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南海控股有限公司*

NAN HAI CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 680)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

## RESULTS

The board of directors (the "Board") of Nan Hai Corporation Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

* *For identification purposes only*

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 (Re-presented) |
|---|---|---|---|
| Revenue | *4(a)* | **15,900,885** | 9,050,870 |
| Cost of sales and services provided | *7* | **(5,763,012)** | (3,551,224) |
| Gross profit | | **10,137,873** | 5,499,646 |
| Other operating income | *4(b)* | **586,911** | 369,293 |
| (Loss)/Gain on deemed disposal of an associate | | **(162)** | 595,270 |
| Selling and marketing expenses | | **(3,021,316)** | (2,054,090) |
| Administrative expenses | | **(1,083,184)** | (771,054) |
| Other operating expenses | | **(1,622,025)** | (763,753) |
| Finance costs | *6* | **(823,731)** | (516,714) |
| Fair value change on financial liability at fair value through profit or loss | | **26,809** | 48,374 |
| Share of results of associates | | **12,913** | (36,426) |
| Share of result of a joint venture | | **165** | (116) |
| Gain on fair value change on investment properties | | **2,137** | 30,127 |
| **Profit before income tax** | *7* | **4,216,390** | 2,400,557 |
| Income tax expense | *8* | **(2,613,955)** | (1,122,165) |
| **Profit for the year** | | **1,602,435** | 1,278,392 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **1,708,027** | 1,359,553 |
| Non-controlling interests | | **(105,592)** | (81,161) |
| | | **1,602,435** | 1,278,392 |
| | | ***HK cent*** | *HK cent* |
| **Earnings per share for profit attributable to the owners of the Company during the year** | *10* | | |
| — Basic | | **2.49** | 1.98 |
| — Diluted | | **2.49** | 1.98 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **1,602,435** | 1,278,392 |
| **Other comprehensive income, including reclassification adjustments** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange gain/(loss) on translation of financial statements of foreign operations | **511,812** | (186,582) |
| Exchange gain/(loss) on translation of financial statements of foreign associates | **6,266** | (6,618) |
| Exchange gain on translation of financial statements of a foreign joint venture | **187** | – |
| Exchange differences reclassified on deemed disposal of an associate, net of tax | **359** | (14,808) |
| **Other comprehensive income for the year, including reclassification adjustments** | **518,624** | (208,008) |
| **Total comprehensive income for the year** | **2,121,059** | 1,070,384 |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **2,228,829** | 1,156,244 |
| Non-controlling interests | **(107,770)** | (85,860) |
| | **2,121,059** | 1,070,384 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **5,863,807** | 4,076,090 |
| Investment properties | | **112,448** | 230,394 |
| Prepaid land lease payments under operating leases | | **24,606** | 23,429 |
| Interests in associates | | **145,593** | 79,963 |
| Interest in a joint venture | | **5,413** | – |
| Amount due from a related party | | **254,324** | 950 |
| Available-for-sale financial assets | | **135,915** | 324 |
| Held-to-maturity investment | | **–** | 111,707 |
| Long term trade receivables | *11* | **2,370** | 3,303 |
| Deposits, prepayments and other receivables | | **901,850** | 438,892 |
| Intangible assets | | **6,438,083** | 3,024,760 |
| Deferred tax assets | | **596,985** | 161,448 |
| Pledged and restricted bank deposits | | **3,591,605** | 3,489,355 |
| | | **18,072,999** | 11,640,615 |
| **Current assets** | | | |
| Inventories | | **15,319,232** | 13,122,375 |
| Held-to-maturity investment | | **120,106** | – |
| Financial assets at fair value through profit or loss | | **199,474** | 24,597 |
| Trade receivables | *11* | **677,298** | 321,488 |
| Deposits, prepayments and other receivables | | **2,992,945** | 2,743,457 |
| Amounts due from associates | | **11,238** | 6,485 |
| Amount due from a joint venture | | **2,491** | – |
| Amounts due from related parties | | **4,064** | 192,190 |
| Pledged and restricted bank deposits | | **5,080,474** | 3,509,457 |
| Cash and cash equivalents | | **4,397,710** | 1,172,620 |
| | | **28,805,032** | 21,092,669 |
| Non-current assets held-for-sale | | **15,018** | 13,767 |
| | | **28,820,050** | 21,106,436 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**
*As at 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 12 | **2,137,185** | 1,454,678 |
| Other payables and accruals | | **1,439,633** | 1,212,914 |
| Receipt in advance and deferred revenue | | **6,851,766** | 6,793,907 |
| Provision for tax | | **3,823,364** | 1,410,014 |
| Amount due to a director | | **9,878** | 30,108 |
| Amounts due to associates | | **5,492** | 5,505 |
| Amounts due to related parties | | **135,669** | 99,138 |
| Bank and other borrowings | | **9,653,920** | 4,784,912 |
| Finance lease liabilities | | **59,189** | 33,330 |
| Convertible and exchangeable bonds | | **1,172,381** | 1,010,036 |
| Financial liability at fair value through profit or loss | | **86,908** | 113,717 |
| | | **25,375,385** | 16,948,259 |
| **Net current assets** | | **3,444,665** | 4,158,177 |
| **Total assets less current liabilities** | | **21,517,664** | 15,798,792 |
| **Non-current liabilities** | | | |
| Long term trade payables | 12 | **7,757** | 42,482 |
| Other employee benefits | | **2,064** | – |
| Bank and other borrowings | | **13,242,534** | 9,596,954 |
| Finance lease liabilities | | **27,984** | 42,171 |
| Provision for warranty | | **3,917** | 4,296 |
| Deferred tax liabilities | | **1,038,158** | 906,890 |
| | | **14,322,414** | 10,592,793 |
| **Net assets** | | **7,195,250** | 5,205,999 |
| **EQUITY** | | | |
| Share capital | 13 | **686,455** | 686,455 |
| Reserves | | **5,456,775** | 3,365,311 |
| **Equity attributable to the Company's owners** | | **6,143,230** | 4,051,766 |
| **Non-controlling interests** | | **1,052,020** | 1,154,233 |
| **Total equity** | | **7,195,250** | 5,205,999 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 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 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, internet lifestyle platform and innovative business.

