deposits received		259,342	201,002
Borrowings	<i>14</i>	553,235	371,610
Current tax liabilities		2,821	2,121
Total current liabilities		831,820	592,879
Net current assets		268,165	522,095
Total assets less current liabilities		1,666,132	2,069,381

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2017

		30 June	31 December
		2017	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>	(unaudited)	(audited)
Non-current liabilities			
Deposits received		2,501	2,501
Borrowings	<i>14</i>	157,134	326,075
Convertible notes	<i>15</i>	126,961	136,828
Deferred tax liabilities		154,291	157,140
Total non-current liabilities		440,887	622,544
Net assets		1,225,245	1,446,837
Equity attributable to owners of the Company			
Issued share capital	<i>16</i>	24,712	24,712
Other reserves		1,200,533	1,422,125
Total equity		1,225,245	1,446,837

The notes on pages 9 to 24 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 (unaudited)

	Attributable to owners of the Company										
	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus ¹ <i>HK\$'000</i>	Equity component of the convertible notes <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Special reserve ² <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Warrants reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2016	16,825	1,140,412	459,047	-	7,180	17,926	39,804	13,496	-	(725,865)	968,825
Total comprehensive income for the period	-	-	-	-	(35)	-	-	-	-	(27,122)	(27,157)
Issue of shares (note 16(a))	7,887	740,262	-	(334,561)	-	-	-	-	-	-	413,588
Issue of convertible notes (note 15(a))	-	-	-	435,900	-	-	-	-	-	-	435,900
Change in equity for the period	7,887	740,262	-	101,339	(35)	-	-	-	-	(27,122)	822,331
Balance at 30 June 2016	24,712	1,880,674	459,047	101,339	7,145	17,926	39,804	13,496	-	(752,987)	1,791,156
Balance at 1 January 2017	24,712	1,880,674	459,047	101,339	(35,638)	17,926	39,804	211	56	(1,041,294)	1,446,837
Total comprehensive income for the period	-	-	-	-	4,230	-	-	-	(21)	(220,792)	(216,583)
Early redemption of convertible notes (note 15(b))	-	-	-	(5,009)	-	-	-	-	-	-	(5,009)
Share options lapsed	-	-	-	-	-	-	(6,634)	-	-	6,634	-
Warrants lapsed	-	-	-	-	-	-	-	(211)	-	211	-
Change in equity for the period	-	-	-	(5,009)	4,230	-	(6,634)	(211)	(21)	(213,947)	(221,592)
Balance at 30 June 2017	24,712	1,880,674	459,047	96,330	(31,408)	17,926	33,170	-	35	(1,255,241)	1,225,245

¹ Contributed surplus of the Group arose from the Company's capital reorganisation on 6 September 2010 and 24 May 2012.

² Special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of HK\$10,420,000 and the consideration for the acquisition of additional interests in jointly-controlled entities which became wholly-owned subsidiaries by the substantial shareholder of the Company prior to the group reorganisation of HK\$7,506,000.

The notes on pages 9 to 24 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash generated from operating activities	10,884	14,731
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,180)	(26,995)
Proceeds from disposal of property, plant and equipment	11	2
Transaction costs attributable to acquisition of an associate	–	(5,138)
Advance to an associate	–	(1,000)
(Increase)/decrease in restricted bank deposits	(11,896)	106
Interest received	56	16
Net cash used in investing activities	(14,009)	(33,009)
Cash flows from financing activities		
Proceeds from borrowings	27,000	–
Repayment of borrowings	(16,791)	(16,754)
Interest paid on borrowings	(14,175)	(17)
Interest element of finance lease rental payments	–	(16)
Capital element of finance lease rental payments	–	(606)
Net cash used in financing activities	(3,966)	(17,393)
Net decrease in cash and cash equivalents	(7,091)	(35,671)
Cash and cash equivalents at beginning of the period	21,029	57,175
Effect of foreign exchange rate changes, net	(1,101)	(123)
Cash and cash equivalents at end of the period	12,837	21,381
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	15,844	21,381
Bank overdraft-secured	(3,007)	–
	12,837	21,381

The notes on pages 9 to 24 form an integral part of these condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

Nine Express Limited (the “Company”) was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company’s registered office address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business in Hong Kong of the Company is located at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The principal activities of the Group consist of film distribution and licensing, film processing, rental of property, property and hotel development and investment in centralised heat supply.

This condensed consolidated financial information has not been audited but has been reviewed by the Company’s audit committee.

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3 Principal accounting policies

These condensed consolidated financial statements have been prepared on the historical cost convention except for an investment property and financial assets at fair value through profit or loss, which have been measured at fair value.

Except for taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016 except for the new adoption of HKFRS as disclosed below.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 Principal accounting policies (continued)

Adoption of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise HKFRS, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not have any significant effect on the condensed financial statements.

4 Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

5 Revenue and segmental information

The Group is organised into five business units – property rental, film distribution and licensing, film processing, property and hotel development and centralised heat supply. These business units are the basis on which the Group reports its segment information. Segmental information about the revenue and the results of these business units is presented below.

