南海控股有限公司*

NAN HAI CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 680)**

# ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

## INTERIM RESULTS

The board of directors (the "Board") of Nan Hai Corporation Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 together with the comparative figures for 2016 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT — UNAUDITED

*For the six months ended 30 June 2017*

| | | **For the six months ended 30 June** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *5(a)* | **8,094,006** | 2,143,176 |
| Cost of sales and services provided | | **(3,285,496)** | (813,440) |
| Gross profit | | **4,808,510** | 1,329,736 |
| Other operating income | *5(b)* | **293,119** | 188,156 |
| Selling and marketing expenses | | **(1,296,470)** | (835,940) |
| Administrative expenses | | **(455,567)** | (249,761) |
| Other operating expenses | | **(453,195)** | (296,881) |
| Finance costs | | **(298,015)** | (110,954) |
| Fair value change on financial liabilities at fair value through profit or loss | | **21,573** | 1,048 |
| Loss on deemed disposal of an associate | | **(162)** | – |
| Share of results of associates | | **10,619** | (8,307) |
| Gain on fair value change on investment properties | | **2,117** | 32,986 |
| Profit before income tax | *6* | **2,632,529** | 50,083 |
| Income tax expense | *7* | **(1,423,331)** | (40,488) |
| **Profit for the period** | | **1,209,198** | 9,595 |

* *For identification purpose only*

**CONDENSED CONSOLIDATED INCOME STATEMENT — UNAUDITED (Continued)**
*For the six months ended 30 June 2017*

| | Notes | For the six months ended 30 June 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Profit/(Loss) for the period attributable to:** | | | |
| Owners of the Company | | **1,258,972** | 6,410 |
| Non-controlling interests | | **(49,774)** | 3,185 |
| | | **1,209,198** | 9,595 |
| | | ***HK cent*** | *HK cent* |
| **Earnings per share for profit attributable to the owners of the Company during the period** | | | |
| — Basic | *9(a)* | **1.834** | 0.009 |
| — Diluted | *9(b)* | **1.834** | 0.009 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

*For the six months ended 30 June 2017*

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the period** | **1,209,198** | 9,595 |
| **Other comprehensive income, including reclassification adjustments** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of financial statements of foreign operations | **185,657** | (60,864) |
| Exchange differences reclassified on deemed disposal of an associate, net of tax | **359** | – |
| **Total comprehensive income for the period** | **1,395,214** | (51,269) |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **1,442,218** | (51,423) |
| Non-controlling interests | **(47,004)** | 154 |
| | **1,395,214** | (51,269) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2017*

| | *Notes* | **(Unaudited) 30 June 2017** *HK$'000* | (Audited) 31 December 2016 *HK$'000* |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,581,218** | 4,076,090 |
| Investment properties | | **107,859** | 230,394 |
| Prepaid land lease payments under operating leases | | **23,881** | 23,429 |
| Interests in associates | | **107,226** | 79,963 |
| Amounts due from related parties | | **230,581** | 950 |
| Available-for-sale financial assets | | **439** | 324 |
| Held-to-maturity investment | | **115,181** | 111,707 |
| Long term trade receivables | *10* | **3,236** | 3,303 |
| Deposits, prepayments and other receivables | | **500,552** | 438,892 |
| Intangible assets | | **3,091,912** | 3,024,760 |
| Deferred tax assets | | **343,109** | 161,448 |
| Pledged and restricted bank deposits | | **4,473,619** | 3,489,355 |
| | | **13,578,813** | 11,640,615 |
| **Current assets** | | | |
| Inventories | | **13,025,476** | 13,122,375 |
| Financial assets at fair value through profit or loss | | **217,453** | 24,597 |
| Trade receivables | *10* | **360,267** | 321,488 |
| Deposits, prepayments and other receivables | | **3,683,601** | 2,743,457 |
| Amounts due from associates | | **5,980** | 6,485 |
| Amounts due from related parties | | **12,748** | 192,190 |
| Pledged and restricted bank deposits | | **5,354,358** | 3,509,457 |
| Cash and cash equivalents | | **5,221,804** | 1,172,620 |
| | | **27,881,687** | 21,092,669 |
| Non-current assets held for sale | | **14,457** | 13,767 |
| | | **27,896,144** | 21,106,436 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**
*As at 30 June 2017*

| | Notes | (Unaudited) 30 June 2017 HK$'000 | (Audited) 31 December 2016 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | *11* | **1,319,374** | 1,454,678 |
| Other payables and accruals | | **1,523,054** | 1,212,914 |
| Receipt in advance and deferred revenue | | **6,210,950** | 6,793,907 |
| Provision for tax | | **2,701,964** | 1,410,014 |
| Amount due to a director | | **81,318** | 30,108 |
| Amount due to an associate | | **5,494** | 5,505 |
| Amounts due to related parties | | **91,975** | 99,138 |
| Bank and other borrowings | | **5,079,237** | 4,784,912 |
| Finance lease liabilities | | **35,778** | 33,330 |
| Convertible and exchangeable bonds | *12* | **1,069,806** | 1,010,036 |
| Financial liability at fair value through profit or loss | *12* | **92,144** | 113,717 |
| | | **18,211,094** | 16,948,259 |
| **Net current assets** | | **9,685,050** | 4,158,177 |
| **Total assets less current liabilities** | | **23,263,863** | 15,798,792 |
| **Non-current liabilities** | | | |
| Long term trade payables | *11* | **18,992** | 42,482 |
| Bank and other borrowings | | **15,894,549** | 9,596,954 |
| Finance lease liabilities | | **25,251** | 42,171 |
| Provision for warranty | | **4,154** | 4,296 |
| Deferred tax liabilities | | **866,001** | 906,890 |
| | | **16,808,947** | 10,592,793 |
| **Net assets** | | **6,454,916** | 5,205,999 |
| **EQUITY** | | | |
| Share capital | *13* | **686,455** | 686,455 |
| Reserves | | **4,666,886** | 3,365,311 |
| **Equity attributable to the Company's owners** | | **5,353,341** | 4,051,766 |
| **Non-controlling interests** | | **1,101,575** | 1,154,233 |
| **Total equity** | | **6,454,916** | 5,205,999 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 June 2017*

## 1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The address of the Company's registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Group is principally engaged in culture and media services, property development, enterprise cloud services, new media and innovative business.

These condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These condensed consolidated interim financial statements are unaudited, but have been reviewed by the audit committee of the Company and approved and authorised for issue by the Board on 23 August 2017.

## 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable provisions of Appendix 16 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for investment properties and financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair values. The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2016.

