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
ANNUAL REPORT

CONTENTS

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
Li, Wong, Lam & W. I. Cheung

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#
Xia Lingjie
Lau Wan Po

NOMINATION COMMITTEE

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

Chairman

RISK MANAGEMENT COMMITTEE

Zhang Xiaodong#
Xia Lingjie
Lau Wan Po

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

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

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

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

WEBSITE

http://www.newsportsgp.com

STOCK CODE

299

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

CONSOLIDATED RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
TURNOVER	**191,519**	155,207	502,980	582,892	481,115
LOSS BEFORE TAX	**(53,425)**	(769,653)	(51,093)	(45,989)	(81,189)
INCOME TAX EXPENSE	**(3,541)**	(2,950)	(15,228)	(10,921)	(2,886)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(56,966)**	(772,603)	(66,321)	(56,910)	(84,075)
Discontinued Operation					
PROFIT /(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATION	**158,813**	(147,568)	—	—	—
PROFIT/(LOSS) FOR THE YEAR	**101,847**	(920,171)	(66,321)	(56,910)	(84,075)
PROFIT/(LOSS) ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**87,940**	(861,582)	(76,401)	(56,799)	(83,518)
NON-CONTROLLING INTERESTS	**13,907**	(58,589)	10,080	(111)	(557)
	101,847	(920,171)	(66,321)	(56,910)	(84,075)
EARNINGS/(LOSS) PER SHARE					
FROM CONTINUING AND DISCONTINUED OPERATIONS		(represented)	(represented)	(represented)	(represented)
Basic (cents)	**0.05**	(1.13)	(11.60)	(10.00)	(15.00)
FROM CONTINUING OPERATIONS					
Basic (cents)	**(0.04)**	(0.93)	(11.60)	(10.00)	(15.00)

CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**5,966,028**	2,398,312	1,603,257	799,406	699,758
TOTAL LIABILITIES	**(3,586,070)**	(961,300)	(589,707)	(155,942)	(134,886)
	2,379,958	1,437,012	1,013,550	643,464	564,872
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**1,759,462**	1,405,707	943,598	637,364	560,909
NON-CONTROLLING INTERESTS	**620,496**	31,305	69,952	6,100	3,963
	2,379,958	1,437,012	1,013,550	643,464	564,872

CHAIRMAN'S STATEMENT

INDUSTRY AND MARKET OVERVIEW

In 2017, the long-sluggish global economy has turned the corner, along with developed economies whose gradual recovery led to improvement in international trade. Benefiting from the rebounding international trade, China, in active response to new economic development norms, shows stronger steady economic growth than in 2016, with its economic structure constantly optimised and upgraded. Of all the sectors in China, the sports industry demonstrated rapid growth. In 2016, the industry's output totalled RMB1.9 trillion (same as below), which soared by RMB647.5 billion and constituted 0.9% of the nation's GDP. Apart from that, under strict policy regulation from, China's property market saw increasingly steady growth. In the first 11 months in 2017, China's commercial housing increased 7.9% from in sale area last year to total 1.47 billion square metres, of which the sale area of commercial residential building rose by 1.26 billion square metres, a year-on-year increase of 5.4%.

In 2017, the policy environment of China's sports industry continued to improve. With the Chinese government releasing "Several Opinions of the State Council on Accelerating the Development of Sports Industry and Promoting Sports Consumption" (Guo Fa 2014 No. 46) in 2014 and "13th Five-Year Plan for Sports Industry Development" in 2016, the development of the sports industry has been elevated to national strategic level with a total output target of RMB5 trillion by 2025. The different levels of the country's sports industry chain have become the centre of attention by the authorities, which will directly lead to the further expansion of the sports market. Concurrently, this will have increasingly significant impact on neighbouring industries such as the tourism and property sectors, bringing new growth momentum to their markets. Under beneficial government policies and the resulting operational environment, the joint trade of sports and property financing seized the opportunities to rise to prominence, becoming one of the most promising joint development models in China. At present, China's property industry insiders generally anticipate a property golden age resulting from the expected property market explosion in a time when green housing meets nationwide exercise spirit. Gradually, new types of properties such as the "sports town", "sports commerce" and "community sports park" will be in high demand on the market.

In respect of China's property market development, in 2017, the government stressed in its policy a crackdown on property speculation, converting the national property market into a regulated one. Gradually, the market has switched from demand-driven to supply-driven. This, coupled with decline in limits on both purchase and selling and in land supply, leads to a market structural optimisation. The impact of governmental regulation is growing evident. Under the principle that policies should suit the different situations of famous cities, the government rolled out a series of regulatory measures that have brought a steady fall in the property market's performance and has effectively eased the over-heated market. Actually, the policy regulation is mainly aimed to "remove property bubbles", retain premium assets and bring stability to the market. In fact, the property market's expected return to rational development can, to a certain degree, prevent financial risks, continue the entire industry's development cycle and create advantageous conditions for the establishment of a long-term development mechanism. The Chinese government has set up a mechanism that promotes both renting and purchase, which has facilitated the development of the property rental market. Meeting the people's residential need has become a significant mission for the property industry policies. Additionally, following more than a decade's massive-scale construction, China's major cities have entered the age where housing stock abounds. The demand for housing stock and residents' increased expenditure in residential property will bring forth development opportunities for property developers. In the same year, the number of second-hand property transactions in first-tier and some of the second- and third-tier cities further increased, indicating that property industry has jumped from a time of severe shortage in property supply to a time featuring the demand-supply imbalance in property quality, property types and distribution. Undervalued properties and old facilities with limited operating capacity bring enormous development opportunities for enterprises of abundant resources and high operational capacity. Among them, as commercial office buildings and shopping centres in first-tier cities and some of the second- and third-tier cities house a large quantity of modern service providers, they demonstrate colossal economic values.

To sum up, China's future property policies are expected to maintain their continuity and stability and the major policies' regulatory nature will remain unchanged, leading to a residential property development landscape featuring a large high-end market, a supported mid-end market and a protected low-end market. In 2018, we anticipate that both the establishment of long-term effective mechanism and the property market reforms will accelerate. The tightening policies does not imply winter for both the property market industry and developers; on the contrary, should a long-term effective mechanism be implemented sooner than expected, it will create a more stable, healthy development environment for some premium residential developers.

The fundamental driving forces behind the continuous development of New Sports Group Limited (the "Company") and its subsidiaries (the "Group") are innovation and change. As a result, in 2017, in addition to the consolidation of its fundamental businesses, the Group actively sought opportunities in sports tournaments sports training and sports tourism. More importantly, the Group aligned with market changes, closely followed the new concepts in related joint industries, combine property investment and business development in the sports sector and regarded property investment and development as one of its future development strategies. The Group think that these moves will help it grasp opportunities residing in both small and large assets and lay a solid foundation for its future whole-chain development. Moreover, its brand new development strategies, operational models and profit growth sources will largely boost the Group's core competitiveness and future overall revenues.

BUSINESS REVIEW

P2P Online Financial Services

Since 2017, the various long-accumulated problems of the P2P online financial industry gradually emerged, and there has been much related negative social and economic news. After many rounds of industry elimination, the government tightened its regulation that uncontrollable political risks could happen any time. Worse still, the industry's inadequate credibility in capital absorption brings tremendous financial pressure on the whole industry. Due to the industry's extremely uncertain prospects and the lack of synergy between the Group's online financial business and its other businesses, the Group completed the disposal of its P2P online financial company, Key Rich Corporation Limited and other related subsidiaries, and formally withdrew from the online financial loan platform industry and the related sectors in March 2017. The Group regards this move as a bold decision made in response to the market changes and that its disposal of all related businesses can assist it to concentrate its management energy and withdraw from high-risk industries, thereby moving towards stable development.

Online Gaming Business

With persistent problems such as wide fluctuations in the internet market and high similarity shared among products in the gaming market, the Group's subsidiary, Heroic Coronet Limited (where its subsidiary, All Rise Technology Limited, owns a 65% equity interest in Beijing Kaixin Jiuhao Technology Company Limited and provides online gaming services suffered large losses. In the previous fiscal year (i.e. the year ended in 2016), the Group's online gaming services business suffered losses amounting to HK$175 million for its goodwill depreciation and HK$86 million for the depreciation of other intangible assets). In May 2017, the Group disposed its entire equity interest and its rights in the shareholder's loans in Heroic Coronet Limited.

CHAIRMAN'S STATEMENT

Sports Tourism + Sports Training

After obtaining the operating right of the marine sports base and sailing school in Shenzhen Dapeng New District in December 2016, the Group renamed them as "New Sports Marine Sport Centre" ("Sport Centre") and "New Sports Marine Training Centre" ("Training Centre"). Following one year's operations, they were both among the Group's core businesses. The Sport Centre has developed into a leisure tourism platform offering docking and rental services, driving lessons, scuba diving lessons, leisure venues and hotel services. In 2017, the centre hosted, jointly hosted and provided site support for more than 10 competitions and events. For example, at the brand release event in August at the Sport Centre, where the first "Three Challenges for New Sports at Dapeng Coast"（新體育、大鵬海岸三項挑戰賽）was held, the Group successfully signed the New Sports, China Cup 10-Year Strategic Cooperation Framework Agreement（新體育•中國杯十年戰略合作框架協定）with "China Cup", which designated the Sport Centre as the venue for the "China Cup International Regatta" for the following decade. After undergoing hardware and software upgrades, the Training Centre has currently been in close collaboration with multiple sizeable institutes requiring training including the Emergency Management Office of Shenzhen Municipal People's Government. In 2017, the centre undertook more than 20 training events, for which it provided teaching and sports venues and complementary services such as accommodation and catering. The events held in the two centres and the media reports about them have gradually brought the Group's brand under public attention. In the present stage, benefiting from Shenzhen's eastbound development strategies and the strategic position of the "global tourism demonstration area" located in the Dapeng New District, coupled its advantages of owning a sand-coastal offshore event venue and an integrated training base adjacent to a mountain and sea, the Group smoothly grasped the early opportunities in the sports tourism and sports training sectors, a tremendous boost to its major businesses development.

Property Development and Investment

On 28 June 2017, the Group signed an agreement to fully acquire 深圳博瑞企業管理有限公司 (Shenzhen Borui Enterprise Management Company Limited*) ("Shenzhen Borui") for a total consideration of RMB950 million and completed the acquisition on 17 November 2017. Since the acquisition, the Group hold a 56.80% stake in 深圳潮商聯合投資有限公司 (Shenzhen Chaoshang Joint Investment Company Limited*) – which fully owned 潮商集團(汕頭)投資有限公司 (Chaoshang Group (Shantou) Investment Company Limited*) ("Chaoshang Group (Shantou)"), a 96.24% stake in 汕頭市潮商城鎮綜合治理有限公司 (Shantou Chaoshang Chengzhen Comprehensive Management Company Limited*) ("Chaoshang Chengzhen"), and a 7.24% stake in 深圳潮商股權投資基金有限公司 (Shenzhen Chaoshang Equity Investment Fund Company Limited*), Chaoshang Group (Shantou) and Chaoshang Chengzhen owned several plots of land in Shantou city respectively. For details, please refer to the Company's announcement dated 28 June 2017 and circular dated 25 October 2017 respectively.

On 28 December 2017, the Company's wholly-owned subsidiary 深圳寶新體育產業有限公司 (Shenzhen Baoxin Sport Industry Limited*) ("Baoxin Sport") and 吉林省粵合房地產開發有限公司 (Jilin Province Yue He Property Development Company Limited*) (the "JV Party") succeeded in their joint bid for the land use rights of land offered for sale by listing-for-sale by 長春市國土資源局 (The State Land Resources Bureau of Changchun City*) ("Changchun Land Bureau") at the consideration of RMB359 million, the relevant land located at 長春市朝陽區、東至東順街、南至解放大路、西至吉林大學圖書館及北至牡丹園 (Chaoyang District, Changchun City, east bordering Dong Shun Street, south bordering Jiefang Main Road, west bordering Jilin University library and north bordering Peony Garden*). Baoxin Sport contributed RMB300 million towards the consideration and the JV Party contributed the balance of the consideration in the sum of RMB59 million. The Land Acquisition Confirmation and the Land Use Rights Grant Contract were entered into between Changchun Land Bureau, Baoxin Sport and the JV Party on 28 December 2017.

According to the Land Use Rights Grant Contract, the ultimate transferee of the land shall be the joint venture company established by both parties. Total 12,003 square meters of the land, which had leasehold of 40 years, may be used for commercial service and vehicle parking purposes.

On 7 March 2018, the Group's wholly-owned subsidiary 深圳寶新實業有限公司 (Shenzhen Baoxin Industrial Company Limited*) ("SBIL") signed an agreement with 寶能城市發展建設集團有限公司 (Baoneng City Development and Construction Group Company Limited*) ("Baoneng City Development") to acquire 60% equity interest of 渭南市寶能置業有限公司 (Weinan Baoneng Property Company Limited*) ("Weinan Company") for a consideration of RMB1 and an obligation to make capital contribution of RMB180 million to Weinan Company. Following the acquisition, Weinan Company will become one of the Group's partially-owned subsidiaries. On 14 February 2018, Weinan Company successfully acquired the right to use a plot of land in Weinan through bidding. For details, please refer to the Company's announcement dated 7 March 2018.

In addition to the above property and land investments, the Group also invested in some of the properties in Shenyang, Hefei and Shenzhen in the past year.

With reference to the above property and land acquisition projects, the Group is of the view that property investment expansion and property development will add capital to its cash flow, whereby realising a benign funds loop; coupled with the concept of "community sports", they can elevate the values of the property and real estate, promoting sports among the general public; through the management and operation of its properties, the Group can accumulate experience for its future construction and operation of larger sports centres and consolidate its fundamental business of "centre operation", generating continuous momentum to stabilising its cash flow and increasing the spending concentration of the general public. With reference to its acquisition of Shenzhen Borui, the Group anticipated promising prospects for the property development and investment market in Guangdong Province, China (particularly Chaoshan District), owing to the fact that the construction of the Guangdong-Hong Kong-Macao Bay Area had become one of China's significant strategic plans and the future joint development of the area and the Shen Shan Special Cooperation Zone. The acquisition also symbolised the Group's fundamental concentration on the sport-related industries and official entry into the property investment and development market.

Securities Investment

In 2017, the Group seized the opportunities to commence its stock investment business by investing in stocks listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange and made securities investment one of its main businesses moving forward. The Group views that while investing in capital intensive assets, securities investment can play a complementary role with its brick-and-mortar businesses, forming a benign cycle in the Group's operations which leads to stable, sustainable development.

PROSPECTS

The year 2017 is a "year of strategy adjustment" for the Group. Through actions such as the withdrawal from its bad businesses and the acquisition of properties and lands, the Group has created its strategic business landscape centring on "Health and Sports, Cultural Tourism and Property Investment and Developments. Its business expansion into the securities investment arena will further lead the Group towards the strategic landscape of whole-chain business development. The Group officially entered the fast-tracked development path of diversity and sustainable cash flow, establishing foundation for its steady, swift and sustainable future development.

In 2018, the Group will steadily revolve around the strategic policies determined by its board ("Board") of directors of the Company (the "Directors") focusing on three areas, namely "Sports and Health, Cultural Tourism and Property Investment and Development" through multiple mergers and acquisitions, rapid expansion of its quality businesses, total assets growth, swiftly improved cash flow by means of several financing plans and market value increase. In addition, the Group will further optimise the internal management and operational development of its acquired multiple assets.

Looking ahead, the Group will follow the market trends, move forward steadily, rely on its firm business foundation, and be committed to the development of its renowned brands from an integrated platform in the sports cultural industry; it will also fully utilise the "innovative and integrative" development concepts in efforts to create a business-diverse enterprise with Chinese and international brand influence, foundation in the sports culture trade and concentrate development in real estate investment.

By Order of the Board
New Sports Group Limited
Zhang Xiaodong
Chairman

Hong Kong, 23 March 2018

* *For identification purpose only*

REVIEW OF RESULTS AND OPERATIONS

During the year ended 31 December 2017 (the "Year"), the Group achieved approximately HK$191,519,000 in revenue, representing an increase of approximately 23.4% from that of approximately HK$155,207,000 for 2016. The significant increase in revenue was mainly attributable to the contribution of the revenue derived from the operation of marine sports base and sailing school which was acquired in December 2016 and the trading of commodities which was recently introduced by the Group in 2017.

During the Year, the gross loss was approximately HK$42,772,000, comparing to the gross profit of approximately HK$46,139,000 for 2016. The overall gross profit ratio of approximately 29.7% became gross loss ratio of approximately 22.3%. The substantial decrease was mainly due to the decrease in revenue in mobile gaming industry for the Year. Besides, 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 amortisation expense of other intangible assets of approximately HK$61,388,000 into cost of sales.

During the Year, the Group's distribution costs amounted to approximately HK$7,473,000 (2016: approximately HK$3,839,000), representing an increase of approximately 94.7%. The increase was mainly derived from pre-sales of properties by real estate and property investment business which was newly introduced by the Group. The administrative expenses amounted to approximately HK$61,231,000 (2016: approximately HK$78,124,000) and research and development expenses amounted to approximately HK$1,178,000 (2016: approximately HK$36,121,000), representing a decrease of approximately 21.6% and 96.7% 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 Year, securities investment business was newly exploited by the Group, and was considered as 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 in the consolidated balance sheet where the fair value gain for the year ended 31 December 2017 was approximately HK$8,972,000.

Substantial impairment for goodwill and other intangible assets of operation of software development in the PRC amounted to HK$75,263,000 and HK$19,996,000 respectively based on valuation of fair value changes in relevant businesses.

Besides, a fair value gain of approximately HK$161,199,000 resulted from the adjustment on contingent consideration payable in relation to the acquisition of Yue Jin Asia Limited with reference to the projected financial performance of Yue Jin Asia Limited for the year ending 31 December 2018.

Certain discontinued entities of our software development and P2P internet financing business with net liabilities were disposed of by the Group during the Year, which resulted in a one-time disposal gain of subsidiaries amounting to approximately HK$155,213,000, which comprises of gain on disposal of subsidiaries of approximately HK$158,813,000 and loss on disposal of a subsidiary of approximately HK$3,600,000 recognised in the consolidated statement of profit or loss. Income tax expense for the Year was approximately HK$3,541,000 as compared with an income tax expense for the same period of 2016 of approximately HK$2,950,000.

As a result of the above-mentioned factors, the Group recorded net profit of approximately HK$101,847,000 for the Year, as compared with the net loss of approximately HK$920,171,000 for 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had bank and cash balances of approximately HK$327,249,000 (31 December 2016: approximately HK$473,499,000).

As at 31 December 2017, total borrowings of the Group amounted to approximately HK$1,492,657,000, of which equivalents of approximately HK$212,506,000 and approximately HK$1,280,151,000 are denominated in Hong Kong dollar and Renminbi respectively. The borrowings included corporate bond of approximately HK$137,126,000, pledged loan of approximately HK$75,380,000 and other unsecured borrowing of approximately HK$1,280,151,000. All loans bore fixed interest rates and exposed the Group to fair value interest rate risk. As at 31 December 2017, the gearing ratio of the Group was approximately 0.627 (31 December 2016: approximately 0.229), which is calculated based on the total debt (summation of borrowings and convertible bonds) divided by total equity as at the respective reporting date.

As at 31 December 2017, the Group had net current assets of approximately HK$1,037,993,000, as compared with balance of approximately HK$407,313,000 as at 31 December 2016.

CAPITAL EXPENDITURE

The total spending on the acquisition of property, plant and equipment amounted to approximately HK$16,513,000 for the Year (2016: approximately HK$1,494,000).

CHARGE OF ASSETS

As at 31 December 2017, certain listed equity securities in Hong Kong with an aggregate carrying value of approximately HK$124,200,000 were pledged to secure the relevant loans amounting to HK$75,380,000. The carrying amount of properties for sale under development and a share charge over the entire issued capital of a wholly-owned subsidiary of the Group are pledged as security for banking facilities granted to a subsidiary of the Group amounted to approximately HK$1,221,773,000. 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 of the Group and was repaid in full on 9 January 2017.

EMPLOYEE AND REMUNERATION POLICIES

The Group had 241 full time staff as at 31 December 2017 (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 Year were approximately HK$44,945,000 (2016: approximately HK$62,477,000).

FOREIGN EXCHANGE AND CURRENCY RISKS

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

SHARE CAPITAL

Pursuant to an ordinary resolution passed on 20 December 2017, every twenty (20) ordinary shares of HK$0.0025 each in the issue and unissued share capital of the Company were consolidated into one (1) ordinary share of HK$0.05 each in the issued and unissued share capital of the Company with effect on 21 December 2017.

On 4 December 2017, the Company entered into a subscription agreement in respect of Tengyue Limited's subscription of 340,521,351 ordinary shares of HK$0.05 each at a price of HK$0.55 per share. The subscription was completed on 21 December 2017 and the premium on the issue of shares, amounting to approximately HK$170,261,000 was credited to the Company's share premium account. The Company issued and allotted 340,521,351 new shares on the same day.

The net proceeds, after deduction of relevant expenses, from the subscription is approximately HK$187,087,000.

By raising additional capital through issuance of new shares, the proceeds are used for the settlement of part of the outstanding balance of the consideration for the acquisition of Shenzhen Borui.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group's capital commitment was approximately HK$3,201,149,000 (2016: approximately HK$2,557,000) in respect of the purchase of property, plant and equipment and inventories amounted of approximately HK$5,198,000 and HK$3,195,951,000 respectively.

SHARE OPTIONS

2014 Share Option Scheme was adopted on 26 March 2014. As at 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding was nil.

FINAL DIVIDEND

The directors of the Company do not recommend payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Zhang Xiaodong

Mr. Zhang Xiaodong ("Mr. Zhang"), aged 44, was appointed as an executive Director, the chairman of the Board and the chief executive officer of the Group on 1 April 2016. He also holds directorship in certain subsidiaries of the Company. He has over 20 years' experience in strategic investment, corporate finance, budgeting analysis and capital management.

He is a shareholder of Shenzhen Super Energy Technology Co., Ltd. (formerly known as Shenzhen Super Energy International Supply Chain Management Co., Ltd. prior to transformation into a joint stock company) and a non-executive director of Shenzhen Super Energy Technology Co., Ltd. He held various positions with a wide range of sizeable companies. In particular, from September 2009 to December 2013, he acted as a vice president of Shenzhen Baoneng Investment Group Co., Ltd. and a general manager of Baoneng Commercial Co., Ltd.

From May 2005 to August 2009, he was a vice general manager of Shenzhen Galaxy Real Estate Development Co., Ltd; and from April 1998 to April 2005 he was an assistant to chairman of the board of directors of Shenzhen Meidi Real Estate Development Limited. He graduated from the Department of Industrial Economics, Shaanxi Institute of Finance and Economics with a bachelor's degree in 1993.

Xia Lingjie

Ms. Xia Lingjie ("Ms. Xia"), aged 30, joined the Company as a non-executive Director since 1 April 2016, she was re-designated as an executive Director on 17 August 2016. She also holds directorship in certain subsidiaries of the Company.

Ms. Xia received a bachelor's degree in broadcasting, television and news from Wuhan University and a bachelor's degree in psychology from Central China Normal University. She graduated from Wuhan University with a master's degree in communication in 2011 and earned a master's degree in Global Journalism from University of Sheffield, UK in 2012. She was an assistant to general manager and deputy general manager of Shenzhen Wangdian Media Co., Ltd. from January 2014 to June 2016. From 2013 to 2014, she was a director of business operation of Shenzhen Guosheng Culture and Media Co., Ltd.

Ms. Xia is a veteran in the culture and media industry and corporate operation and management, and is especially experienced in the aspects of brand communication, investor relations management, and formulation and execution of corporate strategies.

Lau Wan Po

Mr. Lau Wan Po ("Mr. Lau"), aged 42, joined the Company as an executive Director since 1 April 2016, he was re-designated as an non-executive Director on 18 November 2016. He has around 20 years of experience in the investment banking industry focusing in the areas of initial public offering, merger and acquisition, corporate restructuring and other financial advisory services to listed companies in Hong Kong.

Mr. Lau has been the chairman of Huabang Securities Limited (formerly known as Qian Hai Securities Limited) since December 2015. He has been the non-executive director and vice chairman of Huabang Financial Holdings Limited (formerly known as Goldenmars Technology Holdings Limited) since 26 January 2017. He acted as the managing director of Haitong International Capital Limited and Hai Tong Capital (HK) Limited from January 2010 to November 2015. He was an executive director and head of investment banking division of CMB International Capital Holdings Corporation Limited from August 2008 to January 2010. He graduated from the City University of Hong Kong with a bachelor's degree in science and earned a master's degree in finance from Curtin University of Technology.

Chen Zetong

Mr. Chen Zetong ("Mr. Chen"), aged 47, was appointed as an independent non-executive Director on 30 May 2016. He has extensive experience in areas including civil and commercial litigation and arbitration and dispute resolution, investment and financing as well as other legal affairs of business organization. He had previously served as a judge in the People's Republic of China in the commercial area for 16 years.

Mr. Chen is a practising Chinese lawyer. Since September 2012, he has been a senior partner of JunZeJun Law Offices in Beijing, mainly specializing in providing legal services for dispute resolutions, mergers and acquisitions and non-performing assets disposal. Since April 2016, he has been a director of China Practice of Nixon Peabody CWL in Hong Kong, specializing in Chinese Law. From May 2010 to September 2012, he was a partner of King & Wood Mallesons in Beijing. He has substantial experience in commercial arbitration and is currently an arbitrator of the South China International Economic and Trade Arbitration Commission and the Shenzhen Arbitration Commission. From 1994 to 2010, he served successively as a secretary, an assistant judge, a judge, a chief judge and a vice president of the Shenzhen Intermediate People's Court, responsible for commercial adjudication. He is currently an independent director of Hubei Sanxia New Building Material Co., Ltd, Fude Insurance Holdings Co., Ltd., Fude Sino Life Insurance Co., Ltd. and Sino Life Asset Management Co., Ltd.

Mr. Chen graduated from Southwest University of Political Science and Law in 1994 with a bachelor's degree in law. In 2003, he was awarded a master's degree in law (common law) from the University of Hong Kong, and in 2002 and 2008, a master's degree in law and a doctoral degree in law (civil and commercial law) from the Jilin University, respectively.

He Suying

Ms. He Suying ("Ms. He"), aged 52, was appointed as an independent non-executive Director on 30 May 2016. She obtained a bachelor's degree in economics from the Jiangxi University of Finance and Economics, majoring in infrastructure finance and credit, and a master's degree in economics from the investment and economics department of Dongbei University of Finance and Economics, majoring in investment and economical management. She possesses extensive experience in areas including internal audit, corporate financial analysis, management, investment decision-making and business consolidation.

Ms. He has over ten years of experience in corporate internal audit. Since May 2006, Ms. He has been working at Shenzhen Capall Asset Management Co., Ltd. as an executive director of the company. She had been a director and a chief financial officer of the company. She concurrently serves as an independent director of Dasheng Times Cultural Investment Co. Ltd. (formerly known as Baocheng Investment Co., Ltd.) and Shenzhen Salubris Pharmaceuticals Co., Ltd. From 2011 to 2017, she was an independent director of Guangdong Evergreen Feed Industry Co., Ltd. and Leadshine Technology Co., Ltd. in Shenzhen. From September 2007 to September 2013, she was an independent director of MYS Group Co., Ltd. From August 2003 to December 2008, she served as a director of Shenzhen Seg. Dasheng Co., Ltd. (now renamed as Shenzhen Quanxinhao Co., Ltd.).