For the six months ended 30 June 2017 (unaudited)

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Total HK\$'000
Segment revenue:						
External revenue	9,552	1,292	1,031	2,437	-	14,312
Segment results	4,827	(1,079)	(138)	(86,287)	(106,039)	(188,716)
Unallocated corporate expenses						(11,122)
Finance income						56
Finance costs						(22,980)
Loss before income tax						(222,762)
Income tax credit						1,970
Loss for the period						(220,792)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

5 Revenue and segmental information (continued)

For the six months ended 30 June 2016 (unaudited)

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Total HK\$'000
Segment revenue:						
External revenue	10,132	801	1,304	–	–	12,237
Segment results	6,591	(3,324)	(726)	(3,961)	(5)	(1,425)
Unallocated corporate expenses						(18,858)
Finance income						52
Finance costs						(5,084)
Loss before income tax						(25,315)
Income tax expense						(1,807)
Loss for the period						(27,122)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 Revenue and segmental information (continued)

The following table presents segment assets of the Group's reportable segments as at 30 June 2017 and 31 December 2016:

As at 30 June 2017 (unaudited)

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Total HK\$'000
Segment assets	268,962	120	1,585	1,233,296	-	1,503,963
Unallocated corporate assets						208,619
Investments in associates					785,370	785,370
Total assets						2,497,952

As at 31 December 2016 (audited)

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Total HK\$'000
Segment assets	269,808	140	2,851	1,349,286	-	1,622,085
Unallocated corporate assets						148,755
Investments in associates					891,420	891,420
Total assets						2,662,260

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

6 Finance costs – net

An analysis of finance costs and income is as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Finance costs:		
Interest on bank borrowings wholly repayable within five years	19,261	17,929
Interest on convertible notes	8,383	5,050
Interest on finance leases	–	16
Interest on other borrowings	16,181	16,129
Foreign exchange difference, net	421	–
	44,246	39,124
Less: amounts capitalised on qualifying assets	(21,266)	(34,040)
Total finance costs	22,980	5,084
Finance income:		
Interest income on short-term bank deposits	(56)	(16)
Foreign exchange difference, net	–	(36)
Total finance income	(56)	(52)
Finance costs – net	22,924	5,032

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

7 Operating loss

The Group's operating loss has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Auditors' remuneration	926	737
Cost of inventories recognised as expenses*	22	6
Cost of properties held for sale*	2,413	–
Reversal of provision for impairment of trade receivables	(40)	(51)
Operating lease rentals in respect of buildings	1,802	2,579
Depreciation	1,365	2,507
Professional fees	2,231	7,620
Loss/(gain) on disposal of property, plant and equipment	51	(1)
Selling and marketing expenses	1,864	466

* Cost of inventories recognised as expenses and cost of properties held for sale for the period are included in "cost of sales" on the face of the condensed consolidated income statement.

8 Income tax (credit)/expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The applicable tax rate for the Group's operation in the Mainland China is 25%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax	1,015	–
Deferred tax	(2,985)	1,807
Total tax (credit)/expense for the period	(1,970)	1,807

9 Dividends

No dividend was paid or proposed during the period, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 Loss per share

(a) Basic

The calculation of basic loss per share amount is based on the loss for the period of approximately HK\$220,792,000 (2016: HK\$27,122,000) attributable to owners of the Company, and the weighted average number of approximately 2,471,163,000 (2016: 2,041,558,000) ordinary shares in issue during the period.

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two (2016: three) categories of dilutive potential ordinary shares, share options and convertible notes (2016: share options, warrants and convertible notes). For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have issued assuming the exercise of the share options. For the convertible notes, it is assumed to be converted into ordinary shares, and the net loss was adjusted to eliminate the interest expense less the tax effect.

In calculating the diluted loss per share for the six months ended 30 June 2017 and 2016, the potential ordinary shares arising from the assumed conversion of the share options and convertible notes (2016: share options, warrants and convertible notes) has no dilutive effect on loss per share. Therefore, diluted loss per share equals basic loss per share.

11 Investments in associates

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Unlisted investments:		
Share of net liabilities	(974)	(1,410)
Goodwill	1,040,373	1,040,373
Loan to an associate	1,131	1,131
Impairment loss	(255,160)	(148,674)
	785,370	891,420

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, the loan is considered as quasi-equity investment in an associate.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

12 Trade and rental receivables

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	As at 30 June 2017 <i>HK\$'000</i> (unaudited)	As at 31 December 2016 <i>HK\$'000</i> (audited)
0 – 90 days	127	415
91 – 180 days	–	30
	127	445

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days. Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Credit limits attributed to customers are reviewed regularly.

13 Trade payables

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 June 2017 <i>HK\$'000</i> (unaudited)	As at 31 December 2016 <i>HK\$'000</i> (audited)
0 – 90 days	15,059	16,357
91 – 180 days	298	1,175
181 – 365 days	138	290
Over 1 year	927	324
	16,422	18,146

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

14 Borrowings

	Maturity	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Current			
Bank loan – secured (note i)	On demand	518	627
Bank loan – secured (note ii)	2016-2021	25,455	19,756
Bank loan – secured (note iii)	August 2017	269,504	275,061
Bank loan – secured (note iv)	June 2017	–	11
Other loan – secured (note v)	January 2018	154,577	–
Bank overdraft – secured (note vi)	On demand	3,007	2,981
Loans from a former shareholder – unsecured (note vii)	October and November 2017	15,828	15,828
Loans from a shareholder – unsecured (note viii)	July and September 2017	27,000	–
Other loan – unsecured (note ix)	On demand	57,346	57,346
		553,235	371,610
Non-current			
Bank loan – secured (note ii)	2016-2021	157,134	172,616
Other loan – secured (note v)	January 2018	–	153,459
		710,369	697,685