The HKICPA has issued certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective or available for early adoption for the current period of the Group. These new and revised HKFRSs have no significant impact on the financial performance or the financial position of the Group for current and previous accounting periods.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

## 4. SEGMENT INFORMATION

The Group identified operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following five (six months ended 30 June 2016: four) reportable segments:

(a) Enterprise cloud services*

(b) Property development

(c) Culture and media services

(d) New media

(e) Innovative business

Information about other business activities and operating segments that are not reportable are combined and disclosed in "all other segments". All other segments included trading of securities and property management.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The segment results for the six months ended 30 June 2017 and 30 June 2016 are as follows:

| | For the six months ended 30 June 2017 (Unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Enterprise cloud services** *HK$'000* | **Property development** *HK$'000* | **Culture and media services** *HK$'000* | **New media** *HK$'000* | **Innovative business** *HK$'000* | **All other segments** *HK$'000* | **Total** *HK$'000* |
| **Revenue** | | | | | | | |
| From external customers | **372,472** | **5,686,196** | **1,663,398** | **5,293** | **341,362** | **25,285** | **8,094,006** |
| From inter-segments | **–** | **–** | **–** | **124,991** | **3,600** | **16,207** | **144,798** |
| **Reportable and all other segments revenue** | **372,472** | **5,686,196** | **1,663,398** | **130,284** | **344,962** | **41,492** | **8,238,804** |
| **Reportable and all other segments (loss)/profit before income tax** | **(32,635)** | **3,075,653** | **28,471** | **(150,207)** | **(192,235)** | **(1,882)** | **2,727,165** |

* By virtue of the all-rounded internet-based services, e-commerce and total Internet+ resolutions offered for small and medium-sized enterprises and clients in the People's Republic of China ("PRC"), this segment remained adamant about the provision of cloud service for the development of digitalisation and smart operation, and has successfully launched a series of leading cloud services for enablement corporate digitalisation and smart operation in the industry after prolonged exploration and unremitting efforts. Therefore, the segment has changed its name from "Corporate IT application services" to "Enterprise cloud services" as cloud service has been becoming core of the business.

## 4. SEGMENT INFORMATION (Continued)

| | For the six months ended 30 June 2016 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Enterprise cloud services *HK$'000* | Property development *HK$'000* | Culture and media services *HK$'000* | New media *HK$'000* | All other segments *HK$'000* | Total *HK$'000* |
| **Revenue** | | | | | | |
| From external customers | 403,459 | 570 | 1,708,891 | 4,440 | 25,816 | 2,143,176 |
| From inter-segments | – | – | – | 2,861 | 1,766 | 4,627 |
| **Reportable and all other segments revenue** | 403,459 | 570 | 1,708,891 | 7,301 | 27,582 | 2,147,803 |
| **Reportable and all other segments (loss)/profit before income tax** | (21,403) | 14,260 | 193,047 | (81,595) | (7,415) | 96,894 |

The reportable segment assets and liabilities as at 30 June 2017 and 31 December 2016 are as follows:

| | **At 30 June 2017 (Unaudited)** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Enterprise cloud services** ***HK$'000*** | **Property development** ***HK$'000*** | **Culture and media services** ***HK$'000*** | **New media** ***HK$'000*** | **Innovative business** ***HK$'000*** | **All other segments** ***HK$'000*** | **Total** ***HK$'000*** |
| **Reportable and all other segments assets** | **1,088,742** | **24,647,991** | **5,634,212** | **79,039** | **1,904,530** | **832,484** | **34,186,998** |
| **Reportable and all other segments liabilities** | **(510,470)** | **(17,401,743)** | **(3,654,897)** | **(7,542)** | **(722,970)** | **(142,066)** | **(22,439,688)** |

| | At 31 December 2016 (Audited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Enterprise cloud services *HK$'000* | Property development *HK$'000* | Culture and media services *HK$'000* | New media *HK$'000* | Innovative business *HK$'000* | All other segments *HK$'000* | Total *HK$'000* |
| Reportable and all other segments assets | 1,084,933 | 21,644,705 | 4,783,262 | 68,745 | 1,887,109 | 596,472 | 30,065,226 |
| Reportable and all other segments liabilities | (511,921) | (14,860,935) | (4,217,791) | (11,568) | (741,820) | (31,484) | (20,375,519) |

## 4. SEGMENT INFORMATION (Continued)

The total presented for the Group's operating segment results are reconciled to the Group's key financial figures as presented in these condensed consolidated interim financial statements as follows:

| | **(Unaudited) For the six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Reportable segments revenue | **8,197,312** | 2,120,221 |
| All other segments revenue | **41,492** | 27,582 |
| Elimination of inter-segment revenue | **(144,798)** | (4,627) |
| Group revenue | **8,094,006** | 2,143,176 |
| Reportable segments profit before income tax | **2,729,047** | 104,309 |
| All other segments loss before income tax | **(1,882)** | (7,415) |
| Bank interest income | **23,699** | 13,234 |
| Other interest income | **4,537** | 2,923 |
| Interest income on financial assets not at fair value through profit or loss | **28,236** | 16,157 |
| Depreciation and amortisation | **(1,852)** | (1,877) |
| Finance costs | **(60,692)** | (14,602) |
| Unallocated corporate expenses | **(60,328)** | (46,489) |
| Profit before income tax | **2,632,529** | 50,083 |

## 5. REVENUE AND OTHER OPERATING INCOME — UNAUDITED

**(a) This represents revenue from its principal activities as set out below:**

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Sales of properties and car parks | **5,686,196** | 570 |
| Enterprise cloud services | **372,472** | 403,459 |
| Property management services | **25,285** | 25,816 |
| Film distribution services | **11,855** | 6,014 |
| Cinema ticketing income | **1,350,871** | 1,410,949 |
| Confectionery sales | **195,904** | 196,802 |
| Publication of magazines and advertising income | **5,293** | 4,440 |
| Sales of projection equipment | **10,514** | 23,979 |
| Digital media technology services | **94,254** | 71,147 |
| Sales of botanic-based personal care and fragrance products | **338,897** | – |
| Catering services | **2,465** | – |
| | **8,094,006** | 2,143,176 |

**(b) Other operating income:**

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **86,612** | 31,370 |
| Other interest income | **7,373** | 28,759 |
| Interest income on financial assets not at fair value through profit or loss | **93,985** | 60,129 |
| Gain on fair value change on financial assets at fair value through profit or loss | **1,866** | – |
| Exchange gain | **–** | 2,518 |
| Gain on disposal of property, plant and equipment | **19** | – |
| Government grants | **16,091** | 17,589 |
| Cinema advertising income | **90,542** | 48,865 |
| Write-back of provision for impairment of other receivables | **20,845** | – |
| Rental income | **6,532** | 7,256 |
| Dividend income on financial assets at fair value through profit or loss | **6,527** | – |
| Sundry income | **56,712** | 51,799 |
| | **293,119** | 188,156 |

## 6. PROFIT BEFORE INCOME TAX — UNAUDITED

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax is arrived at after charging: | | |
| Amortisation of intangible assets other than goodwill* | **14,942** | 7,689 |
| Depreciation of property, plant and equipment — owned assets* | **315,042** | 224,804 |
| Depreciation of property, plant and equipment — leased assets* | **4,741** | 2,766 |
| Operating lease charges on prepaid land lease* | **251** | 263 |
| Write-off of property, plant and equipment* | **9,444** | 4,113 |

* Included in other operating expenses

## 7. INCOME TAX EXPENSE — UNAUDITED

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| The income tax expense comprises: | | |
| Current tax | | |
| — Hong Kong Profits Tax | | |
| Tax charge for the period | **6,064** | 5,724 |
| — The PRC Enterprise Income Tax ("EIT") | | |
| Tax charge for the period | **781,708** | 30,571 |
| — The PRC land appreciation tax ("LAT") | | |
| Tax charge for the period | **858,054** | – |
| | **1,645,826** | 36,295 |
| Deferred tax | | |
| — (Credit)/Charge for the period | **(222,495)** | 4,193 |
| | **1,423,331** | 40,488 |

For the six months ended 30 June 2017, Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profits for the period.

