



# New Sports Group Limited 新體育集團有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 299)

## 2017 INTERIM REPORT





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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Zhang Xiaodong (*Chairman & Chief Executive Officer*)  
Xia Lingjie

### Non-Executive Director

Lau Wan Po

### Independent Non-Executive Directors

Chen Zetong  
He Suying  
Tang Lai Wah  
Chui Man Lung, Everett (resigned on 20 January 2017)

## CHIEF FINANCIAL OFFICER

Fong Ching Kong (appointed on 20 January 2017)  
Wong Yu King (resigned on 20 January 2017)

## COMPANY SECRETARY

Fong Ching Kong (appointed on 1 April 2017)  
Foo Man Yee, Carina (resigned on 1 April 2017)

## SOLICITOR

Baker & McKenzie

## AUDIT COMMITTEE

Tang Lai Wah\* (appointed as Chairman on 20 January 2017)  
Chen Zetong  
He Suying  
Chui Man Lung, Everett (resigned on 20 January 2017)

## DEVELOPMENT COMMITTEE

Zhang Xiaodong\*  
Xia Lingjie  
Fong Ching Kong

## INVESTMENT COMMITTEE

Zhang Xiaodong\*  
Lau Wan Po  
Xia Lingjie

\* Chairman

## NOMINATION COMMITTEE

He Suying\*  
Chen Zetong  
Tang Lai Wah  
Chui Man Lung, Everett (resigned on 20 January 2017)

## RISK MANAGEMENT COMMITTEE

Zhang Xiaodong\*  
Lau Wan Po  
Xia Lingjie

## SALARY REVIEW COMMITTEE

He Suying\*  
Zhang Xiaodong  
Chen Zetong  
Tang Lai Wah  
Chui Man Lung, Everett (resigned on 20 January 2017)

## AUTHORISED REPRESENTATIVES

Zhang Xiaodong  
Fong Ching Kong

## AUDITOR

RSM Hong Kong  
Certified Public Accountants

## PRINCIPAL BANKERS

Bank of East Asia Limited  
Hong Kong and Shanghai Banking Corporation

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2602, 26/F.  
Lippo Centre, Tower 1  
No. 89 Queensway  
Admiralty  
Hong Kong

# CORPORATE INFORMATION

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Butterfield International (Cayman) Limited  
68 Fort Street, P. O. Box 705  
George Town, Grand Cayman  
Cayman Islands

## **WEBSITE**

<http://www.newsportsgp.com>

## **REGISTERED OFFICE**

Cricket Square Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **STOCK CODE**

299

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY AND MARKET OVERVIEW

In recent years, the sports industry in China has experienced rapid development with fruitful outcomes on the back of the promulgation of a series of guidance opinions with respect to the sports sector in China and the upgrade of the concept of “sport for all” to a national strategy level. The total output (total size) of the sports industry reached RMB1.7 trillion in 2015; and according to the “13th Five-year Plan for Sports Industry Development” promulgated in 2016, the market size is even targeted at RMB5 trillion by 2025.

While the overall size is increasing, the system of sports industry has also been improving. The infrastructure sectors, including sports venues operation, sports training and sports event management, delivered great impetus; and the trend of industry integration has further emerged. New sectors such as sports and tourism and property have continuously increased their penetration rates, bringing new driving forces to the market. In particular, based on relevant statistical data, it is expected that the market size of sports venues operation can reach RMB144 billion by 2020; the sports training business is expected to increase to RMB750 billion by 2025; and for sports tourism, China has enjoyed a lead of 30% to 40% in growth rate ahead of global figures. The total consumption scale of sports tourism will exceed RMB1 trillion by 2020.

Meanwhile, in countries where the sports industry is well developed, income generated from the sports industry accounts for approximately 1% to 3% of the gross domestic product (GDP) per annum, while the figure in the United States even reaches 3%. In China, however, the sports industry only accounted for 0.63% of the GDP per annum as at the end of 2015, meaning there is a gap between China and other developed countries in terms of the development of the sports industry. In the long run, such gap shall represent an enormous room for the development of China’s sports industry. The “blowout” of China’s sports industry is set to evolve.

Facing such a new industry landscape, the Group believes that innovation and revolution are the ultimate driving forces for its sustainable development. As such in the first half of 2017, the Group keeps looking for sound business opportunities in sports event management and sports training to further strengthen its core businesses, while staying proactively and acting decisively in the sports tourism sector. In the meantime, since the sports and property sectors are interrelated and new types of properties, including “sports towns”, “sports malls”, “community sports parks”, are well received by the markets and reveal a strong development trend, the Group believes that proper integration of property investment and business development with the existing sports industry is a market decision that presents promising future. As part of the Group’s future development strategy, the incorporation of property investment and development in our operations can boost the expansion of both light and heavy assets, and lay a strong foundation for the Group in developing an integrated industry chain.

## BUSINESS REVIEW

### P2P Internet Financing Business

Since 2017, the cumulative problems arising from the P2P Internet financing industry have gradually evoked, and a raft of negative social and economic news emerged. The regulatory requirements have been tightened after a series of industry reshuffle and uncontrollable policy risks may occur at any time. On the other hand, the credibility of fund absorbing by P2P financing and its inherently insufficient credibility resulted in a heavy burden of funding cost pressures on the entire industry. Due to the extremely uncertain prospects of the industry and the failure to achieve synergy between the Group’s P2P Internet Financing Business and other businesses (impairment loss on goodwill of approximately HK\$141,687,000 was recognized from P2P Internet Finance Business in 2016), the Group completed the divestment of Key Rich Corporation Limited and its subsidiaries which are related to the Group’s P2P Internet Financing Business in March 2017 and officially exited from the Internet financing platform services industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group believes that this was a decisive move in response to market changes. The disposal of the business would enable the Group to dedicate its efforts to monitoring and controlling its existing businesses and sculpturing a more stable development landscape by exiting from a high-risk industry.

## Online Game Business

Under the consistent influence caused by the significant volatility in the internet market and the high homogeneity of products in the gaming market, Heroic Coronet Limited (“Heroic Coronet”), a member of the Group, incurred significant loss in 2016. Impairment losses on goodwill and other intangible assets amounting to approximately HK\$175 million and approximately HK\$86 million respectively, were recognized from the online game service business. The Group disposed of its entire equity interest in Heroic Coronet and its rights in the shareholder’s loan in May 2017. In addition, as the original “SinoCom” group of companies no longer constitute the core businesses of the Group, the Group settled the issues previously left over and completed the divestment and disposal of all idle companies in software development and IT related segments and attained a complete revitalization of the Group.

The above activities have protected the Group’s overall performance against the continuous adverse impact caused by the high volatility of the gaming industry and relieved the pressure arising from the enormous initial investment in the early stage of game development. The Group was therefore able to lay down its burdens and effectively redirected the capital funds into businesses with brighter and more stable development prospects.

## Sports Tourism and Sports Training

During the first half of 2017, the Group continued to optimize its core businesses by divesting and integrating the barely satisfactory operations and laid the groundwork for the development of the sports tourism and sports training core segments with the support of New Sports Marine Sport Centre (as defined below) and New Sports Marine Training Centre (as defined below).

The Group obtained the operating right of the marine sports base (renamed as “New Sports Marine Sport Centre”) and sailing school (renamed as “New Sports Marine Training Centre”) in Dapeng New District in December 2016, and these two major assets of the Group have subsequently become powerful vehicles of the Group’s core businesses after more than six months of operation. New Sports Marine Sport Centre has now been transformed into an integrated leisure and tourism platform that offers yacht parking, boat leasing, yacht skippering training, diving training, vacation and leisure and starred hotels. In particular, the Group has successfully entered into the New Sports • China Cup Ten Years Strategic Framework Agreement with the Organizing Committee of China Cup International Regatta at the 1st New Sports • Dapeng Coast Triathlon Challenge and New Sports Marine Sport Centre Brand Release held in August. It confirmed that New Sports Marine Sport Centre would be the official competition venue of China Cup for the next ten years. Following the reconstruction of the facilities and soft environment, New Sports Marine Training Centre currently has established in-depth cooperation with large institutions and organizations with training demand, including the Emergency Management Office of Shenzhen.

At the present stage, seizing the opportunities generated from the Shenzhen government’s brand new strategic positioning — Eastward Shift Strategic Action Plan and “Tourism Demonstration Area” in Dapeng New District, the Group has successfully gained a head start in the sports tourism and sports training industry with the advantage of a well-situated marine event venue and an integrated training base, which provide a vigorous driving force for the development of the Group’s main businesses.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Property Investment Development and Securities Investment

On 28 June 2017, the Group entered into an agreement for the acquisition of the entire equity interest in Shenzhen Borui Enterprise Management Company Limited (“Shenzhen Borui”) for a total consideration of RMB950 million. Upon the completion of the acquisition, the Group will hold approximately 56.8% of the entire equity interest in Shenzhen Chaoshang Joint Investment Company Limited (“Chaoshang Joint Investment”), where Chaoshang Joint Investment, in turn, holds the entire equity interest in Chaoshang Group (Shantou) Investment Company Limited (“Chaoshang Group (Shantou)”), approximately 96.24% of the entire equity interest in Shantou Chaoshang Chengzhen Comprehensive Management Company Limited (“Chaoshang Chengzhen”) and approximately 7.24% of the entire equity interest in Shenzhen Chaoshang Equity Investment Fund Company Limited.