- (i) At 30 June 2017, the Group's bank loan of HK\$518,000 (2016: HK\$627,000) was secured by the leasehold land and buildings with a net carrying amount of HK\$658,000 (2016: HK\$672,000) and was interest-bearing at prime rate minus 1.5% per annum (2016: same).
- (ii) At 30 June 2017, the Group's bank loan of HK\$182,589,000 (2016: HK\$192,372,000) was secured by the Group's land use right and construction in progress with a net carrying amount of HK\$75,458,000 (2016: HK\$79,285,000) and HK\$70,267,000 (2016: HK\$64,453,000) respectively. According to the repayment terms, the bank loan will be repayable from 2016 to 2021. The bank loan was interest-bearing per annum at the benchmark interest rate determined by the People's Bank of China for loans over 5 years granted by financial institutions (2016: same).
- (iii) At 30 June 2017, the Group's bank loans of HK\$269,504,000 (2016: HK\$275,061,000) were secured by the Group's properties development in progress with a net carrying amount of HK\$441,466,000 (2016: HK\$441,466,000). On 25 July 2017, supplemental loan agreements of bank loans of HK\$222,272,000 for a period of 3 years were entered into. The bank loans were interest-bearing at 9% per annum.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

14 Borrowings (continued)

- (iv) At 31 December 2016, the Group's bank loan of HK\$11,000 was secured by the Group's bank deposits of HK\$17,000. The bank loan was interest-bearing at 4.40% per annum and was repaid in June 2017.
- (v) At 30 June 2017, the Group's other loan of HK\$154,577,000 (2016: HK\$153,459,000) was interest-bearing at 20% per annum.

The other loan was secured and guaranteed by:

- (a) share charges over certain subsidiaries of the Group, namely Cheung Wo (Hunan) Property Limited, Brilliant Field Corporation Limited, Sino Step Inc., Profit Source International Limited and 成都中發黃河實業有限公司 (Chengdu Zhongfa Real Estate Development Co. Ltd.).
 - (b) inter-companies loans.
 - (c) a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a former shareholder of the Company.
 - (d) During the six months ended 30 June 2017, the Group is subject to certain financial covenants under its other loans (2016: Same).
- (vi) At 30 June 2017, the Group's bank overdraft of HK\$3,007,000 (2016: HK\$2,981,000) was secured by the leasehold land and buildings with a net carrying amount of HK\$658,000 (2016: HK\$672,000) and carried floating-rate interest based on the Prime Rate minus 1% per annum.
 - (vii) At 30 June 2017, the Group's loans from a former shareholder were unsecured and non-interest bearing (2016: same).
 - (viii) At 30 June 2017, the Group's loans from a shareholder were unsecured and non-interest bearing (2016: Nil). The loans were repaid in July 2017.
 - (ix) At 30 June 2017, the Group's other loan was interest-free, unsecured and repayment on demand (2016: same).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

15 Convertible notes

On 30 March 2016, the Company issued convertible notes carrying at zero coupon rate of an aggregate principal amount of HK\$822,000,000. The notes are convertible at the option of the noteholders into fully paid ordinary shares with a par value of HK\$0.01 each at any time from the date of the issue of the notes up to and including 30 September 2019 at an initial conversion price of HK\$0.80 (subject to anti-dilutive adjustments). Any convertible notes not converted would be redeemed on 30 September 2019 at face value of the principal amount.

During the year ended 31 December 2016, convertible notes with a total principal amount of HK\$630,900,000 were fully converted into 788,625,000 ordinary shares at conversion price of HK\$0.80. As at 31 December 2016, convertible notes with a total principal amount of HK\$191,100,000 were outstanding. On 31 May 2017 as a result of the nonfulfillment of the profit guarantee given by the vendor pursuant to a sale and purchase agreement entered on 16 November 2015, certain convertible notes held in escrow were cancelled in this respect. Accordingly, this would be considered an early redemption of convertible notes. As at 30 June 2017, convertible notes with a total principal amount of HK\$166,869,000 were outstanding.

- (a) The convertible notes recognised at initial recognition on 30 March 2016 are calculated as follows:

	<i>HK\$'000</i>
Fair value of convertible notes issued	973,202
Equity component	<u>(435,900)</u>
Liability component	<u>537,302</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15 Convertible notes (continued)

(b) Movements of the convertible notes during the period/year are as follows:

	2017		2016	
	Equity component HK\$'000 (unaudited)	Liability component HK\$'000 (unaudited)	Equity component HK\$'000 (audited)	Liability component HK\$'000 (audited)
At 1 January	101,339	136,828	–	–
Initial recognition	–	–	435,900	537,302
Conversion of convertible notes	–	–	(334,561)	(413,588)
Early redemption of convertible notes	(5,009)	(18,250)	–	–
Interest expense	–	8,383	–	13,114
At 30 June/31 December	96,330	126,961	101,339	136,828

For the six months ended 30 June 2017, interest expense on the liability component of the convertible notes was calculated using the effective interest method, applying the effective interest rate of 12.9% (2016: 12.9%) per annum to the liability component.