For the six months ended 30 June 2017, PRC EIT has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (six months ended 30 June 2016: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

For the six months ended 30 June 2017, PRC LAT is levied at progressive rates from 30% to 60% (six months ended 30 June 2016: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

For the six months ended 30 June 2017, no taxation arising in other jurisdictions (six months ended 30 June 2016: N/A).

## 8. DIVIDEND

No dividend was paid and declared during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil). A final dividend in respect of the year ended 31 December 2016 of 0.2 HK cents per ordinary share, amounting to a total dividend of HK$137,291,000 was proposed and approved at the annual general meeting of the Company held on 25 May 2017.

## 9. EARNINGS PER SHARE — UNAUDITED

(a) The calculation of basic earnings per share is based on the profit for the period attributable to the owners of the Company of HK$1,258,972,000 (six months ended 30 June 2016: HK$6,410,000) and on 68,645,535,794 (six months ended 30 June 2016: 68,645,535,794) ordinary shares in issue during the periods.

(b) The calculation of diluted earnings per share is based on the profit for the period attributable to the owners of the Company and adjusted to reflect the interests, unrealised exchange difference and fair value changes of embedded derivatives on the convertible and exchangeable bonds and profit attributable to non-controlling interests. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, which is the same as the basic earnings per share calculation.

Diluted earnings per share for the six months ended 30 June 2017 and 30 June 2016 are the same as the basic earnings per share as the convertible and exchangeable bonds outstanding during the periods had an anti-dilutive effect on the basic earnings per share.

## 10. TRADE RECEIVABLES

Trade receivables are due on presentation of invoices. Based on the invoice dates, the aging analysis of the trade receivables is as follows:

| | **(Unaudited) 30 June 2017** *HK$'000* | (Audited) 31 December 2016 *HK$'000* |
|---|---|---|
| 0–90 days | **224,535** | 243,150 |
| 91–180 days | **68,609** | 31,083 |
| 181–270 days | **24,980** | 16,019 |
| 271–360 days | **14,979** | 3,771 |
| Over 360 days | **55,025** | 55,443 |
| Trade receivables, gross | **388,128** | 349,466 |
| Less: Provision for impairment of receivables | **(24,625)** | (24,675) |
| Trade receivables, net | **363,503** | 324,791 |
| Less: Long term trade receivables | **(3,236)** | (3,303) |
| Current portion of trade receivables | **360,267** | 321,488 |

## 11. TRADE PAYABLES

Based on the invoice dates, the aging analysis of the trade payables is as follows:

| | **(Unaudited)**<br>**30 June**<br>**2017**<br>***HK$'000*** | (Audited)<br>31 December<br>2016<br>*HK$'000* |
|---|---|---|
| 0–90 days | **1,124,314** | 1,307,214 |
| 91–180 days | **44,546** | 35,161 |
| 181–270 days | **70,758** | 25,585 |
| 271–360 days | **14,210** | 34,458 |
| Over 360 days | **84,538** | 94,742 |
| Trade payables | **1,338,366** | 1,497,160 |
| Less: Long term trade payables | **(18,992)** | (42,482) |
| Current portion of trade payables | **1,319,374** | 1,454,678 |

## 12. CONVERTIBLE AND EXCHANGEABLE BONDS

On 15 June 2016 ("Issue Date"), an indirect wholly-owned subsidiary of the Company ("The Issuer"), issued an aggregate of RMB1,000,000,000 convertible and exchangeable bonds (the "Bonds") which carry interest at 1.95% per annum with a maturity date of two years from the Issue Date ("Maturity Date"). Interest rate will be adjusted to 5.50% upon redemption of the Bonds and the adjusted interests rate applied retrospectively for the whole life of the Bonds.

The conversion price is initially RMB266,667 per share, subject to adjustments for certain specified dilutive and other events, including the adjustment by reference to the box office revenue. The Bonds are secured by the shares of the Issuer and the Bond holder can convert the Bonds into the Issuer's shares representing approximately 4.76% of the enlarged issued share capital of the Issuer or exchanged into 100% of the issued share capital of a direct wholly-owned subsidiary of the Issuer.

Unless previously redeemed, converted or exchanged, the Issuer will redeem all the Bonds at the principal amount together with any accrued but unpaid interest on such principal amount on the third anniversary of the Issue Date.

Immediately prior to the closing of a fully underwritten registered public offering by an Issuer group company on an internationally recognised stock exchange (the "Qualified IPO") in respect of the Issuer, unless previously converted, exchanged or redeemed, the outstanding Bonds shall be automatically exchanged into 100% of the issued share capital of a subsidiary of the Issuer credited as fully paid, at any time between the Issue Date up to the close of business on the date falling on the third anniversary of the Issue Date (the "Exchange Period").

**12. CONVERTIBLE AND EXCHANGEABLE BONDS (Continued)**

The holder of the Bonds shall have the right at its sole option to require the Issuer to redeem all of its Bonds outstanding at an amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the holder following the Maturity Date, or in case of certain early redemption events happen.

The holder of the Bonds was granted in put option to request the Company to purchase the Bonds at a price that will yield an internal rate of return of 5.50% per annum on the subscription amount paid by the holder for the Bonds for a period of 90 days after the occurrence of an event of default or other events related to the application of a Qualified IPO (details of the Bonds are more particularly disclosed in the circular dated 23 June 2016 issued by the Company).

The related interest expense of the liability component of the Bonds for the period ended 30 June 2017 amounted to HK$49,522,000 (six months ended 30 June 2016: HK$5,782,000), which was calculated using the effective interest method with an effective interest rate of 10.23%.