Ms. He had previously served as a supervisor and an officer-in-charge of the auditing department of Weishen Securities Co., Ltd., a section chief of the auditing department of Shenzhen Branch, Guangdong Development Bank and a lecturer of the investment and finance department of Jiangxi University of Finance and Economics.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Tang Lai Wah

Dr. Tang Lai Wah ("Dr. Tang"), aged 60, was appointed as an independent non-executive Director on 30 May 2016. She is a fellow member of the Association of Chartered Certified Accountants ("ACCA"), the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors and a member of the Hong Kong Independent Non-Executive Director Association. She has obtained the Certificate in Digital Computer Programming from the University of Hong Kong and the Diploma of Accredited Jewelry Professional from the Gemological Institute of America. Dr. Tang holds a degree of Bachelor of Arts with honors in Accountancy, degree of Master of Business Administration (Executive) and degree of Doctor of Business Administration from the City University of Hong Kong.

Dr. Tang has over 30 years of accounting, corporate finance and financial management experience in telecommunication, media and information technology industries. Dr. Tang has been the chief financial officer and company secretary of Excel Technology International (Hong Kong) Limited ("Excel Technology") since 2002. She was the chief financial officer and company secretary of Hong Kong Jewellery Holding Limited (Formerly known as Excel Technology International Holdings Limited) (Stock Code: 8048) from December 2002 to August 2014. Prior to joining Excel Technology, she was group financial controller in companies listed on the Main Board of the Hong Kong Stock Exchange, including Star Telecom International Holdings Limited and South China Media Group. Dr. Tang has extensive experience in the merger and acquisition activities, the initial public offering on Main Board of the Hong Kong Stock Exchange, overseeing corporate governance and monitoring corporate compliance of the Listing Rules and regulations.

Dr. Tang is appointed as a specialist and financial expert by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications. She is elected as committee member, chairman of student affairs sub-committee and convener of members' journal & communication task force of ACCA Hong Kong. She is also appointed as a member of departmental advisory committee for the Department of Accountancy, City University of Hong Kong.

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 24 of the consolidated financial statements. Details and respective analysis of the main business segments of the Group during the year ended 31 December 2017 are set out in note 10 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 83 to 84.

No interim dividend was declared during the Year (2016: Nil) and the Directors do not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed during the following period and during this period, no transfer of shares will be registered.

For the purpose of ascertaining the entitlement of the shareholders of the Company (the "Shareholders") to attend and vote at the 2018 Annual General Meeting, the Register of Members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, both days inclusive.

In order to be eligible to attend and vote at the 2018 Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong for registration not later than 4:30 p.m. on Monday, 14 May 2018.

BUSINESS REVIEW

A review of the business of the Group during the Year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 4 to 8 and Management Discussion and Analysis on pages 9 to 11 of this Annual Report.

The financial risk management objectives and policies of the Group are shown in note 6 to the consolidated financial statements. An analysis of the Group's performance during the Year using key financial performance indicators is provided on pages 9 to 10 of this Annual Report.

Discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided on pages 53 to 73 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year ended 31 December 2017 are set out in note 20 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 3. This summary does not form part of the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2017 are set out in note 42 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, as at 31 December 2017, the contributed surplus and share premium accounts are distributable to the Shareholders provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the distributable reserves of the Company during the year ended 31 December 2017 are set out in note 41(b) to the consolidated financial statements.

DONATION

During the Year, the Group made charitable and other donations amounting to HK$13,520 (2016: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein amounted to 14%. The Group's five largest suppliers accounted for less than 50% of the total cost of services and among which 14% is attributable to the largest supplier for the Year.

Save as disclosed, none of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors

Mr. Zhang Xiaodong
Ms. Xia Lingjie

Non-Executive Director

Mr. Lau Wan Po

Independent Non-Executive Directors

Mr. Chen Zetong
Ms. He Suying
Dr. Tang Lai Wah
Mr. Chiu Man Lung, Everett (resigned on 20 January 2017)

Pursuant to Article 87(1) of the Company's Articles of Association, Mr. Lau Wan Po and Mr. Chen Zetong will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence under Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and as at the date of this report still considers that all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2017, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director, other officer and auditor shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director, Auditors or other officer of the Company about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

REMUNERATION POLICY

The remuneration policy of the employees of the Group is set up by the Salary Review Committee on the basis of their merit, qualifications and competence.

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 43 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group during the year ended 31 December 2017 are set out in note 14 and 15 to the consolidated financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN ORDINARY SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive 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 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 Listing Rules, were as follows:

(a) Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity in which interests in Shares are held	Number of Shares held	Equity derivatives (Share Options)	Total number of Shares held	Approximate percentage of issued share capital of the Company[2]	Notes
Zhang Xiaodong	Corporate Interest	137,500,000 (L)	–	138,175,000 (L)	6.76%	1
	Beneficial Owner	675,000 (L)	–			

Notes:

1. Amuse Peace Limited ("Amuse Peace") held 137,500,000 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 137,500,000 Shares owned by Amuse Peace for the purpose of SFO.

2. As at 31 December 2017, the total issued share capital of the Company amounted to 2,043,128,106 Shares.

Abbreviations:

"L" stands for long position

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executives of the Company or their respective associates had or was deemed to have any interests or short positions 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.

SHARE OPTION SCHEME

2014 Share Option Scheme

On 26 March 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme") and the major terms of the 2014 Share Option Scheme were summarized as follows:

(a) Purpose of the 2014 Share Option Scheme

The Company adopted the 2014 Share Option Scheme on 26 March 2014. 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.

(b) Participants of the 2014 Share Option Scheme

Pursuant to the 2014 Share Option Scheme, the Company may at its absolute discretion grant options to any employee, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or its subsidiaries (including any director, whether executive or non-executive and whether independent or not, of the Company or its subsidiaries) who is in full-time or part-time employment with the Company or its subsidiaries at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

(c) Total number of Shares available for issue under the 2014 Share Option Scheme

The total number of shares may be granted under the 2014 Share Option Scheme is 24,691,756 Shares after adjustments for share subdivision in 2015 and share consolidation in 2017, which represents 0.6% of the total number of shares of the Company in issue at the date of this report.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Share Option Scheme and any other schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the 2014 Share Option Scheme.

(e) Time of exercise of options

An option may be exercised in accordance with the terms of the 2014 Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. No minimum period for which the option must be held before it can be exercised is specified in the 2014 Share Option Scheme.

(f) The subscription price per share

The subscription price per share in respect of an option granted under the 2014 Share Option Scheme is such price as determined by the Board of the Company at the time of the grant of the options, but in any case the subscription price shall not be lower than the higher of:

- the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the options are offered, which must be a business day;
- the price being the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and
- the nominal value of a share of the Company on the date of offer.

(g) Payment on acceptance of option

A non-refundable sum of HK$10 or other amount as determined by the Board of the Company by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the granted option.

(h) Duration of the 2014 Share Option Scheme

The 2014 Share Option Scheme will remain in force for a period of 10 years from its adoption date (i.e. 26 March 2014). The 2014 Share Option Scheme will terminate or expire (as the case may be) on the earlier (i) the approval of the Shareholders in a general meeting, and (ii) at the close of business on the day immediately preceding the tenth anniversary of the adoption date (the “Scheme Period”).

After the Scheme Period, the Company cannot grant new options but for so long as there are options granted but not yet exercised, outstanding vested or unvested options, the 2014 Share Option Scheme will remain in full force and effect of such outstanding vested or unvested options or otherwise as may be required in accordance with the 2014 Share Option Scheme. As at the date of this report, a total of 31,100,000 share options (after adjustments for share subdivision in 2015 and share consolidation in 2017) had been granted by the Company under the 2014 Share Option Scheme. In which, 10,000,000 share options (after adjustments for share subdivision in 2015 and share consolidation in 2017) had been lapsed during the Year and the number of outstanding share options as at 31 December 2017 is nil.

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

Directors	Exercise period of share options (Note 1)	Exercise price of share options after share consolidation (Note 2)	Number of outstanding share options as at 1.1.2017 (after share consolidation)	Number of share options: Granted during the Year	Number of share options: Exercised during the Year	Number of share options: Cancelled during the Year	Number of share options: Lapsed during the Year (Note 4)	Number of outstanding share options as at 31.12.2017	Market value per Share immediately preceding the grant date of share options after share consolidation (Note 3)
Share options granted on 27 May 2015									
Zuo Jian Zhong	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Tang Yau Sing	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Zhang Zhige	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Liu Wei	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Chui Man Lung, Everett	30/10/2015 – 26/05/2025	HK$6.28	550,000	–	–	–	(550,000)	–	HK$6.5
Han Chu	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Wu Hong	30/10/2015 – 26/05/2025	HK$6.28	–	–	–	–	–	–	HK$6.5
Sub-Total			550,000	–	–	–	(550,000)	–	
Contributors	30/10/2015 – 26/05/2025	HK$6.28	9,450,000	–	–	–	(9,450,000)	–	HK$6.5
Total			10,000,000	–	–	–	(10,000,000)	–	

Notes:

1. The vesting period of the 2014 Share Option Scheme is that the 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).

2. The exercise price was adjusted for share consolidation and became effective on 21 December 2017 (the original exercise price is HK$3.14 and adjusted to HK$0.314 after share subdivision became effective on 16 September 2015).

3. The market price was adjusted for share consolidation (the original market price is HK$3.25 and adjusted to HK$0.325 after share subdivision became effective on 16 September 2015).

4. The share options were held by grantees who ceased to be the employees or consultants of the Group during the Year.

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

INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2017, so far as is known to the Directors, the following individuals, not being a Director or the chief executive of the Company, have interests or short positions 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 under section 336 of the SFO:

Long positions in the Shares and Underlying Shares

Name of Shareholders	Capacity in which interests in Shares are held	Number of Shares held	Approximate percentage of issued share capital of the Company[6]	Notes
China Goldjoy Securities Limited	Custodian	1,023,211,691 (L)	51.17%	1,2
	Beneficial Owner	22,409,048 (L)		
Cheung Chun Shun	Corporate Interest	120,967,741 (L)	5.92%	1,3
Yue Jin International Limited	Beneficial Owner	120,967,741 (L)	5.92%	1,3
Zheng Kanghao	Corporate Interest	392,000,000 (L)	19.19%	1,4
Origin Development Limited	Beneficial Owner	392,000,000 (L)	19.19%	1,4
Wu Teng	Corporate Interest	340,521,351 (L)	16.67%	1,5
Tengyue Limited	Beneficial Owner	340,521,351 (L)	16.67%	1,5

Notes:

1. Pursuant to section 336 of the SFO, 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 1,023,211,691 Shares as the custodian of its clients and is beneficially interested in 22,409,048 Shares per the DI form filed on 22 January 2018.

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. Tengyue Limited is a company wholly-owned by Mr. Wu Teng. Accordingly, Mr. Wu Teng is deemed to be interested in the Shares by virtue of SFO.

6. As at 31 December 2017, the total issued share capital of the Company amounted to 2,043,128,106 Shares.

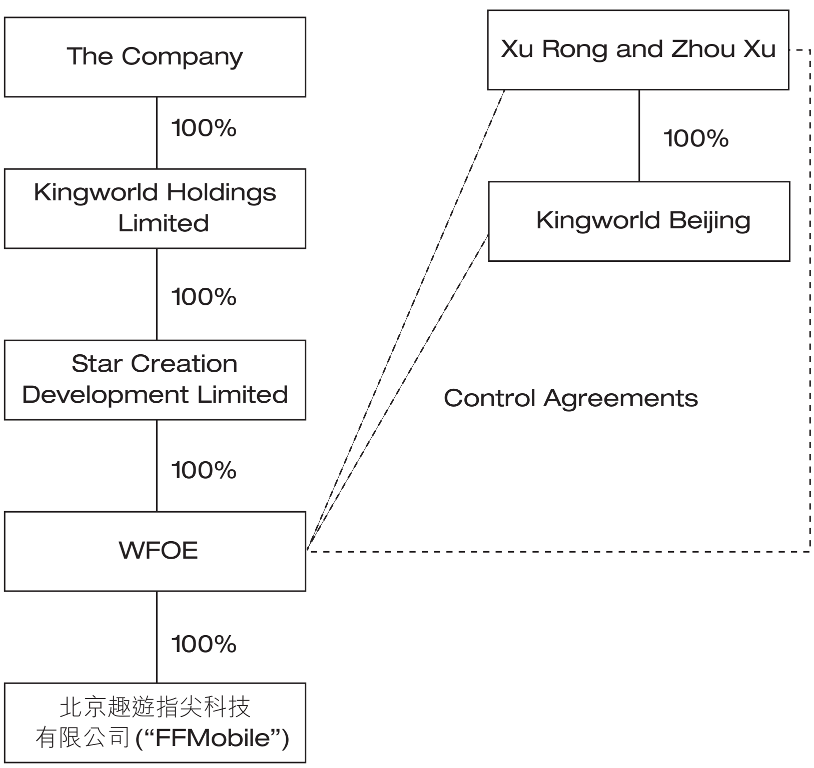
Abbreviation:
"L" stands for long position

Save as disclosed above, as at 31 December 2017, the Directors and the chief executives of the Company were not aware of any person who has or is deemed to have any interests or short positions 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 under section 336 of the SFO.

CONTROL AGREEMENTS

With reference to the Company's circular dated 4 December 2015, 九合無限(北京)體育科技有限公司 (the "WFOE"), being a wholly-owned subsidiary of the Company, entered into a series of control agreements (the "Control Agreements") as set out in the sub-section headed "Details of the Control Agreements" in relation to the operation of the business regarding internet information services, network culture business operation and internet publication. Taking into account of the advice of the PRC legal adviser, the Board is of the view that the entering into the Control Agreements could enable the Group to effectively gain control over the finance and economic interest and benefits of Kingworld (Beijing) Technology Co., Ltd. ("Kingworld Beijing").

The following diagram shows the simplified structure chart of the Control Agreements as at 31 December 2016:



Notes:

" ——————— " denotes legal or beneficial ownership

" ----------------- " denotes contractual relationship

Particulars of Kingworld Beijing and its registered owners of equity interests in Kingworld Beijing

Kingworld Beijing is a company established under the laws of the PRC. As at 31 December 2016, the registered business scope of Kingworld Beijing includes such businesses as internet information services, network culture business operation and internet publication, and correspondingly, Kingworld Beijing holds the Internet Content Provider License (中華人民共和國增值電信業務經營許可證), the Network Culture Business Permit (網絡文化經營許可證) and the Internet Publication License (互聯網出版許可證) for conducting such businesses. As at 31 December 2016, the entire equity interest in Kingworld Beijing is owned as to 60% by Zhou Xu and 40% by Xu Rong.

Reasons for entering into the Control Agreements

The primary purpose for the Group to enter into the Control Agreements is to enable the Group to engage the principal business of Kingworld Beijing, such as (1) the internet information services, (2) the network culture business operation and (3) publication, sales, development of and investment in internet and mobile interaction entertainment products.

Pursuant to the Regulation on Telecommunications of the PRC (《中華人民共和國電信條例》), internet information service is categorized as value-added telecommunications business, and according to the Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (the "2015 Catalogue"),the foreign ownership in the PRC companies operating such business (excluding e-commerce) cannot exceed 50%. In addition, the 2015 Catalogue further provides that the foreign investors are completely prohibited to conduct the network culture business operation and the internet publication business. Therefore, the Company's PRC legal adviser is of the view that the WFOE, as a foreign-owned company, is not allowed to hold the entire equity interests of Kingworld Beijing under the PRC laws. Therefore, the registered holder(s) of equity interest in Kingworld Beijing as at 31 December 2016 were Zhou Xu and Xu Rong, who are PRC individuals. For details of the PRC laws relating to the principal business of Kingworld Beijing, please refer to the circular of the Company dated 4 December 2015.

As advised by the Company's PRC legal adviser, the Control Agreements comply with the PRC laws, rules and regulations applicable to the business of the WFOE and Kingworld Beijing (including the 2015 Catalogue), do not contravene the articles of association of the WFOE and Kingworld Beijing respectively, and would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC contract law. The Control Agreements are valid and enforceable against the parties to the Control Agreements. The Company's PRC legal adviser also confirms that all necessary actions or steps have been taken to enable it to reach its legal conclusions. Up to 31 December 2016, as advised by the PRC legal adviser, the WFOE should not encounter any interference or encumbrance from any governing bodies in operating its business through Kingworld Beijing under the Control Agreements.

Requirements related to Control Agreements (other than relevant foreign ownership restrictions) as at 31 December 2017

In addition to the relevant foreign ownership restrictions, the operation of the business regarding internet information services, network culture business operation and internet publication is required to hold a variety of permits and licenses, which, among others, include:

Internet Content Provider License (the "ICP License")(《中華人民共和國增值電信業務經營許可證》). Under current PRC laws and regulations, including the Telecommunications Regulations and the Internet Measures, a commercial operator of internet content provision services must obtain a value-added telecommunications business-operating license for Internet content provision from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in the PRC. All online game publishing platforms in the PRC are required to obtain such licenses.

Network Culture Business Permit(《網絡文化經營許可證》). With respect to the online game industry in the PRC, since online games fall within the definition of "Internet culture products" under the Provisional Regulations for the Administration of Online Culture (《互聯網文化管理暫行規定》), which were issued by the Ministry of Culture (the "MOC") and took effect on April 1, 2011 (the "Online Culture Regulations") and replaced the Provisional Regulations for the Administration of Online Culture which had been in effect since 2003, a commercial operator of online games must obtain an Network Culture Business Permit in addition to the ICP License, from the appropriate culture administrative authorities for its operation of online games. All online game publishing platforms in the PRC are required to obtain such licenses.

Internet Publication License(《互聯網出版許可證》). General Administration of Press and Publication of the PRC (the "GAPP") and the Ministry of Industry and Information and Technology (the "MIIT") jointly impose a license requirement for any company that intends to engage in Internet publication. Internet publication is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. According to the Tentative Measure for Internet Publication Administration(《互聯網出版管理暫行規定》), which were jointly promulgated by the GAPP and the MIIT and took effect in 2002 and other relevant regulations, the publication of online games is deemed an internet publication activity. Therefore, an internet content provider, such as an online game developer, needs to obtain an internet publication license in order to engage in Internet publication for online games.

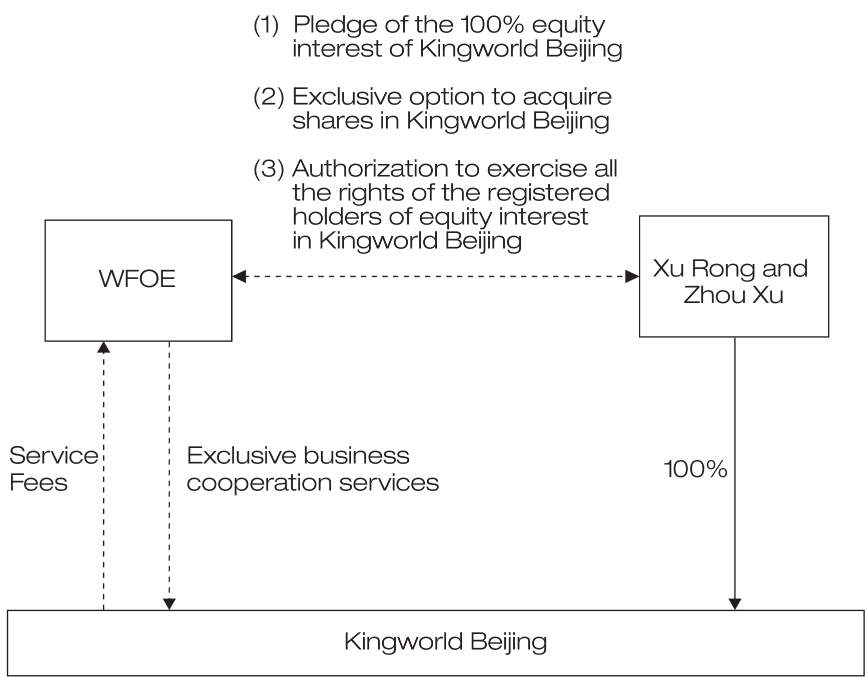
Furthermore, the Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, the State Administration of Radio Film and Television ("SARFT"), and the GAPP(《中央編辦對文化部、廣電總局、新聞出版總署「三定」規定中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋》)("the Interpretation"), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval over the publication of online games before they are uploaded on the Internet and that, after such upload, online games will be administered by the MOC. Further, the Interpretation emphasizes that the MOC is the sole regulatory authority for the online games' operation, and that even if an online game is launched on the Internet without prior approval of the GAPP, the MOC (instead of the GAPP) has the direct authority for investigation and enforcement.

The Notice Regarding the Consistent Implementation of the "Regulation Stipulations on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院「三定」規定和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網絡遊戲審批管理的通知》), promulgated by the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on September 28, 2009 (the "GAPP Notice"), provides in its Article 4, that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support. However, the Company is unaware that any implementation rule or interpretation on Article 4 of the GAPP Notice has been issued by the GAPP or any other PRC regulatory authority.

Additionally, as the Company is aware, in practice, the State Administration of Press, Publication, Radio, Film and Television (the "SAPPRFT") or its Beijing branch has never, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties on any online game company pursuant to the Article 4 of the GAPP Notice and Beijing Department of Culture is deemed as the sole regulatory authority to regulate the online gaming industry in Beijing, as to whether the contractual arrangements violate the relevant PRC laws and regulations on foreign investment in online gaming industry.

Details of the Control Agreements

The following simplified diagram illustrates the flow of economic benefits from the Kingworld Beijing to the WFOE stipulated under the Control Agreements:



Notes:

"———►" denotes direct legal and beneficial ownership in the equity interest

"- - - - ►" denotes contractual relationship under the Control Agreements

The details of the Control Agreements are summarised as follows:

(1) Exclusive Business Cooperation Agreement (獨家業務合作協議)

Date 4 December 2015

Parties (i) WFOE

(ii) Kingworld Beijing

(iii) Xu Rong

(iv) Zhou Xu

Term The Exclusive Business Cooperation Agreement has become effective on the date of its signing. The term of the Exclusive Business Cooperation Agreement shall be ten (10) years and can only be terminated if, among others:

(i) upon the date of expiration; and

(ii) upon serving a 30-day notice by the WFOE.

After the execution of the Exclusive Business Cooperation Agreement, the parties shall review the Exclusive Business Cooperation Agreement every three (3) months to determine whether to amend or supplement the provisions in the said agreement based on the actual circumstances at that time.

Subject Pursuant to the Exclusive Business Cooperation Agreement, the WFOE is engaged by Kingworld Beijing as the latter's exclusive service provider to provide Kingworld Beijing with technical support, management consulting services and other commercial services, which fall within the business scope of Kingworld Beijing as may be determined from time to time by the WFOE. The business scope of Kingworld Beijing include internet data service, publication of internet online games etc.

In consideration of the services provided by WFOE, Kingworld Beijing shall pay monthly to the WFOE service fees equal to 100% of the net profits of Kingworld Beijing or the amount agreed by WFOE.

(2) Exclusive Option Agreement（獨家購買權合同）

Date 4 December 2015

Parties (i) WFOE

(ii) Kingworld Beijing

(iii) Xu Rong

(iv) Zhou Xu

Term The Exclusive Option Agreement has become effective on the date of its signing, and shall remain effective for a term of ten (10) years, and may be renewed at the WFOE's election.

(i) Pursuant to the Exclusive Option Agreement, the registered holders of the equity interest in Kingworld Beijing agreed to irrevocably grant the WFOE an irrevocable and exclusive right to purchase, or to designate one or more person(s) to purchase, insofar as permitted under applicable PRC laws and regulations, the respective equity interests in Kingworld Beijing from the registered holders of equity interest once or at multiple times at any time in part or in whole at the discretion of the WFOE.

(ii) The registered holders of the equity interest in Kingworld Beijing shall, upon request from the WFOE at any time, immediately and unconditionally transfer their equity interest (in whole or in part through one or more transactions) in Kingworld Beijing to such representative(s) as nominated by the WFOE.

(iii) The registered holders of the equity interest in Kingworld Beijing undertake that, among other things, they will not:

(a) authorize any sale, transfer, pledge, disposal or creation of any encumbrances over their legal or beneficial interests in Kingworld Beijing, save in respect of the pledge of equity interest to the WFOE in accordance with the terms of the Equity Interest Pledge Agreement; or

(b) approve or authorize Kingworld Beijing for any merger, amalgamation, acquisition or make any investments.

(iv) The Exclusive Option Agreement also sets out detailed provisions that prohibit Kingworld Beijing to act without the prior written approval from the WFOE.

(3) Loan Agreement（貸款協議）

Date 4 December 2015

Parties (i) WFOE

(ii) Xu Rong

(iii) Zhou Xu

Term The term of the Loan Agreement is ten (10) years commencing on the date on which Xu Rong and Zhou Xu receive payment of the loan amount under the Loan Agreement, and may be extended upon the written agreement of the parties through negotiations. During the term or extended term of the Loan Agreement, the WFOE may accelerate the loan repayment if any of the following events occurs:

(i) any of Xu Rong or Zhou Xu dies or becomes disabled;

(ii) any of Xu Rong or Zhou Xu commits a crime or is involved in a crime;

(iii) any of Xu Rong or Zhou Xu has incurred any individual indebtedness over RMB500,000 without prior consent of the WFOE;

(iv) the WFOE or its designated party has successfully acquired the entire equity interest in the Kingworld Beijing; and

(v) other reasons as determined by the WFOE.

Subject (i) Under the Loan Agreement, the WFOE grants the holders of equity interest of Kingworld Beijing a loan in the amount of RMB15,966,030.

(ii) The interest rate shall be equal to the annual lending guidance rate published by the People's Bank of China from time to time.

(iii) The loan may, upon the request of the WFOE, be repaid by means of transferring the registered holders' equity interests in Kingworld Beijing to the WFOE or any of its designated party(ies), in proportion to the amount of the loan to be repaid by such registered holder(s).

(4) Equity Interest Pledge Agreement（股權質押合同）

Date	4 December 2015	
Parties	(i)	WFOE
	(ii)	Kingworld Beijing
	(iii)	Xu Rong
	(iv)	Zhou Xu

Term: The pledge under the Equity Interest Pledge Agreement shall become effective on the date on which the pledge of the equity interest has been registered with relevant administration for industry and commerce (the "AIC"). The said pledge shall be continuously valid until all payments due under the Exclusive Business Cooperation Agreement have been paid by Kingworld Beijing and all payments due under the Loan Agreement have been paid by both Xu Rong and Zhou Xu.

Subject: Pursuant to the Equity Interest Pledge Agreement, the registered holders of equity interest in Kingworld Beijing agreed to pledge the entire equity interest of Kingworld Beijing to the WFOE, as security for the payment obligations of Kingworld Beijing under the Exclusive Business Cooperation Agreement and of the registered holders of equity interest in Kingworld Beijing under the Loan Agreement. Under the Equity Interest Pledge Agreement, except with prior written consent of the WFOE or pursuant to the terms of the Exclusive Option Agreement, the registered holders of equity interest in Kingworld Beijing are prohibited from transferring any of their equity interest in Kingworld Beijing, or creating or allowing any creation of any other pledge over the equity interest in Kingworld Beijing.

(5) Power of Attorney（授權委託書）

Date	4 December 2015
Parties	A Power of Attorney signed by each of the person below in favour of the WFOE: (i) Xu Rong (ii) Zhou Xu
Term	This Power of Attorney shall be irrevocable and continuously valid from the date of execution of this Power of Attorney, so long as Xu Rong and Zhou Xu respectively remain as the registered holders of equity interest in Kingworld Beijing.
Subject	Pursuant to the Power of Attorney, WFOE and any of its authorised directors, successors or liquidators is authorized to act on behalf of Xu Rong and Zhou Xu as their exclusive agent and attorney with respect to all matters concerning their equity interests in Kingworld Beijing, including without limitation to: (1) propose, convene and attend equity interest holders' meetings of Kingworld Beijing; (2) exercise all the equity interest holders' rights and voting rights Xu Rong and Zhou Xu are entitled to as registered holders of equity interest in Kingworld Beijing under the laws of the PRC and articles of association of Kingworld Beijing, including but not limited to the sale or transfer or pledge or disposition of their equity interest in part or in whole; (3) designate and appoint on behalf of Xu Rong and Zhou Xu the legal representative (chairperson), directors, executive directors, supervisors, the chief executive officer and other senior management members of Kingworld Beijing; (4) sign minutes and file documents with the relevant companies registry(ies); (5) exercise voting rights on the winding up of Kingworld Beijing on behalf of the registered holders of equity interest in Kingworld Beijing; and (6) participate in and be entitled to the distribution of the remaining assets of Kingworld Beijing upon the winding up of Kingworld Beijing on behalf of the registered holders of equity interest in Kingworld Beijing.