Chaoshang Group (Shantou) and Chaoshang Chengzhen respectively owns certain land in Shantou region. Details of which are set out in the announcement of the Company dated 28 June 2017. In addition to the property investment in Chaoshan region, the Group has also made other investments during the year, including several real estate projects in Shenyang and Hefei.

With respect to the aforementioned acquisitions, the Group considers that, from the operation perspective, tapping into property development and investment would allow the Group to broaden recurring cash stream and achieve a positive capital cycle. On top of it, the concept of “community sports” by inclusion of community sports facilities in or close to the properties to be developed by the Group can increase the value of real estate properties and promote sports health among the general public. Through the management and operation of these properties, the Group is able to accumulate experience for the construction and operation of sports venues in larger scale, laying a solid foundation for the Group’s prioritized “sports venues operation”. Following the inclusion of the Guangdong-Hong Kong-Macau Greater Bay Area into China’s national strategy and the future integrated development within the Shenzhen-Shanwei Special Cooperation Zone, the Group believes that the prospects of the property development and investment market in Guangdong Province (especially Chaoshang area) of China is highly promising. The above acquisitions also mark the Group’s expansion into property investment and development business building on its sports-related operations.

While expanding the scale of heavy assets, the Group also conducts securities investment in certain local listed companies which will constitute part of the core businesses of the Group in the future. Complementing each other, the securities investment segment and the physical business segments will pave a solid path for the Group’s sustainable development.

## OUTLOOK

Upon the completion of the divestment in the first half of 2017 and acquisition of Shenzhen Borui, the Group has basically achieved a strategic layout for business growth featuring “Sports and Health, Culture and Tourism, Property Investment and Development”. The Group believes that the new business scope will formulate a healthy development model primarily focusing on physical businesses after exiting the “speculative” mobile internet entertainment industry and avoiding the investment risks of “high input, low return” in the software development and IT industry. As such, the Group has switched into a fast lane of diversified development with sustainable cash flows.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the second half of 2017, the Group will concentrate on the three key aspects of “Sports and Health, Culture and Tourism and Property Investment and Development” and optimize the internal resources continuously while expanding the external operations steadily to create a long-term, sustainable, stable and forward-looking inner-connection among the above three aspects to achieve a virtuous cycle and an effective closure of the entire industry chain. Building on our stadium management, sports training, sports event management and sports tourism experience, the Group will further expand into sports real estate development and securities investment, which will become the main businesses of the Group, to effectively complete the whole industry chain strategic layout.

## REVIEW OF RESULTS AND OPERATIONS

During the period of six months ended 30 June 2017 (the “Period”), the Group achieved approximately HK\$27,502,000 in revenue, representing a significant decrease of approximately 58% from that of approximately HK\$65,795,000 during the same period last year. The significant drop in revenue was mainly attributable to the disposal of All Rise Technology Limited (“All Rise”), which owned 65% of Beijing Kaixin Jiu hao Technology Limited (“Kaixin Beijing”) and engaged in provision of online game services. The disposal of All Rise was due to the reason that the performance of Kaixin Beijing fell below expectation for the Period.

Gross loss was approximately HK\$34,042,000, comparing to the gross profit of approximately HK\$21,420,000 during the corresponding period last year. The overall gross profit ratio of approximately 32.6% became gross loss ratio of approximately 123.7%. The substantial decrease was mainly due to the decrease in revenue in mobile gaming industry for the Period. With respect to the operation of a yacht club and provision of training services, a gross loss resulted from the inclusion of the non-cash amortization expense of other intangible assets of approximately HK\$30,716,000 into cost of services.

During the Period, the Group’s distribution costs amounted to approximately HK\$210,000 (as at 30 June 2016: approximately HK\$11,197,000), administrative expenses amounted to approximately HK\$27,273,000 (as at 30 June 2016: approximately HK\$38,563,000) and research and development expenses amounted to approximately HK\$205,000 (as at 30 June 2016: approximately HK\$8,853,000), representing a decrease of approximately 98%, 29% and 98% respectively when compared with the same period of last year. The decrease was mainly attributable to the Group’s effective cost control measures.

During the Period, financial investment business was newly exploited by the Group, and was considered an ordinary and usual course of business. The Group’s investments in the listed shares were recorded as financial assets at fair value through profit or loss on the consolidated balance sheet, which was approximately HK\$30,698,000 as at 30 June 2017.

Substantial impairment for goodwill and other intangible assets of operation of software development in the People’s Republic of China (the “PRC”) amounted to HK\$75,263,000 and HK\$13,984,000 respectively based on valuation of fair value changes in relevant businesses.

Besides, a fair value gain of approximately HK\$212,521,000 resulted from the adjustment on contingent consideration in relation to the acquisition of Yue Jin Asia Limited (“Yue Jin Asia”) with reference to the projected financial performance of Yue Jin Asia for the year ending 31 December 2018.



# MANAGEMENT DISCUSSION AND ANALYSIS

Certain discontinued entities of our software development and P2P Internet financing business with net liabilities were disposed of by the Group during the Period, which resulted in a one-time disposal gain of subsidiaries amounting to approximately HK\$155,643,000, which comprises gain on disposal of subsidiaries of approximately HK\$165,479,000 and loss on disposal of a subsidiary of approximately HK\$9,836,000 recognised in condensed consolidated statement of profit or loss.

Income tax expense for the Period was approximately HK\$12,658,000 as compared with an income tax credit for the same period of 2016 of approximately HK\$3,000.

As a result of the above-mentioned factors, the Group recorded net profit of approximately HK\$207,356,000 for the Period, as compared with the net loss of approximately HK\$222,191,000 for the same period of last year.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had bank and cash balances of approximately HK\$243,212,000 (as at 31 December 2016: HK\$473,499,000). Total borrowings of the Group amounted to approximately HK\$224,145,000 as at 30 June 2017, of which equivalents of approximately HK\$203,553,000 and approximately HK\$20,592,000 are denominated in Hong Kong dollar and Renminbi respectively. The borrowings included bank loans of approximately HK\$20,592,000, corporate bond of approximately HK\$128,204,000 and pledged loan of approximately HK\$75,349,000. All loans bore fixed interest rates and exposed the Group to fair value interest rate risk.

As at 30 June 2017, the Group had net current assets of approximately HK\$300,619,000, as compared with balance of approximately HK\$407,313,000 as at 31 December 2016. As at 30 June 2017, the gearing ratio (which is calculated by dividing total debts (including borrowings) by total assets) of the Group was 0.101, at similar level of 0.137 as at 31 December 2016.

For the Period, net cash used in operating activities after interest and taxation paid was approximately HK\$62,997,000, while approximately HK\$7,737,000 was generated for the same period of 2016. Net cash used in investing activities was approximately HK\$64,987,000, which mainly included capital expenditures of approximately HK\$8,145,000 and investment in securities of approximately HK\$183,138,000; this was partially offset by net receipt of refunded deposit paid for acquisition of subsidiaries of approximately HK\$155,680,000, net proceeds from disposal of subsidiaries of approximately HK\$23,387,000 and dividends received of approximately HK\$6,207,000.

## CAPITAL EXPENDITURE

The total spending on the acquisition of property, plant and equipment amounted to approximately HK\$8,145,000 for the Period (as at 30 June 2016: approximately HK\$240,000).

## CHARGE OF ASSETS

As at 30 June 2017, certain financial assets of the Group with aggregate carrying value of approximately HK\$123,408,200 was pledged to secure the relevant loans amount of HK\$75,348,648. As at 31 December 2016, other borrowings of HK\$15,000,000 are secured by a share charge over the entire issued capital of a wholly-owned subsidiary.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE AND REMUNERATION POLICIES

The Group had 190 full time staff as at 30 June 2017 (as at 31 December 2016: 215) in Hong Kong and the PRC. The Group reviews remuneration and benefits of its employees annually according to the relevant market practice and individual performance of the employees.

Save for the social insurance in China and the mandatory provident fund scheme in Hong Kong, the Group has not set aside or accrued any significant funds to provide for retirement or similar benefits for its employees. The staff costs incurred for the Period were approximately HK\$11,294,000 (as at 30 June 2016: approximately HK\$20,253,000).

## FOREIGN EXCHANGE AND CURRENCY RISKS

Most of the Group's revenue and expenses was generated from online games service in the PRC, and was denominated in Renminbi. During the Period, the Group had not hedged its foreign exchange risk because the exposure is considered not significant. Our management will continue to monitor our foreign exchange exposure and will consider hedging the foreign currency exposure when it is necessary.

## CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liability.

## CAPITAL COMMITMENTS

As at 30 June 2017, the Group's capital commitment was approximately HK\$8,358,000 (as at 31 December 2016: approximately HK\$2,557,000) in respect of the purchase of property, plant and equipment.