The movements in the components of the Bonds are set out below:

| | **Liability component** *HK$'000* | **Embedded derivatives** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| Issuance of the Bonds | 1,001,403 | 167,504 | 1,168,907 |
| Change in fair value of embedded derivatives | – | (48,374) | (48,374) |
| Interest expense | 55,468 | – | 55,468 |
| Exchange differences | (46,835) | (5,413) | (52,248) |
| At 31 December 2016 and **1 January 2017 (audited)** | **1,010,036** | **113,717** | **1,123,753** |
| Change in fair value of embedded derivatives | **–** | **(21,573)** | **(21,573)** |
| Interest expense | **49,522** | **–** | **49,522** |
| Payment of interest | **(22,460)** | **–** | **(22,460)** |
| Exchange differences | **32,708** | **–** | **32,708** |
| **At 30 June 2017 (unaudited)** | **1,069,806** | **92,144** | **1,161,950** |

**13. SHARE CAPITAL**

| | **Number of ordinary shares of HK$0.01 each** | *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 1 January 2016, 31 December 2016 (audited) and **30 June 2017 (unaudited)** | **500,000,000,000** | **5,000,000** |
| Issued and fully paid: | | |
| At 1 January 2016, 31 December 2016 (audited) and **30 June 2017 (unaudited)** | **68,645,535,794** | **686,455** |

### 14. BUSINESS COMBINATIONS

During the six months ended 30 June 2017, there was no material business combination.

During the six months ended 30 June 2016, the Group acquired equity interest of two companies owned by independent third parties, which are detailed as follows:

(i) For the six months ended 30 June 2016, the Group completed the acquisition of 100% equity interest in 重慶嘉裕影視傳媒有限公司 ("Jiayu") on 1 January 2016 (the "Acquisition Date"). Jiayu is a company established in the PRC and is principally engaged in cinema operation. The Group will expand its presence in Chongqing through this acquisition.

The fair values of the identifiable assets and liabilities of Jiayu as at the Acquisition Date were as follows:

| | (Unaudited)<br>Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 28,790 |
| Intangible assets | 14,902 |
| Inventories | 58 |
| Trade receivables *(note (c))* | 1,980 |
| Amount due from a related party | 839 |
| Deposits, prepayments and other receivables *(note (c))* | 34,937 |
| Cash and cash equivalents | 7,733 |
| Trade payables | (10,946) |
| Other payables and accruals | (18,838) |
| Amount due to a related party | (4,038) |
| Receipt in advance and deferred revenue | (10,080) |
| Provision for tax | (635) |
| Deferred tax liabilities | (3,793) |
| Total identifiable net assets at fair value | 40,909 |
| Goodwill *(note (b))* | 41,815 |
| Fair value of consideration *(note (a))* | 82,724 |
| Total consideration | (82,724) |
| Purchase consideration payables | 8,627 |
| Purchase consideration settled in cash | (74,097) |
| Add: Cash and cash equivalents in subsidiary acquired | 7,733 |
| Net cash outflows | (66,364) |

### 14. BUSINESS COMBINATIONS (Continued)

(i) (Continued)

*Notes:*

(a) Pursuant to the sale and purchase agreement, the consideration for the acquisition is a cash of RMB68,992,000 (equivalent to approximately HK$82,724,000).

(b) The goodwill arising from the acquisition of Jiayu represents the synergetic effect by enabling the Group to expand its cinema coverage in a more efficient and cost-effective manner by taking the advantages of Jiayu's existing customer network in Chongqing.

(c) None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(d) The Group incurred transaction costs of HK$237,000 for the acquisition which were expensed and recognised as administrative expense in the profit or loss for the six months ended 30 June 2016.

(e) Jiayu contributed revenue of HK$20,456,000 and net profit of HK$4,551,000 to the Group since the Acquisition Date to 30 June 2016.

**14. BUSINESS COMBINATIONS (Continued)**

(ii) For the six months ended 30 June 2016, the Group completed the acquisition of 100% equity interest in 重慶雄都影院投資有限公司 ("Xiongdu") on 29 February 2016 (the "Acquisition Date"). Xiongdu is a company established in the PRC and is principally engaged in cinema operation. The Group will further expand its presence in Chongqing through this acquisition.

The fair values of the identifiable assets and liabilities of Xiongdu as at the Acquisition Date were as follows:

| | (Unaudited)<br>Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 23,382 |
| Intangible assets | 8,988 |
| Inventories | 218 |
| Trade receivables *(note (c))* | 1,978 |
| Deposits, prepayments and other receivables *(note (c))* | 5,952 |
| Cash and cash equivalents | 2,076 |
| Trade payables | (5,776) |
| Other payables and accruals | (20,955) |
| Receipt in advance and deferred revenue | (6,026) |
| Deferred tax liabilities | (2,505) |
| Total identifiable net assets at fair value | 7,332 |
| Goodwill *(note (b))* | 76,131 |
| Fair value of consideration *(note (a))* | 83,463 |
| Total consideration | (83,463) |
| Purchase consideration payables | 8,704 |
| Purchase consideration settled in cash | (74,759) |
| Add: Cash and cash equivalents in subsidiary acquired | 2,076 |
| Net cash outflows | (72,683) |

*Notes:*

(a) Pursuant to the sale and purchase agreement, the consideration for the acquisition is a cash of RMB69,608,000 (equivalent to approximately HK$83,463,000).

(b) The goodwill arising from the acquisition of Xiongdu represents the synergetic effect by enabling the Group to further expand its cinema coverage in a more efficient and cost-effective manner by taking the advantages of Xiongdu's existing customer network in Chongqing.

(c) None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(d) The Group incurred transaction costs of HK$131,000 for the acquisition which were expensed and recognised as administrative expense in the profit or loss for the six months ended 30 June 2016.

(e) Xiongdu contributed revenue of HK$4,679,000 and net loss of HK$2,922,000 to the Group since the Acquisition Date to 30 June 2016. Had the acquisition occurred on 1 January 2016, consolidated revenue and consolidated profit for the six months ended 30 June 2016 would have been HK$2,149,874,000 and HK$10,100,000 respectively.

### 15. EVENTS SUBSEQUENT TO REPORTING PERIOD

On 25 January 2017, a wholly-owned subsidiary of the Company (the "Purchaser"), entered into a sale and purchase agreement to acquire Orange Sky Golden Harvest Cinemas (China) Company Limited ("OSGH (China)"), through the acquisition of the total issued share capital of City Entertainment Corporation Limited (the "Target Company"), (the "Acquisition"). The Acquisition was completed on 28 July 2017 (the "Completion Date"). As at the Completion Date, the Purchaser had paid an amount in USD equivalent to RMB3.02 billion (being the Consideration, net of the PRC tax payment) to the Giant Harvest Limited. Upon completion, (i) the Target Company becomes an indirect wholly-owned subsidiary of the Company, and (ii) the Target Company and 大地影院管理有限公司 hold 92.59% and 7.41% of the issued share capital of OSGH (China) respectively. Details of the Acquisition are more particularly disclosed in the announcement dated 25 January 2017, 17 February 2017, 7 March 2017, 15 June 2017, 22 June 2017, 20 July 2017 and 28 July 2017, and the circular of the Company dated 23 June 2017. The initial accounting for the business combination is incomplete up to the date of this announcement, and the assessment of the fair value of OSGH (China)'s assets and liabilities is still in progress.