(6) Spouse Consent Letter（配偶同意函）

Date 4 December 2015

Parties A Spouse Consent Letter to be signed by each of the persons below:

(i) The spouse of Xu Rong

(ii) The spouse of Zhou Xu

Subject Pursuant to each of the Spouse Consent Letter, the spouse of each of Xu Rong and Zhou Xu, respectively, among other things, agrees, among others, to (i) waive his/her claim over the ownership of the equity interest in Kingworld Beijing held by his/her spouse, (ii) take all necessary action to ensure the due execution of the Control Agreements, and (iii) provide joint and several liabilities by his/her spouse to WFOE in relation to his/her obligations under the Control Agreements.

Significance and financial contribution of Kingworld Beijing to the Group

Kingworld Beijing is significant to the Group as it holds the relevant licenses to provide sports-related internet content publication services which is one of the principal business of the Group. As at 31 December 2017, the total asset and the net asset value of Kingworld Beijing amounted to approximately HK$120,777,000 and HK$51,146,000 respectively.

The risks associated with Control Agreements and the actions taken by the Company to mitigate the risks

For details of the risks associated with the Control Agreements, please refer to the section headed “RISK FACTORS IN RELATION TO THE CONTROL AGREEMENTS” as disclosed in the circular of the Company dated 4 December 2015.

The Company takes the following actions to mitigate the risks:

The Control Agreements contain certain provisions in order to exercise effective control over and to safeguard the assets of Kingworld Beijing, including but not limited to that, without the prior written consent of the WFOE, the registered holders of equity interest in Kingworld Beijing shall not at any time sell, transfer, pledge, or otherwise dispose or create any encumbrances over the legal or beneficial interests of Kingworld Beijing, Kingworld Beijing shall conduct its business in ordinary and usual course to preserve the asset value of Kingworld Beijing and shall not engage in any action (or inaction) which may have any adverse effect on the business, operations and asset value of Kingworld Beijing, and etc. Besides, Kingworld Beijing’s directors, legal representative, general manager, chief financial officer and other executives may be appointed under the WFOE’s recommendations and such senior management will have the physical possession of all Kingworld Beijing’s common seals, company chops and books and records.

Having considered that the relevant senior management team possesses relevant experience and industry knowledge in the business operation of Kingworld Beijing the WFOE would retain the senior management team of Kingworld Beijing. The senior management team of Kingworld Beijing has terminated the service contracts with Kingworld Beijing and entered into new service contracts with the WFOE. The WFOE has then recommended Kingworld Beijing to re-appoint the relevant senior management. As a result, the senior management of Kingworld Beijing will effectively be under the control and instruction of the WFOE.

Economic risks the WFOE bears as the primary beneficiary of Kingworld Beijing, financial support to Kingworld Beijing and potential exposure of Kingworld Holdings to losses.

As the primary beneficiary of Kingworld Beijing, the WFOE bears economic risks which may arise from difficulties in the operation of Kingworld Beijing's business. The WFOE will share both profit and loss of Kingworld Beijing. Under the Control Agreements, the WFOE shall provide financial support in the event of financial difficulty of Kingworld Beijing. On the other hand, the WFOE shall have the sole and absolute discretion to decide and resolve whether to continue the business and operations of Kingworld Beijing, and Kingworld Beijing must unconditionally agree to such decision as determined by the WFOE.

Material Change

The Second Supplemental Agreement

On 27 February 2017, the parties to the Share Purchase Agreement and Baoxin Sport, a subsidiary of the Company, entered into a second supplemental agreement (the "Second Supplemental Agreement") to amend certain terms and set out additional terms of the Share Purchase Agreement which are, among others, as follows:

1. Change of purchaser under the Share Purchase Agreement

Each of the parties to the Second Supplemental Agreement (collectively, the "Parties") irrevocably agree and ratify that the purchaser under the Share Purchase Agreement shall be changed from the New Sports Investment Holding Limited (formerly known as "SinoCom Investment Holding Limited") ("Buyer") to the Company, and the Company shall be entitled to all of the rights, and shall discharge all of the obligations, of the Buyer under the Share Purchase Agreement in place of the Buyer.

2. Confirmation of the Adjustment Amount

The Parties confirm that the 2016 Net Profit After Tax as stated in the latest draft of the accounts of the Kingworld Holdings and its subsidiaries for the financial year ended 31 December 2016 issued by the auditors appointed by the Buyer pursuant to the Share Purchase Agreement (the "Latest Draft Accounts") is RMB19,189,027, and according to the formula set out in the Share Purchase Agreement, the tentative Adjustment Amount is RMB244,865,838. The final Adjustment Amount will be determined based on the 2016 Net Profit After Tax as stated in the Final 2016 Audited Accounts. Should there be any difference between the respective amount of the 2016 Net Profit After Tax as set out in the Latest Draft Accounts and the Final 2016 Audited Accounts, adjustment equal to such differences will be made to the 5th tranche of the payment instalment as shown below. In that regard, since the 2016 Net Profit After Tax as stated in the Final 2016 Audited Accounts has been confirmed to be RMB19,903,084 ultimately, the relating difference of RMB4,284,342 will then be adjusted by the 5th tranche of the payment instalment. As a result, the exact amount of the 5th tranche of the payment instalment should become RMB40,581,496 accordingly.

3. ***Payment Schedule of the Adjustment Amount***

Pursuant to the Second Supplemental Agreement, Xu Rong, Zhou Xu and the Seller 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 before 15 March 2017

2nd tranche: RMB40,000,000 before 15 May 2017

3rd tranche: RMB40,000,000 before 15 July 2017

4th tranche: RMB40,000,000 before 15 September 2017

5th tranche: RMB44,865,838* before 15 November 2017

* (finally adjusted downwards to RMB40,581,496)

In the event that Xu Rong, Zhou Xu and the Seller fail to pay any of the tranches of the Adjustment Amount in full by the deadlines stated above but subsequently pay such tranche(s) of the Adjustment Amount in full before the next tranche (excluding the 5th tranche) of the Adjustment Amount becomes due, a daily interest will accrue at a rate of 5/10000 upon the outstanding tranche payment as damages payable by Xu Rong, Zhou Xu and the Seller to the Company.

In the event that Xu Rong, Zhou Xu and the Seller fail to pay any outstanding amount (including any tranches of the Adjustment Amount and related damages) prior to the deadline for the payment of the next tranche of the Adjustment Amount, in accordance with the payment schedule set out above, the Company shall have the right to declare that the subsequent tranche(s) of the Adjustment Amount shall fall due and become immediately repayable. Further, a daily interest will accrue at a rate of 5/10000 from the date when the outstanding tranche payment first becomes due until the Adjustment Amount is paid in full as damages payable by Xu Rong, Zhou Xu and the Seller to the Company. Xu Rong, Zhou Xu and the Seller 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.

4. ***Dispute resolution***

The Parties agree that in the event of dispute arising from the Share Purchase Agreement and/or the Second Supplemental Agreement, Baoxin Sport has the right to commence legal proceedings against Xu Rong, Zhou Xu and the Seller on behalf of the Company and the relevant beneficiaries in such legal proceedings, and all of the rights and obligations arising thereunder shall be exercised and discharged by Baoxin Sport.

On 24 May 2017, Baoxin Sport commenced PRC legal proceedings against Xu Rong and Zhou Xu for recovery of a defaulted sum of RMB80,000,000 (i.e. the 1st tranche of the Adjusted Amount) together with the related accrued interests in the Middle Civil Court of Shenzhen. Details are set out in the announcements of the Company dated 27 February 2017, 15 May 2017 and 13 October 2017.

Save as disclosed above, as at 31 December 2017, there has not been any material change in the Control Agreements and/or the circumstances under which they were entered into, since the date of each of the Control Agreements.

Unwinding of the Control Agreements

Up to 31 December 2017, there has not been any unwinding of the Control Agreements, nor has there been any failure to unwind the Control Agreements when the restrictions that led to the entering into the Control Agreements are removed.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken during the Year under review are disclosed in note 48 to the financial statements. Save as disclosed below, these related party transactions either (i) do not constitute connected or continuing connected transactions or (ii) fall under the definition of a connected or continuing connected transaction, but are exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

SHARE CAPITAL

Details of movements of the share capital of the Company and its subsidiaries during the year ended 31 December 2017 are set out in note 40 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "ISSUE OF SECURITIES", "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN ORDINARY SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME", at no time during the Year 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.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections headed "ISSUE OF SECURITIES" and "RELATED PARTY TRANSACTIONS", no transactions, arrangements or contract of significance, to which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2017, nor had there been any contract of significance entered into between the Group, or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2017.

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

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

COMPETING INTERESTS

As at 31 December 2017, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) 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 interim report.

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENTS

ISSUE OF SECURITIES

Subscription agreement dated 4 December 2017 in relation to the subscription of 340,521,351 Shares

As disclosed in the announcements of the Company dated 4 December 2017 and 21 December 2017, the Company entered into an subscription agreement in relation to the subscription of 340,521,351 ordinary shares of HK$0.05 each at a price of HK$0.55 per share to Tengyue Limited, which is to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the subscriber and its ultimate beneficial owner(s) are independent third parties of the Company and its connected persons (as defined under the Listing Rules). The premium on the issue of shares amounting to approximately HK$170,261,000, was credited to the Company share premium account. The subscription was completed on 21 December 2017 and the Company issued and allotted 340,521,351 new shares on 21 December 2017.

The Directors are of the view that the said subscription can offer a good opportunity to raise additional funds to strengthen the financial position and provide the Group with working capital to meet any future development and obligations, including but not limited to the outstanding balance of consideration amounting to RMB750 million (approximately HK$858 million) together with the accrued interests for the acquisition of entire issue share capital of Shenzhen Borui (with details as set out in the circular of the Company dated 25 October 2017 and the announcements of the Company dated 13 November 2017 and 17 November 2017 respectively), whilst broadening its shareholder base and capital base.

Details of the above subscription agreement are set out in note 40 to the consolidated financial statements.

USE OF NET PROCEEDS

For the year ended 31 December 2017, the net proceeds received from subscription of new shares after deducting the relating expenses was approximately HK$187,000,000. Such net proceeds was deposited at the Group's bank account. The net proceeds were used as follows:

Date of Announcement	Intended use of Proceeds	Approximate amounts of the net proceeds (in HK$)	Approximate amounts utilized (in HK$)	Approximate remaining amount (in HK$)
4 December 2017 and 21 December 2017	To finance the acquisition of the entire issued share capital of Shenzhen Borui	HK$187,000,000	HK$187,000,000	Nil (Payment was made to the order of the vendor on 5 January 2018)

BORROWINGS

Particulars of borrowings of the Group are set out in note 33 to the consolidated financial statements.

SUBSIDIARIES

Particulars regarding principal subsidiaries are set out in note 24 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

PUBLIC FLOAT

Based on the information that was publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Increase in authorised share capital effective on 23 February 2018

As disclosed in the announcement of the Company dated 10 January 2018 and the circular of the Company dated 5 February 2018, pursuant to an ordinary resolution passed by the Shareholders on 23 February 2018, the authorised share capital of the Company is increased from HK$200,000,000 divided into 4,000,000,000 ordinary shares of HK$0.05 each to HK$400,000,000 divided into 8,000,000,000 ordinary shares of HK0.05 each by the creation of an additional 4,000,000,000 new ordinary shares of HK$0.05 each.

Placing Agreement dated 10 January 2018 in relation to the placing of 1,634,502,485 Shares

As disclosed in the announcements of the Company dated 10 January 2018 and 20 March 2018 and the circular of the Company dated 5 February 2018, pursuant to an ordinary resolution passed by the Shareholders on 23 February 2018, the Company entered into a placing agreement with the placing agent in relation to the placing of 1,634,502,485 shares of HK$0.05 each at a price of HK$0.50 per share. The new shares were finally placed to six (6) independent investors. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, all investors are independent third parties of the Company and its connected persons. The premium on the issue of shares amounting to approximately HK$731,377,000, net of share issue expenses of HK$4,149,185, was credited to the Company share premium account. The placement was completed on 20 March 2018 and the Company issued and allotted a total of 1,634,502,485 new shares on 20 March 2018.

The Directors are of the view that it is in the interests of the Company to raise capital from the equity market in order to maintain the cash flow position of the Group and to enhance the capital and Shareholders' base of the Company for long-term development and further strengthen its financial position. The Directors (other than the independent non-executive Directors) considered the terms of the placing agreement to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

The independent non-executive Directors, who were appointed to the independent board committee, had given their view on the terms of the placing after considering the opinion of the independent financial adviser set out in the above-mentioned circular.

Subscription Agreement dated 10 January 2018 in relation to the subscription of 408,625,621 Shares

As disclosed in the announcements of the Company dated 10 January 2018 and 20 March 2018 and the circular of the Company dated 5 February 2018, pursuant to an ordinary resolution passed by the Shareholders on 23 February 2018, the Company entered into a subscription agreement in relation to the subscription of 408,625,621 shares of HK$0.05 each at a price of HK$0.50 per share to Tengyue Limited which was a substantial shareholder of the Company. The premium on the issue of shares amounting to approximately HK$183,882,000, was credited to the Company share premium account. The subscription was completed on 20 March 2018 and the Company issued and allotted a total of 408,625,621 new shares on 20 March 2018. Mr. Wu Teng through his interest in Tengyue Limited was deemed to be interested in a total of 749,146,972 shares, representing approximately 18.33% of the total issued capital of the Company after completion of the subscription.

The Directors are of the view that it is in the interests of the Company to raise capital from the equity market in order to maintain the cash flow position of the Group and to enhance the capital and Shareholders' base of the Company for long-term development and further strengthen its financial position. The Directors (other than the independent non-executive Director) considered the terms of the subscription agreement to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

The independent non-executive Directors, who were appointed to the independent board committee, had given their view on the terms of the subscription after considering the opinion of the independent financial adviser set out in the above-mentioned circular.

Acquisition of 60% equity interest of Weinan Company and related capital contribution to Weinan Company

As disclosed in the announcements of the Company dated 7 March 2018 and 13 March 2018 respectively, SBIL entered into the equity acquisition agreement with Baoneng City Development, pursuant to which SBIL agreed to acquire 60% equity interest of Weinan Company from Baoneng City Development for the sum of RMB1 and undertake to make capital contribution of RMB180,000,000 to Weinan Company (being 60% of the registered capital of Weinan Company). On 14 February 2018, Weinan Company has succeeded in the bid for the land use rights of a piece of land situated at 中國陝西省渭南市雙王大街與渭清路十字東南區域，宗地編號 1-6-179 (southeast area of the Cross Section between Shuang Wang Main Road and Wei Qing Road, Weinan City, Shaanxi Province, PRC under code 1-6-179) ("Weinan Land") at the consideration of RMB203,090,000 and has executed a land acquisition confirmation relating to Weinan Land. Prior to the said bid, Weinan Company has not carried on any business. Upon completion of acquisition of equity interest, Weinan Company will become a non-wholly owned subsidiary of the Company. To the best of the Directors' knowledge, information and belief. Having made all reasonable enquiry, as at the dates of both announcement, each of Baoneng City Development and Weinan Company is a third party independent of the Company and the connected person of the Company.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the Listing Rules. The current audit committee comprises Dr. Tang Lai Wah (Chairman), Mr. Chen Zetong and Ms. He Suying, all of whom are independent non-executive Directors.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practices. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 41 to 52 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by RSM Hong Kong who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of RSM Hong Kong as auditors of the Company.

On behalf of the Board

Zhang Xiaodong
Chairman

Hong Kong
23 March 2018

* *For identification purpose only*

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

CORPORATE GOVERNANCE PRACTICES

During the year under review (i.e. from 1 January 2017 to 31 December 2017) ("Reporting Period"), the Company has applied and complied with most of the applicable provisions as set out in the Corporate Governance Code contained in Appendix 14 (the "CG Code") of Listing Rules, except the deviation disclosed herein.

Deviation

	Code Provision	Deviation	Considered reason for deviation
A.2.1	The role of chairman and chief executive should be separate.	Mr. Zhang Xiaodong has been the chairman (the "Chairman") and the chief executive officer of the Company (the "CEO") since 1 April 2016.	The Board considered 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 considered that there is a sufficient balance and division of responsibilities and authority.

COMPLIANCE WITH THE MODEL CODE

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 the Model Code. The Company has made specific enquiry with all Directors, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct during the Reporting Period.

BOARD OF DIRECTORS

At the date of this report, the Board consists of two executive Directors namely Mr. Zhang Xiaodong (Chairman) and Ms. Xia Lingjie; one non-executive Director namely Mr. Lau Wan Po; and three independent non-executive Directors namely Mr. Chen Zetong, Ms. He Suying and Dr. Tang Lai Wah. None of the Directors has any family relationship with any of other Directors. Mr. Chui Man Lung Everett resigned as an independent non-executive Director on 20 January 2017.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each Director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the section headed "Directors and Senior Management Profiles" of this report.

During the Reporting Period, the Chairman met with the independent non-executive Directors without the executive Directors present.

Board Diversity

In compliance with the requirement set out in code provision A.5.6 of the CG Code, the Company adopted a board diversity policy (the "Board Diversity Policy") on 1 April 2014 which set out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Chairman and Chief Executive Officer

The code provision A.2.1 stipulated 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 the CEO should be clearly established and set out in writing.

Mr. Zhang Xiaodong currently assumes the roles of both the Chairman and the CEO since his first appointment on 1 April 2016. The Company considers that the Chairman is responsible for the operation of the Board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr. Zhang Xiaodong has undertaken the duties of both the Chairman and the CEO, which deviated from the provisions set out in the CG Code. Given the Group's current stage of development, the Board considers that vesting the roles of the Chairman and the CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Role and function of the Board and the management

The principal functions of the Board are to make decisions on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and Shareholders' value with the proper delegation of power to the management for the day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decisions. The composition and functions of each Board committee and their major roles and functions are described below. The final decision still rests with the Board unless otherwise provided for in the terms of reference of the relevant committees.

Non-executive Directors

All non-executive Directors including independent non-executive Directors are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association at each annual general meeting.

Independent non-executive Directors are responsible to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the Board under the Company's Articles of Association, applicable laws, rules and regulations.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Directors consider that all the independent non-executive Directors remain independent.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to Articles 87(1) and 87(2) of the Company's Articles of Association, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Directors shall be eligible for re-election.

Article 86(3) of the Company's Articles of Association provides that (i) any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment, or (ii) any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Every Director, including non-executive Directors and independent non-executive Directors were appointed for a term of three years and would be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Their appointments would be reviewed by the Nomination Committee when they were due for re-election.

BOARD MEETINGS

The Board holds at least four meetings a year. The Board convenes meetings on a regular basis and on an ad hoc basis, as required by business needs. All Directors are invited to attend the Board meetings in person or by telephone conference.

Notice of at least 14 days will be given to all Directors for regular Board meetings and reasonable notices for all other Board meetings will be given to all Directors so as to ensure that each of them has an opportunity to attend the meetings. Board papers will be given to the Board at least three days before the date of the Board meeting by the company secretary of the Company (the "Company Secretary").

If a substantial Shareholder or a Director has a conflict of interest in a matter, the matter will be dealt by a physical Board meeting rather than a written resolution.

During the Reporting Period, the Board held a total of 11 Board meetings.

Details of Directors' attendance record in the year of 2017 are as follows:

Directors	**No. of meetings attended/ No. of meetings held**
Executive Directors	
Zhang Xiaodong	10/11
Xia Lingjie	11/11
Non-Executive Director	
Lau Wan Po	10/11
Independent Non-Executive Directors	
Chen Zetong	6/11
He Suying	8/11
Tang Lai Wah	8/11
Chui Man Lung, Everett (resigned on 20 January 2017)	0/0

Company Secretary

The Company Secretary's role is to support the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board on governance matters and facilitating induction and professional development of Directors. The Company Secretary is an employee of the Company and reports to the Chairman. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is delegated with the responsibility for drawing up the agenda for each Board meeting and ensures that, where applicable, matters proposed by other Directors are included in the agenda and that all applicable rules and regulations are followed. All Directors may ask for matters to be included in the agenda for regular Board meetings by making a request to the Company Secretary. During the Reporting Period, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training to update his skills and knowledge as required by Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

All Directors are kept informed of major changes of the Group's business from time to time. They have unrestricted access to the advices from the Company Secretary who are responsible to provide the Board papers and related materials.

Minutes of Board meetings and board committee meetings are kept by the Company Secretary and are open for inspection by any Director. The Directors including independent non-executive Directors may seek for legal advices at the Company's expenses to discharge their duties.

DIRECTORS' AND OFFICERS' LIABILITY

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

A comprehensive, formal and tailored induction training will be given to every newly appointed Directors. Directors will be provided with materials relevant to the Company's business and director's duties and responsibilities. In addition, in order to allow the Directors to understand the latest development of regulatory and compliance issues, they are also provided with market news and regulatory updates. A summary of their records of continuous development training ("CPD") is as follows:

Directors	Types of CPD	Subject of CPD
Executive Directors		
Zhang Xiaodong	1,2	A,B
Xia Lingjie	1,2	A,B
Non-Executive Director		
Lau Wan Po	1,2	A,B
Independent Non-Executive Directors		
Chen Zetong	1,2	A,B
He Suying	1,2	A,B
Tang Lai Wah	1,2	A,B

Note 1:

1. Attending in-house training or seminars
2. Reading newspapers, journals and updated legal and regulatory news

Note 2:

A. The Company's business
B. Laws, rules and regulations, accounting standards

BOARD COMMITTEES

The Board has established three committees with specific written terms of reference to oversee particular aspects of the Company's affairs.

Audit Committee

The Audit Committee consists of all independent non-executive Directors namely Dr. Tang Lai Wah (appointed as chairman on 20 January 2017), Mr. Chen Zetong and Ms. He Suying. Mr. Chui Man Lung, Everett resigned as the chairman and a member of the Audit Committee on 20 January 2017.

The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgments contained therein; and to review financial and internal controls half-yearly and annually, accounting policies and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditor as well as their terms of appointment.

The Audit Committee reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2017 have been reviewed by the current Audit Committee.

Attendance of the Audit Committee members during the Reporting Period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Tang Lai Wah *(chairman)*	5/5
Chen Zetong	4/5
He Suying	5/5
Chui Man Lung, Everett (resigned on 20 January 2017)	1/1

Nomination Committee

The Nomination Committee consists of all independent non-executive Directors namely Ms. He Suying (chairman), Mr. Chen Zetong and Dr. Tang Lai Wah. Mr. Chui Man Lung, Everett resigned as a member of the Nomination Committee on 20 January 2017.

The major functions of the Nomination Committee are to review the structure and composition of the Board, to review and provide recommendations to the Shareholders on individuals suitably qualified to become Board members and the terms of Director's service contract, and to assess the independence of the independent non-executive Directors and to review the Board Diversity Policy.

The Nomination Committee has been provided with sufficient resources to perform its duties and may seek independent professional advice at the Company's expenses, to perform its responsibilities if it considers necessary.

Attendance of the Nomination Committee members during the Reporting Period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
He Suying *(chairman)*	1/1
Chen Zetong	1/1
Tang Lai Wah	1/1
Chui Man Lung, Everett (resigned on 20 January 2017)	1/1

Salary Review Committee

The Salary Review Committee consists of four members with a majority of independent non-executive Directors namely Ms. He Suying (chairman), Mr. Chen Zetong, Dr. Tang Lai Wah and Mr. Zhang Xiaodong. Mr. Chui Man Lung, Everett resigned as the member of Salary Review Committee on 20 January 2017.

The primary objectives of Salary Review Committee are, inter alia, to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management of the Company ("Senior Management") and Directors; review and recommend the Board's annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

During the Reporting Period, the Salary Review Committee held 3 meetings. It reviewed the remuneration package of Directors and considered the terms of appointment of the newly appointed Senior Management.

Attendance of the Salary Review Committee members during the Reporting Period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
He Suying *(chairman)*	3/3
Chen Zetong	3/3
Tang Lai Wah	3/3
Zhang Xiaodong	2/3
Chui Man Lung, Everett (resigned on 20 January 2017)	0/0

Details of remuneration paid to Directors and Senior Management for the Year are set out in note 14 and 15 to the consolidated financial statements.

CORPORATE GOVERNANCE FUNCTION

During the Reporting Period, the Board responsible for performing the corporate governance duties as follows:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendation to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors; and
- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance policies.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the Reporting Period. The Directors consider that the consolidated financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong. Having made appropriate enquiries, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The financial statements of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee and audited by the external auditors, RSM Hong Kong.

For the year ended 31 December 2017, the remuneration paid/payable to RSM Hong Kong, the auditors of the Company, is set out as follows:

Type of services provided by the external auditors

	Fee (HK$'000)
Audit services:	
Audit of the consolidated financial statements for the year ended 31 December 2017	2,480
Non-audit services:	
Agreed-upon procedures on interim financial statements for the six months ended 30 June 2017	538
Acting as the reporting accountant on a major transaction	1,750
	4,768

RISK MANAGEMENT AND INTERNAL CONTROL

The Group, observing the requirements of the code provisions as set out in Appendix 14 of the Listing Rules, has established appropriate risk management and internal control systems that are commensurate with its current state of business operation and development. The management is responsible for the design, implementation and monitoring of the systems, and the Board by establishing a Risk Management Committee on 31 December 2015 oversees the systems on an ongoing basis. The Risk Management Committee consists of two executive Directors namely Mr. Zhang Xiaodong (chairman) and Ms. Xia Lingjie and one non-executive Director namely Mr. Lau Wan Po. The Risk Management Committee ensures that the risk management and internal control measures adopted are compatible with the Group's objectives, strategies and risk appetite.

The Board has directed that the effectiveness of the material controls of the systems be reviewed regularly, at least annually, and such a review must include financial, operational and compliance controls. The Board, having considered the adequacy of resources, staff qualifications and experience, training programs and budgets of the Group's accounting, internal audit and financial reporting functions based on reports of an annual review of the systems, has directed that adequate resources be allocated to meet the requirements in such respects.

The main features of the risk management and internal control systems are described as below.

Risk Management System

In common with all business concerns, the Group strives to achieve its objectives amidst uncertainty and has adopted as reference the risk management principles and guidelines under the International Standard ISO31000 to manage the effect of such uncertainty on its objectives.

The risk management process, developed according to the standard as an integral part of the management, tailored to and embedded in the business practices, comprises the following activities and phases.

- **Communication and consultation**
  Communication and consultation with stakeholders or risk owners being those in charge of legal entities, functional units or business processes are established, developed and exercised at all stages of the risk management process, to address issues arising from risks, causes, consequences and measures required to treat the risks.

- **Establishing the context**
  Desirable objectives are articulated, external as well as internal parameters defined, risk criteria set in order to facilitate the conduction risk management process.

- **Risk Assessment**
  It is the overall process of risk identification, risk analysis and risk evaluation.

  (a) Risk identification: through the network of communication and consultation established with stakeholders or risk owners, sources of risk, areas of impacts, events or changes in circumstances, causes and consequences are identified.

  Risks so identified are reported and recognized in the risk register to facilitate risk analysis and evaluation of their impact on the achievement of objectives.