As at 31 December 2017, the directors of the Company consider the ultimate holding company to be Dadi Holdings Limited, a limited liability company incorporated in Hong Kong.

### 2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The 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.

## 3. ADOPTION OF NEW/AMENDED HKFRSs

### 3.1 Adoption of new/amended HKFRSs — effective 1 January 2017

In the current year, the Group has applied for the first time the following new/amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2017:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014–2016 Cycle | Amendments to HKFRS 12, Disclosure of Interests in Other Entities |

*Amendments to HKAS 7 — Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

*Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

*Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

## 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective

The following new/amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

| | |
|---|---|
| Annual Improvements to HKFRSs 2014–2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures[1] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transactions[1] |
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| HKFRS 16 | Leases[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

*Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

*Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

## 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HKFRS 9 — Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate to have potential impact on initial application of HKFRS 9 in respect of certain equity securities classified as available-for-sale investment carried at fair value. These securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. The other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

In addition, the directors of the Company also anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact on the opening retained profits balance at 1 January 2018.

## 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HKFRS 15 — Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

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

(b) 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; or

(c) 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.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15, the entity recognise 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.

### 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

#### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

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

The directors of the Company have assessed the impact on application of HKFRS 15 and anticipate an impact on revenue for the following areas:

*For the sale of properties*

- The Group has considered all the relevant facts and circumstances in assessing whether the property sales contracts contain significant financing component, including the difference between the amount of promised consideration and the cash selling price of the property; and the combined effect of the expected length of time between the Group transfers the property to the customer and the customer pays for the property and the prevailing interest rates in the relevant market. The Group has applied the practical expedient in HKFRS 15 and has not considered the financing component of contracts which are expected to be completed within one year from the date of payment made by customers. Accordingly, the directors of the Company expect that the significant financing component included in the property sales contracts would have potential financial impact on the retained earnings, opening balance of inventory of properties and pre-sale deposits of the Group at 1 January 2018.