On 21 July 2017, issuance of US$400,000,000 3.15% credit enhanced notes due 2020 (the "Notes") by a wholly-owned subsidiary of the Company had been successfully completed. The listing of and permission to deal in the Notes on the Hong Kong Stock Exchange became effective on 24 July 2017. Details of issuance of the Notes are more particularly disclosed in the announcement dated 17 July 2017, 18 July 2017 and 21 July 2017.

On 8 August 2017, the Company has subscribed 50,000,000 new shares of Sunny Bank Ltd. ("Sunny Bank") (representing approximately 2.4% of the total issued share capital of Sunny Bank as enlarged after the subscription) to be issued and allotted by Sunny Bank at a total consideration of NT500,000,000 (equivalent to approximately HK$131,200,000) (exclusive of transaction costs), which has been settled and paid in cash by the Company. Details of transactions in relation to the subscription of shares in Sunny Bank are more particularly disclosed in the announcement dated 8 August 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to operate in the areas of culture and media services, property development and enterprise cloud services, through Dadi Media (HK) Limited and its subsidiaries, Dadi Cinema Investment Limited and its subsidiaries, Dadi Film Distribution (HK) Limited and its subsidiaries and Oristar Technology (HK) Limited and its subsidiaries (collectively referred to as "Dadi Media"), Nan Hai Development Limited and its subsidiaries (collectively referred to as "Nan Hai Development") and Sino-i Technology Limited (stock code: 250) and its subsidiaries (collectively referred to as "Sino-i"), and has made some achievements. In the meantime, the Group has achieved steady growth in new media and innovative business, the new business sectors which the Group tapped into, through Dadi News Media (HK) Limited and its subsidiaries (collectively referred to as "Dadi News Media") and Dadi Innovation (HK) Limited and its subsidiaries (collectively referred to as "Dadi Innovation").

The Group issued US$500,000,000 credit enhanced notes at a rate of 3.00% per annum and US$400,000,000 credit enhanced notes at a rate of 3.15% per annum in May and July 2017 respectively, both of which were due 2020 and successfully listed on the Hong Kong Stock Exchange. The successful issuance of the offshore US$-denominated notes marked the diversified core businesses and financial performance of the Group being further recognized by the international capital market, which will in turn reduce the financing costs of the Company, expand its financing sources and further enhance the Company's ability in respect of capital operation.

During the reporting period, turnover of the Group was approximately HK$8,094.0 million (for the six months ended 30 June 2016: HK$2,143.2 million), representing an increase of approximately 277.7% as compared with the corresponding period last year. Profit before income tax was approximately HK$2,632.5 million (for the six months ended 30 June 2016: HK$50.1 million). After deducting income tax expense of HK$1,423.3 million, profit for the period was approximately HK$1,209.2 million (for the six months ended 30 June 2016: HK$9.6 million). The net assets attributable to the owners of the Company were approximately HK$5,353.3 million (31 December 2016: HK$4,051.8 million), representing a net asset value of approximately HK$0.078 (31 December 2016: HK$0.059) per share.

## Culture and Media Services

*Business Review*

After a decade of rapid development, China movie market entered into the stage of "new normal" accompanied by steady growth. During the reporting period, turnover of the culture and media services segment was approximately HK$1,663.4 million (for the six months ended 30 June 2016: HK$1,708.9 million). Excluding the effect of exchange rate, the segment recorded a slight increase in operating revenue dominated in RMB, of which 廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited) and its subsidiaries (collectively as "Dadi Cinema") under Dadi Media recorded operating revenue of RMB1.419 billion, representing an increase of 1.8% as compared with the corresponding period last year. Profit before income tax of the culture and media services segment was approximately HK$28.5 million (for the six months ended 30 June 2016: HK$193.0 million). Given most of the cinemas newly opened in the first half of 2017 were under the stage of development, their profitability was weakened. In light of the fact that the business of those newly opened cinemas gradually became well-developed within the commercial district in which they operated, couple with the successive launch of quality movies such as "Wolf Warriors 2" (《戰狼2》) in the second half of the year, the box-office revenue and profitability of Dadi Cinema would continue to rise.

*Dadi Cinema*

Dadi Cinema adhered to platform building, integrated various resources and strengthened cross-industry collaboration, with a view to creating an eco-system of cinema experience integrated with diversified operation of "Film + Innovative Internet", "Film + Innovative Retail", "Film + Innovative Catering" and "Film + Innovative Culture". With clients in mind, the Group strives to nurture a "movie culture group" by continuously optimizing the terminal layout and providing high-quality film screening services and cinema experience, and other related consumption experience.

During the reporting period, the national box office receipts amounted to RMB25.459 billion. With a total admission of 779 million across the industry, Dadi Cinema achieved box-office revenue (before taxation) of RMB1,238 million, representing an increase of 0.9% as compared with the corresponding period last year and contributing to approximately 4.9% of the national box-office receipts. That consolidates the status of Dadi Cinema as the first runner-up among the cinema investment and management companies across the nation. Its admission of 39.85 million is another record high. As at 30 June 2017, Dadi Cinema had an aggregate of 367 cinemas with a total of 2,022 screens operating in 28 provinces and 173 cities of the People's Republic of China ("PRC"). Besides, there are approximately 300 cinemas contracted but not yet in operation.

## Culture and Media Services (Continued)

*Dadi Cinema (Continued)*

With the growing number of screens, the integration by means of mergers and acquisitions became an important channel to enlarge the market shares of cinemas. On 25 January 2017, Dadi Cinema announced the acquisition of cinemas of Orange Sky Golden Harvest Cinemas (China) Company Limited (橙天嘉禾影城(中國)有限公司) in mainland China. Its cinema layout in the first and second tier cities has served as a solid complement to the market layout of Dadi Cinema which mainly targeted the second to fourth tier cities, thereby enhancing operation efficiency through resource integration. The acquisition was successfully completed on 28 July 2017. Upon completion of the transaction, the number of cinemas and screens operated and owned by Dadi Cinema would increase to 445 and 2,569 respectively, further consolidating its market position as the second leading cinema investment and management company in the PRC. In addition, the acquisition helped to strengthen core capacity of Dadi Cinema and to consolidate quality resources of Dadi Cinema so as to create synergy and consolidate its benefits, which would be beneficial to the customer-oriented development strategies in the long run, thus laying a solid foundation for the implementation of "Film+" strategy of Dadi Cinema.

In addition, Dadi Cinema has introduced audience-oriented and scene-driven marketing strategies in terms of advertisement. Leveraging on its advantages of spectacular diorama, Dadi Cinema created a marketing strategy integrating both online (mobile internet) and offline (screens of cinema) platform, resulting in the further in-depth transformation from the brand display level to precision marketing level. Meanwhile, it is expected that the theatre media trading platform will be rolled out in cinema circuits other than Dadi Cinema during the year. This will speed up the strategic planning of horizontal expansion of its advertising business, contributing to a steadily accumulated customer base and better performance of such business.