  (b) Risk analysis: an understanding of the risks identified is obtained in order to consider the causes and sources of risk, their consequences whether favorable or unfavorable, likelihood, confidence in determining the level of risk and sensitivity to preconditions.

(c) Risk evaluation: decision is made based on the outcome of risk analysis, about whether a particular risk needs treatment and corresponding priority for treatment implementation.

- **Risk treatment**
  Where decision is made that a particular risk needs treatment, options are developed for modifying the risk by providing mitigation or appropriate controls in order to reduce the residual risk to a tolerable level.

  (a) Controls address the key causes and impacts of the risk.

  (b) Controls are designed and implemented consistent with the achievement of the corporate objectives and performance targets.

- **Monitoring and review**
  (a) Management reviews to ensure controls are effective and efficient in both design and operation at least annually.

  (b) Risk management performance is regularly monitored.

  (c) Risks and risk management performance are appropriately communicated to stakeholders or risk owners including those in charge of governance and those responsible for the management of legal entities, functional units or business processes.

The Board, with the assistance of the Audit Committee and Risk Management Committee, evaluate the effectiveness of the systems for identifying and managing risks that are material to the achievement of corporate objectives.

Internal Control System

The Company has an internal control system designed and implemented according to the framework and principles as advocated by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. The system thus developed facilitates the Group to achieve effectiveness and efficiency of operations, reliability of financial reporting and compliance of laws and regulations. The main components of the framework and the underlying principles that the Group observes are as follows:

- **Control Environment**
  Sound control environment is established by obtaining commitment at all levels to integrity and ethical values, appointing independent board of directors' oversight, enacting structures, organizations and processes with clear reporting lines, authorities and responsibilities, developing competences, and holding people accountable to internal control.

- **Risk Assessment**
  The risk assessment component under the COSO framework complements that under the International Standard ISO31000. It emphasizes that clear objectives be firstly specified and risks to the achievement of objectives are then identified with specific reference to the need for considering potential for fraud and impact of significant internal and external changes.

- **Control Activities**
  Control activities are selected and developed as part of the treatment of risks identified. Controls are developed through policies and procedures, along with information technology controls selected and developed where appropriate.

- **Information and Communication**
  This component is concerned with establishing internal and external communication to provide the Group with quality information needed to carry out day-to-day controls in support of the achievement of its objectives. The communication component under the COSO framework and that under the International Standard ISO31000 are two sides of the same coin, with the former emphasizing on information required to support the achievement of objectives and the latter, on information required to address issues arising from risks or the impact of uncertainty on the achievement of objectives.

- **Monitoring**
  It refers to ongoing and separate evaluations conducted to ascertain whether material controls are appropriately developed and functioning effectively. Internal control deficiencies identified are evaluated and communicated to appropriate stakeholders.

Effectiveness of the Risk Management and Internal Control Systems

The Board through the Audit Committee and the Risk Management Committee has ongoing oversight of the Group's risk management and internal control systems. The Risk Management Committee holds regular meetings to review risks recognized in the risks register based on information from various stakeholders or risk owners. The directors are kept regularly apprised of significant risks that may impact the Group's performance.

During the year under review, the Board has engaged an external professional consulting firm to review the Group's risk management and internal control systems with a view to:

- Reviewing the adequacy and effectiveness of the Group's risk management and internal control systems insofar as the principal operations as identified are concerned;

- Reporting to the Audit Committee the findings of the review and recommendations to the Board.

On the findings and recommendations, the Board concludes that the state of the Group's risk management and internal control systems is sufficiently effective and commensurate with the current development of the Group. The Group has been moving at a rapid pace and key business structures, organizations and processes are being formed in support. Accordingly, the Board directs that more resources be assigned to develop controls, risk treatments and training in alignment with the continuing development of the Group, ensuring that the effectiveness of risk management and internal control systems are maintained.

Inside Information

Policies, procedures and controls for handling and dissemination of inside information has been set out internally to enhance information management of the Group and to ensure the authenticity, accuracy, completeness and timeliness of information disclosed to the public while protecting the legitimate rights and interests of the Company, Shareholders, creditors and other stakeholders as a whole.

Corporate Governance and Internal Audit

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore established an internal audit function in early 2018 to uplift the quality of corporate governance.

The internal audit function is independent of the Group's daily operations and facilitates the Board on evaluating the effectiveness of the risk management and internal control systems by conducting interviews and performing tests on management and operational controls.

Internal audit work plans are developed and executed with approval of the Board, and with the support of experienced external consultants. The internal audit function is accountable to the Board through the Audit Committee.

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Company's Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself or themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. the requisition in writing should be sent to the Company's office at Unit 2602, 26/F., Lippo Centre, Tower 1, No. 89 Queensway, Admiralty, Hong Kong.

The same procedure also applies to any proposal to be tabled at Shareholders' meetings for adoption. The Board will review Shareholders' enquires on a regular basis. Specific enquiries and suggestions by Shareholders can be sent in writing to the Board or the Company Secretary at the above address.

In case of shareholding enquires, Shareholders should direct their enquiries to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, via its online holding enquiry at www.tricoris.com, or by email to is-enquiries@hk.tricorglobal.com or dial its hotline at (852) 2980 1333 or go in person at its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS

During the Reporting Period, the Board has adopted the Shareholders' communication policy, which is posted on the Company's website.

Designated senior management is responsible for communicating and enhancing relationships with the investors of the Company. Enquiries from investors are dealt with in a timely manner.

The Company provides extensive information in its annual and interim reports and announcements. All Shareholders' communications are also available on the Company's website.

The annual general meeting of the Company provides a useful forum for Shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address Shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval, members of the independent board committee will also make an effort to attend to address Shareholders' queries.

Details of the Directors' attendances at the 2017 general meetings are as follows:

Directors	No. of general meetings attended/ No. of general meetings held
Executive Directors	
Zhang Xiaodong	3/3
Xia Lingjie	3/3
Non-Executive Director	
Lau Wan Po	2/3
Independent Non-Executive Directors	
Chen Zetong	2/3
He Suying	3/3
Tang Lai Wah	2/3
Chui Man Lung, Everett (resigned on 20 January 2017)	0/0

CONSTITUTIONAL DOCUMENTS

The Company does not have any changes in the constitutional document during the Reporting Period. Subject to the approval of the Shareholders at the forthcoming annual general meeting, the existing memorandum and articles of association of the Company will be amended and an amended and restated memorandum and articles of association will be adopted in substitution for and to the exclusion of all existing memorandum and articles of association of the Company with immediate effect. For details, please refer to the circular of the Company dated 17 April 2018.

1. SCOPE

The reporting period of this Environmental, Social and Governance report ("Report") is from 1 January 2017 to 31 December 2017. This Report covers the relevant operating information of the Group's Hong Kong office and the following three subsidiaries in the Mainland with focus on sports tourism and sports training activities, namely (1) 深圳寶新體育產業有限公司 (Shenzhen Baoxin Sport Industry Limited*); (2) 深圳大鵬遊艇會有限公司 (Shenzhen Dapeng Yacht Club Company Limited*); and (3) 深圳大鵬國際教育有限公司 (Shenzhen Dapeng International Education Company Limited*).

This Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Main Board Listing Rules. The contents of this Report have been confirmed by the Board of the Company and have complied with the "comply or explain" provisions. We value your feedback regarding this Report and the Company's practices in the field of sustainable development. Please provide your comments by email to info@newsportsgp.com.

2. COMMUNICATION WITH STAKEHOLDERS

The Company's annual general meeting ("AGM") provides an effective platform for the Board of Directors and Shareholders to exchange views. In addition to the AGM, for maintaining close relationship with customers, suppliers and other stakeholders, the Group communicates with stakeholders from time to time through different channels such as visits, conference calls, e-mails, company websites, customer service hotlines, follow-ups by customer service representative, etc. in order to fully listen to their views and needs. The Group's overall performance is also reported to investors through the annual report of the Company.

3. ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

3.1 Environmental

3.1.1 Emissions

The Group is actively responding to the global trend of emission reduction, focusing on energy conservation and emission reduction in daily operations, and striving to avoid the generation of pollutants such as greenhouse gases, wastewater and garbage. To protect the environment from further damage, the Group has developed a series of environmental policies to control and reduce emissions of greenhouse gas and pollutants, including:

Waste Reduction Policy

Based on the principle of emission reduction, the Group recycles resources necessary for daily operations as much as possible. Office supplies and other supplies that have refills available are used as far as possible so as to reduce the generation of office waste. The packaging boxes for equipment/materials are also collected and reused for other purposes.

For materials that are not recyclable/reusable, such as plastic packaging bags, discarded electronic products, etc., the Group will collect and store them according to their categories, and then send them to qualified vendors for handling. During the reporting period, no violation of environmental regulations was found.

* *For identification purpose only*

The following table shows the recycled wastes (in terms of weight):

Recycled waste item	Unit	
Amount of plastic bottles recycled	kg	42.00
Amount of toner cartridges recycled	kg	5.67

Renovation and Construction Waste Treatment

Renovation/building maintenance works were carried out in different locations of operation and offices of the Group in the reporting period, resulting in construction wastes. To protect the surrounding environment, the Group requested the contractors to collect all construction wastes centrally and deliver to wastes disposal sites with compliance certificates.

Business Travel Reduction Policy

The Group has thorough understanding of the fact that business trips increase energy consumption and lead to increase in greenhouse gas emissions; therefore, the Group is striving to minimize the number of business trips and switch to other effective communication methods, including internet communication tools, video conferences, telephone conferences and emails. Remote communication software is adopted as much as possible when communicating with external parties in order to reduce greenhouse gas emissions as a result of business trips. In the case when the above communication tools cannot sufficiently meet the need of business trip, the Group encourages travelling employees to use public transportation as a priority for the necessary business trip arrangements.

Policy on Use of Vehicles

The subsidiaries of the Group maintain three limousines and one mid-size bus for daily office operation and business purposes. The Group strictly controls the frequency of vehicle use to minimize the generation of greenhouse gases and pollutants from the use of vehicles. The vehicles are driven and maintained by designated personnel. Every time when an employee uses a vehicle, an approval must be obtained so that employees are not allowed to use the company's vehicles without permission. In addition, the Group has also purchased a battery cart (which runs on charged battery instead of gasoline) for picking up employees and customers within the site area of operation to prevent the emission of harmful gases.

Local Procurement Policy

Procurement from non-local suppliers requires additional transportation, the condition of which is similar to business trips, it also increases energy consumption and greenhouse gas emissions. When making decisions on procurement, the Group considers a range of factors including the qualities, costs and environmental impacts of the materials. On the premise of fulfilling the Group's procurement policy, preference is being given to the products, equipment and services of local suppliers, and priorities are given to suppliers in closer proximities who adopt environmental friendly means of transportation.

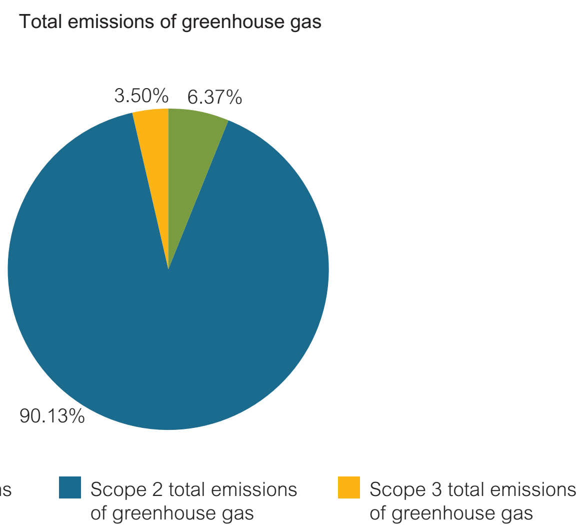
Policy for Advocating Environmental Protection to Stakeholders

For effective implementation of the Group's emission reduction policy, the Group advocates the importance of "carbon emissions reduction" in the supply chain, requiring the suppliers to operate in accordance with environmental regulations and to develop and implement environmental management practices. In addition, the Group also incorporates the values of environmental protection into employees' training programmes, including trainings on the understanding of environmental protection topics, building up employees' awareness on environmental protection, and providing guidance to employees on environmental protection practices in the daily operation. The Group also actively looks for cooperation opportunities with environmental organisations and groups in organising seminars and activities, with the aim of promoting the importance of carbon emissions reduction to key stakeholders, internally and externally.

The following table shows the types of emissions of the Company and the respective emission data:

Gas emissions	Unit	
Nitrogen oxide (NO_x) emission	grammes	16,699.47
Sulphur oxide (SO_x) emission	grammes	261.45
Particulate (PM) emission	grammes	864.36

The following chart shows the emissions of greenhouse gas in the reporting period:



Greenhouse gas emissions	Unit	
Scope 1 total emissions of direct greenhouse gas	CO^2e(metric ton)	63.16
Scope 2 total emissions of indirect greenhouse gas	CO^2e(metric ton)	894.15
Scope 3 total emissions of other indirect greenhouse gas	CO^2e(metric ton)	34.70
Total emissions of greenhouse gas	CO^2e(metric ton)	992.01

3.1.2 Use of Resources

The Group is well aware of the limited resources on the planet and for more effective utilisation of resources, the Group promotes Green Office Management and other appropriate measures to enhance the efficiency in the use of resources, including:

Energy Conservation Policy

Develop code of practice for use of air conditioning: The operating period of the air-conditioning equipment is only scheduled for the normal office hours, and the air-conditioning setting regulates the office temperature at the range of around 25.5 degrees Celsius. Unnecessary energy consumption is reduced by keeping the operating temperature of the water-type chillers within a reasonable range. In addition, the premise has an automatic ventilation system which detects the carbon dioxide concentration in the air, and adjusts automatically according to the actual indoor air conditions, such that energy consumption is reduced by cutting down unnecessary ventilation. For other office equipment, they are set at energy saving mode during office hour or in automatic shut-off mode after use.

In addition to equipment control, the Group has established the employees' code of practice for energy conservation. The Group requires employees to switch off lighting facilities that are not in use. During non-working hours such as lunch time, employees are requested to switch off lightings, air conditioning system and computers whenever appropriate, or to set office equipment such as computers, printers, photocopiers, etc. in standby or other energy-saving modes. Employees are requested to switch off electrical equipment such as air conditioning system, lightings and computers when getting off work, and arrangement is made for the last employee to leave the office to check and shut off all office equipment.

Natural lighting is adopted as much as possible in the office layout. Also natural ventilation is used wherever is possible to reduce the reliance on air conditioning. During the operation of air conditioning, employees are requested to close doors and windows to avoid additional power consumption from air leakage. Moreover, the Group encourages employees to wear casual clothing in summer time to reduce the use of air conditioning, and reminds employees to switch off unnecessary power through posting of signage at the office entrances/exits.

For more effective implementation of energy conservation, it is the Group's policy to give priority to those with higher energy-efficiency when selecting products and equipment, and to regularly inspect and replace inefficient equipment in order to avoid unnecessary power consumption from poor performance of equipment.

Wherever possible, the Group tries its best to adopt renewable energy or low-carbon high-quality energy sources to reduce greenhouse gas emissions. In replacing equipment of high power consumption, all office lighting facilities will be replaced by energy-saving lightings such as LED for further improvement of energy efficiency.

During the reporting period, the relevant business units of the Group recorded electricity consumption of approximately 1,691.91MWh in total. The following table shows the consumption volumes of various energy sources during the reporting period:

Use of energy	Unit	
Diesel consumption	Litres	4,600.00
Liquefied petroleum gas consumption	Litres	12,512.00
Gasoline consumption (mobile source)	Litres	12,347.12
Electricity consumption	MWh	1,691.91

Water Conservation Policy

Although water consumption from the Group's business is not significant, the Group insists on the emphasis to employees about awareness of water conservation. For example, in daily operations, reminders are posted near water supply sources advising employees and visitors to save water. Facilities like water pipes and taps are regularly inspected by designated personnel to ensure defects such as water leakages are timely repaired to prevent wastage of water.

During the reporting period, the Group's business units recorded water consumption of 51,654 m^3 in total.

Resources Conservation Policy

The Group promotes green filing in workflow by using computer files instead of the hardcopies. The Group has also built an OA system to implement a paperless office in its entire process of review and approval. By using e-mail as the primary means of communication, and saving files on computers instead of printing or copying. To reduce paper used in copying, paper documents should be circulated with consideration of confidentiality requirements. When using printers, the Group encourages the employees to print on both sides of paper; and used paper printed on one side should be recycled for use to cut down on paper usage. The Group has installed card readers for printers in October 2017 to strictly control the printing volume of paper and eradicate over-printing of paper. Employees' computers have also been preset with black and white printing mode to reduce the frequency of colour printing.

To reduce the use of paper towels, the Group also advises employees to use cleaning cloths and towels when cleaning the office. Moreover, to change the employees' habit of using bottled water during daily work or meetings, the Group encourages employees to use reusable containers instead of bottled water, so as to reduce unnecessary consumption of water bottles and hence to save the use of plastic.

Use of Resources	Unit	
Paper consumption	kg	750.10
Toner consumption	kg	27.78

3.1.3 The Environment and Natural Resources

The major environmental impacts of the Group's sports tourism and sports training businesses are on the maritime resources that the waterborne activities rely on and the pollution generated from these activities, as well as the consumption of resources in the offices. In line with the promotion of environmental protection and resource utilisation within the Group, green operation and green procurement policies are advocated by the Group:

Green Procurement Policy

Subject to the operational requirements and price factors of the Group, priority is being given to suppliers that provide environmentally friendly products and/or services. These include environmentally certified materials or services, recycled products, reusable or recyclable materials, products that do not contain toxic or hazardous substances, equipment that can improve the efficiencies of energy and water usages, and other products/equipment that meet the regulatory requirements related to the environmental issues. To improve the effectiveness of the policies, the Group provides the employees with relevant information for their understanding of the environmental impact of our procurement activities. The suppliers and contractors are encouraged to provide environmentally friendly products and services at competitive prices.

Oceans Day

The Group enjoys a superior environment given by the nature in Judiaosha, one of the most beautiful beaches in Shenzhen. The Company is aware of the importance of marine conservation. On Oceans Day 2017, New Sports Marine Sport Centre organised environmental conservation activities in Judiaosha, taking this opportunity to call upon the public to protect our oceans through actions.

3.2 Social

3.2.1 Employment

The Group adheres to local employment regulations and believes that employees are an important cornerstone of the Group's steady development. Therefore, in addition to complying with the local employment regulations, the Group has also developed a series of employment policies to address recruitment, employees' activities, wage adjustment, promotion, termination of employment, and equal opportunities (no discriminatory arrangements or decisions because of gender, marital status, physical disability, age, ethnicity, family status, sexual orientation, nationality, religion, etc.) to ensure that the Group's employees are treated in a fair and reasonable manner. In the reporting period, the Group was not aware of any unlawful cases related to employment or unfair treatment.

Although there is no collective bargaining policy nor the Group is bound to any collective bargaining contract, the management emphasises the maintenance of a clear and constructive dialogue with the employees on company's matters. This commitment is included in the written policies on remuneration, working hours, employees' benefits, employees' training, health and safety, complaint handling and whistle-blowing mechanisms.

The Group is convinced that business success is tied with dedicated and motivated employees. As of 31 December 2017, the number of employees covered by this report in Hong Kong and throughout China is 85 in total. The distribution of employees by gender, employment category, age group and geographical region is as follow:

	Number of employees
By geographical region	
Hong Kong	12
Mainland	73
By gender	
Employees — male	56
Employees — female	29
By age group	
Employees — Below 30	34
Employees — 30 to 50 years old	47
Employees — Above 50	4
By employment category	
Employees — permanent	81
Employees — part-time	4

Recruitment and Promotion

The Group ensures that each job applicant has equal rights of recruitment and will not be refused for employment due to factors such as gender, age or ethnicity. Employees are assessed in accordance with the requirements of the position, and will not be discriminated against on grounds of physical disability, marital status and other factors. Similarly, promotion decisions do not take into consideration of differences like gender, age, religion, ethnicity, etc. The basis for promotion only takes reference to the employee's knowledge, skills, experience and work performance. The Group is committed to safeguarding the fundamental rights and interests of employees in the workplace as well as to complying with the regulations related to anti-discrimination and equal opportunity employment.

Wages and Benefits

The Group ensures that the wage of every employee shall meet the legal minimum requirements defined by the local government, and purchases social insurance for employees according to the local employment regulations. Assessment of labour market situations is conducted on annual basis. Reasonable and legal wage adjustments will be made based on performance assessments to reward the employees' contributions to the Group.

In addition to wages, the Group abides by the arrangement of statutory holidays and paid annual leaves, and also provides benefits other than those required by the laws, including lunch allowance, overtime meal allowance, and incentive paid leave, etc. Whenever employment termination is necessary, the Group is committed to the principle of not violating the local laws and regulations.

Employee Fundraising Activity

During the reporting period, a subsidiary of the Group voluntarily organised a caring donation in the Company and helped an employee who was undergoing family distress in overcoming difficulties.

During the reporting period, the Group did not find any complaints or unlawful cases related to discrimination and other employment rights.

3.2.2 Health and Safety

The Group is very concerned about the occupational health and safety of employees, and therefore formulated sound working procedures and code of work practices for active mitigation of safety risks, with an ultimate goal to build a zero-accident working environment.

Workplace Safety Management

In the office and work areas, relevant safety procedures and operating instructions are posted to help employees understand the key points of safe operations. For positions with relatively high risks, employees are provided with appropriate personal protective facilities for the prevention of occupational diseases and work injuries. Moreover, the Group strictly monitors the status of legal compliance in the workplace, and puts in place fire extinguishers and other appropriate fire prevention facilities, which are subject to regular safety inspections. Safety warning signs are posted in appropriate work areas to bring to the employees' attention of risks such as fire, electric powers, chemicals, etc.

Employee Body Check and Insurance

The Group regularly organizes body checks for employees at medical institutes every year. In addition, as certain places of operation of the Group are situated at seaside (New Sports Marine Sport Centre and New Sports Marine Training Centre), the Group has purchased commercial casualty insurances as protection for employees, based on the employees' respective exposure to risks of accidents such as frequency of going out to the sea and working environment.

Employee Safety Training

The Group provides appropriate occupational health and safety training for employees, including introduction to safety warning signs in work areas to raise the employees' safety awareness so that they can identify safety risks and stay vigilant in workplaces of high risks. The Group also regularly arranges employees to go through fire and emergency drills in which they will familiarise themselves with the emergency escape routes.

In addition to taking care of the Group's employees, the Group also conducts safety supervision on the work practices of the contractors within the operation sites of the Group in order to optimise the management of occupational health and safety.

Safety at Sea (Such as Lifeguard Training)

Since part of the Group's businesses are carried out at the seaside, to safeguard the employees' and customers' personal safety, the Company has organised some of its employees to take the examination for the qualification certificate of industry practitioners（行業從業人員資格證書）awarded by the General Administration of Sport of China and class 5 lifeguard work permit（五級救生員上崗證）awarded by the Shenzhen Water sports Association. Meanwhile, the Company also regularly organises employees to participate in marine safety training by various associations or organisations.

Work and Life Balance

The Group is committed to maintaining the physical and mental health of employees, and is very much concerned about the work-life balance of the employees, and as such, the Group does not force employees to work overtime. To help employees relax and relieve their work pressure, the Group regularly organises recreational activities for the release of the employees' stress, which include employees' birthday parties, sports and fitness activities, and team building activities, enriching their lives beyond their daily work.

During the reporting period, there was no non-compliance with local regulations related to occupational health and safety.

3.2.3 Development and Training

Believing that the quality of its employees is the upmost important element to sustain business development and to increase profitability, the Group is committed to allocating resources for the development of employees' competence, including the provision of adequate training for the employees in order to enhance their technical capability, safety awareness and operational requirements.

The Group's training includes both internal and external, with the goal of enhancing the employees' business skills, improving their knowledge and developing their thinking. These include various types of internal corporate trainings, outsourced external trainings such as workshops, technical trainings, exhibitions, seminars, etc. and sponsorship of employees in attending trainings organised by professional institutions.

In addition to classroom training, on-the-job training is also provided. The Group assigns experienced employees to provide guidance to junior employees, with regular training and supervision. Also the Group establishes career development plans for employees according to the Group's business and project development strategies, in order to drive the sustainable development of the Group's business.

During the reporting period, the average training hours for each male employee and each female employee are 6.54 hours and 8.02 hours respectively.

3.2.4 Labour Standards

The Group strictly prohibits the employment of child labour or forced labour, and is committed to hiring employees aged 18 or above, and will not force employees to work involuntarily in any way including involuntary overtime work.

During the reporting period, no child labour or forced labour was employed.

3.2.5 Supply Chain Management

For optimal procurement of materials and outsourcing services, the Group has established a code of conduct governing the suppliers of materials and services to ensure compliance with the Group's specified product requirements. During the process of supplier selection, the Group will consider the quality of a supplier's products/services as well as the supplier's fulfilment of corporate social responsibility. The assessment of corporate social responsibilities covers the areas including environmental protection, occupational safety and health, community participation and staff employment status. During the procurement of key items, the Group even considers choosing suppliers with relevant certifications or awards in fulfilling social responsibility.

To ensure suppliers' continuous compliance, the Group regularly assesses the fulfilment of corporate social responsibility of key suppliers and other requirements defined by the Group, including compliance with product/service quality and code of conduct. The Group's periodic assessment can be in form of questionnaires, written confirmations or onsite inspections, with the purpose to evaluate the suppliers' performance in fulfilment of the Group's requirements.

The Group's procurement avoids the use of a single supplier to manage the risk of the supply chain. Through tendering, the quality and efficiency of the agreed procurements are guaranteed. During the process of tendering, the Group regulates the bidding activities by adopting relevant systems and regulations, creating an equal, open and fair bidding environment and at the same time enhancing the procurement efficiency.

3.2.6 Product Responsibility

The Group's businesses focus on customer service. To strengthen the customers' confidence in the Group's products, not only the operating staff are provided with strict training to ensure their service awareness, but a comprehensive set of after-sale service channels including telephone support hotline, Wechat, QQ and email are provided by the Group to help resolve the customers' problems. Upon the receipt of a customer inquiry, the operating personnel and customer service representative will have it processed in a timely manner.

During the reporting period, no non-compliance case or customer complaint related to products was found.

3.2.7 Anti-corruption

The Group has employed qualified personnel and set up functional departments to support business which mainly focuses on research and development projects. For effective supervision of personnel assignment, the Group strictly enforces anti-corruption policy and relevant measures according to laws.

Employees of the Group are not allowed to give bribes to government officials and representatives of commercial organisations. They are also prohibited from acts of accepting bribery.

The Group has established a whistle-blowing reporting mechanism and a designated disciplinary committee responsible for receiving and processing of reported cases. All reported will be filed and handled in confidence.

For departments or positions with a higher risk of corruption, the Group strengthens the employees' awareness by providing training and channels are provided for employees in declaring conflict of interests.

For better monitoring, the corresponding requestor based on the type of contracted business initiates the application for approval, which is then submitted to the relevant authorised supervisor for approval. Service contracts of different amounts would be approved by different levels of authorised personnel.

Honest Cooperation Agreement

During the process of entering into contracts, the subsidiaries of the Group always attach the "Honest Cooperation Agreement" as an attachment to the agreement. Through this agreement, the cooperating parties will maintain their integrities and self-disciplines in business operation, so as to prevent unlawful behaviours in seeking improper benefits and to guarantee the legal rights of both parties.

The Group engages an independent auditor to audit the financial accounts of the Group, to ensure the accuracy of the Group's ledgers. The internal financial control and supervision are strengthened for the protection of Shareholders' interests.

During the reporting period, no unlawful case or complaint related to corruption was found.