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>			
<b>Revenue</b>	4	27,502	65,795
Cost of services		(61,544)	(44,375)
<b>Gross (loss)/profit</b>		<b>(34,042)</b>	21,420
Distribution costs		(210)	(11,197)
Administrative expenses		(27,273)	(38,563)
Research and development expenses		(205)	(8,853)
Realised gain on contingent consideration receivable	16(b)	229,384	–
Gain on disposal of subsidiaries	22	165,479	–
Fair value gain on investment properties		33,388	–
Fair value loss on derivative financial assets	16(a)	(2,912)	–
Fair value gain on financial assets at fair value through profit or loss		30,698	–
Fair value gain on contingent consideration payable	20	212,521	19,500
Impairment losses on goodwill	14	(75,263)	(90,389)
Impairment losses on other intangible assets	15	(13,984)	(86,066)
Impairment loss on other receivables	16(b)	(284,458)	–
Other income, gains/(losses)	5	25,962	4,831
<b>Profit/(loss) from operations</b>		<b>259,085</b>	(189,317)
Finance costs	6	(29,235)	(29,343)
<b>Profit/(loss) before tax</b>		<b>229,850</b>	(218,660)
Income tax (expense)/credit	7	(12,658)	3
<b>Profit/(loss) for the period from continuing operations</b>	8	<b>217,192</b>	(218,657)
<b>Discontinued operation</b>			
Loss for the period from discontinued operation	9	(9,836)	(3,534)
<b>Profit/(loss) for the period</b>		<b>207,356</b>	(222,191)
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translating foreign operations		(11,758)	(25,126)
Exchange differences reclassified to profit or loss on disposal of subsidiaries		23,740	–
<b>Other comprehensive income for the period, net of tax</b>		<b>11,982</b>	(25,126)
<b>Total comprehensive income for the period</b>		<b>219,338</b>	(247,317)



# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
<b>Profit/(loss) for the period attributable to:</b>			
Owners of the Company		208,262	(186,277)
Non-controlling interests		(906)	(35,914)
		<b>207,356</b>	(222,191)
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		220,303	(210,570)
Non-controlling interests		(965)	(36,747)
		<b>219,338</b>	(247,317)
<b>Earnings/(loss) per share</b>			
From continuing and discontinued operations			
— Basic	11	HK0.612 cents	HK(1.243) cents
— Diluted	11	HK0.612 cents	HK(1.243) cents
From continuing operations			
— Basic	11	HK0.640 cents	HK(1.219) cents
— Diluted	11	HK0.640 cents	HK(1.219) cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>Note</i>	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	12	53,033	49,534
Investment properties	13	316,659	–
Goodwill	14	178,439	249,914
Other intangible assets	15	827,418	872,317
Deposits paid for property, plant and equipment		20,235	19,773
Deposits paid for investment properties		–	216,144
Deposits paid for acquisition of subsidiaries		114,400	–
Other deposits		41,184	40,291
Derivative financial assets	16(a)	3,536	6,448
Deferred tax assets		24,810	24,244
		<b>1,579,714</b>	1,478,665
<b>Current assets</b>			
Trade and other receivables	17	176,492	399,370
Financial assets at fair value through profit or loss		213,836	–
Derivative financial assets	16(b)	–	45,841
Current tax assets		–	937
Bank and cash balances		243,212	473,499
		<b>633,540</b>	919,647
<b>Current liabilities</b>			
Borrowings		224,145	127,851
Convertible bonds	18	–	200,596
Trade and other payables	19	103,966	154,830
Deferred revenue		338	4,160
Current tax liabilities		4,472	24,897
		<b>332,921</b>	512,334
<b>Net current assets</b>		<b>300,619</b>	407,313
<b>Total assets less current liabilities</b>		<b>1,880,333</b>	1,885,978

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>Note</i>	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Consideration payable		<b>100,347</b>	91,010
Contingent consideration payable	20	<b>42,678</b>	255,199
Deferred revenue		–	213
Deferred tax liabilities		<b>111,298</b>	102,544
		<b>254,323</b>	448,966
<b>NET ASSETS</b>			
		<b>1,626,010</b>	1,437,012
<b>Capital and reserves</b>			
Share capital	21	<b>85,130</b>	85,130
Reserves		<b>1,540,880</b>	1,320,577
Equity attributable to owners of the Company		<b>1,626,010</b>	1,405,707
Non-controlling interests		–	31,305
<b>TOTAL EQUITY</b>			
		<b>1,626,010</b>	1,437,012

Approved by the Board of Directors on 18 August 2017 and are signed on its behalf by:

**Zhang Xiaodong**  
*Director*

**Xia Lingjie**  
*Director*



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company												Non-controlling interests	Total equity
	Share capital	Share premium	Share redemption reserve	Capital reserve	Other reserve	General reserve fund	Convertible bonds reserve	Shareholder's contribution	Translation reserve	Share options reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2016														
At 1 January 2016 (audited)	36,533	572,660	2,269	10,657	5,078	27,827	42,482	4,118	65,860	58,931	117,183	943,598	69,952	1,013,550
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	-	-	(24,293)	-	(186,277)	(210,570)	(36,747)	(247,317)
Contribution by a non-controlling shareholder of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	-	-	-	-	37,441	37,441
Dividend paid to a non-controlling shareholder (unaudited)	-	-	-	-	-	-	-	-	-	-	-	-	(16,639)	(16,639)
Share based payments (Note 19) (unaudited)	-	-	-	-	-	-	-	-	-	9,154	-	9,154	-	9,154
Transfer of share options reserve upon lapse of share options (Note 19) (unaudited)	-	-	-	-	-	-	-	-	-	(48,230)	48,230	-	-	-
Issue of shares on acquisition of a subsidiary (unaudited)	1,875	148,125	-	-	-	-	-	-	-	-	-	150,000	-	150,000
Changes in equity for the period (unaudited)	1,875	148,125	-	-	-	-	-	-	(24,293)	(39,076)	(138,047)	(51,416)	(15,945)	(67,361)
At 30 June 2016 (unaudited)	38,408	720,785	2,269	10,657	5,078	27,827	42,482	4,118	41,567	19,855	(20,864)	892,182	54,007	946,189

	Attributable to owners of the Company												Non-controlling interests	Total equity
	Share capital	Share premium	Share redemption reserve	Capital reserve	Other reserve	General reserve fund	Convertible bonds reserve	Shareholder's contribution	Translation reserve	Share options reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2017														
At 1 January 2017 (audited)	85,130	1,919,761	2,269	10,657	5,078	27,827	25,127	4,118	(15,301)	18,274	(677,233)	1,405,707	31,305	1,437,012
Total comprehensive income for the period (unaudited)	-	-	-	-	-	-	-	-	12,041	-	208,262	220,303	(965)	219,338
Redemption of convertible bonds (Note 18) (unaudited)	-	-	-	-	-	-	(25,127)	-	-	-	25,127	-	-	-
Disposal of subsidiaries (unaudited)	-	-	-	(10,657)	(5,078)	(27,827)	-	-	-	-	43,562	-	(30,340)	(30,340)
Changes in equity for the period (unaudited)	-	-	-	(10,657)	(5,078)	(27,827)	(25,127)	-	12,041	-	276,951	220,303	(31,305)	188,998
At 30 June 2017 (unaudited)	85,130	1,919,761	2,269	-	-	-	-	4,118	(3,260)	18,274	(400,282)	1,626,010	-	1,626,010

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<i>Note</i>		
<b>NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>	<b>(62,997)</b>	7,737
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	<b>(183,138)</b>	–
Dividend received from financial assets at fair value through profit or loss	<b>6,207</b>	–
Net cash inflow/(outflow) from disposal of subsidiaries	<b>23,387</b>	(12)
Refund of deposits/(deposits) paid for acquisitions of subsidiaries	<b>155,680</b>	(217,550)
Purchases of property, plant and equipment	<b>(8,145)</b>	(240)
Purchases of investment properties	<b>(58,978)</b>	–
Deposits paid for acquisition of property, plant and equipment	–	(1,170)
Proceeds from disposal of property, plant and equipment	–	660
Purchases of other intangible assets	–	(26,124)
Net cash used in investing activities	<b>(64,987)</b>	(244,436)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings raised	<b>75,000</b>	–
Proceeds from issue of corporate bonds	<b>127,410</b>	–
Interest paid	–	(9,500)
Redemption of convertible bonds	<b>(200,000)</b>	–
Redemption of corporate bond	<b>(95,000)</b>	–
Repayment of borrowings	<b>(15,000)</b>	–
Net cash used in financing activities	<b>(107,590)</b>	(9,500)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(235,574)</b>	(246,199)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>473,499</b>	419,212
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>5,287</b>	(6,589)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY</b>	<b>243,212</b>	166,424
Bank and cash balances	<b>243,212</b>	166,424

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap.622).

These condensed consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below.