16 Issued share capital

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Authorised: 100,000,000,000 (2016: 100,000,000,000) ordinary shares of HK\$0.01 (2016: HK\$0.01) each	1,000,000	1,000,000
Issued and fully paid: 2,471,162,504 (2016: 2,471,162,504) ordinary shares of HK\$0.01 (2016: HK\$0.01) each	24,712	24,712

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Issued share capital (continued)

A summary of the transactions during the current and prior periods with reference to the movements in the Company's issued ordinary share capital is as follows:

	<i>Note</i>	Number of shares	Amount HK\$'000
At 1 January 2016		1,682,537,504	16,825
Issue of shares	(a)	<u>788,625,000</u>	<u>7,887</u>
At 31 December 2016, 1 January 2017 and 30 June 2017		<u>2,471,162,504</u>	<u>24,712</u>

- (a) On 7 and 11 April 2016, convertible notes with principal amount of HK\$378,540,000 and HK\$252,360,000 were converted into 473,175,000 and 315,450,000 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.80 each per conversion share.

17 Commitments

(a) Operating lease commitments

(i) As lessor

The Group leases its investment property under non-cancellable operating lease arrangements, with leases negotiated for terms ranging from 2 to 14 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Within one year	18,611	18,609
Between two to five years	75,573	76,154
Over five years	93,696	102,684
	<u>187,880</u>	<u>197,447</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17 Commitments (continued)

(a) Operating lease commitments (continued)

(ii) As lessee

The Group leases certain of its office properties and equipment under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Within one year	4,035	3,556
Between two to five years	2,588	4,044
	6,623	7,600

(b) Other commitments

At the end of the reporting period, the Group had commitments for the following expenditures in respect of:

	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Contracted but not provided for:		
Property and hotel development	1,503,420	1,696,135
Available-for-sale financial assets	4,950	4,950
	1,508,370	1,701,085

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Related party disclosures

(i) *Related party transactions*

In addition to the transactions detailed elsewhere in these condensed consolidated financial information, the Group had no material transactions with related parties during the six months ended 30 June 2017.

During the six months ended 30 June 2017, Keyne Holdings Limited, a shareholder of the Company, entered into loan agreements with the Company of HK\$20,000,000, HK\$5,000,000 and HK\$2,000,000. Details of the terms and maturity date are disclosed in note 14(viii) to the financial statements.

(ii) *Compensation of key management personnel*

The remunerations of the Directors during the six months ended 30 June 2017 were short-term benefits of HK\$2,837,000 (2016: HK\$2,194,000). It is determined by reference to market terms, individual responsibilities and performance.

19 Event after the reporting period

On 17 July 2017, the Company completed a share placement by issuing 494,232,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.24 per placing share. The net proceeds from the placing are HK\$115,990,000.

20 Approval of the condensed consolidated financial statements

These condensed consolidated financial statements were approved and authorised for issue by the Board on 29 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2017, the globe economic environment is getting stable, the Group holds out strong optimism about the economic prospect of Mainland China and remains fully confident in the country's development. The Group will strengthen the investment in property projects with strong development potential under the leadership of its new management team.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017, the Group recorded a turnover of approximately HK\$14,312,000 (2016: HK\$12,237,000), accounting for an increase of approximately 17.0%. Loss attributable to the owners of the Company was approximately HK\$220,792,000 (2016: HK\$27,122,000).

For the six months ended 30 June 2017, property rental income was stable and contributed approximately HK\$9,552,000 (2016: HK\$10,132,000) to the total turnover while film distribution and processing businesses accounted for approximately 16.2% (2016: 17.2%) of the total turnover, amounted to approximately HK\$2,323,000 (2016: HK\$2,105,000).

Loss attributable to shareholders was approximately HK\$220,792,000 (2016: HK\$27,122,000). Basic loss per share was approximately HK8.93 cents (2016: HK1.33 cents). The Board does not recommend dividend payout for the six months ended 30 June 2017 (2016: Nil). As at 30 June 2017, cash and cash equivalents were approximately HK\$15,844,000 (31 December 2016: HK\$24,010,000).

BUSINESS REVIEW

During the period under review, the Group continued to focus on (i) property and hotel development (the "Xiangtan Project" in Xiangtan, Hunan Province), (ii) property rentals (the "Chengdu Project") in Chengdu, Sichuan Province, (iii) film distribution and processing business, and (iv) centralised heat supply business.

(i) *Xiangtan Project*

Situated in the Jiuhua Economic Zone of Xiangtan, Hunan, the Xiangtan Project encompasses a land area of 325,989 sq. m. for the development of a five-star hotel and low density residential units.

With the recent development and operation of the infrastructure works in the first half of 2017, for example, the Maglev train between the Changsha airport and the core areas of the Changsha city and operation of the Intercity Railway which run across the major cities in Hunan, that where the core cities, namely Changsha, Xiangtan and Zhuzhou, made into a convenient living circle to the surrounding areas.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

(i) Xiangtan Project (continued)

In 2016, the outer-wall construction work on the proposed five-star hotel has already been completed, given that the adjacent recreational facilities and surrounding infrastructure development are getting mature, we expect to commence the inner decorating works of the hotel shortly and will officially launch our operations near the end of 2018 or in the first half of 2019.

As of 30 June 2017, the Group had pre-sold comprising duplex and semi-detached villas, with a gross saleable area of approximately 23,200 square meter, which we expect to generate of the pre-sale proceeds from the property project of approximately HK\$188,871,000. Although we had completed the official comprehensive inspection of the duplex villas units, most of the buyers are yet to complete the delivery process of the properties.