## Culture and Media Services (Continued)

*Dadi Film*

The Group is convinced that quality content products are the essential driver behind the cultural creative industries. While facilitating internet and big data, Chinese movies have undergone active structural changes. Content, channels and client-orientation are of paramount importance, a principle commonly adopted by the cultural and entertainment industry in the PRC. Under the new industry structure and model, content production as the core competitiveness of the movie industry will be further strengthened. Therefore, quality content is fundamental to productivity. While continuing its distribution business, Dadi Media (HK) Limited and its subsidiaries (collectively referred to as "Dadi Film") under Dadi Media have started to gain its foothold in the upstream content business, invested in movies, TV drama series and animation contents, and conducted business of related contents. In terms of the animation industry the layout of which was started to be illustrated since 2016, Dadi Film took "Magical Kingdom Anime" (驚奇大地) as its business brand and focused on of project cultivation of comics, and self-developed and integrated potential animation projects and other quality projects with IP-derived value (a type of intellectual property which mainly refers to the copyright of literary and artistic works).

During the reporting period, 北京東方大地影視投資管理有限公司 (Beijing Dongfang Dadi Movie and Television Investment and Management Company Limited), an associate formed by Dadi Film and 東方邦信創業投資有限公司 (Dongfang Bangxin Chuangyie Investment Company Limited), has successfully completed the first tranche of investment of RMB120 million. Dadi Film also actively established a complete financing system for movies to promote the comprehensive positioning and long-term development of the content industry chain business.

*Oristar*

Being in the cinema industry for 10 years, Oristar Technology (HK) Limited and its subsidiaries (collectively referred to as "Oristar") is a high-tech company specialized in research and development of movie projection technology, and technologies and services such as integrated cinema system and cinema intelligent management. Oristar not only witnessed the cinema industry development of the PRC, but also became the vanguard of digital movies of the PRC. After a decade of meticulous efforts, products of Oristar are well received by the market. As of 30 June 2017, Oristar constructed over 4,500 digital screens in aggregate, participated in facility construction for approximately 5,000 halls, and entered into technology service contracts with over 1,200 cinemas, covering 30 provinces, autonomous regions and municipalities across China.

During the reporting period, benefited by the Oristar's continuing endeavor in developing its integrated laser screening service, in-depth co-operation in laser transformation was established with Christie Digital Systems, a world-famous cinema projector producer. In face of China's cinema circuit industry that is still rapidly developing nowadays, Oristar has provided total theater solutions that include "high-quality film showing services" which highlights laser screening, so as to offer one-stop total solutions and services for cinemas in an on-going basis.

**Culture and Media Services (Continued)**

*Prospects*

During the first half of 2017, the total movie box office and the admission were RMB25.459 billion and 779 million respectively; the number of newly added movie theatres nation-wide was 869; and the number of newly added screens were 5,084. Currently, the number of movie screens of the PRC has exceeded 47,000, surpassing North America as the country with the largest number of movie screens in the world. However, the cinema market in the PRC has not saturated, with immense space for development in terms of per capita admission and per capita screen. Dadi Cinema will continue to actively participate in the adjustment process of the industry through self-development and mergers and acquisitions, so as to consolidate and expand its market shares. Since the mergers and acquisitions of cinemas involved business streamlining, this may result in fluctuations of operating performance in short term. However, with its effective standardization strategies and urban management policies, Dadi Cinema will promptly complete the operation streamlining upon acquisitions of cinemas. Along with the steady growth in market share within the cinema industry, the expansion of business size will contribute to a substantial increase in non-ticket revenue such as advertising income. The expansion of business scale will also serve as a springboard for Dadi Cinema to secure its foothold in the upstream industry, in turn promoting the development of Dadi Media in the scope of the movie investment and distribution industry. In addition, the "Film+" strategy of Dadi Cinema will put more focus on materializing the effective correlation between cinema-related businesses and efficient complement of cross-sector operation. The strategy aims to enhance members' loyalty and facilitate overall consumption through the delicated management of members by digitalization of cinemas, and consolidate cinema value to create a cultural and entertainment interactive platform. Further, the Group will adhere to the "Film+" strategy to conduct cross-sector marketing. Through efficient multi-pronged approaches, namely "Film + Innovative Internet", "Film + Innovative Retail", "Film + Innovative Catering" and"Film + Innovative Culture", the Group will be able to enrich value-added services, enhance consumer experience and further promote industry development. Besides, Dadi Cinema is expected to promote its scene interactive product platform and theatre media and trading platform in the cinema industry during the year, speed up the strategic planning of horizontal expansion of Dadi Cinema's media platform through enhancing the recognition and application of the two product platforms in the industry, and implement the integration of advertising resources and digitalized operation so as to improve advertising business performance.

During the second half of 2017, with some "content-oriented" movies being increasingly well-received, movie-goers' demand for quality is growing, which gives rise to the call for supply-side reform in the film industry and cinema industry. Based on the substantial base of movie-goers in terms of terminal film exhibition, the Group will also keep putting effort on the upstream content industry and strengthen the momentum of the Group in the cultural and creative industry.

In the face of the current rapid development of the PRC cinema industry, Oristar will stay true to the mission of "high-quality film showing services", providing one-stop products and services of premium quality for the cinemas.

## Property Development

*Business Review*

During the reporting period, turnover of this business segment was approximately HK$5,686.2 million (for the six months ended 30 June 2016: HK$0.6 million). Profit before income tax was approximately HK$3,075.7 million (for the six months ended 30 June 2016: HK$14.3 million). Earnings for the period were mainly due to the continuous income recognized from Phase 3 of "The Peninsula" during the reporting period.

*"The Peninsula" Project in Shenzhen*

"The Peninsula" project of Nan Hai Development adheres to quality as the core, excelling at raising the bar for its products with exquisite decorations. Adjacent to Shekou-Qianhai Free Trade Zone, the project has fully enhanced the living amenities and the waterfront environment. Leveraging on its good reputation over the years, "The Peninsula" enjoys a good brand effects. The sales of Phase 3 of "The Peninsula" was launched on 9 April 2016 in Shekou, Shenzhen. As of 30 June 2017, accumulated sales amounted to RMB15.077 billion. Phase 4 of "The Peninsula" commenced construction in July 2015 and is under development at full speed. The project includes residential area of approximately 79,000 square meters ("sq. m."), which is expected to meet public demonstration conditions and to be put on pre-sale at the end of 2017 or in 2018. Commercial area of 29,600 sq.m., business buildings with an area of 10,400 sq.m., office buildings with an area of 6,500 sq.m. and hotels with an area of 9,400 sq.m. will be held for operation.