These condensed consolidated financial statements should be read in conjunction with the 2016 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016 except as stated below:

### Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

## 2. 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 Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not have any significant effect on the condensed consolidated financial statements.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. FAIR VALUE MEASUREMENTS

Except as disclosed below, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

### Disclosures of level in fair value hierarchy at:

Description	Fair value measurements using:			At 30 June 2017
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements:</b>				
<b>Financial assets</b>				
Financial assets at fair value through profit or loss				
Listed securities	213,836	–	–	213,836
Derivative financial assets				
Put option	–	–	3,536	3,536
<b>Investment properties</b>				
Properties in the PRC	–	–	92,435	92,435
Properties in the PRC	–	224,224	–	224,224
	–	224,224	92,435	316,659
<b>Total</b>	<b>213,836</b>	<b>224,224</b>	<b>95,971</b>	<b>534,031</b>
<b>Recurring fair value measurements:</b>				
<b>Financial liabilities</b>				
Contingent consideration payable	–	–	42,678	42,678
<b>Total</b>	<b>–</b>	<b>–</b>	<b>42,678</b>	<b>42,678</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. FAIR VALUE MEASUREMENTS *(Continued)*

Description	Fair value measurements using:			At
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	31 December 2016 Total HK\$'000
<b>Recurring fair value measurements:</b>				
<b>Financial assets</b>				
Derivative financial assets				
Put option	–	–	6,448	6,448
Contingent consideration receivable	–	–	45,841	45,841
<b>Total</b>	–	–	52,289	52,289
<b>Recurring fair value measurements:</b>				
<b>Financial liabilities</b>				
Contingent consideration payable	–	–	255,199	255,199

### Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

#### Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value as at 30 June 2017 HK\$'000
Investment properties	Market comparable approach	Market prices	224,224

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. FAIR VALUE MEASUREMENTS *(Continued)*

**Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:** *(Continued)*

### Level 3 fair value measurements

Description	Valuation technique	Observable/unobservable inputs	Range	Effect on fair value for increase of inputs	Fair Value As at 30 June 2017 Assets/(liabilities) HK\$'000
Investment properties	Income capitalisation approach	Capitalisation rate	6.5%–7.5%	Decrease	92,435
		Monthly market rent	HK\$68–HK\$114 square meter per month	Increase	
Put option	Income approach	The Company's share price	HK\$0.01	Increase	3,536
		Profit forecast	10%	Increase	
Contingent consideration payable	Income approach	The Company's share price	HK\$0.01	Decrease	(42,678)
		Profit forecast	10%	Decrease	

### Level 3 fair value measurements

Description	Valuation technique	Observable/unobservable inputs	Range	Effect on fair value for increase of inputs	Fair Value As at 31 December 2016 Assets/(liabilities) HK\$'000
Put option	Income approach	The Company's share price	HK\$0.01	Increase	6,448
		Profit forecast	10%	Increase	
Contingent consideration receivable	Income approach	Management accounts	Not applicable	Not applicable	45,841
		Discount rate	1%	Decrease	
Contingent consideration payable	Income approach	The Company's share price	HK\$0.01	Decrease	(255,199)
		Profit forecast	10%	Decrease	

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. FAIR VALUE MEASUREMENTS *(Continued)*

### Reconciliation of assets/(liabilities) measured at fair value based on level 3

Description	2017				Contingent consideration payable HK\$'000
	Assets			Total HK\$'000	
	Contingent consideration receivable HK\$'000	Put option HK\$'000	Investment properties HK\$'000		
At 1 January	45,841	6,448	–	52,289	(255,199)
Total gains or losses recognised in profit or loss	229,384	(2,912)	33,388	259,860	212,521
Purchases	–	–	281,057	281,057	–
Transferred to other receivables	(275,225)	–	–	(275,225)	–
Exchange difference	–	–	2,214	2,214	–
At 30 June	–	3,536	316,659	320,195	(42,678)

Description	2016
	Liabilities Contingent consideration payable HK\$'000
At 1 January	(169,500)
Total gains or losses recognised in profit or loss	19,500
Settlement	150,000
At 30 June	–

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 4. SEGMENT INFORMATION

The Group has five operating segments as follows:

Software development	—	outsourcing software development services and technical support services
Provision of online game services and platform services	—	design, development and operation of the mobile and web games and platform services
Yacht club	—	operation of a yacht club
Education	—	provision of international education services
Football club	—	operation of a football club

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 4. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results

The following is an analysis of revenue and results by operating segment of the Group:

#### For the six months ended 30 June 2017 (unaudited)

	Discontinued		Continuing				Total HK\$'000
	P2P financial intermediary services in the PRC HK\$'000	Software development in the PRC HK\$'000	Provision of online game services in the PRC HK\$'000	Football club in the PRC HK\$'000	Yacht club in the PRC HK\$'000	Education in the PRC HK\$'000	
Revenue	-	-	23,351	-	1,662	2,489	27,502
Cost of services	-	-	(33,500)	-	(16,445)	(11,599)	(61,544)
Gross loss	-	-	(10,149)	-	(14,783)	(9,110)	(34,042)
Distribution costs	-	-	(146)	-	(64)	-	(210)
Administrative expenses	-	(297)	(7,847)	(142)	(632)	(1,569)	(10,487)
Research and development expenses	-	-	(205)	-	-	-	(205)
Impairment losses on other intangible assets	-	-	(13,984)	-	-	-	(13,984)
Segment results	-	(297)	(32,331)	(142)	(15,479)	(10,679)	(58,928)
Realised gain on contingent consideration receivable							229,384
Gain on disposal of subsidiaries							155,643
Fair value gain on investment properties							33,388
Fair value loss on derivative financial assets							(2,912)
Fair value gain on financial assets at fair value through profit or loss							30,698
Fair value gain on contingent consideration payable							212,521
Impairment losses on goodwill							(75,263)
Impairment loss on other receivables							(284,458)
Other income, gains/(losses)							25,962
Finance costs							(29,235)
Unallocated corporate expenses							(16,786)
Profit before tax							220,014

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 4. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results *(Continued)*

For the six months ended 30 June 2016 (unaudited)

	Discontinued		Continuing		Total HK\$'000
	P2P financial intermediary services in the PRC HK\$'000	Software development in the PRC HK\$'000	Provision of online game services in the PRC HK\$'000	Football club in the PRC HK\$'000	
Revenue	–	119	65,676	–	65,795
Cost of services	(2)	(146)	(41,475)	(2,754)	(44,377)
Gross (loss)/profit	(2)	(27)	24,201	(2,754)	21,418
Distribution costs	(38)	–	(11,197)	–	(11,235)
Administrative expenses	(3,353)	(3,877)	(8,772)	(6)	(16,008)
Research and development expenses	–	–	(8,853)	–	(8,853)
Impairment losses on other intangible assets	–	–	(86,066)	–	(86,066)
Segment results	(3,393)	(3,904)	(90,687)	(2,760)	(100,744)
Fair value gain on contingent consideration payable					19,500
Impairment losses on goodwill					(90,389)
Other income, gains/(losses)					4,690
Finance costs					(29,343)
Unallocated corporate expenses					(25,908)
Loss before tax					(222,194)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 4. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the assets and liabilities by operating segment of the Group:

As at 30 June 2017 (unaudited)

	Discontinued		Continuing				Total HK\$'000
	P2P financial intermediary services in the PRC HK\$'000	Software development in the PRC HK\$'000	Provision of online game services in the PRC HK\$'000	Football club in the PRC HK\$'000	Yacht club in the PRC HK\$'000	Education in the PRC HK\$'000	
Segment assets	-	-	154,660	-	660,689	343,545	1,158,894
Unallocated assets							1,054,360
Consolidated total							2,213,254
Segment liabilities	-	-	52,831	-	34,530	76,496	163,857
Unallocated liabilities							423,387
Consolidated total							587,244

As at 31 December 2016 (audited)

	Discontinued		Continuing				Total HK\$'000
	P2P financial intermediary services in the PRC HK\$'000	Software development in the PRC HK\$'000	Provision of online game services in the PRC HK\$'000	Football club in the PRC HK\$'000	Yacht club in the PRC HK\$'000	Education in the PRC HK\$'000	
Segment assets	113	1,291	226,935	1,554	554,343	347,502	1,131,738
Unallocated assets							1,266,574
Consolidated total							2,398,312
Segment liabilities	-	40,915	54,326	1,578	32,323	73,391	202,533
Unallocated liabilities							758,767
Consolidated total							961,300

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 5. OTHER INCOME, GAINS/(LOSSES)

Continuing operations	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Interest income from bank balances	598	54
Interest income from loan receivables	4,927	–
Interest income from other receivables	9,168	–
Interest income from deposits paid for potential acquisition of a subsidiary	6,398	–
Dividend income	6,207	–
Net foreign exchange (loss)/gain	(2,362)	6,737
Government subsidies	–	1,183
Allowance for doubtful debts	(1,060)	–
Bad debts written off	–	(3,193)
Rental income	1,507	–
Others	579	50
	<b>25,962</b>	<b>4,831</b>

## 6. FINANCE COSTS

Continuing operations	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Interest on bank borrowings	714	500
Interest on corporate bonds	3,066	–
Interest on other borrowings	389	–
Interest on convertible bonds (Note 18)	17,904	28,843
Imputed interest on consideration payable	7,162	–
	<b>29,235</b>	<b>29,343</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 7. INCOME TAX EXPENSE/(CREDIT)

Income tax relating to continuing operations has been recognised in profit or loss as following:

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Current tax:		
Hong Kong Profits Tax	4,473	–
PRC Enterprise Income Tax	400	4,330
	<b>4,873</b>	4,330
Under-provision in prior years:		
PRC Enterprise Income Tax	–	1,034
Deferred tax:		
Current period	7,785	(5,367)
	<b>12,658</b>	(3)

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2017. No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months ended 30 June 2016.