For the first half in 2017, the Group had commenced the construction of detached villa units, and in the second half of 2017, we will obtain the relevant pre-sale permits, and further generating healthy cash flows to the Group for further resources to put into the development project. Looking ahead in the second half of 2017 the Group will speed up the construction of the remaining Phase 1 property development (comprising the development of semi-detached villas and low-to medium rise apartments) to accommodate the property market boom in Xiangtan city.

Due to the sustained delay in the construction work of the property development projects, the Group's management has reassessed the net realisable value of its properties held for sale and properties development in progress. As at 30 June 2017, the net realisable value of certain properties were lower than the cost of the properties held, therefore, written down of the properties held for sale and properties development in progress of HK\$17,211,000 and HK\$63,287,000 were recognised in the condensed consolidated statement of profit or loss.

(ii) Chengdu Project

For the six months ended 30 June 2017, the Group's five-storey shopping centre located in Jinniu District, Chengdu, remained almost fully leased and become the main steady income driver for the Group. Revenues of approximately HK\$9,552,000 from property rental, were similar to the total recorded for the six months ended 30 June 2016.

(iii) Film Distribution and Processing Business

For the six months ended 30 June 2017, film distribution and processing business recorded revenues of approximately HK\$2,323,000, an increase of approximately 10.4% compared to the first half of 2016. The loss before income tax narrowed from approximately HK\$4,050,000 to approximately HK\$1,217,000 in the same corresponding period of 2016 and 2017 respectively as the Group restructured its existing film group for strategic planning purposes and less resources will be put in the sector.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

(iv) Centralised Heat Supply Business

As of 30 June 2017, an independent valuation was carried out to determine the recoverable amount of 49% equity interests in Ever-Grand Development Limited (“Ever-Grand”), for the purpose of assessment of an indication of asset impairment in complying with HKAS 36. The recoverable amount was determined at approximately HK\$785,370,000, which was approximately 31.4% to the Group’s total assets of approximately HK\$2,497,952,000. The management of Ever-Grand has adopted “Discounted cashflows method” under “Income approach” as the valuation methodology.

The major inputs used were: (i) the approved budgeted future cashflows of Ever-Grand for the financial periods from 2017 to 2022; (ii) pre-tax discount rate of 18.2%; and (iii) terminal growth rate of 3%.

For the six months ended 30 June 2017, as a result of the delay of the pipeline deployment plan, the actual steam, usage by the customers are lower than expected. As a result, the Directors noted an indication of impairment of the related investment, and according to the independent valuation, the recoverable amount of approximately HK\$785,370,000 falls below the carrying amount of the investment of approximately HK\$891,856,000. The Directors considered to recognise an impairment loss of HK\$106,486,000 for such investment.

According to the consolidated financial statements of Ever-Grand and its subsidiaries (collectively the “Ever-Grand Group”) for the year ended 31 December 2016 (the “FY2016”) received by the Company, the attributable net profit to the Company for FY2016 is approximately HK\$269,000, which falls below the guaranteed amount (given by Sky-Linked International Limited (the “Vendor”)) of HK\$24,500,000 for FY2016. The shortfall is approximately HK\$24,231,000 (the “Amount in Difference”). Pursuant to the sale and purchase agreement, in respect of the non-fulfillment of the profit guarantee for FY2016, the Company had on 31 May 2017 cancelled the same principal amount of convertible notes from those held in escrow for FY2016 and return to the Vendor the remaining convertible notes held in escrow for FY2016.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCING ACTIVITIES AND EVENTS AFTER THE REPORTING PERIOD

On 17 July 2017, the Company completed the placing of an aggregate of 494,232,000 placing shares at the placing price of HK\$0.24 per placing share and the gross proceeds from the Placing are approximately HK\$118.62 million and the net proceeds from the Placing (“Proceeds”), after deduction of commission and other expenses of the Placing, are approximately HK\$115.99 million. It was intended that the net proceeds will be used i) as to approximately HK\$15.50 million to repay interest expense for the US\$20.00 million guaranteed secured notes due in January 2018 (had been used as intended); ii) as to approximately HK\$27.00 million to repay the loans from a shareholder of the Company, Keyne Holdings Limited (had been used as intended); and iii) as to approximately HK\$73.49 million for any potential investments in the future and general working capital of the Group.

On 19 July 2017, the Company entered into (i) a non-legally binding memorandum with Ever Harmony Enterprises Limited (永鴻企業有限公司) (the “Vendor”) in relation to the possible acquisition whereby the Company intends to acquire and the Vendor intends to sell all or part of the Vendor’s shareholding in 揚州亞太置業有限公司, the target company, and (ii) the investment management agreement with CSOP Asset Management Limited (the “Manager”), pursuant to which the Company has agreed to appoint the Manager and the Manager has agreed to accept such appointment as manager to provide the investment management service by the Manager to the Company. The principal purpose for the Company to enter into the Investment Management Agreement is to enhance its income for the presently unutilised Proceeds, such that additional revenue can be achieved from idle cash before applying to the designated use set out in the announcement. In addition to enhance the income, the Company is also allowed for the flexibility of withdrawal at its request. These features enable the Company to generate steady income from its cash surplus while at the same time, maintain the Company’s liquidity position.