3.2.8 Community Investment

The Group is committed to participating in community activities which will help establish a positive image of industry and the Group and understand the needs of the communities where the Group operates. Having taking into consideration the said communities' interest, it also encourages employees to participate in charitable and fundraising activities. Our cooperation partners include community groups, charity organisations, government agencies and other local stakeholders.

During the reporting period, apart from charity donations by cash, 41 employees of the Group participated in voluntary services with the total service hours being 388 hours.

With the rapid development of internet business and the increasing fraud on the internet, the Group took the initiative to educate the public on the internet against online fraud. This initiative aims to protect the interests of internet customers and to enhance the positive image of the internet business.

Support in Trainings of the Emergency Rescue Operation

The Group actively supports and serves the government's emergency rescue operation. Taking advantage of its two major platforms — New Sports Marine Sport Centre and New Sports Marine Training Centre, the Group provides joint-services and site support for charitable training of Shenzhen Dapeng Bay lifeguards volunteers, training for Shenzhen water rescue team, the rope rescue training and the "first responder" teacher training of Shenzhen Rescue Volunteers Federation, as well as the 2017 emergency management training of Emergency Governance Society of Shenzhen and Emergency Management Office of Shenzhen, contributing to the national emergency rescue operation.

UNICEF Charity Run 2017

UNICEF Charity Run, organized by UNICEF Hong Kong and supported by the Hong Kong Amateur Athletic Association (HKAAA), is UNICEF Hong Kong's annual flagship fundraising event. It aims to carry out prevention work of HIV for children and families in more developing countries, eradicating the hazard of AIDS from every child.

To support this charitable activity, the Group actively encouraged and sponsored its employees to participate UNICEF Charity Run 2017, which was held on 26 November 2017. Employees of the Hong Kong office and their family members participated in the 3 km Fun Run (Family) and Star Wars 5 km Run. While the colleagues and their families participating in the charitable run had an opportunity to show their physical performance on the tracks around Hong Kong Disneyland, they also contributed their caring and support for the promotion of the meaningful charity project.

ACCA Community Day

The ACCA Community Day organised by the Association of Chartered Certified Accountants Hong Kong ("ACCA Hong Kong") is a fun charity event which aims to raise funds for the underprivileged groups and to promote the spirit of social cohesiveness and care in the community.

The Group participated in the activity by forming a team consisting of company employees and recruited volunteers. The purpose was to bring together the volunteers and the Company to experience the happiness of contributing to charity, through traditional competition on the most bustling streets in Hong Kong. Meanwhile, it was also hoped that everyone could help to promote the power of charity and deliver the message of love to the public.

The focus of the event was the traditional rickshaw competition, together with costume parade and performances. During the time of costume parade, New Sports, as a group leading the development of sports and a company listed in Hong Kong which has been faithfully fulfilling social responsibility, demonstrated the team's warm passion and healthy vitality through the chanting of the slogan "Love Sports, Love New Sports" and the energetic marching in orderly strides. New Sports has always adhered to its core value of "Innovation and Sharing, Righteousness and Progress" and contributed to the society through actively participation in charitable activities and community building.

The New Sports Community Caring Team is ready to go.

The New Sports Team — making bold strides with elated spirit

Making an all-out effort in the Competition

《ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT GUIDE》

CONTENT INDEX

Disclosure, Aspects, General Disclosure and Key Performance Indicators ("KPIs")	Description	2017 Environmental, Social and Governance Report
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental — Emissions
KPI A1.1	The types of emissions and respective emissions data.	Environmental — Gas Emissions Table
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental — Greenhouse Gas Emissions Table
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	As relevant disclosure has no significance in relation to our business operation, we did not produce specific report on this matter.
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	As relevant disclosure has no significance in relation to our business operation, we did not produce specific report on this matter.
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental — Emissions and Use of Resources
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental — Waste Reduction Policy, Renovation and Construction Waste Treatment and Resource Conservation Policy
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental — Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental — Use of Energy Table

Disclosure, Aspects, General Disclosure and KPIs	Description	2017 Environmental, Social and Governance report
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental — Water Conservation Policy
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental — Energy Conservation Policy
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental — Water Conservation Policy
KPI A2.5	Total packaging material used for finished products (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume).	As relevant disclosure has no significance in relation to our business operation, we did not produce specific report on this matter.
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental — The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental — The Environment and Natural Resources
B. Social		
Aspect B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Social — Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Social — Distribution of Employees Table
Aspect B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Social — Health and Safety

Disclosure, Aspects, General Disclosure and KPIs	Description	2017 Environmental, Social and Governance report
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Social — Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Social — Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Social — Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Social — Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Social — Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Social — Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Social Performance — Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Social — Product Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Social — Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Social — Anti-corruption

Disclosure, Aspects, General Disclosure and KPIs	Description	2017 Environmental, Social and Governance report
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Social — Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Social — Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Social — Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Social — Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Social — Community Investment

INDEPENDENT AUDITOR'S REPORT

RSM Hong Kong **中瑞岳華（香港）會計師事務所**

29th Floor, Lee Garden Two, 28 Yun Ping Road,
Causeway Bay, Hong Kong
香港銅鑼灣恩平道二十八號
利園二期二十九字樓

T +852 2598 5123
F +852 2598 7230
電話 +852 2598 5123
傳真 +852 2598 7230

www.rsmhk.com
www.rsmhk.com

TO THE MEMBERS OF NEW SPORTS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of New Sports Group Limited ("the Company") and its subsidiaries (the "Group") set out on pages 83 to 178, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Goodwill and other intangible assets impairment assessment
2. Recoverability of inventories
3. Valuation of investment properties
4. Accounting for the acquisition of Shenzhen Borui
5. Fair value of contingent consideration payable
6. Recoverability of gross amount due from customers for contract works
7. Recoverability of loan receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Goodwill and other intangible assets impairment assessment	
Refer to Notes 22 and 23 to the consolidated financial statements The Group has goodwill of HK$187,486,000 after an impairment loss and other intangible assets of HK$832,821,000 after an impairment loss arising from the acquisitions of Kingworld Holdings Limited ("Kingworld Holdings") in 2015 and Yue Jin Asia Limited ("Yue Jin Asia") in 2016. For the purpose of impairment testing, the goodwill and other intangible assets are allocated to CGUs. Those CGUs which include goodwill are tested for impairment at least annually. Management has concluded that impairment losses on goodwill of HK$75,263,000 and other intangible assets of HK$19,996,000 were recognised for the year then ended. This conclusion was based on value in use models that required significant management judgment in making assumptions about future revenues, profit margins and growth rates and in selecting an appropriate market discount rate.	Our procedures included: — Evaluating the independent external valuer's competence, capability and objectivity; — Assessing the integrity of the value in use models; — Challenging the reasonableness of management's key assumptions based on our knowledge of the business and industry; — Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; — Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; — Considering the potential impact of reasonably possible downside changes in the key assumptions; and — Assessing the adequacy of the impairment disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Recoverability of inventories	
Refer to Note 28 to the consolidated financial statements The Group has inventories of HK$2,306,317,000 at 31 December 2017 in relation to the real estate business. Inventories are carried at the lower of cost and net realisable value. The determination of net realisable value involves significant management judgements and estimates. These include: — an estimate of expected sales prices which are based on recent sales price achieved; — an estimate of costs to complete; and — consideration of other factors specific to each property development project.	Our procedures included: — Assessing the estimated sales prices used by management by reviewing the latest sales prices that have been achieved — Testing on a sample basis the costs incurred to date and management's estimates of costs to complete — Assessing the current status of the property development projects and considering whether any site specific factors have been properly reflected in the estimates — Considering the adequacy of the disclosures in the consolidated financial statements
3. Valuation of investment properties	
Refer to Note 21 to the consolidated financial statements The Group's investment properties comprise commercial and residential properties located in the PRC and are stated at fair value of HK$724,333,000. All of the Group's investment properties are measured using the fair value model based on a valuation performed by an independent qualified professional valuer. The valuation of residential properties was determined using a market comparison approach. The valuation of commercial properties and offices was determined using an income capitalisation approach. The determination of fair values of investment properties involves significant management judgements and estimates including appropriate comparables, capitalisation rates and the reversionary income potential of properties.	Our procedures included: — Evaluating the independent external valuer's competence, capability and objectivity; — Obtaining the valuation report of each property and assessing the appropriateness of the valuation methods applied.; — Challenging the external valuer the methodologies and judgments used in valuing the investment properties with the assistance of our internal valuation specialists and obtaining the market evidence that the external valuer used to support the key inputs; — Assessing the adequacy of the disclosures of the fair value measurement of investment properties including the fair value measurement hierarchy, the valuation technique and significant unobservable inputs in the consolidated financial statements.

Key Audit Matter	How our audit addressed the Key Audit Matter
4. Accounting for the acquisition of Shenzhen Borui	
Refer to Note 44(c) to the consolidated financial statements During the year ended 31 December 2017, the Group acquired 100% equity interest of Shenzhen Borui, details of the acquisition are disclosed in Note 44(c) to the consolidated financial statements. Accounting for the acquisition requires the Group to determine the date of acquisition of Shenzhen Borui (the "Acquisition Date") for accounting purposes and the fair values of the identifiable assets and liabilities assumed at the Acquisition Date. Management engaged an external valuer to assess the fair values of the identifiable assets and liabilities assumed at the Acquisition Date. The fair values of the properties of Shenzhen Borui and its subsidiaries at the Acquisition Date, which mainly included properties for sales under development and investment properties, were determined based on direct comparison approach, while the fair values of other material identifiable assets and liabilities at the Acquisition Date, which mainly included bank and cash balances, deposits, prepayment and other receivables, gross amount due from customers for contract works, trade and other payables, and current and deferred income tax liabilities, were determined mainly based on their respective book values at the Acquisition Date. We consider the accounting for this acquisition as a key audit matter due to the level of estimates and judgements required to determine the Acquisition Date for accounting purposes and the fair values of the identifiable assets and liabilities assumed at the Acquisition Date.	Our procedures included: For the Acquisition Date: We assessed the appropriateness of the Acquisition Date determined by management through examining the terms in the transaction documents and other supporting documents for evidence if all pre-conditions for completion were fulfilled and the controlling power over Shenzhen Borui had been obtained by the Company at the Acquisition Date. For the fair values of the identifiable assets and liabilities assumed at the Acquisition Date: — Evaluating the independent external valuer's competence, capability and objectivity; — Obtaining the valuation report and assessing the appropriateness of the valuation methods applied to determine the fair values of the identifiable assets and liabilities assumed at the Acquisition Date; — For the valuation of the properties of Shenzhen and its subsidiaries: (a) For properties for sale under development and investment properties, assessing the reasonableness of relevant key assumptions used in the valuations including estimated price per square meter, term yield, reversionary yield, market rental rate and developer's profit margin of the selected properties by independently gathering and analysing the data of comparable properties in the market with similar characteristics such as location and property size; (b) For properties under development and investment properties under construction, further assessing the reasonableness of estimated development costs to completion of the selected properties by comparison with the approved budget, of which the reasonableness was assessed by comparison with the actual costs of completed properties of the Group;

Key Audit Matter	How our audit addressed the Key Audit Matter
4. *Accounting for the acquisition of Shenzhen Borui* *(Continued)*	
	(c) For the fair values of other material identifiable assets and liabilities at the Acquisition Date, we performed certain audit procedures which mainly included: — Confirmed bank balances, borrowings and certain debtors' and creditors' balances directly with the counterparties; — Performed cut-off tests on trade receivables and payables; — Checked the calculation of current income tax provision and deferred income tax liabilities.
5. *Fair value of contingent consideration payable*	
Refer to Note 38 to the consolidated financial statements The Group's acquired Yue Jin Asia during the year ended 31 December 2016. The consideration for business combination includes contingent consideration payable measured at fair value on initial recognition as at 31 December 2016. The fair values of the contingent consideration payable amounting to HK$94,000,000 and HK$255,199,000 as at 31 December 2017 and 2016 were estimated by management with reference to valuations performed by an independent valuer. The change in fair value of HK$161,199,000 was recognised in profit or loss for the year. The valuation of contingent consideration payable involves significant management judgements and estimates including probability of different scenarios and profit adjustment under different scenarios.	Our procedures included: — Evaluating the independent external valuer's competence, capability and objectivity; — Obtaining the valuation report and assessing the appropriateness of the valuation methods applied.; — Challenging the reasonableness of management's key assumptions based on our knowledge of the business and industry; — Assessing the appropriateness of the financial information and market data used with the assistance of our internal valuation specialists.

Key Audit Matter	How our audit addressed the Key Audit Matter
6. Recoverability of gross amount due from customers for contract works	
Refer to Note 29 to the consolidated financial statements The Group's provided construction service for municipal work and related services. As at 31 December 2017, the Group recorded gross amount due from customers for contract works of HK$648,822,000. The Group recognised gross amount due from customers for contract works according to the Group's management's estimation of the total outcome of the contracting service contracts as well as the percentage of completion of contracting service which is measured by reference to the work certified. This requires management to exercise significant judgement in estimating the outcome of the contracts, their percentage of completion and the amount of revenue and profit or loss to recognised in each reporting period. Management is also required to exercise significant judgement in their assessment of the completeness and accuracy of forecast costs to complete and the ability to delivery contracts within forecast timescales.	Our procedures included: — Evaluating the estimation of revenue and profit recognised on construction contracts by: • agreeing the contract sum to signed contracts; • understanding from management and project managers about how the percentage of completion were determined; • agreeing total budgeted costs to approved budgets; • obtaining an understanding from management and project managers about how the approved budgets were determined; • challenging the reasonableness of key management judgements in preparing the budgets; and • challenging management's assessment of the Group's ability to deliver contracts within budgeted timescales and any penalty for late delivery of contract works by comparing the progress of the contracts against the terms stipulated in the contracts. — Assessing the reliability of the approved budgets by comparing the actual outcome against management's estimation of completed contracts; and — Checking the accuracy of the amounts due from customers for contract works by agreeing the amount of progress billings to bills issued to customers.
7. Recoverability of loan receivables	
Refer to Note 30 to the consolidated financial statements The Group had loan receivables of HK$340,684,000 as at 31 December 2017. The Group considers the credit quality of the loan receivables with reference to the credit history of the borrowers including default or delay in payments, the historical settlements and settlements of loan interests of the unsecured loan receivables subsequent to the end of reporting period, financial background of the borrowers and available financial information at the end of each reporting period. Management has concluded that no impairment losses on loan receivables were recognised for the year then ended.	Our procedures included: — Obtaining an understanding and evaluating the key controls over the granting of loans and the Group's decision in granting loan facilities to borrowers with or without any security from the borrowers; — Obtaining an understanding and evaluating the key controls over the review of the recoverability of the unsecured loan receivables; — Reviewing loan agreements entered into with borrowers; — Assessing the value of collateral of the loan; — Reviewing payment status of the loans; and — Testing subsequent settlements of the loan interest or principal to supporting documents.

OTHER INFORMATION AND AUDITOR'S REPORT THEREON

The directors are responsible for the Other Information. The Other Information comprises all the information in the Company's 2017 annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified above and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the Other Information, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibility for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

RSM Hong Kong
Certified Public Accountants
Hong Kong
23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	8	191,519	155,207
Cost of sales		(234,291)	(109,068)
Gross (loss)/profit		(42,772)	46,139
Distribution costs		(7,473)	(3,839)
Administrative expenses		(61,231)	(78,124)
Research and development expenses		(1,178)	(36,121)
Loss on disposal of subsidiaries	44(b)	(3,600)	—
Gain on bargain purchase	44(c)	43,348	—
Fair value gain on investment properties	21	40,894	—
Fair value gain on financial assets at fair value through profit or loss		8,972	—
Fair value gain on contingent consideration payable	38	161,199	2,557
Fair value gain on contingent consideration receivable	27(b)	—	45,841
Fair value gain on derivative financial assets	27(a)	387	118
Impairment losses on goodwill	22	(75,263)	(560,709)
Impairment losses on other intangible assets	23	(19,996)	(108,659)
Impairment loss on other receivables	27(b)	(45,841)	—
Other income, gains/(losses)	9	(1,726)	(15,925)
Loss from operations		(4,280)	(708,722)
Finance costs	11	(49,145)	(60,931)
Loss before tax		(53,425)	(769,653)
Income tax expense	12	(3,541)	(2,950)
Loss for the year from continuing operations	13	(56,966)	(772,603)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	17	158,813	(147,568)
Profit/(loss) for the year		101,847	(920,171)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		67,032	(82,021)
Exchange differences reclassified to profit or loss on disposal of subsidiaries		23,740	—
Other comprehensive income for the year, net of tax		90,772	(82,021)
Total comprehensive income for the year		192,619	(1,002,192)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit/(loss) for the year attributable to:			
Owners of the Company		**87,940**	(861,582)
Non-controlling interests		**13,907**	(58,589)
		101,847	(920,171)
Total comprehensive income for the year attributable to:			
Owners of the Company		**166,468**	(942,743)
Non-controlling interests		**26,151**	(59,449)
		192,619	(1,002,192)
Earnings/(loss) per share	19		
From continuing and discontinued operations			(represented)
— Basic		**HK$0.053**	(HK$1.126)
From continuing operations			
— Basic		**(HK$0.043)**	(HK$0.933)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	20	63,230	49,534
Investment properties	21	724,333	—
Goodwill	22	187,486	249,914
Other intangible assets	23	832,821	872,317
Deposits paid for property, plant and equipment		—	19,773
Deposits paid for investment properties	21	—	216,144
Other deposits	25	—	40,291
Available-for-sale financial assets	26	13,222	—
Derivative financial assets	27	6,835	6,448
Deferred tax assets	39	33,242	24,244
		1,861,169	1,478,665
Current assets			
Inventories	28	2,306,317	—
Gross amount due from customers for contract works	29	648,822	—
Trade and other receivables	30	559,138	399,370
Financial assets at fair value through profit or loss	31	263,333	—
Derivative financial assets	27	—	45,841
Current tax assets		—	937
Bank and cash balances	32	327,249	473,499
		4,104,859	919,647
Current liabilities			
Borrowings	33	1,492,657	127,851
Convertible bonds	34	—	200,596
Trade and other payables	35	552,229	154,830
Consideration payable	44(c)	901,500	—
Receipts in advance	36	47,144	—
Deferred revenue		—	4,160
Current tax liabilities		73,336	24,897
		3,066,866	512,334
Net current assets		1,037,993	407,313
Total assets less current liabilities		2,899,162	1,885,978

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Consideration payable	37	112,497	91,010
Contingent consideration payable	38	94,000	255,199
Deferred revenue		–	213
Deferred tax liabilities	39	312,707	102,544
		519,204	448,966
NET ASSETS		2,379,958	1,437,012
Capital and reserves			
Share capital	40	102,156	85,130
Reserves	42(a)	1,657,306	1,320,577
Equity attributable to owners of the Company		1,759,462	1,405,707
Non-controlling interests		620,496	31,305
TOTAL EQUITY		2,379,958	1,437,012

Approved by the Board of Directors on 23 March 2018 and signed on its behalf by:

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium HK$'000 (Note 42(b)(i))	Share redemption reserve HK$'000 (Note 42(b)(ii))	Capital reserve HK$'000 (Note 42(b)(iii))	Other reserve HK$'000 (Note 42(b)(iv))	General reserve fund HK$'000 (Note 42(b)(v))	Convertible bonds reserve HK$'000 (Note 42(b)(vi))	Shareholder's contribution HK$'000 (Note 42(b)(vii))	Translation reserve HK$'000 (Note 42(b)(viii))	Share options reserve HK$'000 (Note 42(b)(ix))	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	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 year	–	–	–	–	–	–	–	–	(81,161)	–	(861,582)	(942,743)	(59,449)	(1,002,192)
Contribution by a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	37,441	37,441
Dividend paid to non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	–	(16,639)	(16,639)
Share based payments	–	–	–	–	–	–	–	–	–	9,154	–	9,154	–	9,154
Transfer of share options reserve upon lapse of share options	–	–	–	–	–	–	–	–	–	(49,811)	49,811	–	–	–
Redemption of convertible bonds *(Note 34)*	–	–	–	–	–	–	(17,355)	–	–	–	17,355	–	–	–
Issue of shares on subscription *(Note 40(e))*	30,454	724,807	–	–	–	–	–	–	–	–	–	755,261	–	755,261
Issue of shares on placement *(Note 40(b))*	10,220	240,701	–	–	–	–	–	–	–	–	–	250,921	–	250,921
Issue of shares on acquisition of subsidiaries *(Note 40(c))*	7,923	381,593	–	–	–	–	–	–	–	–	–	389,516	–	389,516
Changes in equity for the year	48,597	1,347,101	–	–	–	–	(17,355)	–	(81,161)	(40,657)	(794,416)	462,109	(38,647)	423,462
Balance at 31 December 2016	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
At 1 January 2017	**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 year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**78,528**	**–**	**87,940**	**166,468**	**26,151**	**192,619**
Transfer of share options reserve upon lapse of share options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,274)**	**18,274**	**–**	**–**	**–**
Redemption of convertible bonds *(Note 34)*	**–**	**–**	**–**	**–**	**–**	**–**	**(25,127)**	**–**	**–**	**–**	**25,127**	**–**	**–**	**–**
Disposal of subsidiaries *(Note 44(b))*	**–**	**–**	**–**	**(10,657)**	**(5,078)**	**(27,827)**	**–**	**–**	**–**	**–**	**43,562**	**–**	**(30,340)**	**(30,340)**
Acquisition of subsidiaries *(Note 44(c))*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**593,380**	**593,380**
Issue of shares on subscription *(Note 40(e))*	**17,026**	**170,261**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**187,287**	**–**	**187,287**
Changes in equity for the year	**17,026**	**170,261**	**–**	**(10,657)**	**(5,078)**	**(27,827)**	**(25,127)**	**–**	**78,528**	**(18,274)**	**174,903**	**353,755**	**589,191**	**942,946**
Balance at 31 December 2017	**102,156**	**2,090,022**	**2,269**	**–**	**–**	**–**	**–**	**4,118**	**63,227**	**–**	**(502,330)**	**1,759,462**	**620,496**	**2,379,958**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
Continuing operations		**(53,425)**	(769,653)
Discontinued operations		**158,813**	(147,568)
		105,388	(917,221)
Adjustments for:			
Interest income		**(26,759)**	(167)
Dividend received from financial assets at fair value through profit or loss		**(6,207)**	—
Gain on disposal of subsidiaries	44(b)	**(155,643)**	—
Finance costs	11	**49,145**	60,931
Gain on bargain purchase	44(c)	**(43,348)**	—
Amortisation of other intangible assets	23	**61,388**	60,991
Depreciation of property, plant and equipment	20	**6,843**	3,824
Loss/(gain) on disposal of property, plant and equipment	13	**9**	(26)
Property, plant and equipment written off		**—**	957
Fair value gain on investment properties	21	**(40,894)**	—
Fair value gain on financial assets at fair value through profit or loss		**(8,972)**	—
Fair value gain on contingent consideration payable	38	**(161,199)**	(2,557)
Fair value gain on contingent consideration receivable	27	**—**	(45,841)
Fair value gain on derivative financial assets	27	**(387)**	(118)
Share-based payments	43	**—**	9,154
Bad debts written off	9	**—**	37,318
Allowance for doubtful debts	9	**89,130**	—
Impairment losses on goodwill	22	**75,263**	702,396
Impairment losses on other intangible assets	23	**19,996**	108,659
Impairment loss on other receivables		**45,841**	—
Exchange gain unrealised		**—**	(9,894)
Operating profit before working capital changes		**9,594**	8,406
Decrease in trade and other receivables		**179,492**	38,758
Decrease/(increase) in other deposits		**18,618**	(39,571)
Purchase of financial assets at fair value through profit or loss		**(254,361)**	—
Increase in inventories		**(414,607)**	—
Increase in receipts in advance		**47,144**	—
Decrease in deferred revenue		**(4,373)**	(5,051)
Increase/(decrease) in trade and other payables		**189,073**	(3,310)
Cash used in operations		**(229,420)**	(768)
Income tax paid		**(8,786)**	(11,792)
Interest received		**26,759**	167
Interest paid		**—**	(15,555)
Net cash used in operating activities		**(211,447)**	(27,948)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from financial assets at fair value through profit or loss		6,207	—
Net cash inflow from disposal of subsidiaries	44(b)	23,387	—
Decrease in amount due from a director		—	16,639
Purchases of property, plant and equipment		(17,990)	(1,494)
Acquisition of subsidiaries	44(c)	(205,596)	(675,704)
Disposal of subsidiaries		—	(12)
Deposits paid for acquisition of property, plant and equipment		—	(1,118)
Deposit paid for acquisition of investment properties		—	(12,318)
Deposits paid for acquisitions of subsidiaries		—	(195,590)
Proceeds from disposal of property, plant and equipment		475	649
Purchase of investment properties		(59,354)	—
Purchase of other intangible assets		—	(25,654)
Net cash used in investing activities		(252,871)	(894,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to a non-controlling shareholder of a subsidiary		—	(16,639)
Proceeds from issue of corporate bonds	33	127,410	89,729
Proceeds from issue of shares on subscription	40(e)	187,287	755,261
Proceeds from issue of shares on placements		—	250,921
Borrowings raised		429,440	35,122
Redemption of convertible bonds	34	(200,000)	(100,000)
Redemption of corporate bonds	33	(95,000)	—
Repayment of borrowings		(107,964)	(21,485)
Interest paid		(36,612)	—
Net cash generated from financing activities		304,561	992,909
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(159,757)	70,359
CASH AND CASH EQUIVALENTS AT 1 JANUARY		473,499	419,212
Effect of foreign exchange rate changes		13,507	(16,072)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		327,249	473,499
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		327,249	473,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business in Hong Kong is Unit 2602, 26/F., Lippo Centre, Tower 1, No. 89 Queensway, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 31 December 2015, the Group acquired the entire equity interest in Kingworld Holdings. A series of control agreements (the "Control Agreements") was entered into between a wholly-owned subsidiary of the Group incorporated in the People's Republic of China (the "PRC"), Kingworld Wuxian (Beijing) Sports Technology Co., Ltd. ("Kingworld Wuxian"), Kingworld (Beijing) Technology Co., Ltd. ("Kingworld Beijing"), Mr. Zhou Xu and Ms. Xu Rong who are the registered equityholders of Kingworld Beijing.

The Control Agreements enable the Group, through Kingworld Wuxian, to control over Kingworld Beijing (the "Structured Subsidiary") with particulars as follows:

— exercise effective financial and operational control over the Structured Subsidiary;

— exercise owners' voting rights of the Structured Subsidiary;

— receive substantially all of the economic interest returns generated by the Structured Subsidiary in consideration for the business supports, technical and consulting services provided by the Group;

— obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Structured Subsidiary from the respective registered equityholders at a minimum purchase price permitted under the PRC laws and regulations, and all or part of the assets of the Structured Subsidiary at the net book value of such assets or such minimum purchase price permitted under the PRC laws and regulations. The Group may exercise such options at any time until it has acquired all equity interests and/or all assets of the Structured Subsidiary; and

— obtain pledges over the entire equity interests of the Structured Subsidiary from their respective registered equityholders as collateral security for all of the Structured Subsidiary's payments due to the Group under the Control Agreements.

The Group does not have any equity interest in the Structured Subsidiary. However, as a result of the Control Agreements, the Group has rights to variable returns from its involvement with the Structured Subsidiary and has the ability to affect those returns through its power over the Structured Subsidiary and is considered to control the Structured Subsidiary. Consequently, the board of Directors of the Company (the "Board") regards the Structured Subsidiary of the Group as an indirect subsidiary for accounting purpose.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 24 to the consolidated financial statements.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these have had impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in Note 44.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKAS 40 Investment Property: Transfers of Investment Property	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) New and revised HKFRSs in issue but not yet effective *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of their initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified after the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

The Group expects to irrevocably designate those unlisted equity securities currently classified as available-for-sale as at fair value through other comprehensive income.