PRC Enterprise Income Tax has been provided at a rate of 25% (2016: 25%).

Pursuant to relevant laws and regulations in the PRC, Kingworld (Beijing) Technology Co., Ltd. ("Kingworld Beijing"), a subsidiary in the PRC, is recognised as a High and New Technology Enterprise by the relevant PRC government authorities and Kingworld Beijing was therefore entitled to enjoy a concessionary Enterprise Income Tax rate of 15% for the six months ended 30 June 2017.

Pursuant to relevant laws and regulations in the PRC, an income tax of 10% is imposed on the capital gain on disposal of the PRC subsidiaries when the gain is realised from tax perspective.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 8. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period from continuing operations has been arrived at charging/(crediting) the following:

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited) (restated)
Amortisation of other intangible assets (included in cost of services)	30,716	39,388
Allowance for doubtful debts	1,060	–
Bad debts written off	–	3,193
Depreciation of property, plant and equipment	3,333	1,835
Directors' remuneration	1,483	8,757
Realised gain on contingent consideration receivable	(229,384)	–
Gain on disposal of property, plant and equipment	–	(27)
Government subsidies	–	(1,183)
Interest income from bank balances	(598)	(54)
Net foreign exchange loss/(gain)	2,362	(6,737)
Operating lease charges in respect of office premises	3,245	3,223
Research and development expenses	205	8,853
Share-based payments to consultants	–	3,060
Impairment losses on goodwill	75,263	90,389
Impairment losses on other intangible assets	13,984	86,066
Impairment loss on other receivables	284,458	–
Gain on disposal of subsidiaries	(165,479)	–
Fair value gain on investment properties	(33,388)	–
Fair value gain on financial assets at fair value through profit or loss	(30,698)	–
Fair value gain on contingent consideration payable	(212,521)	(19,500)
Fair value loss on derivative financial assets	2,912	–

Research and development expenses include staff costs of approximately HK\$203,000 (2016: HK\$5,964,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 9. DISCONTINUED OPERATION

On 1 March 2017, the Company entered into a sale and purchase agreement to dispose of the entire share capital of Key Rich Corporation Limited (“Key Rich”), which carried out the Group’s P2P financial intermediary business. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in note 22(a).

	2017 HK\$'000	2016 HK\$'000
<b>(a) Loss for the period from discontinued operation:</b>		
Revenue	–	–
Cost of services	–	(2)
Distribution costs	–	(38)
Administrative expenses	–	(3,353)
Other income, gains/(losses)	–	(141)
	–	(3,534)
Loss before tax	–	(3,534)
Income tax expense	–	–
	–	(3,534)
Loss on disposal of operation ( <i>Note 22(a)</i> )	<b>(9,836)</b>	–
Income tax expense	–	–
	<b>(9,836)</b>	–
Loss for the period from discontinued operation (attributable to owners of the Company)	<b>(9,836)</b>	(3,534)
<b>(b) Loss for the period from discontinued operation include the following:</b>		
Depreciation	–	81
<b>(c) Cash flows from discontinued operation:</b>		
Net cash outflows from operating activities	<b>115</b>	146

## 10. DIVIDENDS

The directors of the Company did not recommend payment of an interim dividend for the current period (2016: Nil).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following:

	Six months ended 30 June	
	2017 '000 (unaudited)	2016 '000 (unaudited)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	<b>34,052,135</b>	14,990,223

### From continuing and discontinued operations

The calculation of the basic earnings/(loss) per share attributable to the owners of the Company is based on the following:

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>Profit/(loss)</b>		
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	<b>208,262</b>	(186,277)

### From continuing operations

The calculation of the basic earnings/(loss) per share attributable to the owners of the Company from continuing operations is based on the following:

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
<b>Profit/(loss)</b>		
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	<b>208,262</b>	(186,277)
Less: Loss for the period from discontinued operation (attributable to the Company)	<b>(9,836)</b>	(3,534)
Profit/(loss) for the purpose of calculating basic earnings/(loss) for share from continuing operations	<b>218,098</b>	(182,743)

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2016 and 2017.

### From discontinued operation

Basic loss per share from the discontinued operation is HK0.028 cents per share (2016: loss of HK0.024 cents per share), based on the loss for the period from discontinued operation attributable to the owners of the Company of approximately HK\$9,836,000 (2016: loss of approximately HK\$3,534,000) and the denominators used are the same as those detailed above for basic earnings/(loss) per share.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of Nil (unaudited) (six months ended 30 June 2016: HK\$633,000 (unaudited)) for proceeds of Nil (unaudited) (six months ended 30 June 2016: HK\$660,000 (unaudited)), resulting in a gain on disposal of Nil (unaudited) (six months ended 30 June 2016: gain of approximately HK\$27,000 (unaudited)). In addition, during the six months ended 30 June 2017, the Group acquired property, plant and equipment of approximately HK\$8,145,000 (unaudited) (six months ended 30 June 2016: HK\$240,000 (unaudited)).

## 13. INVESTMENT PROPERTIES

During the six months ended 30 June 2017, the Group acquired investment properties of approximately HK\$316,659,000 (2016: Nil), of which approximately HK\$221,187,000 (2016: Nil) was transferred from deposits paid for acquisition of investment properties.

## 14. GOODWILL

	HK\$'000
<b>Cost</b>	
At 1 January 2016 (audited)	712,622
Arising on acquisition of subsidiaries (audited)	284,553
Exchange differences (audited)	(44,865)
At 31 December 2016 and 1 January 2017 (audited)	952,310
Derecognised on disposal of subsidiaries	(322,861)
Exchange differences	19,377
At 30 June 2017 (unaudited)	648,826
<b>Accumulated impairment</b>	
At 1 January 2016 (audited)	–
Impairment loss recognised in current year (audited)	702,396
At 31 December 2016 and 1 January 2017 (audited)	702,396
Impairment loss recognised in current period	75,263
Derecognised on disposal of subsidiaries	(320,861)
Exchange differences	13,589
At 30 June 2017 (unaudited)	470,387
<b>Carrying amount</b>	
At 30 June 2017 (unaudited)	178,439
At 31 December 2016 (audited)	249,914

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 14. GOODWILL (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment losses) had been allocated as follows:

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Provision of online game services Kingworld Holdings Limited (“Kingworld Holdings”)	–	73,546
P2P financial intermediary services Key Rich	–	2,000
Operation of a yacht club Shenzhen Dapeng Yacht Club Company Limited (“Dapeng Yacht Club”)	<b>67,835</b>	66,287
Provision of international education services Shenzhen Dapeng International Education Company Limited (“Dapeng International Education”)	<b>110,604</b>	108,081
	<b>178,439</b>	249,914

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts of Dapeng Yacht Club and Dapeng International Education derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 2.7% and 3.0% respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

The rates used to discount the forecast cash flows are set out as follows:

Dapeng Yacht Club:	17% (2016: 17%)
Dapeng International Education:	18% (2016: 18%)



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 14. GOODWILL (Continued)

At 30 June 2017, before impairment testing, goodwill of HK\$75,263,000 was allocated to Kingworld Holdings within the online game services segment. Due to the slow growth in number of users for sport apps during the Period, the Group has revised its cash flow forecasts for this CGU. The CGU has been reduced to its recoverable of HK\$11,696,000 and an impairment loss of HK\$75,263,000 recognised on goodwill and HK\$13,984,000 recognised on other intangible assets within the online game services segment.

At 30 June 2017, before impairment testing, goodwill of HK\$67,835,000 and HK\$110,604,000 were allocated to Dapeng Yacht Club and Dapeng International Education within operation of a yacht club and provision of international education segment respectively. Based on their recoverable amounts as at 30 June 2017, no impairment loss has been recognised in profit or loss.

## 15. OTHER INTANGIBLE ASSETS

During the six months ended 30 June 2017, the Group did not purchase and dispose of other intangible assets.

During the six months ended 30 June 2016, a number of service contracts with football players at total amount of approximately HK\$37,441,000 were contributed by a non-controlling equity holder of a subsidiary as capital upon establishment of the subsidiary. In additions, the Group acquired licenses with total costs of HK\$26,124,000.

The Group prepares cash flow forecasts of Dapeng Yacht Club and Dapeng International Education within operation of a yacht club and provision of international education segment respectively derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 2.7% and 3.0% respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

## 16. DERIVATIVE FINANCIAL ASSETS

	Note	30 June 2017 HK\$'000	31 December 2016 HK\$'000
<b>Non-current:</b>			
<b>Financial assets</b>			
Put option	(a)	3,536	6,448
<b>Current:</b>			
<b>Financial assets</b>			
Contingent consideration receivable	(b)	–	45,841

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 16. DERIVATIVE FINANCIAL ASSETS (Continued)

- (a) On 28 December 2016, a subsidiary of the Company acquired the entire equity interests in Yue Jin Asia Limited ("Yue Jin Asia") for a consideration of HK\$1,000,000,000, of which HK\$700,000,000 was settled in cash, HK\$150,000,000 was satisfied by the allotment and issue of the Company's shares at share price of HK\$0.062 each ("Consideration Shares") and HK\$150,000,000 will be settled by the Company's shares at share price of HK\$0.062 each subject to adjustment ("Retained Shares"). Yue Jin Asia, through its subsidiaries, is principally engaged in operation of a yacht club ("Yacht Club Business") and provision of international education services ("School Business"). The acquisition is aim to develop the Yacht Club Business and School Business by the Company.