On 25 July 2017, a Company’s subsidiary entered into certain supplemental loan agreements with a PRC bank, for a period of 3 years, for the term loan of RMB200,000,000 which is interest bearing at the market rate. Under such loan agreements, the borrowings were secured by the land situated in Xiangtan, Hunan (which was acquired by the Group in October 2013 for the residential development project) and guaranteed by certain related parties of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISPOSAL OF SHARES BY SHAREHOLDERS

On 27 April 2017, two share purchase agreements were entered into between (i) Connected-World Group Limited (“Connected-World”) as vendor and China U-Ton Holdings Limited (the “Purchaser”) which shares are listed on the Main Board of the Stock Exchange (stock code: 6168), as purchaser (the “SP Agreement A”) and (ii) Full Dragon Group Limited (“Full Dragon”) as vendor, and the Purchaser (“SP Agreement B”). Pursuant to the SP Agreement A, Connected-World has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 100,000,000 shares of HK\$0.01 each in the capital of the Company (the “Shares”) at the consideration of US\$3,146,586 (the “Disposal A”). Pursuant to the SP Agreement B, Full Dragon has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 232,284,073 Shares at the consideration of US\$7,308,599 (“Disposal B”, together with the Disposal A, the “Disposals”).

Immediately following the Disposals, Full Dragon ceased to be a shareholder of the Company and Connected-World remains interested in 494,050,000 Shares after the Disposals.

PROSPECTS

Amidst the volatility of the world economy, the Group will continue to execute a prudent business diversification strategy in the second half of year in order to stabilise its advantages and profitability under this challenging economic environment.

The Xiangtan Jiuhua Economic Zone in Hunan Province is one of China’s national development zones and it is experiencing rapid economic growth due to large scale investments by institutions across different areas in construction of transportation facilities, educational institutions, healthcare facilities, commercial facilities, tourism facilities and more. As upgrades and improvements continue in this Zone, there will be greater demand for the Group’s five-star hotel operations and low density villas nearby. Given these circumstances, the Group intends to make full use of the entire Xiangtan Project land area and actively accelerate its development. We expected that steady revenues would be generated from the hotel operation and the sales launch of the residential properties.

In recent years, the film industry has been booming across the PRC with favorable policies launched by both the PRC and Hong Kong Governments. For this reason, the Group still see promising future developmental potential for the film business. Therefore, while maintaining its current operations, we will also explore new plans and opportunities that could potentially bring in even higher revenues for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

In addition, the Company has been actively exploring new business opportunities to diversify its future business development. On 19 July 2017, the Company entered into a non-legally binding memorandum with Ever Harmony Enterprises Limited (永鴻企業有限公司) (the “Vendor”) in relation to the possible acquisition whereby the Company intends to acquire and the Vendor intends to sell all or part of the Vendor’s shareholding in 揚州亞太置業有限公司, the target company, which will enable the Company to further invest in real estates and hotels with the focus on tourism and commercial properties. The possible acquisition presents an excellent opportunity for the Group to further expand and diversify its business portfolio.

Given the above, nevertheless market expectations for increasing conflicts and challenges around the globe in 2017, the Group will maintain an optimistic yet pragmatic disposition as it endeavours to maximise the value for the Group by bolstering the performance of its property business operations in Mainland China through flexible approaches, while actively identifying opportunities for structural improvements and resource optimisation to increase synergies among different segments.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group’s net current assets were approximately HK\$268,165,000 (31 December 2016: HK\$522,095,000), with current assets of approximately HK\$1,099,985,000 (31 December 2016: HK\$1,114,974,000) and current liabilities of approximately HK\$831,820,000 (31 December 2016: HK\$592,879,000), representing a current ratio of approximately 1.3 (31 December 2016: 1.9). As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$15,844,000 (31 December 2016: HK\$24,010,000).

CAPITAL STRUCTURE

The Group’s total equity amounted to approximately HK\$1,225,245,000 as at 30 June 2017 (31 December 2016: HK\$1,446,837,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BORROWINGS AND BANKING FACILITIES AND CHARGE ON GROUP ASSETS

As at 30 June 2017, the Group's outstanding borrowings and convertible notes were approximately of HK\$837,330,000 (31 December 2016: HK\$834,513,000). The Group's bank loan of approximately HK\$182,589,000 (31 December 2016: HK\$192,372,000) were secured by the Group's land use right and construction in progress with a net carrying amount of approximately HK\$75,458,000 (31 December 2016: HK\$79,285,000) and approximately HK\$70,267,000 (31 December 2016: HK\$64,453,000) respectively. The Group's bank loan of approximately HK\$269,504,000 as at 30 June 2017 (31 December 2016: HK\$275,061,000) was secured by the Group's properties development in progress with a net carrying amount of approximately HK\$441,466,000 (31 December 2016: HK\$441,466,000). The Group's current bank loan of approximately HK\$518,000 (31 December 2016: HK\$627,000) and bank overdraft of approximately HK\$3,007,000 as at 30 June 2017 (31 December 2016: HK\$2,981,000) were secured by the leasehold land and buildings, with a net carrying amount of approximately HK\$658,000 (31 December 2016: HK\$672,000). The Group's bank loan of approximately HK\$11,000 as at 31 December 2016 was secured by the Group's bank deposits of approximately HK\$17,000. The Group's other loan of approximately HK\$154,577,000 (31 December 2016: HK\$153,459,000) was secured by the share charges over certain subsidiaries of the Group, inter-companies loans and a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a former shareholder of the Company. The Group's loans from a former shareholder of approximately of HK\$15,828,000 (31 December 2016: HK\$15,828,000), loans from a shareholder of approximately of HK\$27,000,000 (31 December 2016: Nil) and other loan of approximately HK\$57,346,000 (31 December 2016: HK\$57,346,000) were unsecured. The gearing ratio based on borrowings and convertible notes over total equity as at 30 June 2017 was approximately 0.683 (31 December 2016: 0.577).