Fair value gains and losses on these instruments will no longer be recycled to profit or loss on disposal. Impairment losses on debt securities will be measured applying the general impairment model in HKFRS 9 as described in (b) below and recognsied in profit or loss. Impairment losses on equity securities will no longer be recognised in profit or loss but rather in other comprehensive income. In addition, the Group currently measures certain unlisted equity securities at cost less impairment. Under HKFRS 9 these instruments will be measured at fair value.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) New and revised HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(b) Impairment

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would not be significantly impacted.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from the operation of online game, operation of a yacht club and provision of education service is recognised when the service is rendered, whereas revenue from trading of commodities is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) New and revised HKFRSs in issue but not yet effective *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

(a) Timing of revenue recognition *(Continued)*

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from the operation of online game, operation of a yacht club, provision of education services and trading of commodities.

For contracts with customers in which the trading of commodities is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in Note 47, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to HK$13,116,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) New and revised HKFRSs in issue but not yet effective *(Continued)*

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill *(Continued)*

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's presentation and functional currency. The functional currency of the principal operating subsidiaries of the Group is Renminbi ("RMB"). The directors consider that choosing HK$ as the presentation currency best suits the needs of the shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Office equipment	10% — $33^1/_3$%
Motor vehicles	20% — 25%
Yacht	10% — 25%
Leasehold improvements	Over the lease term

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

On completion, the properties are reclassified to properties held for sale at the then carrying amount.

(g) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. If the variations have not been agreed with customer, variations will be recognised only to the extent of contract cost incurred that it is probable will be recoverable.

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

The Group uses the "percentage-of-completion method" to determine the appropriate amount of revenue in a given period. Revenue from a cost plus construction contract is recognised on the percentage-of-completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable. When it is probable that total contracts costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated statement of financial position as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the consolidated statement of financial position as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the consolidated statement of financial position under "Trade and other receivables". Amounts received before the related work is performed are included in the consolidated statement of financial position under "Trade and other payables".

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(i) Other intangible assets

(i) Internally-generated intangible assets — Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's game operation is recognised only if all of the following conditions are met:

— An asset is created that can be identified (such as software and new processes);

— It is probable that the asset created will generate future economic benefits;

— The development cost of the asset can be measured reliably;

— The technical feasibility of completing the intangible asset so that it will be available for use or sale;

— The intention to complete the intangible asset and use or sell it; and

— The availability of adequate technical, financial and other resources to complete the development to use or sell the intangible asset.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Other intangible assets *(Continued)*

(ii) Exclusive rights for operation of sports apps, non-competition right and copyrights

Exclusive rights for operation of sports apps, non-competition right and copyrights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated at rates sufficient to write off their cost over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Exclusive rights for operation of sports apps	1 — 3 years
Non-competition right	5 years
Copyrights	3 years

(iii) Football players' registration

The Group operates a football club. The costs associated with the acquisition of players' and key football management staffs' registrations are capitalised as intangible assets at the fair value of the consideration payable, including an estimate of the fair value of any contingent consideration. The costs associated with the acquisition of players' registrations include transfer fees, agents' fees and other directly attributable costs. These costs are amortised over the period covered by the player's contract or best estimated based on the player's physical conditions. To the extent that a player's contract is extended, the remaining book value is amortised over the remaining revised contract life.

(iv) Licenses

Licenses are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 3 to 8 years.

(v) Operating right for operation of a marine sports base and a sailing school

Shenzhen Yuejin Sports Company Limited ("Yuejin Sports"), which became an indirect-wholly owned subsidiary of the Company on 28 December 2016, has entered into an agreement dated 27 August 2014 (the "Operation Entrustment Agreement") with Shenzhen Dapeng New District Management Committee, pursuant to which the operation of Shenzhen Marine Sports Base and Sailing School would be entrusted to Yuejin Sports for a period of twenty years (the "Operating Right"). Under the Operating Right, Yuejin Sports has developed the operations of a yacht club ("Yacht Club Business") and a school in provision of international education services ("School Business").

The Operating Right is initially measured at fair value upon acquisition of Yue Jin Asia and subsequently less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over an initial period of 20 years.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(k) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

(l) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(n) Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the asset's or disposal group's previous carrying amount and fair value less costs to sell.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Non-current assets held for sale and discontinued operations *(Continued)*

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(q) Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible bonds *(Continued)*

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion related to the equity component is charged directly to equity.

(r) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(t) Revenue recognition

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

(i) Provision of outsourcing software development services and technical support services

Revenue from provision of outsourcing software development services and technical support services are recognised when the services are provided in the normal course of business, net of discounts and sales related taxes.

(ii) Online game operation

The Group operates its online games through cooperation with various third-party game distribution platforms including online application stores, web-based and mobile game portals and derives its revenue from sales of in-game currency and items.

The Group's online games allow players to play for free. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience.

Players purchase the Group's in-game currency through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currency sold and agreed share ratio in contracts with the platforms.

The Group is responsible for providing ongoing updates of new contents, technical support for the operation of the games. The platforms are responsible for distribution, marketing, platform maintenance, payer authentication and payment collections from players.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(ii) Online game operation *(Continued)*

Certain third-party platforms like mobile game portals offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currency. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. As such, the Group is not able to make a reasonable estimate of the gross revenue (the actual amounts paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third-party platforms.

The in-game items and premium features, which are purchased directly or by virtual currency, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currency, the proceeds are recorded in deferred revenue and recognised in revenue after the virtual currency is used to purchase in-game items or premium features which is either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. The Group monitors the operational statistics and usage patterns of the virtual items.

Most of the Group's in-game items and premium features were consumable and consumed upon purchase immediately. As such, the Group's deferred revenue stands for the balance of virtual currency not yet spent.

(iii) Licensing revenue

The Group receives royalty income from third-party licencees in exchange for the exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted license period, which is determined based on an agreed amount when accumulated virtual currency purchased by the players with accounts registered with the third parties exceeds certain amounts. The upfront fee is recognised ratably over the contracted license period. The additional royalty fee is recognised upon the actual purchase by the players exceeds the agreed amount in contract.

(iv) Provision of outsourcing game development services

Revenue from provision of outsourcing game development services are recognised when the services are provided in the normal course of business, net of discounts and sales related taxes.

(v) Sale of advertising spaces

Revenue from advertising spaces comprise mainly display based and performance based advertisements.

Revenue from displaying advertisements to the users of online games, mobile applications and other online platforms, and from sales of advertising spaces are recognised ratably over the contracted period, with advertisers and their advertising agencies, in which the advertisements are displayed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(v) Sale of advertising spaces *(Continued)*

Revenue from performance based advertisements is recognised based on actual performance measurement. The Group recognise the revenue from the delivery of pay-for click or pay-for instant display advertisements for advertisers to users of the Group based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to users.

(vi) Publication of magazines

Revenue from the sales of magazines is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the magazines are delivered and the title has passed to the customers.

(vii) Consulting services income

Revenue from consulting services is recognised as services are rendered.

(viii) Tuition fees

Tuition fees from school are generally paid in advance prior to the beginning of each academic year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised as revenue proportionately over the year. The portion of tuition payments received from students but not yet earned is recorded as deferred revenue and is reflected as a current liability as such amounts represent revenue that the school expects to earn within one year. The academic year is generally from September to August of the following year.

(ix) Yacht parking fees

Yacht parking fees are recognised on a straight-line basis over the lease term.

(x) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(xi) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(xii) Revenue from construction contracts

Revenue from construction contracts is recognized based on the stage of completion of the contract activity as detailed in Note 4(g) above.

(xiii) Revenue from trading of commodities

Revenue from trading of commodities is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(v) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(w) Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(z) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(ab) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control Agreements

The Group conducts its provision of online game services and Peer-to-Peer ("P2P") financial intermediary services through the Structured Subsidiary. The Group does not have any equity interests in the Structured Subsidiary. The directors of the Company assessed whether or not the Group has control over the Structured Subsidiary based on whether the Group has the power over the Structured Subsidiary, has right to variable returns from its involvement with the Structured Subsidiary and has the ability to affect those returns through its power over the Structured Subsidiary. After assessment, the directors of the Company concluded that the Group has control over the Structured Subsidiary as a result of the Control Agreements and accordingly, the Group has consolidated the financial position and results of the Structured Subsidiary in the consolidated financial statements for the year ended 31 December 2017.

Nevertheless, the Control Agreements may not be as effective as direct legal ownership in providing the Group with direct control over the Structured Subsidiary and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Subsidiary. The directors of the Company, based on the advice of their legal counsels, consider that the Control Agreements are in compliance with the relevant PRC laws and regulations and are legally enforceable.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty

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

(a) Income taxes

The Group is subject to income tax in the PRC. Significant estimates are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK$187,486,000 after an impairment loss of HK$75,263,000 was recognised during the year. Details of the impairment loss calculation are provided in Note 22 to the consolidated financial statements.

(c) Impairment of other intangible assets

The Group assesses whether there are any indicators of impairment for other intangible assets at the end of the reporting period. The other intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an other intangible asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Management reassesses the estimation at the end of the reporting period.

The carrying amount of other intangible assets at the end of the reporting period was HK$832,821,000 after an impairment loss of HK$19,996,000 was recognised during the year. Details of the impairment loss calculation are provided in Note 23 to the consolidated financial statements.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(d) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

Impairment loss for bad and doubtful debts for the year ended 31 December 2017 amounted to HK$89,130,000 (2016: HK$37,318,000).

(e) Fair value of contingent consideration payable

As disclosed in Note 38 to the consolidated financial statements, the fair value of the contingent consideration payable in relation to the acquisition of Yue Jin Asia at the date of acquisition and subsequent reporting dates was determined using the Company's share price based on quoted market price and the profit forecast of the subsidiaries. Application of profit forecast or management accounts requires the Group to estimate whether the 2018 Net Profits (as defined in Note 44(a)) is expected to be or has been met.

As at 31 December 2017, the carrying amount of the contingent consideration payable in relation to the acquisition of Yue Jin Asia is HK$94,000,000 (2016: HK$255,199,000).

(f) Fair value of investment properties

The Group appointed an independent professional valuer to assess the fair value of the investment properties. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of investment properties as at 31 December 2017 was HK$724,333,000 (2016: Nil).

(g) Provision for properties for sale under development

The Group's properties for sale under development are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties for sale under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties for sale under development. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

The carrying amount of properties for sale under development as at 31 December 2017 was HK$2,306,317,000.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities, RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2017, if the HK$ had weakened 5% per cent against RMB with all other variables held constant, consolidated profit/(loss) after tax for the year would have been HK$27,091,000 (2016: HK$6,111,000) higher/lower, arising mainly as a result of the foreign exchange gain on bank balances and deposits denominated in RMB. If the Hong Kong dollar had strengthened 5% per cent against RMB with all other variables held constant, consolidated profit/(loss) after tax for the year would have been HK$27,091,000 (2016: HK$6,111,000) lower/higher, arising mainly as a result of the foreign exchange loss on deposits, trade receivables, bank balances and trade payables denominated in RMB.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables and deposits paid for acquisition of subsidiaries. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivables and deposits paid for acquisition of subsidiaries by geographical location is mainly in the PRC.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as Nil (2016: 33.0%) and 58% (2016: 95.2%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017					
Borrowings	**1,514,953**	**—**	**—**	**—**	**1,514,953**
Trade payables	**364,878**	**—**	**—**	**—**	**364,878**
Wages and salaries payables and other payables	**178,477**	**—**	**—**	**—**	**178,477**
Consideration payable	**901,500**	**—**	**—**	**471,785**	**1,373,285**
At 31 December 2016					
Borrowings	131,100	—	—	—	131,100
Convertible bonds	218,500	—	—	—	218,500
Trade payables	2,695	—	—	—	2,695
Wages and salaries payables and other payables	150,479	—	—	—	150,479
Consideration payable	—	—	—	438,776	438,776

(d) Interest rate risk

The Group's cash flow interest rate risk primarily relates to borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks. The directors of the Company consider the Group's exposure to interest rate risk on borrowings is not significant. Hence, no sensitivity analysis is presented.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Categories of financial instruments at 31 December

	2017 **HK$'000**	2016 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**849,816**	789,196
Derivative financial assets	**6,835**	52,289
Available-for-sale financial assets	**13,222**	—
Financial assets at fair value through profit or loss	**263,333**	—
Financial liabilities:		
Financial liabilities measured at amortised cost	**3,050,009**	572,631
Financial liabilities at fair value through profit or loss:		
Contingent consideration payable	**94,000**	255,199

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FAIR VALUE MEASUREMENTS *(Continued)*

Disclosures of level in fair value hierarchy at 31 December:

Description	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	2017 Total HK$'000
Recurring fair value measurements:				
Financial assets				
Financial assets at fair value through profit or loss				
Listed securities	263,333	–	–	263,333
Derivative financial assets				
Put option	–	–	6,835	6,835
Investment properties				
Properties in the PRC	–	–	127,919	127,919
Properties in the PRC	–	596,414	–	596,414
	–	596,414	127,919	724,333
Total	263,333	596,414	134,754	994,501
Recurring fair value measurements:				
Financial liabilities				
Contingent consideration payable	–	–	94,000	94,000
Total	–	–	94,000	94,000

7. FAIR VALUE MEASUREMENTS *(Continued)*

Description	Fair value measurements using: Level 1	Level 2	Level 3	2016 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements:				
Financial assets				
Derivative financial assets				
Put option	—	—	6,448	6,448
Contingent consideration receivable	—	—	45,841	45,841
Total	—	—	52,289	52,289
Recurring fair value measurements:				
Financial liabilities				
Contingent consideration payable	—	—	255,199	255,199
Total	—	—	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 31 December 2017** *HK$'000*
Investment properties	Market comparable approach	Market prices of comparables	**596,414**

7. 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 31 December 2017 Assets/(liabilities) *HK$'000*
Investment properties	Income capitalisation approach	Capitalisation rate	6.5%-7.5%	Decrease	**127,919**
		Market prices	HK$14,012-HK$15,517 square meter	Increase	
Put option	Income approach	The Company's share price	HK$0.01	Increase	**6,835**
		Profit forecast	10%	Increase	
Contingent consideration payable	Income approach	The Company's share price	HK$0.01	Decrease	**(94,000)**
		Profit forecast	10%	Decrease	

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		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	

7. FAIR VALUE MEASUREMENTS *(Continued)*

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

Description	2017				
	Assets				Liabilities
	Contingent consideration receivable	Put option	Investment properties	Total	Contingent consideration payable
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	**45,841**	**6,448**	**–**	**52,289**	**(255,199)**
Total gains or losses recognised in profit or loss	**–**	**387**	**40,894**	**41,281**	**161,199**
Acquisition of subsidiary	**–**	**–**	**345,154**	**345,154**	**–**
Purchases	**–**	**–**	**311,861**	**311,861**	**–**
Transferred to other receivables	**(45,841)**	**–**	**–**	**(45,841)**	**–**
Exchange difference	**–**	**–**	**26,424**	**26,424**	**–**
At 31 December 2017	**–**	**6,835**	**724,333**	**731,168**	**(94,000)**

Description	2016			
	Assets			Liabilities
	Contingent consideration receivable	Put option	Total	Contingent consideration payable
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	—	—	—	—
Acquisition of Yue Jin Asia *(Note 44(a))*	—	6,330	6,330	(238,256)
Fair value gain/(loss) during the year	45,841	118	45,959	(16,943)
At 31 December 2016	45,841	6,448	52,289	(255,199)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2017 HK$'000	2016 HK$'000
Outsourcing software development services	—	9,386
Advertising income	6,717	95,499
Online game operation	29,523	27,405
Licensing fee income	—	1,520
Game development income	—	20,820
Publication of magazines	140	395
Rental income	1,275	—
Trading of commodities	100,318	—
Tuition fees	14,715	92
Yacht parking fees	38,831	90
	191,519	155,207

9. OTHER INCOME, GAINS/ (LOSSES)

Continuing operations	2017 HK$'000	2016 HK$'000
Interest income from short term investments	5,136	5
Interest income from bank balances	3,845	160
Interest income from loan receivables	5,421	—
Interest income from deposits paid for a potential acquisition of a subsidiary	5,510	—
Dividend income	6,207	—
Rental income	3,330	25
Government subsidies *(Note (a))*	—	1,290
Net foreign exchange gain	14,978	18,753
Compensation from a main contractor *(Note (b))*	41,475	—
Allowance for doubtful debts	(89,130)	—
Bad debt written off	—	(37,318)
Others	1,502	1,160
	(1,726)	(15,925)

Note:

(a) Government subsidies include subsidies from local government for its exports of outsourcing software development services of approximately HK$Nil (2016: HK$337,000). The Group recognises the government subsidies when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

(b) Compensation was received from a main contractor regarding properties for sale under development on delay of progress of construction.

10. SEGMENT INFORMATION

The Group has eight operating segments during the Year as follows:

Real estates and property investment	—	property development and property investment in the PRC
Trading of commodities	—	trading of commodities in the PRC
Yacht club	—	operation of a yacht club
Education	—	provision of international education services
Provision of online game services and platform services	—	design, development and operation of the mobile and web games and platform services
Software development	—	outsourcing software development services and technical support services
P2P financial intermediary services	—	P2P financial intermediary services and other relevant consultation 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.

10. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2017

	Discontinued			Continuing					
	P2P financial intermediary services in the PRC HK$'000	Software development in the PRC HK$'000	Football club in the PRC HK$'000	Provision of online game services in the PRC HK$'000	Yacht club in the PRC HK$'000	Education in the PRC HK$'000	Real estate and property investment HK$'000	Trading of commodities HK$'000	Total HK$'000
Revenue	–	–	–	36,381	38,831	14,714	1,275	100,318	191,519
Cost of sales	–	–	–	(66,638)	(31,570)	(35,747)	(100)	(100,236)	(234,291)
Gross (loss)/profit	–	–	–	(30,257)	7,261	(21,033)	1,175	82	(42,772)
Distribution costs	–	–	–	(399)	(663)	–	(6,411)	–	(7,473)
Administrative expenses	–	(297)	(142)	(18,085)	(2,004)	(2,880)	(9,684)	(243)	(33,335)
Research and development expenses	–	–	–	(1,178)	–	–	–	–	(1,178)
Impairment losses on other intangible assets	–	–	–	(19,996)	–	–	–	–	(19,996)
Segment results	–	(297)	(142)	(69,915)	4,594	(23,913)	(14,920)	(161)	(104,754)
Gain on disposal of subsidiaries									155,643
Gain on bargain purchase									43,348
Fair value gain on investment properties									40,894
Fair value gain on derivative financial assets									387
Fair value gain on financial assets at fair value through profit or loss									8,972
Fair value gain on contingent consideration payable									161,199
Impairment losses on goodwill									(75,263)
Impairment loss on other receivables									(45,841)
Other income, gains/(losses)									(1,717)
Finance costs									(49,145)
Unallocated corporate expenses									(28,335)
Profit before tax									105,388

10. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

Year ended 31 December 2016

	Discontinued			Continuing			
	P2P financial intermediary services in the PRC	Software development in the PRC	Football club in the PRC	Provision of online game services in the PRC	Yacht club in the PRC	Education in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1	671	–	154,354	90	92	155,208
Cost of sales	(5)	(143)	(22,830)	(85,606)	(269)	(220)	(109,073)
Gross (loss)/profit	(4)	528	(22,830)	68,748	(179)	(128)	46,135
Selling expenses	(37)	–	–	(3,838)	–	(1)	(3,876)
Administrative expenses	(5,223)	(5,427)	(468)	(22,912)	(44)	(58)	(34,132)
Research and development expenses	–	–	–	(36,121)	–	–	(36,121)
Bad debts written off	–	(1,936))	–	(35,382)	–	–	(37,318)
Impairment losses on other intangible assets	–	–	(22,593)	(86,066)	–	–	(108,659)
Segment results	(5,264)	(6,835)	(45,891)	(115,571)	(223)	(187)	(173,971)
Fair value gain on contingent consideration payable							2,557
Fair value gain on contingent consideration receivable							45,841
Fair value gain on put option							118
Impairment losses on goodwill							(702,396)
Other income, gains/(losses)							20,776
Finance costs							(60,931)
Unallocated corporate expenses							(49,215)
Loss before tax							(917,221)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as those described in Note 4 to the consolidated financial statements. Segment result represents the profit/(loss) of each segment without allocation of central administration costs, directors' emoluments, fair value gain on contingent consideration payable, fair value gain on contingent consideration receivable, gain on disposal of subsidiaries, gain on bargain purchase, fair value gain on investment properties, fair value gain on derivative financial assets, fair value gain on financial assets at fair value through profit or loss, impairment losses on goodwill, impairment loss on other receivables, other income, gain/(losses) and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

10. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

At 31 December 2017

	Discontinued			Continuing					
	P2P financial intermediary services in the PRC	Software development in the PRC	Football club in the PRC	Provision of online game services in the PRC	Yacht club in the PRC	Education in the PRC	Real estate and property investment	Trading of commodities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	–	–	–	29,778	331,627	631,819	4,004,962	122	4,998,308
Unallocated assets									967,720
Consolidated total									5,966,028
Segment liabilities	–	–	–	74,998	76,701	155,008	2,083,435	46	2,390,188
Unallocated liabilities									1,195,882
Consolidated total									3,586,070

At 31 December 2016

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

10. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated bank and cash balances, goodwill, deposits paid for property, plant and equipment, deposits paid for investment properties, deposits paid for acquisitions of subsidiaries, derivative financial assets, available-for-sale financial assets, financial assets at a fair value through profit or loss, deferred tax assets, and assets used jointly by operating segments.

- bank and cash balances are allocated to operating segments based on the location of bank and cash balances.

- all liabilities are allocated to operating segments other than deferred tax liabilities, consideration payable, contingent consideration payable, liability component of convertible bonds, corporate bonds, other borrowings and liabilities for which operating segments are jointly liable.

- liabilities payable to various government departments such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

Other segment information

Year ended 31 December 2017

	Discontinued			Continuing					
	P2P financial intermediary services in the PRC	Software development in the PRC	Football club in the PRC	Provision of online game services in the PRC	Yacht club in the PRC	Education in the PRC	Real estates and property investment	Trading of commodities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(Note)*	–	–	–	217	12,120	5,286	79	–	17,702
Depreciation and amortisation	–	161	–	15,322	30,374	22,219	64	–	68,140
Impairment on other intangible assets	–	–	–	19,996	–	–	–	–	19,996

10. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

Year ended 31 December 2016

	Discontinued				Continuing			
	P2P financial intermediary services in the PRC	Software development in the PRC	Software development in Japan	Football club in the PRC	Provision of online game services in the PRC	Yacht club in the PRC	Education in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(Note)*	–	23	–	37,441	27,059	–	–	64,523
Depreciation and amortisation	173	827	–	13,759	49,393	235	173	64,560
Gain on disposal of property, plant and equipment	–	26	–	–	–	–	–	26
Bad debts written off	–	1,936	–	–	35,382	–	–	37,318
Impairment on other intangible assets	–	–	–	22,593	86,066	–	–	108,659

Note: Non-current assets included property, plant and equipment and other intangible assets.

Geographical information

The operations of the Group and its non-current assets are located in the PRC.

Information about major customers

Revenue from customers in relation to continuing operations contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Trading of commodities		
Customer A	**27,010**	—
Customer B	**26,372**	—
Customer C	**25,430**	—
Provision of online game services		
Customer D	**22,500**	24,663

11. FINANCE COSTS

Continuing operations	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	854	1,055
Interest on corporate bonds	11,988	3,000
Interest on other borrowings	47,563	260
Interest on convertible bonds *(Note 34)*	17,904	56,520
Imputed interest on consideration payable *(Note 37)*	14,105	96
	92,414	60,931
Amount capitalised	(43,269)	—
	49,145	60,931

The weighted average capitalisation rate for the year on fund's borrowed is at a rate of 2.50% per annum (2016: Nil).

12. INCOME TAX EXPENSE

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

	2017 HK$'000	2016 HK$'000
Current tax:		
PRC Enterprise Income Tax	9,128	8,444
Under provision in prior years:		
PRC Enterprise Income Tax	407	1,100
Deferred tax *(Note 39)*:		
Current year	(5,994)	(6,594)
	3,541	2,950

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong for both years.

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

12. INCOME TAX EXPENSE *(Continued)*

Pursuant to relevant laws and regulations in the PRC, Kingworld Beijing, an indirect subsidiary of the Group for accounting purposes, 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 year ended 31 December 2017.

Pursuant to the 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.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Loss before tax (from continuing operations)	**(53,425)**	(769,653)
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2016: 25%)	**(13,356)**	(192,413)
Tax effect of income not taxable in determining taxable profit	**(237,495)**	(78,374)
Tax effect of expenses not deductible in determining taxable profit	**245,492**	259,360
Tax effect of temporary differences not recognised	**5**	—
Effect of tax exemption and concessions granted to PRC subsidiaries	**—**	(8,012)
Tax effect of utilisation of tax losses not previously recognised	**—**	4,685
Tax effect of tax losses not recognised	**8,488**	13,514
Underprovision in prior years	**407**	1,100
PRC dividend withholding tax	**—**	3,090
Income tax expense relating to continuing operations	**3,541**	2,950

13. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

Loss for the Year from continuing operations has been arrived at charging/(crediting) the following:

	2017	2016
	HK$'000	*HK$'000*
Amortisation of other intangible assets (included in cost of sales)	**61,388**	60,991
Acquisition-related costs (included in administrative expenses)	**3,149**	6,067
Auditor's remuneration	**2,480**	3,100
Bad debts written off	**—**	37,318
Fair value gain on contingent consideration payable	**(161,199)**	(2,557)
Fair value gain on contingent consideration receivable	**—**	(45,841)
Fair value gain on derivative financial assets	**(387)**	(118)
Loss on disposal of subsidiaries	**3,600**	—
Fair value gain on investment properties	**(40,894)**	—
Fair value gain on financial assets at fair value through profit or loss	**(8,972)**	—
Gain on bargain purchase	**(43,348)**	—
Depreciation of property, plant and equipment	**6,843**	3,651
Loss/(gain) on disposal of property, plant and equipment	**9**	(26)
Operating lease charges in respect of office premises	**6,340**	5,830
Research and development expenses	**1,178**	36,121
Share-based payments to consultants	**—**	3,060
Impairment losses on goodwill	**75,263**	560,709
Impairment losses on other intangible assets	**19,996**	108,659
Impairment losses on other receivables	**45,841**	—

Research and development expenses include staff costs of approximately HK$1,178,000 (2016: HK$36,121,000) which are included in the amounts disclosed separately in Note 14 to the consolidated financial statements.