The Retained Shares are subject to the following adjustments:

- (i) In the event that the 2018 Yacht Profit (as defined below) is less than HK\$60,000,000, the Retained Shares shall be reduced by such amount ("Consideration Adjustment") as determined in accordance with the following formula:

$$\text{Retained Shares} = \text{HK\$150,000,000} - 2018 \text{ Yacht Profit Shortfall} \times 9$$

Where,

- (a) 2018 Yacht Profit Shortfall = HK\$60,000,000 – 2018 Yacht Profit;
- (b) 2018 Yacht Profit = the net profit after tax generated from the Yacht Club Business for the financial year ending 31 December 2018 as referred to in the accounts thereof audited by the auditors of the Company, provided that if the Yacht Club Business records nil profit or a net loss for the financial year ending 31 December 2018, the 2018 Yacht Profit shall be deemed to be zero.
- (ii) In the event that the 2018 School Profit (as defined below) is less than HK\$17,500,000, the Retained Shares shall be reduced by such amount as determined in accordance with the following formula:

$$\text{Retained Shares} = \text{HK\$150,000,000} - 2018 \text{ School Profit Shortfall} \times 16$$

Where,

- (c) 2018 School Profit Shortfall = HK\$17,500,000 – 2018 School Profit;
- (d) 2018 School Profit = the net profit after tax generated from the School Business for the financial year ending 31 December 2018 as referred to in the accounts thereof audited by the auditors of the Company, provided that if the School Business records nil profit or a net loss for the financial year ending 31 December 2018, the 2018 School Profit shall be deemed to be zero.

As a part of the consideration for the acquisition of Yue Jin Asia and its subsidiaries (collectively referred to as "Yue Jin Asia Group"), the Group shall have the option (the "Put Option") to, at the Group's discretion, sell the Option Shares (as defined below) to the seller of Yue Jin Asia at any time within 5 calendar years from 28 December 2016 upon the Shenzhen Dapeng New District Management Committee or any other relevant governmental authority enforcing its rights under the Operation Entrustment Agreement for any breach of the Operation Entrustment Agreement by any member of the Yue Jin Asia Group before 28 December 2016 at the Option Share Price (as defined below).

The consideration for the Option Shares ("Option Share Price") shall be the higher of (i) the cash equivalent of the sum of (a) the amount paid in cash by the Group to the seller of Yue Jin Asia and (b) the value of all the Consideration Shares issued by the Company to the seller of Yue Jin Asia as at the date when the Put Option is exercised; or (ii) the fair market value of the Option Shares to be determined by an independent valuer as at the date when the Put Option is exercised.

Where:

Option Shares means all of the issued shares in the capital of Yue Jin Asia as at the completion date of the sale and purchase of the issued shares in the capital of Yue Jin Asia after exercise of the Put Option.

The Put Option was stated at fair value based on the valuation performed by Greater China Appraisal Limited, an independent firm of professional valuers. The valuer conducted the valuation based on a profit forecast obtained from the Company (level 3 fair value measurements).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 16. DERIVATIVE FINANCIAL ASSETS (Continued)

- (b) On 31 December 2015, the Group acquired the entire issued share capital of Kingworld Holdings for a consideration of HK\$450,000,000, of which HK\$300,500,000 was settled in cash and HK\$149,500,000 was settled by the Company's shares. Kingworld Holdings, through Kingworld Beijing, is principally engaged in distributing, selling, developing and investing in internet and mobile interaction entertainment products. With the acquisition the Group has been putting emphasis on the development of its mobile and web-game business.

Pursuant to the sale and purchase agreement, the vendor undertakes to that the aggregate of the audited consolidated net profit of Kingworld Holdings and its subsidiaries (collectively referred to as "Kingworld Group") for the year ended 31 December 2016 (the "2016 Net Profit") shall not be less than RMB60,000,000 (equivalent to HK\$76,086,000, the "Guaranteed Amount"). In the event that the 2016 Net Profit is less than RMB60,000,000, an adjustment amount calculated at six times of the shortfall of the 2016 Net Profit and the Guaranteed Amount (the "Adjustment Amount") will be paid by the vendor in cash. In the event that the 2016 Net Profit is equal to or more than RMB60,000,000, no adjustment amount shall be payable by the vendor.

As a part of the consideration for the acquisition of Kingworld Group which was completed on 31 December 2015, the contingent consideration receivable is obtained. The contingent consideration receivable represents the right to the return of previously transferred consideration for the acquisitions of Kingworld Holdings with reference to the financial performance of Kingworld Group for the year ended 31 December 2016 and hence constitutes a contingent consideration arrangement.

According to the formula set out above, the final Adjustment Amount is approximately HK\$275,225,000.

Pursuant to the second supplemental agreement dated 27 February 2017 (the "Second Supplemental Agreement"), Xu Rong, Zhou Xu and the vendor have agreed to jointly pay the Adjustment Amount in cash to the Company in 5 tranches according to the payment schedule as follows:

1st tranche: RMB80,000,000 (HK\$91,520,000) before 15 March 2017

2nd tranche: RMB40,000,000 (HK\$45,760,000) before 15 May 2017

3rd tranche: RMB40,000,000 (HK\$45,760,000) before 15 July 2017

4th tranche: RMB40,000,000 (HK\$45,760,000) before 15 September 2017

5th tranche: RMB44,865,838 (HK\$51,326,519) before 15 November 2017

As at the close of business on 15 May 2017, Xu Rong, Zhou Xu and the vendor failed to pay both the 1st tranche and the 2nd tranche of the Adjustment Amount by the deadlines as set out above.

Pursuant to the Second Supplemental Agreement, the Company shall have the right to declare the subsequent tranches of the Adjustment Amount (i.e. the 3rd to 5th tranches) fall due and become immediately repayable. Further, a daily interest accrues at a rate of 5/10000 from the date of when the outstanding tranche payment first became due (i.e. 15 March 2017) until the Adjustment Amount shall be paid in full as damages payable by Xu Rong, Zhou Xu and the vendor to the Company. Xu Rong, Zhou Xu and the vendor shall also pay to the Company all the costs and expenses incurred by the Company in relation to the enforcement of the Adjustment Amount and all other economic loss suffered by the Company arising out of the non-payment of the Adjustment Amount in full. As at 30 June 2017, the fair value of the Adjustment Amount and the relevant interest receivable totally amounted to approximately HK\$284,458,000 (Adjustment Amount of HK\$275,225,000 + Interest of HK\$9,233,000), which are fully impaired in view of the default of payment as mentioned above.

Movement of the contingent consideration receivable during the period is set out as follows:

	HK\$'000
Balance as at 1 January 2017	45,841
Realised gain charged to profit or loss	229,384
Recognised as other receivables	275,225
Impairment loss recognised in profit or loss	(275,225)
	-

The Company is currently seeking advice from its PRC legal advisor as to the enforcement of the Adjustment Amount such as initiating the necessary legal proceedings in the PRC civil court against the concerned parties in default.

Details are set out in announcements of the Company dated 27 February 2017 and 15 May 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 17. TRADE AND OTHER RECEIVABLES

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Trade receivables	22,570	34,027
Other receivables	90,402	10,282
Deposits paid for a potential acquisition of subsidiaries ( <i>Note</i> )	–	268,252
Other deposits	2,030	2,492
Prepayments	61,490	84,317
<b>Total trade and other receivables</b>	<b>176,492</b>	<b>399,370</b>

The Group generally allows an average credit period of 120 days (31 December 2016: 120 days) for its game distribution platforms, 90 days (31 December 2016: 90 days) for its game development customers and 30 days (31 December 2016: 30 days) for its advertising customers.

The following is an aged analysis of trade receivables presented based on dates on which revenue was recognised.

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
0–30 days	3,313	12,021
31–60 days	4,057	11,799
61–90 days	3,296	2,350
91–180 days	7,232	3,120
181–360 days	2,244	2,887
Over 360 days	2,428	1,850
<b>Total</b>	<b>22,570</b>	<b>34,027</b>

Note:

The deposits were paid for a potential acquisition of the entire equity interest in Wuxi Xinyou Network Technology Co. Ltd ("Wuxi Xinyou") for a consideration of RMB910,000,000. On 28 February 2017, an aggregate of HK\$190,000,000 and all interests accrued thereon were repaid in full to the Group by Wuxi Xinyou, vendors of Wuxi Xinyou and their associates. On 23 March 2017, an amount of RMB70,000,000 and all interests accrued thereon were repaid in full to the Group by Wuxi Xinyou, vendors of Wuxi Xinyou and their associates.