EXPOSURE TO FOREIGN EXCHANGE

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. Income and expenses derived from the operations in the PRC were mainly denominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, however, the Group will closely monitor the market and make appropriate adjustments and measures when necessary.

CONTINGENT LIABILITIES

As at 30 June 2017, there were no contingent liabilities that the Group is aware of.

EMPLOYEES AND REMUNERATION POLICIES

Staff costs for the six months ended 30 June 2017 was approximately HK\$9,117,000 (2016: HK\$10,585,000), representing a decrease of approximately 13.9%, mainly due to restructuring of the existing businesses portfolios. The Group had a workforce of 78 (2016: 96). Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register maintained by the Company or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of Shareholder	Capacity	Number of ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Wan Peizhong	Beneficial owner	123,000(L)	0.01%(L)

Note: The letter “L” denotes the person’s long position in such Shares.

Directors' rights to acquire shares or debentures

At no time during the period was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Share options

The Company adopted a share option scheme (the “Scheme”) on 2 September 2013. The purpose of the Scheme is to attract and retain talented personnel for future development of the Group; to provide incentive to encourage Participants (as defined below) to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Group attained through their efforts and contributions.

The eligible grantees of the Scheme (the “Participants”) are (i) any employees or officer (whether full time or part time, and including any executive director) of any member of the Group; (ii) or any non-executive director (including independent non-executive director) of any member of the Group; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of any member of the Group; (v) any holder of any securities or securities convertible into any securities issued by any member of the Group; (vi) any person or entity that provides advisory, consultancy or professional services to any member of the Group or any director or employee of any such entity; and (vii) any other group or classes of participants from time to time determined by the Directors as having contributed to the development and growth of the Group.

Details of the share options (the “Options”) granted under the Scheme to certain employees of the Company to subscribe for the shares in the Company are as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Outstanding as at 30.6.2017	Approximate percentage to the issued share capital %	
				Granted during the review period	Exercised during the review period	Cancelled/Lapsed during the review period			
Employees In aggregate	5.11.2013	5.11.2013 to 4.11.2023	0.94	66,696,228	-	-	11,116,038	55,580,190	2.25
				66,696,228	-	-	11,116,038	55,580,190	2.25

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Share options *(continued)*

Notes:

- (1) As at 30 June 2017, the number of issued shares of the Company is 2,471,162,504.
- (2) The closing price of the Company's shares immediately before 5 November 2013, the date of grant of the options was \$0.94.
- (3) The total number of the Company's share available for issue under the Scheme was 247,116,250 which represented approximately 8.33% of the issued share capital of the Company as at the date of this report.

Substantial shareholders' and other person's interests and short positions in the shares and underlying shares of the Company

As at 30 June 2017, the registers of substantial shareholders and other person maintained by the Company under Section 336 of the SFO showed that the following persons notified the Company of the relevant interests in the issued share capital of the Company:

Long and short positions

Ordinary shares of HK\$0.01 each of the Company

<u>Name of Shareholder/other person</u>	<u>Capacity</u>	<u>Number of ordinary shares held/Number of underlying shares held under equity interest</u>	<u>Approximate percentage of the issued share capital of the Company</u>
Zhu Boheng <i>(Note 1)</i>	Interest of controlled corporation	642,488,592(L)	26.00%(L)
Keyne Holdings Limited <i>(Note 1)</i>	Beneficial owner	642,488,592(L)	26.00%(L)
Cheng Ngok Fai <i>(Note 2)</i>	Interest of controlled corporation	413,761,250(L)	16.74%(L)
Connected-World Group Limited <i>(Notes 2 & 4)</i>	Interest of controlled corporation	208,250,000(L)	8.43%(L)
	Beneficial owner	205,511,250(L)	8.31%(L)
Li Ruiguang <i>(Note 3)</i>	Interest of controlled corporation	411,747,000(L)	16.66%(L)
	Beneficial owner	54,340,000(L)	2.20%(L)
Eternal Galaxy Group Limited <i>(Notes 3 & 4)</i>	Interest of controlled corporation	238,875,000(L)	9.67%(L)
	Beneficial owner	81,686,000(L)	3.30%(L)

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Long and short positions *(continued)*