*"Free Man Garden" Project in Guangzhou*

The "Free Man Garden" project of Nan Hai Development in Guangzhou is located at the junction of Baiyun District and Huadu District, which not only enjoys the comprehensive ancillary facilities in Baiyun District, but also the favorable factors brought by the airport economic area. The sales of Phase 7 of "Free Man Garden" in Guangzhou was launched on 25 March 2017, attracting over 2,000 visitors. 497 units were sold within two days from the launch, recording a total subscription amount of approximately RMB806 million with a sales area of approximately 49,700 sq.m.. As at 30 June 2017, sales amounted to approximately RMB1,563 million with a total sales area of approximately 93,900 sq.m., accounting for approximately 96.17% of the total area of Phase 7. Currently, the structure of the project has been topped out. It is expected that the project will be delivered in the second half of 2019. Phase 2 of "Free Man Garden" in Guangzhou has been sold out, recording a total sales of approximately RMB1,529 million with a total sales area of approximately 141,600 sq.m.. The pre-sales for Phase 4 of "Free Man Garden" in Guangzhou commenced in July last year, recording a total sales of approximately RMB2,421 million as at 30 June 2017 with a total sales area of approximately 180,600 sq.m., accounting for 99.43% of the total area of Phase 4. Phase 4 is currently under gardening landscape construction and interior decoration and is expected to be delivered in the second half of 2018. Residential projects of Phase 5 and Phase 6 are under construction in full swing with a saleable residential area of approximately 228,400 sq.m..

## Property Development (Continued)

*Prospects*

Despite of the insignificant volatility of the real estate market since 2017, an overall momentum of stable development in terms of increasing transactions of land, steady growth of investment in real estate and new development projects was maintained. Although the commodity housing experienced a slackened growth in sales volume, the increase in prices was basically stable, resulting in remarkable destocking. In general, from the macroeconomic point of view of "maintaining growth" and the healthy and stable development of the real estate market, the investment growth in real estate development will remain stable this year. The real estate market will gradually return to rationality under the implementation of such policies and market sentiment.

Against this backdrop, the Company will uphold its philosophy of "user-friendly designs, high quality and building humanity community". While maintaining its results in property development business, the Company will take initiative in developing and reserving new property projects. Looking ahead, the Company intends to tap into strategic industries to create more profit-making opportunities and explores innovative commercial property investment and development models which combine culture and innovation, arts and humanity, catering and travel as well as fashion and leisure.

## Enterprise • Cloud Services

*Business Review*

By virtue of the all-rounded internet-based services, e-commerce and total Internet+ resolutions offered for small and medium enterprises ("SMEs") and clients in the PRC, this segment remained adamant about the provision of cloud service for the development of digitalization and smart operation. Leveraging on its unremitting efforts, this segment has successfully established a second-to-none national business and localized service network in the industry, so as to effectively address "the last kilometer" problems from service providers to corporate clients. In the meantime, in respect of product development, this segment has successfully launched a series of leading cloud services for enablement corporate digitalization and smart operation in the industry after prolonged exploration and promotion.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Enterprise • Cloud Services (Continued)

*Business Review (Continued)*

During the reporting period, with key subsidiaries 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli") and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet") as its main business entities, more efforts were continuously put into the development of cloud services for corporate digitalization and smart operation by providing comprehensive cloud computing infrastructure services, cloud application, corporate e-commerce services and total "Internet+" solutions to SMEs and individual clients in the PRC. During the reporting period, turnover of this segment was approximately HK$372.5 million (for the six months ended 30 June 2016: HK$403.5 million), representing a decrease of approximately 7.7% over the corresponding period last year. Loss before income tax was approximately HK$32.6 million (for the six months ended 30 June 2016: HK$21.4 million).

*CE Dongli*

With 18 years' experience in providing services for SMEs in the PRC, CE Dongli has successfully established a corporate "Internet+" product operating system as well as an extensive business and localized service network, providing one-stop corporate digitalization and smart operation solutions. During the reporting period, CE Dongli continued to strengthen the management of its direct branch offices throughout the PRC to enhance the localized service capacity. In particular, the enhancement in service capacity of the "the last kilometer", which is crucial to SMEs, would make such services closer to user needs. In the meantime, in respect of research and development of new products, more emphasis was put into the needs of different industries and clients under different stages so as to provide customized products and solutions to meet the needs of SMEs or certain specific industries.

*Xinnet*

During the reporting period, Xinnet continued its cloud services such as IaaS (Infrastructure as a Service), domain name registration and synergistic communication, and actively developed various cloud application and value-added services for SMEs through online direct sales and distributor channels established across the PRC. In January 2017, Xinnet officially launched "Arrow Cloud (箭頭雲)", its self-developed new generation cloud computing product, and enhanced the overall technical capacity and product experience, which gained recognition from the market and its client.

**Enterprise • Cloud Services (Continued)**

*Prospects*

The management of this segment considers that enterprises in the PRC will continue to increase its investment in digitalization and transformation. Although it still takes some time for market ramp-up and promotion, cloud services for corporate digitalization and smart operation and industrial solutions will enjoy enormous room for development.

Looking forward, this segment will continue to improve its ground services capability, which allows it to quickly respond to the needs of enterprises and provide timely solutions to issues. Meanwhile, this segment will enhance its overall operational capability and online services capability. Parallel operation of online services and localized services made this segment's services closer to the needs of enterprises. In respect of product research and development, the Group will quickly respond to the needs of different industries based on SaaS (Software as a Service) cloud product model and open-platform cloud technologies. Furthermore, this segment will also increase its capital investment in data centre, cloud computing technology, automatic operation and maintenance technology and big data technology, and enhance its overall technical core competence to further optimize its products and services.

**New Media**

Dadi News Media has established two business divisions, namely "HK01" and "Duowei Media". During the reporting period, turnover of Dadi News Media was approximately HK$130.3 million (for the six months ended 30 June 2016: HK$7.3 million). Loss before income tax was approximately HK$150.2 million (for the six months ended 30 June 2016: HK$81.6 million). Currently, the businesses of Dadi News Media have preliminarily established a foothold, and will focus on market investment and strategic adjustment based on current development.

Based in Hong Kong, "HK01" has now been developed into an IT enterprise with over 600 employees. During the reporting period, its online platform continued to provide more in-depth content and regarded the provision of news information as its principal business during this stage. "Duowei Media" includes two major media, namely Duowei monthly magazine and Duowei website. Duowei monthly magazine are sold in different places in the Asia-Pacific Region.

**New Media (Continued)**

Looking forward, the Group will continue to devote its resources in the new media business. Driven by its content business segment, the Group will also develop more internet application services. Dadi News Media is actively developing a membership system to build up a solid foundation for future development of an all-rounded platform. Meanwhile, the Group is committed to the development of exclusive video business and plans to enhance the video content, with an aim to make it as an important segment under its new media business.

**Innovative Business**

During the reporting period, turnover of Dadi Innovation was HK$345.0 million (for the six months ended 30 June 2016: Nil). Loss before income tax was approximately HK$192.2 million (for the six months ended 30 June 2016: HK$8.4 million).