Details are set out in announcements of the Company dated 17 November 2015, 29 August 2016, 5 October 2016, 30 December 2016, 28 February 2017 and 23 March 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 18. CONVERTIBLE BONDS

On 22 June 2015 (the "Issue Date"), the Group issued convertible bonds with a nominal value of HK\$200,000,000 (the "Convertible Bonds"). The bonds are convertible at the option of the bondholders into fully paid ordinary shares with HK\$0.0025 each of the Company (the "Conversion Shares") at an initial conversion price of HK\$0.25 per share after share subdivision on 16 September 2015 at any time during the period commencing from 2 October 2015 up to and including the 7th day immediately preceding 21 June 2017 (the "Maturity Date"). Based on the initial conversion price of HK\$0.25 per Conversion Shares, a maximum number of 800,000,000 Conversion Shares after share subdivision will be allotted and issued upon the exercise of the conversion rights.

The bonds bear interest at the following interest rate on the principal amount of the bonds:

- (i) in respect of the one-year period commencing from and including the Issue Date to and including the last day of such period (the "Interest Payment Date"), 5% per annum;
- (ii) in respect of the one-year period commencing from and including the next calendar day of the Interest Payment Date to and including the Maturity Date, 15% per annum.

Convertible Bonds shall not be redeemed (in whole or in part) at the option of the Company commencing from the date of issue of the Convertible Bonds up to and including the day immediately before the Maturity Date. On and before the 5th business day after the Interest Payment Date, the bondholders may notify and require the Company to, and the Company then shall, no later than the close of business in Hong Kong on the 15th business day after such notification, redeem Convertible Bonds in whole or in part at a price equivalent to 100% of the principal amount of the Convertible Bonds so redeemed together with the interest accrued but unpaid.

The Convertible Bonds were redeemed in full by the Group on 21 June 2017.

The net proceeds received from the issue of the Convertible Bonds have been split between the liability elements and equity components as follows:

	HK\$'000
Liability component at 1 January 2016 (audited)	175,947
Interest charged	34,149
Interest paid	(9,500)
Liability component at 31 December 2016 (audited) and 1 January 2017 (audited)	200,596
Interest charged	17,904
Interest paid	(18,500)
Redeemed during the period	(200,000)
Liability component at 30 June 2017	–
Equity component at 1 January 2016 (audited), 31 December 2016 (audited) and 1 January 2017 (audited)	25,127
Redeemed during the period	(25,127)
Equity component at 30 June 2017	–

The interest charged for the period/year is calculated by applying an effective interest rate of 18.15% to the liability component of the Convertible Bonds for the 24-month periods since the bonds were issued.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 19. TRADE AND OTHER PAYABLES

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Trade payables	279	2,695
Wages and salaries payables	5,039	67,879
Accruals	4,316	8,197
Other tax payables	772	1,564
Other payables	93,560	74,495
	<b>103,966</b>	154,830

The average credit period of trade payables in relation to provision of online game services and outsourcing game development services is 15 days.

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
0–30 days	–	–
31–60 days	167	87
61–90 days	–	–
91–180 days	77	–
Over 180 days	35	2,608
	<b>279</b>	2,695

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 20. CONTINGENT CONSIDERATION PAYABLE

As set out in Note 16(a) to the condensed consolidated financial statements, as a part of the consideration for the acquisition of Yue Jin Asia, the Consideration Adjustment (as defined in Note 16(a) to the condensed consolidated financial statements) is obtained for which details are set out in Note 16(a) to the condensed consolidated financial statements.

The Consideration Adjustment shall be reduced to the Retained Shares in relation to the acquisition of Yue Jin Asia with reference to the financial performance of Yue Jin Asia for the year ending 31 December 2018 and hence constitute a contingent consideration arrangement.

As at 30 June 2017, the Consideration Adjustment was stated at fair value based on the valuation performed by Greater China Appraisal Limited, an independent firm of professional valuers. The valuer conducted the valuation based on a profit forecast obtained from the Company and the Company's share price (level 3 fair value measurements).

## 21. SHARE CAPITAL

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Authorised: 80,000,000,000 ordinary shares of HK\$0.0025 each	200,000	200,000
Issued and fully paid: 34,052,135,118 (At 31 December 2016: 34,052,135,118) ordinary shares of HK\$0.0025 each	85,130	85,130

A summary of the movements in the issued share capital of the Company is set out as follows:

Note	Number of shares issued '000	Nominal value of shares issued HK\$'000
At 1 January 2016 (audited)	14,613,151	36,533
Shares issued on placements	4,088,000	10,220
Shares issued on acquisition of subsidiaries	3,169,355	7,923
Shares issued on subscription	12,181,629	30,454
At 31 December 2016 (audited), 1 January 2017 (audited) and 30 June 2017 (unaudited)	34,052,135	85,130

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. DISPOSAL OF SUBSIDIARIES

### (a) Disposal of Key Rich

On 1 March 2017, the Group disposed of its entire equity interests in Key Rich for a consideration of HK\$2,000,000.

Net liabilities at the date of disposal were as follows:

	HK\$'000
Bank and cash balances	115
Amount due to the Group	(117)
<hr/>	
Net liabilities disposed of	(2)
Release of foreign currency translation reserve	9,835
Derecognition of goodwill	2,000
Assignment of amount due to the Group	3
Loss on disposal of subsidiaries	(9,836)
<hr/>	
Total consideration	2,000
<hr/>	
Net cash inflow arising on disposal:	
Cash consideration received	2,000
Cash and cash equivalents disposed of	(115)
<hr/>	
	1,885
<hr/>	

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. DISPOSAL OF SUBSIDIARIES *(Continued)*

### (b) Disposal of SinoCom Holdings

On 12 April 2017, the Group disposed of its entire equity interests in SinoCom Holdings (BVI) Limited ("SinoCom Holdings") for a consideration of HK\$1.

Net liabilities at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	1,005
Trade and other receivables	362
Current tax assets	958
Bank and cash balances	205
Amounts due from the Group	14
Other payables	(53,966)
Current tax liabilities	(16,809)
<hr/>	
Net liabilities disposed of	(68,231)
Release of foreign currency translation reserve	(69,505)
Assignment of amount due to the Group included in amounts due from the Group	59
Gain on disposal of subsidiaries	137,677
<hr/>	
Total consideration — satisfied by cash of HK\$1	–
<hr/>	
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(205)
<hr/>	

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. DISPOSAL OF SUBSIDIARIES *(Continued)*

### (c) Disposal of Heroic Coronet

On 4 May 2017, the Group disposed of its entire equity interests in Heroic Coronet for a consideration of HK\$75,000,000.

Net assets at the date of disposal were as follows:

	HK\$'000
Other intangible assets	20,082
Trade and other receivables	33,538
Amounts due from the Group	11,723
Bank and cash balances	2,944
Trade and other payables	(16,181)
Deferred tax liabilities	(3,120)
Net assets disposed of	48,986
Release of foreign currency translation reserve	35,307
Non-controlling interests	(7,970)
Assignment of amount due to the Group included in amounts due from the Group	2,277
Loss on disposal of subsidiaries	(3,600)
Total consideration — satisfied by cash	75,000
Net cash inflow arising on disposal:	
Cash consideration received	15,000
Cash and cash equivalents disposed of	(2,944)
	12,056

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. DISPOSAL OF SUBSIDIARIES *(Continued)*

### (d) Disposal of Baoxin Football

On 29 June 2017, the Group disposed of its 68% equity interests in Baoxin Football Club Co., Ltd. ("Baoxin Football") for a consideration of RMB8,440,000 (equivalent to approximately HK\$9,655,000).

Net assets at the date of disposal were as follows:

	HK\$'000
Bank and cash balances	4
Amount due to the Group	(4)
Net assets disposed of	–
Release of foreign currency translation reserve	623
Non-controlling interests	(22,370)
Gain on disposal of a subsidiary	31,402
Total consideration — satisfied by cash	9,655
Net cash inflow arising on disposal:	
Cash consideration received	9,655
Cash and cash equivalents disposed of	(4)
	9,651

## 23. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Contracted but not provided for Property, plant and equipment	8,358	2,557



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 24. OPERATING LEASE COMMITMENTS

The Group as lessee:

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Within one year	<b>5,736</b>	5,549
In the second to fifth year inclusive	<b>10,740</b>	13,991
	<b>16,476</b>	19,540

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease terms from one to three years.

The Group as lessor:

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Within one year	<b>3,679</b>	494
In the second to fifth year inclusive	<b>17,855</b>	344
	<b>21,534</b>	838

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 25. RELATED PARTY TRANSACTIONS

Saved as those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had no related party transactions.

### Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the period was as follows:

	Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Salaries and other benefits	1,576	3,421
Share-based payments	–	6,094
Retirement benefits scheme contributions	63	30
	<b>1,639</b>	9,545

## 26. APPROVAL OF FINANCIAL STATEMENTS

This condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 August 2017.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Appropriate percentage of issued share capital of the Company <sup>2</sup>	Notes
		Interests in Shares	Equity derivative (Share Options)	Total interests		
Zhang Xiaodong	Corporate Interest	2,750,000,000 (L)	–	2,763,500,000 (L)	8.11%	1
	Beneficial Owner	13,500,000 (L)	–			

Notes:

- Amuse Peace Limited ("Amuse Peace") held 2,750,000,000 Shares. Amuse Peace is a company wholly and beneficially owned by Mr. Zhang Xiaodong, the Chairman, Chief Executive Officer and an Executive Director of the Company. Mr. Zhang Xiaodong is deemed to be interested in the 2,750,000,000 Shares owned by Amuse Peace for the purpose of SFO.
- As at 30 June 2017, the total issued share capital of the Company amount to 34,052,135,118 shares.