14. EMPLOYEE BENEFITS EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Employee benefits expense:		
Salaries, bonuses and allowances	**41,036**	48,933
Share-based payments	**—**	6,094
Retirement benefit scheme contributions	**3,909**	7,450
	44,945	62,477

14. EMPLOYEE BENEFITS EXPENSE *(Continued)*

The five highest paid individuals in the Group during the year included two directors (2016: five directors) whose emoluments are reflected in the analysis presented in Note 15. The emoluments of the remaining three (2016: Nil) individuals are set out below:

	2017 **HK$'000**	2016 HK$'000
Employee benefits expense:		
Salaries, bonuses and allowances	**2,027**	–
Retirement benefit scheme contributions	**82**	–
	2,109	–

The emoluments fell within the following band:

	Number of individuals **2017**	2016
Nil to HK$1,500,000	**3**	–

15. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees HK$'000	Salaries and allowances HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Discretionary bonus HK$'000	Total HK$'000
Executive Directors					
Mr. Zhang Xiaodong *(Note (g))*	–	1,200	–	100	1,300
Ms. Xia Lingjie *(Note (h))*	–	758	36	50	844
Non-executive Directors					
Mr. Lau Wan Po *(Note (i))*	–	300	16	25	341
Independent Non-executive Directors					
Mr. Chui Man Lung, Everett *(Note (m))*	11	–	1	–	12
Mr. Chen Zetong *(Note (k))*	240	–	13	20	273
Ms. He Suying *(Note (k))*	240	–	13	20	273
Dr. Tang Lai Wah *(Note (k))*	240	–	13	20	273
Total for the year ended 31 December 2017	731	2,258	92	235	3,316

15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees *HK$'000*	Salaries and allowances *HK$'000*	Estimated money value of other benefits *HK$'000*	Employer's contribution to a retirement benefit scheme *HK$'000*	Discretionary bonus *HK$'000*	Housing allowance *HK$'000*	Total *HK$'000*
Executive Directors							
Mr. Wang Zhiqiang *(Note (c))*	–	316	–	–	–	–	316
Mr. Zuo Jian Zhong *(Note (d))*	–	300	1,308	4	–	–	1,612
Mr. Tang Yau Sing *(Note (e))*	–	630	1,308	7	–	320	2,265
Mr. Zhang Zhige *(Note (f))*	–	240	1,307	–	–	–	1,547
Mr. Liu Wei *(Note (f))*	–	134	1,307	11	–	–	1,452
Mr. Zhang Xiaodong *(Note (g))*	–	900	–	–	100	–	1,000
Ms. Xia Lingjie *(Note (h))*	–	274	–	12	20	–	306
Non-executive Directors							
Mr. Lau Wan Po *(Note (i))*	–	225	–	11	25	–	261
Independent Non-executive Directors							
Mr. Chui Man Lung, Everett *(Note (m))*	210	–	288	11	17	–	526
Mr. Wu Hong *(Note (l))*	123	–	288	–	–	–	411
Mr. Han Chu *(Note (j))*	–	–	288	–	–	–	288
Mr. Chen Zetong *(Note (k))*	140	–	–	7	20	–	167
Ms. He Suying *(Note (k))*	140	–	–	7	20	–	167
Dr. Tang Lai Wah *(Note (k))*	140	–	–	7	20	–	167
Total for the year ended 31 December 2016	753	3,019	6,094	77	222	320	10,485

15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

(a) Neither the chief executive nor any of the directors waived any emoluments during the year (2016: Nil).

(b) Bonus is determined by the Salary Review Committee with reference to the performance of the Group.

(c) Mr. Wang Zhiquiang resigned as the chief executive officer and an executive director of the Company on 27 May 2015 and 1 April 2016.

(d) Mr. Zuo Jian Zhong resigned as an executive director and the chief executive officer of the Company on 1 April 2016.

(e) Mr. Tang Yau Sing resigned as an executive director of the Company on 1 April 2016.

(f) Mr. Zhang Zhige and Mr. Liu Wei were appointed as executive directors of the Company on 1 April 2015 and resigned on 1 April 2016.

(g) Mr. Zhang Xiaodong was appointed as an executive director and the chief executive officer of the Company on 1 April 2016.

(h) Ms. Xia Lingjie was appointed as a non-executive director of the Company on 1 April 2016 and was re-designated as an executive director of the Company on 17 August 2016.

(i) Mr. Lau Wan Po was appointed as an executive director of the Company on 1 April 2016 and was re-designated as a non-executive director of the Company on 18 November 2016.

(j) Mr. Han Chu resigned as a non-executive director of the Company on 30 May 2016.

(k) Mr. Chen Zetong, Ms. He Suying and Dr. Tang Lai Wah were appointed as independent non-executive directors of the Company on 30 May 2016.

(l) Mr. Wu Hong resigned as a non-executive director of the Company on 30 July 2016.

(m) Mr. Chui Man Lung, Everett resigned as an independent non-executive director of the Company on 20 January 2017.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(c) The information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company in favour of directors is as follows:

For the year ended 31 December 2017:

Name of director	Outstanding amount at the beginning of the year *HK$'000*	Outstanding amount at the end of the year *HK$'000*	Maximum outstanding amount during the year *HK$'000*	Term	Interest rate	Security
Nil	Nil	Nil	Nil	Nil	Nil	Nil

For the year ended 31 December 2016:

Name of director	Outstanding amount at the beginning of the year *HK$'000*	Outstanding amount at the end of the year *HK$'000*	Maximum outstanding amount during the year *HK$'000*	Term	Interest rate	Security
Mr. Liu Wei	15,127	–	18,537	Repayable on demand	Nil	Nil

16. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

17. DISCONTINUED OPERATION

During the Year, the Group disposed of Key Rich Corporation Limited ("Key Rich"), SinoCom Holdings (BVI) Limited ("SinoCom Holdings") and Baoxin Football Club Co., Ltd. ("Baoxin Football"), which carried out P2P financial intermediary business, software outsourcing and technical support services, and football club operation respectively.

	2017 HK$'000	2016 HK$'000
(a) Profit/(loss) for the year from discontinued operation:		
Revenue	–	1
Cost of sales	–	(5)
Distribution costs	–	(37)
Administrative expenses	(439)	(5,223)
Impairment losses on goodwill	–	(141,687)
Other income, gains/(losses)	9	(617)
Loss before tax	(430)	(147,568)
Income tax expense	–	–
Gain on disposal of operations *(Note 44(b))*	159,243	–
Income tax expense	–	–
Profit/(loss) for the year from discontinued operations (attributable to owners of the Company)	158,813	(147,568)
(b) Profit/(loss) for the year from discontinued operations include the following:		
Depreciation	161	173
Auditor's remuneration	–	–
(c) Cash flows from discontinued operations:		
Net cash outflows from operating activities	324	386

18. DIVIDENDS

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

19. EARNINGS/(LOSS) PER SHARE

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

	2017 '000	2016 '000 (represented)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	1,665,289	765,471

The 2016 comparative figure was represented with the effect of share consolidation as presented in the Note 40(d) to the consolidated financial statements.

(a) 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:

	2017 HK$'000	2016 HK$'000
Profit/(loss)		
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	87,940	(861,582)

(b) From continuing operations

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

	2017 HK$'000	2016 HK$'000
Loss		
Loss for the purpose of calculating basic loss per share	(70,873)	(714,014)

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2016 and 2017.

(c) From discontinued operations

Basic earnings/(loss) per share from the discontinued operations is HK9.54 cents per share (2016: HK19.278 cents per share) based on the profit/(loss) for the year from discontinued operation attributable to the owners of the Company of approximately HK$158,813,000 (2016: HK$147,568,000) and the denominators used are the same as those detailed above for basic loss per share.

20. PROPERTY, PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Yacht HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2016	3,764	6,312	2,511	–	–	12,587
Exchange differences	(186)	(349)	(67)	5	12	(585)
Additions	592	–	902	–	–	1,494
Acquisition of subsidiaries *(Note 44(a))*	1,071	40	32,017	3,670	9,912	46,710
Disposals	(521)	(1,192)	–	–	–	(1,713)
Written off	(1,105)	–	(2,042)	–	–	(3,147)
At 31 December 2016 and 1 January 2017	3,615	4,811	33,321	3,675	9,924	55,346
Exchange differences	272	103	2,609	276	1,172	4,432
Additions	535	105	2,103	–	13,770	16,513
Acquisition of subsidiaries *(Note 44(c))*	371	422	225	–	–	1,018
Disposal of subsidiaries	(453)	(4,857)	(429)	–	–	(5,739)
Transfer	–	–	1,511	–	(1,511)	–
At 31 December 2017	4,340	584	39,340	3,951	23,355	71,570
Accumulated depreciation						
At 1 January 2016	896	4,449	295	–	–	5,640
Exchange differences	(80)	(269)	(23)	–	–	(372)
Charge for the year	1,709	395	1,716	4	–	3,824
Disposals	(373)	(717)	–	–	–	(1,090)
Written off	(711)	–	(1,479)	–	–	(2,190)
At 31 December 2016 and 1 January 2017	1,441	3,858	509	4	–	5,812
Exchange differences	126	93	207	17	–	443
Charge for the year	815	205	5,388	435	–	6,843
Disposal of subsidiaries	(232)	(4,097)	(429)	–	–	(4,758)
At 31 December 2017	2,150	59	5,675	456	–	8,340
Carrying amount						
At 31 December 2017	2,190	525	33,665	3,495	23,355	63,230
At 31 December 2016	2,174	953	32,812	3,671	9,924	49,534

21. INVESTMENT PROPERTIES

	2017 **HK$'000**
At 1 January 2017	–
Additions	311,861
Acquisition of subsidiaries	345,154
Fair value gains	40,894
Exchange differences	26,424
At 31 December 2017	724,333

Investment properties were revalued at 31 December 2017 on the open market value basis by reference to market evidence of recent transactions for similar properties by Greater China Appraisal Limited, an independent firm of professional valuer.

Valuation for residential properties was derived from using the market comparable approach based on recent market prices without any significant adjustment being made to the market observable data. For commercial properties and offices, the Group used an income capitalisation approach.

At 31 December 2017, the carrying amount of investment properties pledged as security for the Group's bank loans amounted to HK$Nil (2016: Nil).

As at 31 December 2016, the registration of the property ownership certificates was in the progress and the titles of ownership of the investment properties have not yet been transferred to the Group.

22. GOODWILL

	HK$'000
Cost	
At 1 January 2016	712,622
Arising on acquisition of subsidiaries *(Note 44(a))*	284,553
Exchange differences	(44,865)
At 31 December 2016 and 1 January 2017	952,310
Derecognised on disposal of subsidiaries *(Note 44(b))*	(322,861)
Exchange differences	52,272
At 31 December 2017	681,721
Accumulated impairment	
At 1 January 2016	—
Impairment loss recognised in current year	702,396
At 31 December 2016 and 1 January 2017	702,396
Impairment loss recognised in current year	75,263
Derecognised on disposal of subsidiaries *(Note 44(b))*	(320,861)
Exchange differences	37,437
At 31 December 2017	494,235
Carrying amount	
At 31 December 2017	187,486
At 31 December 2016	249,914

22. GOODWILL *(Continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to the 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:

	2017	2016
	HK$'000	*HK$'000*
Provision of online game services		
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")	**71,274**	66,287
Provision of international education services		
Shenzhen Dapeng International Education Company Limited ("Dapeng International Education")	**116,212**	108,081
	187,486	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 the long-term average economic growth rate of the geographical areas 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 Kingworld Holdings 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 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

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 0.5% and 5.1% respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

22. GOODWILL *(Continued)*

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

Kingworld Holdings:	29% (2016: 29%)
Dapeng Yacht Club:	18% (2016: 17%)
Dapeng International Education:	18% (2016: 18%)

At 31 December 2017, goodwill of HK$75,263,000 was allocated to Kingworld Holdings within the online game services segment. Due to the slow growth in number of users for sport apps, the Group has revised its cash flow forecasts for this CGU. The CGU has been reduced to its recoverable of HK$Nil and an impairment loss of HK$75,263,000 recognised on goodwill within the online game services segment.

At 31 December 2017, before impairment testing, goodwill of HK$71,274,000 and HK$116,212,000 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 of HK$526,705,000 and HK$338,650,000, no impairment has been recognised on goodwill respectively within operation of a yacht club and provision of international education segment.

At 31 December 2016, before impairment testing, goodwill of HK$169,563,000 and HK$115,321,000 were allocated to Dapeng Yacht Club and Dapeng International Education within operation of a yacht club and provision of international education segment respectively upon the acquisition of Yue Jin Asia with completion on 28 December 2016. Based on their recoverable amounts of HK$564,419,000 and HK$383,867,000, an impairment loss of HK$103,276,000 and HK$7,240,000 has been recognised on goodwill respectively within operation of a yacht club and provision of international education segment. The impairment loss was mainly attributable to the difference between the Company's share price at HK$0.062 each stipulated in the sale and purchase agreement for the determination of the shares and retained shares consideration compared to the share at bid price of HK$0.099 each at completion on 28 December 2016.

23. OTHER INTANGIBLE ASSETS

	Exclusive rights for operation of sport apps	Non-competition right	Copyrights	Operating Right	Licenses	Football players' registrations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost	27,838	14,955	173,234	–	–	–	216,027
At 1 January 2016							
Arising on acquisition of subsidiaries *(Note 44(a))*	–	–	–	819,081	–	–	819,081
Additions	–	–	–	–	25,654	37,441	63,095
Exchange differences	(1,766)	(948)	(10,987)	954	(1,081)	(1,669)	(15,497)
At 31 December 2016	26,072	14,007	162,247	820,035	24,573	35,772	1,082,706
Disposal of subsidiaries *(Note 44(b))*	–	–	(157,351)	–	(24,817)	(38,464)	(220,632)
Exchange differences	1,961	1,054	2,032	61,691	244	2,692	69,674
At 31 December 2017	28,033	15,061	6,928	881,726	–	–	931,748
Accumulated amortisation and impairment losses							
At 1 January 2016	–	–	50,830	–	–	–	50,830
Amortisation for the year	10,421	2,925	29,849	364	3,673	13,759	60,991
Impairment loss	–	–	86,066	–	–	22,593	108,659
Exchange differences	(440)	(123)	(8,793)	–	(155)	(580)	(10,091)
At 31 December 2016	9,981	2,802	157,952	364	3,518	35,772	210,389
Amortisation for the year	8,334	2,902	2,225	46,738	1,189	–	61,388
Impairment loss	8,651	9,036	2,309	–	–	–	19,996
Disposal of subsidiaries *(Note 44(b))*	–	–	(157,351)	–	(4,735)	(38,464)	(200,550)
Exchange differences	1,067	321	1,793	1,803	28	2,692	7,704
At 31 December 2017	28,033	15,061	6,928	48,905	–	–	98,927
Carrying amount							
At 31 December 2017	–	–	–	832,821	–	–	832,821
At 31 December 2016	16,091	11,205	4,295	819,671	21,055	–	872,317

23. OTHER INTANGIBLE ASSETS *(Continued)*

On 27 August 2014, Yuejin Sports entered into the Operation Entrustment Agreement with Shenzhen Dapeng New District Management Committee, pursuant to which the operation of Shenzhen Marine Sports Base and Sailing School would be entrusted to Yuejin Sports for a period of twenty years for a total cash consideration of RMB785,000,000 (equivalent to HK$877,552,000), 50% of which amounting to RMB392,500,000 (equivalent to HK$438,776,000) was paid in 2014 and the balance of RMB392,500,000 will be settled by 10 equal annual instalments of RMB39,250,000 (equivalent to HK$43,877,600) each from the eleventh year of the date on which the assets were transferred. The transfer of assets was completed on 11 March 2015.

As at 31 December 2017, the average remaining amortisation period of other intangible assets are ranged from 1 to 17 years (2016: 1 to 18 years).

These assets are used in the Group's online game operations, operation of a yacht club and provision of international education service.

The Group carried out reviews of the respective recoverable amount of its exclusive rights for operation of sport apps, non-competition right and copyrights within online game operations segment in 2017, having regard to the keen competition and shorter-than-expected game life cycles and the slow growth in number of users for sports apps since launch of the sports apps during the year. The review led to the recognition of an impairment loss of HK$2,309,000 for copyrights that have been recognised in profit or loss. The recoverable amount of HK$Nil for exclusive rights for operation of sport apps, non-competition right and copyrights within online game operations has been determined on the basis of their value in use using discounted cash flow method. The discount rate of exclusive rights for operation of sport apps, non-competition right and copyrights used was 29%(2016: 29%), 29%(2016: 29%) and ranged from 24%(2016: 24%) to 29%(2016: 29%) respectively.

The Group prepares cash flow forecasts of Kingworld Holdings within online game operations segment, 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 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

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 segement 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 0.5% and 5.1% respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

24. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2017 are as follows:

Name	Place of incorporation/ registration and operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
New Sports Investment Holding Limited	British Virgin Islands	Ordinary share US$1	100%	–	Investment holding
Yue Jin Asia	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Baoxin International Development Limited	British Virgin Islands	Ordinary share US$1	–	100%	Investment holding
Kingworld Holdings	Republic of Seychelles	Ordinary shares US$1,000	100%	–	Investment holding
New Sports Management Limited	Hong Kong	Ordinary share HK$1	–	100%	Inactive
Qianhai Sports Group Limited	Hong Kong	Ordinary share HK$1	–	100%	Inactive
Star Creation Development Limited	Hong Kong	Ordinary shares HK$10,000	–	100%	Investment holding
Nayuan Development Limited	Hong Kong	Ordinary shares HK$10,000,000	–	100%	Investment holding
Baoxin Development (Hong Kong) Limited	Hong Kong	Ordinary share HK$1	–	100%	Inactive
Baoxin Group (Hong Kong) Limited	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
World Travel International Group Company Limited	Hong Kong	Ordinary share HK$1	–	70%	Investment holding
Shenzhen Baoxin Sport Industry Limited ("Baoxin Sport")	The PRC	Registered capital RMB300,000,000	–	100%	Investment and property holding
Shenzhen Baoxin Industrial Company Limited ("SBIL")	The PRC	Registered capital RMB200,000,000	–	100%	Trading of commodities
Kingworld Beijing	The PRC	Registered capital RMB15,966,030	–	100%	Provision of online game services
Kingworld Wuxian	The PRC	Registered capital HK$40,000,000	–	100%	Provision of technical and consulting services
FFMobile Technology Co., Ltd.	The PRC	Registered capital RMB1,000,000	–	100%	Publication of the Beijing Guoan Football Club magazines

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Yuejin Sports	The PRC	Registered capital RMB600,000,000	–	100%	Investment holding
Shenzhen Ruiteng Enterprise Management Company Limited	The PRC	Registered capital RMB10,000,000	–	100%	Investment and property holding
Shenzhen Qianhai Virdom Education Company Limited	The PRC	Registered capital RMB10,000,000	–	100%	Investment and property holding
Dapeng International Education	The PRC	Registered capital RMB30,000,000	–	100%	Provision of international school education service
Dapeng Yacht Club	The PRC	Registered capital RMB200,000,000	–	100%	Operation of a yacht club
Shenzhen Dapeng Xinqu Virdom International Academy	The PRC	Registered capital RMB5,000,000	–	100%	Provision of international school education services
World Travel Development (Shenzhen) Company Limited	The PRC	Registered capital RMB200,000,000	–	70%	Inactive
Shenzhen Borui Enterprise Management Company Limited ("Shenzhen Borui")	The PRC	Registered capital RMB720,000,000	–	100%	Investment holding
Shenzhen Chaoshang Joint Investment Company Limited ("Chaoshang Joint Investment")	The PRC	Registered capital RMB625,000,000	–	56.80%	Investment holding
Chaoshang Group (Shantou) Investment Company Limited	The PRC	Registered capital RMB600,000,000	–	100%	Real estate development
Chaoshang Joint (Shantou) Investment Company Limited	The PRC	Registered capital RMB350,000,000	–	100%	Inactive
Shantou Chaoshang Chengzhen Comprehensive Management Company Limited	The PRC	Registered capital RMB600,000,000	–	96.24%	Real estate development and infrastructure construction

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

24. INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at 31 December 2017, the bank and cash balances of the subsidiaries of the Group in the PRC denominated in RMB amounted to HK$127,322,000 (2016: HK$147,437,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The following table shows information on the subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Chaoshang Joint Investment 2017**
Principal place of business/ country of incorporation	**The PRC**
% of ownership interests/voting rights held by NCI	**43.2%/43.2%**
	HK$'000
At 31 December:	
Non-current assets	**296,661**
Current assets	**3,082,106**
Non-current liabilities	**(183,173)**
Current liabilities	**(1,712,985)**
Net assets	**1,482,609**
Accumulated NCI	**640,487**
	HK$'000
Year ended 31 December:	
Revenue	**–**
Profit for the year	**29,163**
Total comprehensive income	**18,188**
Profit allocated to NCI	**12,598**
Dividend paid to NCI	**–**
Net cash generated from operating activities	**44,128**
Net increase in cash and cash equivalents	**44,128**

Chaoshang Joint Investment was acquired in a business combination (Note 44(c)). The amounts disclosed as above have reflected the effects of the acquisition accounting, with which fair value adjustments, goodwill and tax are included.

25. OTHER DEPOSITS

Other deposits represent the deposits paid for acquisition of copyright of online games and rental deposits paid under operating leases receivable after one year.

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **HK$'000**	2016 HK$'000
Non-current:		
Unlisted equity securities in the PRC	**13,222**	–

Unlisted equity securities with carrying amount of HK$13,222,000 (2016: HK$Nil) were carried at cost as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

Available-for-sale financial assets are denominated in RMB.

27. DERIVATIVE FINANCIAL ASSETS

	Note	**2017** **HK$'000**	2016 HK$'000
Non-current:			
Financial assets			
Put option *(Note 44(a))*	*(a)*	**6,835**	6,448
Current:			
Financial assets			
Contingent consideration receivable	*(b)*	**–**	45,841

(a) As set out in Note 44(a) to the consolidated financial statements, 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 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 (as defined in Note 44(a)) 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.

27. DERIVATIVE FINANCIAL ASSETS *(Continued)*

(a) *(Continued)*

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 valuer. The valuer conducted the valuation based on a profit forecast obtained from the Company (level 3 fair value measurements).

(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 of Kingworld Holdings undertakes to that the aggregate of the audited consolidated net profit of Kingworld Holdings Limited 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 vender of Kingworld Holdings 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

27. DERIVATIVE FINANCIAL ASSETS *(Continued)*

(b) *(Continued)*

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 vender of Kingworld Holdings fail to pay both the 1st tranche and the 2nd tranche of the Adjustment Amount by the deadlines as set out above.

Given the default payment above-mentioned, 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 of Kingworld Holdings to the Company. Xu Rong, Zhou Xu and the vender of Kingworld Holdings 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 31 December 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 considered irrecoverable in view of the default of payment as mentioned above.

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

	HK$'000
Balance as at 1 January 2017	45,841
Impairment loss recognised in profit or loss	(45,841)
	–

On 24 May 2017, the Group, through its wholly owned subsidiary, Shenzhen Baoxin being the plaintiff, commenced PRC legal proceedings (the "Legal Action") against Xu Rong and Zhou Xu as defendants for recovery of a defaulted sum of RMB80,000,000 (i.e. the 1st tranche of the Adjustment Amount) together with the related accrued interest in Middle Civil Court of Shenzhen (the "Court") in accordance with the Second Supplemental Agreement as an initial step. The first hearing of the Legal Action was originally scheduled to be held on 23 October 2017 at the Court, which was nonetheless subsequently adjourned by the Court. The Group has been waiting for further notice from the Court since then.

The Group applied court order and the Court granted the Group with the right to freeze certain assets of Xu Rong and Zhou Xu amounted to RMB30,000,000 (equivalent to HK$36,060,000). Further legal proceedings for additional sum of Adjustment Amount and interest will be initiated against the Xu Rong and Zhou Xu dependent upon the relevant future development of the Legal Action.

Details are set out in the announcements of the Company dated 27 February 2017, 15 May 2017 and 13 October 2017.

28. INVENTORIES

The Group's inventories represent properties for sale under development.

The amount of properties for sale under development expected to be recovered after more than one year is HK$2,306,317,000.

As at 31 December 2017, the carrying amount of properties for sale under development and a share charge over the entire issued capital of a wholly-owned subsidiary are pledged as security for banking facilities granted to a subsidiary of the Group amounted to approximately HK$1,221,773,000.

29. GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORKS

	As at 31 December 2017 ***HK$'000***
Contract costs incurred plus recognised profits less recognised losses to date	**648,822**
Less: Progress billings	**—**
	648,822
Gross amount due from customers for contract works	**648,822**

30. TRADE AND OTHER RECEIVABLES

	2017 ***HK$'000***	2016 *HK$'000*
Trade receivables	**38,979**	34,027
Other receivables	**20,237**	10,282
Interests receivable	**3,518**	—
Loan receivables *(Note (a))*	**340,684**	—
Compensation receivables *(Note (b))*	**78,130**	—
Consideration receivables *(Note (c))*	**41,170**	—
Deposits paid for a potential acquisition of subsidiary *(Note (d))*	**—**	268,252
Other deposits	**16,606**	2,492
Prepayments	**19,814**	84,317
Total trade and other receivables	**559,138**	399,370

30. TRADE AND OTHER RECEIVABLES *(Continued)*

Note:

(a) Included in loan receivables an amount of HK$216,360,000 is unsecured, bearing interest at a rate of 12.5% per annum and repayable within one year. The amount was settled in full in January 2018.

The remaining balance of HK$124,324,000, which is due from a non-controlling equity holder of a subsidiary, is secured by the right to receive dividends from the subsidiary, bearing interest at rates ranged from 5% to 25% per annum and repayable within one year.

(b) Compensation receivables from a main contractor of a property project was made in accordance with the contract entered into with the main contractor.

(c) Consideration receivable represents the balance of the consideration in connection with the disposal of Heroic Coronet Limited. The amount was entirely settled in February 2018.

(d) 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 the announcements of the Company dated 17 November 2015, 29 August 2016, 5 October 2016, 30 December 2016, 28 February 2017 and 23 March 2017.

The Group generally allows an average credit period of 120 days (2016: 120 days) for its game distribution platforms, 90 days (2016: 90 days) for its game development customers, 30 days (2016: 30 days) for its advertising customers and 30 days (2016: Nil) for operation of a yacht club and provision of education services.

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

	2017	2016
	HK$'000	*HK$'000*
0 - 30 days	**12,196**	12,021
31 - 60 days	**14,851**	11,799
61 - 90 days	**702**	2,350
91 - 180 days	**11,230**	3,120
181 - 360 days	**—**	2,887
Over 360 days	**—**	1,850
	38,979	34,027

30. TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2017, trade receivables of HK$1,052,000 (2016: HK$5,860,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 **HK$'000**	2016 HK$'000
91-180 days	**1,052**	1,123
181-360 days	**–**	2,887
Over 360 days	**–**	1,850
	1,052	5,860

The carrying amounts of the Group's trade receivables are denominated in RMB.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 **HK$'000**	2016 HK$'000
Equity securities, at fair value		
Listed in Hong Kong	**238,416**	–
Listed outside Hong Kong	**24,917**	–
	263,333	–
Analysed as:		
Current assets	**263,333**	–
Non-current assets	**–**	–
	263,333	–

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

The fair values of listed securities are based on current bid prices.

As at 31 December 2017, the carrying amount of financial assets at fair value through profit or loss pledged as security for the Group's other borrowings (Note 33) amounted to HK$124,200,000.

32. BANK AND CASH BALANCES

Bank and cash balances comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.001% to 2.75% (2016: 0.001% to 2.85%) per annum.

As at 31 December 2017, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$127,322,000 (2016: approximately HK$147,437,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

33. BORROWINGS

	Note	**2017** ***HK$'000***	2016 *HK$'000*
Bank loans	*(a)*	**–**	20,122
Corporate bonds	*(b)*	**137,126**	92,729
Other borrowings	*(c)*	**1,355,531**	15,000
		1,492,657	127,851

The borrowings are repayable within one year.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HK$** ***HK$'000*	**RMB** ***HK$'000***	**Total** ***HK$'000***
2017			
Bank loans	**–**	**–**	**–**
Corporate bonds	**137,126**	**–**	**137,126**
Other borrowings	**75,380**	**1,280,151**	**1,355,531**
	212,506	**1,280,151**	**1,492,657**

	HK$ *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2016			
Bank loans	–	20,122	20,122
Corporate bonds	92,729	–	92,729
Other borrowings	15,000	–	15,000
	107,729	20,122	127,851

33. BORROWINGS *(Continued)*

The range of effective interest rates at 31 December were as follows:

	2017	2016
Bank loans	–	5.44%
Corporate bonds	13.38%	22.66%
Other borrowings	4.79% – 23.40%	12.00%

The borrowings are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant.