As the completion of the acquisition of Crabtree & Evelyn took place in September 2016, Crabtree & Evelyn was not consolidated into the interim result of 2016. During the first half of 2017, Crabtree & Evelyn has implemented a series of restructuring initiatives such as brand positioning, sales strategies, product planning and development of new products, contributing to an initial success in rebuilding brand image with gradually strengthened customer loyalty and steady growth in gross profit margin. Besides, Crabtree & Evelyn has also put greater efforts into informatization, optimization of operating flow and supply chain and team building, resulting in a preliminary improvement in operation efficiency. In addition to the further implementation of the above restructuring initiatives, Crabtree & Evelyn is actively preparing for tapping into the PRC market and setting development of e-commerce platform and membership system as its key strategies for the second half of 2017, thereby creating synergy with the e-commerce and membership strategies of Dadi Cinema, which would be beneficial to the long-term customer-oriented development strategies of the Group in the future.

**Financial Resources and Liquidity**

The Group continued to adopt prudent funding and treasury policies. As at 30 June 2017, net assets attributable to the owners of the Company amounted to approximately HK$5,353.3 million (31 December 2016: HK$4,051.8 million), including cash and bank balances of approximately HK$15,049.8 million (31 December 2016: HK$8,171.4 million) which were mainly denominated in Renminbi, Hong Kong dollars and US dollars. As at 30 June 2017, the Group's aggregate borrowings were approximately HK$22,104.6 million (31 December 2016: HK$15,467.4 million), of which approximately HK$12,567.4 million (31 December 2016: HK$8,781.9 million) were bearing interest at fixed rates while approximately HK$9,537.2 million (31 December 2016: HK$6,685.5 million) were at floating rates. The Group currently has not taken any interest rate hedge.

As at 30 June 2017, the gearing ratio of the Group, which is calculated as the net debt divided by the adjusted capital plus net debt was approximately 52.22% (31 December 2016: 58.36%).

**Financial Resources and Liquidity (Continued)**

As at 30 June 2017, the capital commitment of the Group was approximately HK$7,435.8 million (31 December 2016: HK$3,416.0 million), of which approximately HK$33.4 million would be used for the renovation of the headquarters of enterprise cloud services, approximately HK$256.6 million would be used as capital expenditures for the expansion of its cinema business, approximately HK$3,219.1 million would be used for property development, approximately HK$3,887.6 million would be used for the acquisition of Orange Sky Golden Harvest Cinemas (China) Company Limited, and approximately HK$39.1 million would be used for other purposes.

As at 30 June 2017, the Group's contingent liabilities were approximately HK$19.1 million (31 December 2016: HK$18.6 million) in connection with the guarantees given to secure credit facilities and guaranteed returns.

As at 30 June 2017, certain interests in leasehold land, buildings, other property, plant and equipment, properties under development and completed properties held for sale, investment properties and bank deposits with a total net carrying value of approximately HK$13,168.6 million (31 December 2016: HK$10,160.5 million) were pledged to secure the credit facilities granted to the Group. In addition, trading securities with a carrying value of approximately HK$0.3 million (31 December 2016: HK$0.2 million) and certain shares of several subsidiaries were pledged and bank accounts were charged for securing the Group's credit facilities.

**Exposure to Fluctuation in Exchange Rates**

The majority of the Group's borrowings and transactions were primarily denominated in US dollars, Renminbi and Hong Kong dollars. Both the operating expenses and revenue were primarily denominated in Renminbi and Hong Kong dollars. Uncertainties in global economic development are expected to warrant a fluctuation in Renminbi. The Group's reported assets, liabilities and results may be affected by the Renminbi exchange rates. During the period under review, fluctuation in Renminbi exchange rates affected the assets and liabilities translation from Renminbi to Hong Kong dollar in financial reporting of the Group, and the Group will keep on reviewing and monitoring the fluctuation in exchange rate between Renminbi and Hong Kong dollar. For the funding in US dollar, as Hong Kong dollar are adopted as the reporting currency of the Group, the management of the Group considers the exposure to exchange risk is insignificant owing to the linked exchange rate system that pegs Hong Kong dollar to US dollar. The Group proactively seeks management measures to minimize the impact arising from risks and uncertainties as far as practicable, and considers using foreign exchange hedging instruments (if appropriate) from time to time, to minimize the risk exposure arising from changes in Renminbi exchange rates. As at the date of this announcement, the Group has not used any foreign exchange hedging instruments.

### Employees and Remuneration Policy

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave, etc. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of the Company. In general, salary review is conducted annually. As at 30 June 2017, the Group had approximately 18,944 employees (30 June 2016: 16,765 employees). The total salaries of and allowances for employees for the six months ended 30 June 2017 were approximately HK$864.7 million (for the six months ended 30 June 2016: HK$673.7 million).

The Group focuses on providing skill and quality training for various levels of staff, and provides on-the-job capability training to its staff; in respect of staff quality, corresponding training on personal work attitude and work habits is also provided.

### Events Subsequent to Reporting Period

Save as disclosed in note 15 of this announcement, there was no other significant event after the reporting period up to the date of this announcement.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 25 May 2017, Amber Treasure Ventures Limited (a wholly-owned subsidiary of the Company) issued the US$500,000,000 credit enhanced notes with an interest rate of 3.00% per annum due 2020 to professional investors. The notes are listed on the Hong Kong Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2017.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

## CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2017, except for the deviations mentioned below:

CG Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual.

## CORPORATE GOVERNANCE (Continued)

The Company has not appointed a CEO. The role of the CEO is performed by Mr. Yu Pun Hoi who is also the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

CG Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term subject to re-election.

During the period from 1 January to 24 May 2017, the Company has not complied with CG Code Provision A.4.1 as not all non-executive directors of the Company were appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code. Since 25 May 2017, the Company has entered into service contracts with each of its non-executive directors (including independent non-executive directors) for a term of two years with effect from the signing date of service contracts. The Company has therefore complied with the requirements under CG Code Provision A.4.1 since 25 May 2017.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the six months ended 30 June 2017.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises all the independent non-executive directors of the Company, namely Mr. Lau Yip Leung, Mr. Xiao Sui Ning and Mr. Ho Yeung Nang. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, the unaudited interim results for the six months ended 30 June 2017, and discussed the financial control, internal control and risk management systems.

**PUBLICATION OF THE INTERIM RESULTS AND REPORT**

This results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.nanhaicorp.com). The 2017 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

By order of the Board
**Nan Hai Corporation Limited**
**Liu Rong**
*Executive Director*

Hong Kong, 23 August 2017

*As at the date of this announcement, the directors of the Company are as follows:*

| *Executive directors:* | *Non-executive director:* | *Independent non-executive directors:* |
|---|---|---|
| Mr. Yu Pun Hoi | Mr. Lam Bing Kwan | Mr. Lau Yip Leung |
| Ms. Liu Rong | | Mr. Xiao Sui Ning |
| Mr. Lung King Cheong | | Mr. Ho Yeung Nang |