Abbreviations:

"L" stands for long position

Save as disclosed above, as at 30 June 2017, none of the Directors nor the chief executives of the Company had any interests or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## OTHER INFORMATION

### INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, so far as is known to the Directors, the following, not being a Director or the chief executives of the Company, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of the SFO:

#### Long positions in the Shares and Underlying Shares

Name of Shareholder	Capacity in which interests are held	Number of Ordinary Shares	Approximate percentage of issued capital of the Company <sup>5</sup>	Notes
China Goldjoy Securities Limited	Custodian	20,970,863,838 (L)	62.90%	2
	Beneficial Owner	448,180,967 (L)		
Cheung Chun Shun	Corporate Interest	2,419,354,838 (L)	7.10%	3
Yue Jin International Limited	Beneficial Owner	2,419,354,838 (L)	7.10%	3
Zheng Kanghao	Corporate Interest	7,840,000,000 (L)	23.02%	4
Origin Development Limited	Beneficial Owner	7,840,000,000 (L)	23.02%	4

Notes:

1. Pursuant to Section 336 of the SFO, the shareholders of the Company (the "Shareholders") are required to file disclosure of interests forms (the "DI Forms") when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange's official website. When a Shareholder's shareholdings in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial Shareholders' latest shareholdings in the Company may be different to the shareholdings filed with the Company and the Stock Exchange. The above statements of substantial shareholders' interests are prepared based on the information in the relevant DI Forms received by the Company. The Company may not have sufficient information on the breakdown of the relevant interests and cannot verify the accuracy of information on the DI Forms. Therefore, some substantial Shareholders' interests in Shares or short positions may not have breakdown in their relevant interests.
2. China Goldjoy Securities Limited is deemed to be interested in 20,970,863,838 Shares as the custodian of its clients and is beneficially interested in 448,180,967 Shares.
3. Yue Jin International Limited is a company wholly owned by Mr. Cheung Chun Shun. Accordingly, Mr. Cheung Chun Shun is deemed to be interested in the Shares by virtue of SFO.
4. Origin Development Limited is a company wholly owned by Mr. Zheng Kanghao. Accordingly, Mr. Zheng Kanghao is deemed to be interested in the Shares by virtue of SFO.
5. As at 30 June 2017, the total issued share capital of the Company amounted to 34,052,135,118 shares.

Abbreviations:

"L" stands for long position

Save as disclosed above, as at 30 June 2017, the Directors and the chief executives of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was recorded in the register kept by the Company under section 336 of the SFO.

# OTHER INFORMATION

## SHARE OPTION

### 2014 Share Option Scheme

On 26 March 2014, a new share option scheme (the "2014 Share Option Scheme") was adopted by the Company. The purpose of the 2014 Share Option Scheme was (i) to attract and retain the best quality personnel for the development of the Company's businesses; (ii) to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and (iii) to promote the long term financial success of the Company by aligning the interests of option holders to shareholders of the Company. The 2014 Share Option Scheme is valid and effective for a period of ten years from the date of adoption.

The total number of Shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme of the Company amount to 1,115,835,120 Shares (after share subdivision), representing (1) 10% of the issued share capital of the Company as at the date on which the 2014 Share Option Scheme was adopted; (2) approximately 3.28% the issued share capital of the Company as at 31 December 2016; and (3) approximately 3.28% of the issued share capital of the Company as at 30 June 2017, without prior approval from the Shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue. The exercise price will be determined by the Directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of option; or (iii) the nominal value of a share.

Options may generally be exercised in whole or part at any time during the period as determined by the Directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the options) subject to any restrictions as may be imposed on the exercise of an option during the period in which an option may be exercised.

Subject to all applicable laws, rules and regulations or any internal guidelines or code of corporate governance from time to time in force, the Board has the power, as its discretion and based on such factors and circumstances as it considers relevant and appropriate, to:

- (i) determine the minimum holding period, if any, for which an option must be held before it vests; and
- (ii) the consideration payable upon acceptance of an option and the period within which payments or calls must or may be made or loans for such purposes must or may be repaid.

As at the date of this report, a total of 622,000,000 share options after share subdivision had been granted by the Company under the 2014 Share Option Scheme. In which, 200,000,000 share options have been lapsed during the Period and the number of outstanding share options as at 30 June 2017 is nil.

## OTHER INFORMATION

The following table sets out the movements in the Company's share options under the 2014 Share Option Scheme during the Period:

Directors	Exercise period of share options (Note 1)	Exercise price of share options after share subdivision (Note 2)	Number of outstanding share options as at 1.1.2017	Granted during the period under review	Exercise during the period under review	Cancelled during the period under review	Lapsed during the period under review (Note 4)	Number of outstanding share options as at 30.6.2017	Market Value per Share immediately preceding the grant date of share options after share subdivision (Note 3)
<b>Share Options granted on 27 May 2015</b>									
Zuo Jian Zhong	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
Tang Yau Sing	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
Zhang Zhige	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
Liu Wei	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
Chui Man Lung, Everett	30/10/2015–26/05/2025	HK\$0.314	11,000,000	–	–	–	(11,000,000)	–	HK\$0.325
Han Chu	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
Wu Hong	30/10/2015–26/05/2025	HK\$0.314	–	–	–	–	–	–	HK\$0.325
<b>Sub-Total</b>			11,000,000	–	–	–	(11,000,000)	–	
<b>Contributors</b>	30/10/2015–26/05/2025	HK\$0.314	189,000,000	–	–	–	(189,000,000)	–	
<b>Total</b>			200,000,000	–	–	–	(200,000,000)	–	

Notes:

- The vesting period of the 2014 Share Option Scheme is that first 50% of the share options shall be exercisable by the grantee during the period from 30 October 2015 to 26 May 2025 (both days inclusive) and the remaining 50% of the share options shall be exercisable by the grantee during the period from 30 April 2016 to 26 May 2025 (both days inclusive).
- The exercise price was adjusted for share subdivision and became effective on 16 September 2015 (the original exercise price is HK\$3.14).
- The market price was adjusted for share subdivision (the original market price is HK\$3.25).
- The share options were held by grantees who ceased to be the employees or consultants of the Group during the Period.

Save as disclosed above, during the Period, no options under the 2014 Share Option Scheme were exercised, cancelled or lapsed.

### INTERIM DIVIDEND

The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2017 (as at 30 June 2016: Nil).

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Period was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or the chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## OTHER INFORMATION

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct for securities transactions and dealing (the “Code of Conduct”) by Directors on terms no less exacting than the required standard set out in Model Code of Appendix 10 to Listing Rules. The Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the six months ended 30 June 2017.

All the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the six months ended 30 June 2017.

### CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time.

The Board and the management of the Company are of the opinion that the Company has properly operated in accordance with the Corporate Governance Code and Corporate Governance Report (the “CG Code”) during the six months ended 30 June 2017 which sets out (a) code provisions (which are expected to comply with); and (b) recommended best practices (which are for guidance only) in Appendix 14 of the Listing Rules. The Company has applied and complied with the applicable code provisions and some of the recommended best practices except for one deviation of code provisions as stated in the subject headed “Compliance with CG Code” below.

### Risk Management and Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the annual review of the relevant financial, operational and compliance controls and risk management procedures. The Board considers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function. Details of the Group’s risk management system and procedures were set out in the Corporate Governance Report of the Annual Report for the year ended 31 December 2016 published on 21 April 2017 (the “Annual Report”) under the subject headed “Risk Management and Internal Control”.

### Compliance with CG Code

The Board confirms that, the Company has complied with the code provisions set out in the CG Code during the Period save for the deviation mentioned below.

During the Period, Mr. Zhang Xiaodong was the Chairman and Chief Executive Officer of the Company (“CEO”). This arrangement deviates from provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Board is of the opinion that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group’s business strategies and maximizes effectiveness of its operation. The Board considers that there is a sufficient balance and division of responsibilities and authority, hence it does not have a material adverse impact on the corporate governance of the Company.

The Board will carry out regular reviews and propose any amendment, if necessary, to ensure compliance with the CG Code provisions as set out in the Listing Rules.

## OTHER INFORMATION

### CHANGE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B OF THE LISTING RULES

Upon specific enquiry by the Company and following confirmations from Directors, save as otherwise set out in this Report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published Annual Report.

As announced by the Company on 19 January 2017, the following changes of Directors and committee members of the Company became effective on 20 January 2017:

- (i) Mr. Chui Man Lung, Everett resigned as an independent non-executive Director, the chairman and a member of the audit committee (the "Audit Committee") and a member of the nomination committee and the salary review committee of the Company.
- (ii) Dr. Tang Lai Wah was appointed as the chairman of the Audit Committee.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control system of the Group, and to review the Company's Annual Report and provide advice and comments thereon to the Board. The Audit Committee comprises of all the three independent non-executive Directors, currently Dr. Tang Lai Wah (Chairman), Mr. Chen Zetong and Ms. He Suying.

The Audit Committee has reviewed and approved the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017.

By order of the Board  
**New Sports Group Limited**  
**Zhang Xiaodong**  
*Chairman*

Hong Kong, 18 August 2017