Ordinary shares of HK\$0.01 each of the Company *(continued)*

Name of Shareholder/other person	Capacity	Number of ordinary shares held/Number of underlying shares held under equity interest	Approximate percentage of the issued share capital of the Company
Sky-Linked International Limited <i>(Note 4)</i>	Beneficial owner	208,250,000(L)	8.43%(L)
Central Huijin Investment Limited <i>(Note 5)</i>	Interest of controlled corporation	792,298,268(L)	32.06%(L)
China Construction Bank Corporation <i>(Note 5)</i>	Interest of controlled corporation	792,298,268(L)	32.06%(L)
Jiang Changqing <i>(Note 6)</i>	Interest of controlled corporation	332,284,073(L)	13.45%(L)
Guo Aru <i>(Note 7)</i>	Interest of spouse	332,284,073(L)	13.45%(L)
Bright Warm Limited <i>(Note 6)</i>	Interest of controlled corporation	332,284,073(L)	13.45%(L)
China U-ton Holdings Limited <i>(Notes 6 & 7)</i>	Beneficial owner	332,284,073(L)	13.45%(L)
Li Yuelan <i>(Note 8)</i>	Interest of controlled corporation	124,336,585(L)	5.03%(L)
Liu Xuezhong <i>(Note 8)</i>	Interest of controlled corporation	124,336,585(L)	5.03%(L)
Luckever Holdings Limited <i>(Note 8)</i>	Interest of controlled corporation	124,336,585(L)	5.03%(L)
China Fund Limited <i>(Note 8)</i>	Beneficial owner	124,336,585(L)	5.03%(L)
Cheng Keung Fai <i>(Note 9)</i>	Interest of controlled corporation	149,809,676(S)	6.06%(S)
Full Dragon Group Limited <i>(Note 9)</i>	Beneficial owner	149,809,676(S)	6.06%(S)

Notes:

1. The entire issued share capital of Keyne Holdings Limited is owned by Mr. Zhu Boheng.
2. The entire issued share capital of Connected-World Group Limited is owned by Mr. Cheng Ngok Fai.
3. The entire issued share capital of Eternal Galaxy Group Limited is owned by Mr. Li Ruiguang.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Long and short positions *(continued)*

Ordinary shares of HK\$0.01 each of the Company (continued)

Notes: (continued)

4. According to the form of disclosure of interest filed by Connected-World Group Limited dated 31 May 2017, the entire issued share capital of Sky-Linked International Limited is owned by Connected-World Group Limited. Sky-Linked International Limited is deemed to be interested in 208,250,000 Shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the convertible note in the principal amount of HK\$166,600,000 (the “Convertible Note”) issued by the Company on 30 March 2016 (assuming full conversion of the Convertible Note).

According to the latest form of disclosure of interest filed by Eternal Galaxy Group Limited dated 4 March 2017, 40% of the issued share capital of Sky-Linked International Limited is owned by Eternal Galaxy Group Limited. Sky-Linked International Limited is deemed to be interested in 238,875,000 Shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the Convertible Note (assuming full conversion of the Convertible Note).

5. Approximately 57.31% of the entire issued share capital of China Construction Bank Corporation is owned by Central Huijin Investment Limited. The interests in such Shares are held by Sea Venture Investments Limited and Chance Talent Management Limited which are indirect wholly-owned subsidiaries of China Construction Bank Corporation. Among those 792,298,268 Shares, the interests in 642,488,592 Shares are security interest and the interests in 149,809,676 Shares are related to a call option to acquire 149,809,676 Shares granted to a subsidiary of Central Huijin Investment Limited.
6. Approximately 34.13% of the entire issued share capital of China U-ton Holdings Limited is owned by Bright Warm Limited which is beneficially owned by Mr. Jiang Changqing. As such, each of Mr. Jiang Changqing and Bright Warm Limited is deemed to be interested in all the Shares held by China U-ton Holdings Limited for the purpose of the SFO.
7. Ms. Guo Aru is the spouse of Mr. Jiang Changqing, and is deemed to be interested in all the Shares in which Mr. Jiang Changqing has, or is deemed to have, an interest for the purpose of the SFO.
8. China Fund Limited is wholly-owned by Luckever Holdings Limited which is owned as to 39.13% by Ms. Li Yuelan and 60.87% by Mr. Liu Xuezhong. As such, each of Luckever Holdings Limited, Ms. Li Yuelan and Mr. Liu Xuezhong is deemed to be interested in all the Shares held by China Fund Limited for the purpose of the SFO.
9. The entire issued share capital of Full Dragon Group Limited is owned by Mr. Cheng Keung Fai. Full Dragon Group Limited has granted a call option to acquire 149,809,676 Shares of the total issued share capital of the Company to a subsidiary of Central Huijin Investment Limited, details of which were disclosed in the announcement of the Company dated 4 May 2015.
10. The letter “L” denotes the person’s long position in such Shares and the underlying Shares.
11. The letter “S” denotes the person’s short position in such Shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 June 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Purchase, redemption and sale of shares

During the period, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company's shares.

Corporate governance

The Company has complied throughout the period under review with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules other than those in respect of the company secretary.

Under the code provision F.1.1 of the CG Code, the Company engages Mr. Chan Chun Fat as its company secretary. Mr. Chan is a practising solicitor and in performing his duties as the company secretary of the Company, he reports to the Board and maintains contacts with the chief executive officer of the Company.

Model Code for directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of Rules Governing the Listing of Securities on the Stock Exchange as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the required standard set out under the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30 June 2017.

Sufficiency of public float

The Company has maintained a sufficient public float up to the date of this report.

Audit Committee

The Audit Committee, comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2017.

List of Directors

As at the date of this report, the Board comprises eight Directors. The executive Directors are Mr. Wan Peizhong (Chairman), Mr. Xiang Junjie (Chief executive officer), Mr. Ji Jianguo, Ms. Qian Ling Ling and Mr. Zhang Li; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(continued)*

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our shareholders and investors for their support and our customers for their patronage.

By Order of the Board
Xiang Junjie
Chief Executive Officer

Hong Kong, 29 August 2017