(a) The bank loans were secured by a charge over a property owned by a registered equityholder of Kingworld Beijing and are guaranteed by the registered equityholders of Kingworld Beijing and their spouses. The registered equityholders of Kingworld Beijing have become the shareholders of the Company since the completion of acquisition of Kingworld Holdings.

(b) On 15 June 2017, the Group issued corporate bonds at a nominal value of HK$130,000,000, which is unsecured, bearing interest at a rate of 12% per annum with maturity on 14 June 2018.

On 8 November 2016, the Group issued corporate bonds at a nominal value of HK$95,000,000, which is unsecured, bearing interest at a rate of 10% per annum with maturity on 7 February 2017. Interest was due and fully paid in advance on 8 November 2016. The Corporate bonds were repaid in full by the Group on 7 February 2017.

(c) As at 31 December 2017, included in other borrowings an amount of HK$75,380,000 is secured by listed equity securities included in financial assets at fair value through profit or loss (Note 31) amounted to HK$124,200,000, HK$1,280,151,000 is unsecured, of which HK$168,535,000 is bearing an interest at 4.79%, HK$192,320,000 is bearing at 30.00%, HK$449,548,000 is bearing at 24.00%, HK$240,400,000 is bearing at 21.60%, HK$1,809,000 is bearing at 15.00% and repayable within 1 year, the remaining balance of HK$227,539,000 is interest-free and repayable on demand.

As at 31 December 2016, other borrowings of HK$15,000,000 is secured by a share charge over the entire issued capital of a wholly-owned subsidiary and was repaid in full on 9 January 2017.

34. CONVERTIBLE BONDS

(a) On 22 June 2015 (the "Issue Date 1"), the Group issued convertible bonds with a nominal value of HK$200,000,000 (the "Convertible Bonds 1"). 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 1") at an initial conversion price of HK$0.25 per share after share subdivision (Note 41(a)) 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 1"). Based on the initial conversion price of HK$0.25 per Conversion Shares 1, a maximum number of 800,000,000 Conversion Shares 1 after share subdivision (Note 41(a)) 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 1 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 1, 15% per annum.

Convertible Bonds 1 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 1 up to and including the day immediately before the Maturity Date 1. 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 1 in whole or in part at a price equivalent to 100% of the principal amount of the Convertible Bonds 1 so redeemed together with the interest accrued but unpaid.

(b) On 12 November 2015 (the "Issue Date 2"), the Group issued convertible bonds with a nominal value of HK$100,000,000 (the "Convertible Bonds 2"). 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 2") at an initial conversion price of HK$0.25 per share at any time during the period commencing from the Issue Date 2 up to and including the 10th day immediately preceding 11 November 2016 (the "Maturity Date 2") subject to the following limits:

(i) in the first three months commencing from the Issue Date 2, the bondholder is only entitled at any time during such period to convert up to 50% of the principal amount of the bonds;

(ii) in the remaining period commencing from the date on which the period referred to in note (i) expires, the bondholder is entitled at any time during such period to convert any principal amount of the bonds.

Based on the initial conversion price of HK$0.25 per Conversion Share 2, a maximum number of 400,000,000 Conversion Shares 2 will be allotted and issued upon the exercise of the conversion rights.

The bonds shall bear interest from and including the Issue Date 2 to and including the Maturity Date 2 on the outstanding amount of the bonds at the interest rate of 5% per annum.

The Convertible Bonds 2 were redeemed in full by the Group on 11 November 2016.

34. CONVERTIBLE BONDS *(Continued)*

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

	Convertible Bonds 1 *HK$'000*	Convertible Bonds 2 *HK$'000*	Total *HK$'000*
Nominal value of convertible bonds issued	200,000	100,000	300,000
Transaction cost related to liability component	(4,494)	(2,488)	(6,982)
Equity component	(27,156)	(17,897)	(45,053)
Liability component at the date of issue	168,350	79,615	247,965
Interest charged	16,576	3,014	19,590
Converted during the year	(8,979)	—	(8,979)
Liability component at 31 December 2015 and 1 January 2016	175,947	82,629	258,576
Interest charged	34,149	22,371	56,520
Interest paid	(9,500)	(5,000)	(14,500)
Redeemed during the year	—	(100,000)	(100,000)
Liability component at 31 December 2016 and 1 January 2017	200,596	—	200,596
Interest charged	17,904	—	17,904
Interest paid	(18,500)	—	(18,500)
Redeemed during the year	(200,000)	—	(200,000)
Liability component at 31 December 2017	—	—	—
Equity component at the date of issue	27,156	17,897	45,053
Transaction cost related to equity component	(706)	(542)	(1,248)
Equity component at the date of issue	26,450	17,355	43,805
Converted during the year	(1,323)	—	(1,323)
Equity component at 31 December 2015 and 1 January 2016	25,127	17,355	42,482
Redeemed during the year	—	(17,355)	(17,355)
Equity component at 31 December 2016 and 1 January 2017	25,127	—	25,127
Redeemed during the year	(25,127)	—	(25,127)
Equity component at 31 December 2017	—	—	—

The interest charged for the year is calculated by applying an effective interest rate of 18.15% to the liability component of the Convertible Bonds 1 for the 24-month periods since the bonds were issued.

35. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	364,878	2,695
Wages and salaries payables	20,846	67,879
Accruals	12,422	8,197
Other tax payables	7,518	1,564
Other payables	146,565	74,495
	552,229	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:

	2017 HK$'000	2016 HK$'000
0 - 30 days	207,029	—
31 - 60 days	—	87
61 - 90 days	—	—
91 - 180 days	—	—
181 - 360 days	157,849	2,608
	364,878	2,695

The trade and other payables of the Group denominated in foreign currency at the end of the reporting period are as follows:

	2017 HK$'000	2016 HK$'000
RMB	547,341	145,970

36. RECEIPTS IN ADVANCE

Receipts in advance represent sales proceeds received from purchasers in connection with the Group's pre-sales of properties.

37. CONSIDERATION PAYABLE

The consideration payable in relation to the Operating Right (Note 23) is set out as follows:

	HK$'000
Acquisition of subsidiaries *(Note 44(a))*	**90,808**
Imputed interest charged	**96**
Exchange differences	**106**
At 31 December 2016 and 1 January 2017	**91,010**
Imputed interest charged	**14,105**
Exchange differences	**7,382**
At 31 December 2017	**112,497**

Pursuant to the Operation Entrustment Agreement, the consideration payable at initial amount of RMB392,500,000 (equivalent to HK$471,785,000) will be settled by 10 equal annual instalments of RMB39,250,000 (equivalent to HK$47,179,000) each from the eleventh year of the date on which the assets were transferred. The transfer of assets was completed on 11 March 2015.

The imputed interest charged for the year is calculated by applying effective interest rate of 13.04%.

38. CONTINGENT CONSIDERATION PAYABLES

The carrying amounts of the Group's contingent consideration payable related to the acquisition of Yue Jin Asia.

As set out in Note 44(a) to the consolidated financial statements, as a part of the consideration for the acquisition of Yue Jin Asia, the Consideration Adjustment (as defined in Note 44(a)) is obtained for which details are set out in Note 44(a) to the 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.

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).

39. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group:

	Deferred tax liabilities				Deferred tax assets
	Distributable profit of the PRC subsidiaries	**Other intangible assets**	**Inventories**	**Total**	**Taxes Losses**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	—	14,863	—	14,863	—
Acquisition of subsidiaries *(Note 44(a))*	—	94,289	—	94,289	(24,125)
Charge/(credit) to profit or loss for the year	3,090	(9,593)	—	(6,503)	(91)
Exchange differences	30	(135)	—	(105)	(28)
At 31 December 2016	3,120	99,424	—	102,544	(24,244)
Acquisition of subsidiaries *(Note 44(c))*	—	—	205,769	205,769	(4,829)
Credit to profit or loss for the year	—	(3,829)	—	(3,829)	(2,165)
Disposal of subsidiaries	(3,120)	—	—	(3,120)	—
Exchange differences	—	7,151	4,192	11,343	(2,004)
At 31 December 2017	—	102,746	209,961	312,707	(33,242)

At the end of the reporting period, the Group had unused tax losses of approximately HK$163,195,000 (2016: approximately HK$259,705,000) available for offset against future profits. A deferred tax assets have been recognised in respect of HK$132,966,000 for the year (2016: HK$96,975,000) of such loss. No deferred tax asset has been recognised in respect of remaining approximately HK$30,229,000 (2016: approximately HK$162,730,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$Nil (2016: HK$48,486,000), HK$Nil (2016: HK$27,259,000), HK$Nil (2016: HK$30,123,000), HK$2,503,000 (2016: HK$55,468,000) and HK$27,726,000 (2016: Nil) that will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

Pursuant to relevant laws and regulations in the PRC, withholding tax is imposed at 10% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised is HK$181,693,000 (2016: HK$84,907,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

40. SHARE CAPITAL

	Note	2017 Number of shares '000	2017 HK$'000	2016 Number of shares '000	2016 HK$'000
Authorised:					
Ordinary shares of HK$0.05 (2016: HK$0.0025) each					
At 1 January		**80,000,000**	**200,000**	40,000,000	100,000
Increase in capital	(a)	**—**	**—**	40,000,000	100,000
At 31 December		**80,000,000**	**200,000**	80,000,000	200,000
Issued and fully paid:					
At 1 January		**34,052,135**	**85,130**	14,613,151	36,533
Shares issued on placements	(b)	**—**	**—**	4,088,000	10,220
Shares issued on acquisition of subsidiaries	(c)	**—**	**—**	3,169,355	7,923
Consolidation of shares	(d)	**(32,349,528)**	**17,026**	—	—
Shares issued on subscription	(e)	**340,521**	**—**	12,181,629	30,454
At 31 December		**2,043,128**	**102,156**	34,052,135	85,130

(a) Pursuant to an ordinary resolution passed on 19 December 2016, the authorised number of ordinary share of HK$0.025 each were increased by 40,000,000,000 in the issued and unissued share capital of the Company with effective on 19 December 2016.

(b) On 19 September 2016, the Company entered into a placing agreement in respect of the placement of 4,088,000,000 ordinary shares of HK$0.0025 each to investors at a price of HK$0.062 per share. The placement was completed on 30 December 2016 and the premium on the issue of shares, amounting to approximately HK$240,701,000, net of share issue expenses of HK$2,535,000, was credited to the Company's share premium account. The Company issued and allotted 4,088,000,000 new shares on 30 December 2016.

(c) On 31 March 2016, pursuant to the sale and purchase agreement, the Company issued 750,000,000 Consideration Shares of HK$0.0025 each to the vendor of Heroic Coronet as a settlement of the consideration for the acquisition of Heroic Coronet. The fair value of 750,000,000 new shares was HK$150,000,000, based on the bid price (HK$0.20 per consideration share) at 31 March 2016.

On 28 December 2016, pursuant to the sale and purchase agreement, the Company issued 2,419,354,838 Consideration Shares of HK$0.0025 each to the vendor of Yue Jin Asia as a settlement of the consideration for the acquisition of Yue Jin Asia. The fair value of 2,419,354,838 new shares was HK$239,516,000, based on the bid price (HK$0.099 per consideration share) at 28 December 2016.

40. SHARE CAPITAL *(Continued)*

(d) Pursuant to an ordinary resolution passed on 21 December 2017, every twenty ordinary shares of HK$0.0025 each in issue and unissued share capital of the Company were consolidated into one ordinary share of HK$0.05 each in the issued and unissued share capital of the Company with effective on 21 December 2017.

(e) On 19 September 2016, the Company entered into subscription agreements in respect of the issue and allotment of an aggregate of 12,181,629,000 ordinary shares of HK$0.0025 each to investors at a price of HK$0.062 per share. The subscription was completed on 28 December 2016 and the premium on the issue of shares, amounting to approximately HK$724,807,000 was credited to the Company's share premium account. The Company issued and allotted 12,181,629,000 new shares on 28 December 2016.

On 4 December 2017, the Company entered into a subscription agreement in respect of the issue and allotment of 340,521,000 ordinary shares of HK$0.05 each to an investor at a price of HK$0.55 per share. The subscription was completed on 21 December 2017 and the premium on the issue of shares, amounting to approximately HK$170,261,000 was credited to the Company's share premium account. The Company issued and allotted 340,521,000 new shares on 21 December 2017.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts. The Group expects to maintain low gearing because of its cash-rich position.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises borrowings and convertible bonds. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves) except for non-controlling interests.

40. SHARE CAPITAL *(Continued)*

The debt-to-adjusted capital ratios at 31 December 2017 and at 31 December 2016 were as follows:

	2017	2016
	HK$'000	*HK$'000*
Total debt (Borrowings and convertible bonds)	**1,492,657**	328,447
Less: cash and cash equivalents	**(327,249)**	(473,499)
Net debt	**1,165,408**	(145,052)
Adjusted capital	**1,759,462**	1,405,707
Debt-to-adjusted capital ratio	**66%**	(10%)

The change in the debt-to-adjusted capital ratio during 2017 resulted primarily from the increase of total debt which outraced the increase in cash and cash equivalents.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		**171,807**	306,071
Current assets			
Other receivables		**40,176**	191,182
Amounts due from subsidiaries		**1,961,985**	1,542,728
Bank and cash balances		**188,695**	303,460
		2,190,856	2,037,370
Current liabilities			
Borrowings		**137,127**	107,729
Convertible bonds		**—**	200,596
Other payables		**4,871**	8,411
Amounts due to subsidiaries		**—**	409,640
Contingent consideration payable		**144,418**	—
		286,416	726,376
Net current assets		**1,904,440**	1,310,994
Total assets less current liabilities		**2,076,247**	1,617,065
Non-current liabilities			
Contingent consideration payable		**94,000**	255,199
NET ASSETS		**1,982,247**	1,361,866
Capital and reserves			
Share capital		**102,156**	85,130
Reserves	41(b)	**1,880,091**	1,276,736
TOTAL EQUITY		**1,982,247**	1,361,866

Approved by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Director

Director

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Shares premium	Share redemption reserve	Convertible bonds reserve	Contributed surplus	Shareholder's contribution	Share options reserve	Retained earnings/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 42(b)(i))	*(Note 42(b)(ii))*	*(Note 42(b)(vi)*	*(Note (a))*	*(Note (b))*	*(Note 42(b)(ix))*		
At 1 January 2016	572,660	2,269	42,482	29,412	1,392	58,931	(143,549)	563,597
Share-based payments	–	–	–	–	–	9,154	–	9,154
Transfer of share options reserve upon lapse of share options	–	–	–	–	–	(49,811)	49,811	–
Redemption of convertible bonds *(Note 34)*	–	–	(17,355)	–	–	–	17,355	–
Issue of shares on subscription	724,807	–	–	–	–	–	–	724,807
Issue of shares on placement *(Note 40(b))*	240,701	–	–	–	–	–	–	240,701
Issue of shares on acquisition of subsidiaries *(Note 40(c))*	381,593	–	–	–	–	–	–	381,593
Total comprehensive income for the year	–	–	–	–	–	–	(643,116)	(643,116)
At 31 December 2016	1,919,761	2,269	25,127	29,412	1,392	18,274	(719,499)	1,276,736
At 1 January 2017	**1,919,761**	**2,269**	**25,127**	**29,412**	**1,392**	**18,274**	**(719,499)**	**1,276,736**
Redemption of convertible bonds *(Note 34)*	**–**	**–**	**(25,127)**	**–**	**–**	**–**	**25,127**	**–**
Transfer of share options reserve upon lapse of share options	**–**	**–**	**–**	**–**	**–**	**(18,274)**	**18,274**	**–**
Issue of shares on subscription	**170,261**	**–**	**–**	**–**	**–**	**–**	**–**	**170,261**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**433,094**	**433,094**
At 31 December 2017	**2,090,022**	**2,269**	**–**	**29,412**	**1,392**	**–**	**(243,004)**	**1,880,091**

Note:

(a) The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired by the Company pursuant to a group reorganisation and the nominal value of the ordinary shares issued by the Company in exchange thereof.

(b) The shareholder's contribution of the Company represents contribution from the intermediate holding company for cancellation of the Company's share options in 2012.

42. RESERVES

(a) Group

The amounts of the reserves and movements of the Group therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) The share redemption reserve represents the aggregate amount of the share capital and share premium in relation to the repurchase of the Company's own equity instruments.

(iii) The capital reserve of the Group represents the difference of the paid-in capital of the subsidiaries acquired by the Company pursuant to a group reorganisation and the nominal value of the ordinary shares issued by the Company in exchange thereof.

(iv) The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in SinoCom Beijing as share capital of SinoCom Beijing in year 2003.

(v) In accordance with the laws and regulations in the PRC on foreign enterprises, PRC subsidiaries of the Company are required to set aside 10% of their net profits, prepared in accordance with generally accepted accounting principles in the PRC, to the general reserve funds until the funds aggregate to 50% of their registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors of the PRC subsidiaries to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

(vi) The convertible bonds reserve represents the value of the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 4(q) to the consolidated financial statements.

(vii) The shareholder's contribution of the Group represents waiver of an amount due to a shareholder of the Company in 2001 and the contribution from the intermediate holding company for cancellation of the Company's share options in 2012.

(viii) The translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 4(c) to the consolidated financial statements.

42. RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(ix) The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in Note 4(v) to the consolidated financial statements.

(c) Development fund of schools

According to the relevant PRC laws and regulations, for private schools that requires for reasonable returns, it is required to appropriate to the development fund not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

43. SHARE-BASED PAYMENTS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the employees, executives, officers and directors of the Company and the Company's subsidiaries. The Scheme became effective on 2 April 2004 and was expired on 1 April 2014.

The Company terminated the Scheme and adopted a new share option scheme (the "New Scheme") pursuant to a resolution passed in the annual general meeting dated 26 March 2014 which became effective on the same date. The New Scheme will remain in force for ten years commencing from the effective date. Any options granted under the Scheme prior to its termination continue to be valid and exercisable in accordance with the rules of the Scheme.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 20 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total or other amount as determined by the board of the Company by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

43. SHARE-BASED PAYMENTS *(Continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer, when applicable.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

At 31 December 2017, the number of shares in respect of which options has been remained outstanding under the New Scheme was Nil (2016: 200,000,000), representing Nil (2016: 0.59 %) of the shares of the Company in issue at that date.

Details of specific category of options are as follows:

Date of grant	Exercisable period	Exercise price before share subdivision	Exercise price after share subdivision
24/01/2006	24/01/2007-23/01/2016	HK$1.3875	HK$0.13875
28/01/2008	28/01/2008-27/01/2018	HK$1.36	HK$0.136
28/01/2008	28/01/2009-27/01/2018	HK$1.36	HK$0.136
27/05/2015	30/10/2015-26/05/2025	HK$3.14	HK$0.314
27/05/2015	30/04/2016-26/05/2025	HK$3.14	HK$0.314

The exercise prices were adjusted for share subdivision became effective on 16 September 2015.

Options are lapsed if the employee leaves the Group and the relationship with consultants is ceased or terminated by the Group.

The following table discloses movements of the number of the Company's shares under options held by employees and consultants during the year ended 31 December 2017:

Date of grant	Outstanding at 1/1/2017	Granted during the year	Exercised during the year	Lasped during the year	Outstanding at 31/12/2017
27/05/2015	200,000,000	—	—	(200,000,000)	—

The following table discloses movements of the number of the Company's shares under options held by employees and consultants during the year ended 31 December 2016:

Date of grant	Outstanding at 1/1/2016	Granted during the year	Exercised during the year	Lasped during the year	Outstanding at 31/12/2016
27/05/2015	622,000,000	—	—	(422,000,000)	200,000,000

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of Yue Jin Asia

On 28 December 2016, a subsidiary of the Company acquired the entire equity interests in 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 by 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 and provision of international education services. 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:

Retained Shares = HK$150,000,000 – 2018 Yacht Profit Shortfall x 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:

Retained Shaers = HK$150,000,000 – 2018 School Profit Shortfall x 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.

Immediately prior to the completion, the amount of HK$882,000,000 due from Yue Jin Asia to the then shareholder was assigned to the Group.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(a) Acquisition of Yue Jin Asia *(Continued)*

The fair value of the identifiable assets and liabilities of Yue Jin Asia Group acquired as at its date of acquisition is as follows:

	HK$'000
Property, plant and equipment	46,710
Other intangible asset – Operating Right	819,081
Deposits paid for investment properties	203,589
Deferred tax assets	24,125
Trade and other receivables	23,764
Bank and cash balances	24,296
Trade and other payables	(66,814)
Amount due to the holding company of Yue Jin Asia	(882,000)
Deferred revenue	(2,765)
Consideration payable	(90,808)
Deferred tax liabilities	(94,289)
Net identifiable assets and liabilities	4,889
Assignment of debt to the Group	882,000
Put option upon initial recognition *(Note 27(a))*	6,330
Goodwill arising on acquisition	284,553
	1,177,772
Satisfied by:	
Cash	700,000
Consideration Shares	239,516
Retained Shares	238,256
	1,177,772
Net cash outflow arising on acquisition:	
Cash consideration paid	(700,000)
Cash and cash equivalents acquired	24,296
	(675,704)

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(a) Acquisition of Yue Jin Asia *(Continued)*

The fair value of the trade and other receivables acquired and the gross amount due under the contracts is HK$23,764,000, none of which is expected to be uncollectible.

Yue Jin Asia contributed a loss of approximately HK$398,000 to the Group's profit for the year ended 31 December 2016 between the date of acquisition and the year ended 31 December 2016.

If the acquisition had been completed on 17 March 2016 (date of incorporation of Yue Jin Asia), total Group's turnover for the year would have been HK$189,725,000, and loss for the year ended 31 December 2016 would have been HK$929,892,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group for the year ended 31 December 2016 that actually would have been achieved had the acquisition been completed on 17 March 2016, nor is intended to be a projection of future results.

The goodwill arising on the acquisition of Yue Jin Asia is attributable to the anticipated profitability of Yacht Club Business and School Business and the anticipated future operating synergies from the combination.

(b) Disposal of subsidiaries

(i) 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)
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)
Total consideration	2,000
Net cash inflow arising on disposal:	
Cash consideration received	2,000
Cash and cash equivalents disposed of	(115)
	1,885

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Disposal of subsidiaries *(Continued)*

(ii) Disposal of SinoCom Holdings

On 12 April 2017, the Group disposed of its entire equity interests in 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)
Net liabilities disposed of	(68,231)
Release of foreign currency translation reserve	(69,505)
Assignment of amounts due to the Group included in amount due from the Group	59
Gain on disposal of subsidiaries	137,677
Total consideration — satisfied by cash of HK$1	—
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(205)

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Disposal of subsidiaries *(Continued)*

(iii) 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 interest	(7,970)
Assignment of amounts due to the Group included in amount 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

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Disposal of subsidiaries *(Continued)*

(iv) Disposal of Baoxin Football

On 29 June 2017, the Group disposed of its 68% equity interests in 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

(c) Acquisition of Shenzhen Borui

On 17 November 2017, a subsidiary of the Company acquired the entire equity interests in Shenzhen Borui for a cash consideration of RMB950,000,000 (equivalent to approximately HK$1,119,100,000). Shenzhen Borui, through its subsidiaries, is principally engaged in real estate and construction in the PRC. The acquisition is aim to expand the business to real estate projects by the Company.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Acquisition of Shenzhen Borui *(Continued)*

The fair value of the identifiable assets and liabilities of Shenzhen Borui acquired as at its date of acquisition is as follows:

	HK$'000
Property, plant and equipment	1,018
Available-for-sale financial assets	12,958
Deferred tax assets	4,829
Investment properties	345,154
Inventories	1,853,781
Prepayment, deposits and other receivables	391,191
Gross amount due from customer for contract works	635,867
Bank and cash balances	30,004
Trade and other payables	(1,250,348)
Current tax liabilities	(62,857)
Deferred tax liabilities	(205,769)
Net identifiable assets and liabilities	1,755,828
Non-controlling interests	(593,380)
Gain on bargain purchase	(43,348)
Satisfied by cash	1,119,100
Net cash outflow arising on acquisition:	
Cash consideration paid	(235,600)
Cash and cash equivalents acquired	30,004
	(205,596)

At 31 December 2017, consideration of RMB200,000,000 (equivalent to HK$235,600,000) has been paid to the vendor of Shenzhen Borui. The balance of consideration of RMB750,000,000 (equivalent to HK$901,500,000) has been recognised as a liability at 31 December 2017.

Gain on bargain purchase of HK$43,348,000 was recognised upon completion of the acquisition of Shenzhen Borui. The gain on bargain purchase was mainly due to increase in fair value of the real estate projects based on which the consideration was determined in relation to the acquisition.

The fair value of the prepayment, deposits and other receivables acquired is HK$391,191,000, none of which is expected to be uncollectible.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Acquisition of Shenzhen Borui *(Continued)*

Shenzhen Borui and its subsidiaries (hereinafter collectively referred to as the "Borui Group") contributed revenue and a profit of approximately HK$Nil and HK$32,971,000 to the Group's revenue and profit respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 9 May 2017 (date of incorporation of Shenzhen Borui), total Group's turnover for the year would have been HK$191,519,000, and profit for the year would have been HK$122,163,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 9 May 2017, nor is intended to be a projection of future results.

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Convertible bonds — Current	Total liabilities from financing activities
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	127,851	200,000	327,851
Financing cash flows	353,886	(218,500)	135,386
Acquisition of subsidiaries	971,620	—	971,620
Finance costs	12,243	18,500	30,743
Exchange differences	27,057	—	27,057
At 31 December 2017	1,492,657	—	1,492,657

45. CONTINGENT LIABILITIES

As at 31 December 2017, the Group and the Company did not have any significant contingent liabilities (2016: Nil).

46. CAPITAL COMMITMENTS

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

	2017 HK$'000	2016 HK$'000
Contracted but not provided for		
Property, plant and equipment	5,198	2,557
Inventories	3,195,951	—
	3,201,149	2,557

47. 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:

	2017 HK$'000	2016 HK$'000
Within one year	4,383	5,549
In the second to fifth year inclusive	8,733	13,991
	13,116	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 31 December 2017 the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 HK$'000	2016 HK$'000
Within one year	1,982	494
In the second to fifth year inclusive	7,791	344
After five years	9,843	—
	19,616	838

48. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had no transactions with its related parties during the year.

Compensation of key management personnel

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

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**3,204**	5,783
Share-based payments	**—**	6,094
Retirement benefits scheme contributions	**112**	185
	3,316	12,062

49. EVENT AFTER THE REPORTING PERIOD

(a) On 10 January 2018, the Company entered into a placing agreement in respect of the placement of 1,634,502,485 ordinary shares of HK$0.50 each with a nominal value of HK$81,725,000 to CCB International Capital Limited during the period commencing from the date of placing agreement to the placing completion date.

(b) On 10 January 2018, the Company entered into a subscription agreement in respect of the issue and allotment of an aggregate of 408,625,621 ordinary shares of HK$0.50 each with a nominal value of HK$20,431,000 to Tengyue Limited.

Further details of the Placing and the Subscription are set out in the announcement of the Company dated 10 January 2018.

(c) On 7 March 2018, SBIL, a wholly-owned subsidiary of the Company and Baoneng City Development, an independent third party, entered into an equity acquisition agreement, pursuant to which SBIL agreed to acquire 60% equity interest of Weinan Company from Baoneng City Development at a consideration of RMB1 and undertake to make capital contribution of RMB180,000,000 to Weinan Company. On 14 February 2018, Weinan Company has succeeded in the bid for the land use rights of Weinan Land at the consideration of RMB203,090,000 and has executed Land Acquisition Confirmation of Weinan Land. Upon the completion of acquisition of equity interest, Weinan Company has become a non-wholly owned subsidiary of the Company.

Further details of the acquisition of 60% equity interest of Weinan Company and related capital contribution to Weinan Company are set out in the announcement of the Company dated 7 March 2018.