- Currently, the Group expensed off the costs associated with obtaining the property sales contracts with customers. Under the requirement of HKFRS 15, incremental costs of obtaining a contract is eligible for capitalisation as deferred contract costs if they meet certain criteria. Accordingly, the directors of the Company expect a recognition of deferred contract costs would result in an increase in opening retained profits and recognition of deferred taxation liabilities at 1 January 2018.

*For the provision of enterprise cloud services*

The adoption of HKFRS 15 may have impact on the timing and amount of revenue recognition of the Group's enterprise cloud services. However, a more detailed analysis is required to determine the extent of the impact.

Other than the abovementioned sources of revenue, the directors of the Company anticipate the application of HKFRS 15 will not have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements. The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

*Amendments to HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

*Amendments to HKAS 40, Investment Property — Transfers of Investment Property*

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

## 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

*Amendments to HKFRS 9 — Prepayment Features with Negative Compensation*

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

*HKFRS 16 — Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2017, the Group has non-cancellable operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

## 3. ADOPTION OF NEW/AMENDED HKFRSs (Continued)

### 3.2 Impact of new/amended HKFRSs which are issued but not yet effective (Continued)

*HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments*

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

*Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether other new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

## 4. REVENUE

(a) The Group's revenue represents revenue from its principal activities as set out below:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Re-presented) |
| Sales of properties and car parks | **9,866,583** | 4,524,877 |
| Enterprise cloud services* | **829,346** | 818,098 |
| Property management services | **63,343** | 45,901 |
| Sales of decoration materials | **91,483** | – |
| Film distribution services | **80,382** | 9,838 |
| Cinema ticketing income | **3,117,471** | 2,519,510 |
| Sales of food and beverages | **493,048** | 343,610 |
| Cinema advertising income | **220,223** | 135,291 |
| Sales and leases of projection equipment | **12,796** | 33,466 |
| Digital media technology services | **226,223** | 183,031 |
| Publication of magazines and advertising income | **21,299** | 26,107 |
| Sales of botanic-based personal care and fragrance products | **874,472** | 407,755 |
| Innovative catering services | **4,216** | 3,386 |
| | **15,900,885** | 9,050,870 |

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

## 4. REVENUE (Continued)

(b) Other operating income:

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | (Re-presented) |
| Bank interest income | **217,224** | 82,353 |
| Other interest income | **24,092** | 35,557 |
| Interest income on financial assets not at fair value through profit or loss | **241,316** | 117,910 |
| Gain on fair value change on financial assets at fair value through profit or loss | **13,834** | 781 |
| Gain on trading of financial assets at fair value through profit or loss | **34,192** | – |
| Exchange gain | **–** | 16,675 |
| Gain on disposal of property, plant and equipment | **32** | 181 |
| Rental income | **24,820** | 12,344 |
| Government grants *(Note)* | **111,772** | 135,213 |
| Dividend income | **6,464** | – |
| Sundry income | **154,481** | 86,189 |
| | **586,911** | 369,293 |

*Note:* Government grants have been received from the PRC governmental bodies in the form of the subsidies to cinema operations and subsidise the development of IT business in the PRC. The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities who are operating cinema and have research and development projects that meet certain criteria. There are no unfulfilled conditions or contingencies attaching to these grants.

## 5. SEGMENT INFORMATION

The Group identifies operating segments and prepare segment information based on the regular internal financial information reported to the executive directors for their decisions about resource 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 reportable segments:

(a) Enterprise cloud services

(b) Property development

(c) Culture and media services

(d) Internet lifestyle platform*

(e) Innovative business

* *This segment has gradually transformed itself into a media-driven IT enterprise from a media company. The purpose of this segment is to build an internet lifestyle platform and attract traffic with media content. Its commercial value will be realised through advertising, local lifestyle services and other means. Therefore, the name of the segment is amended from "New media" to "Internet lifestyle platform" to adapt its commercial strategy.*

## 5. SEGMENT INFORMATION (Continued)

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 year ended 31 December 2017 and 2016 are as follows:

| 2017 | Enterprise cloud services *HK$'000* | Property development *HK$'000* | Culture and media services *HK$'000* | Internet lifestyle platform *HK$'000* | Innovative business *HK$'000* | All other segments *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| From external customers | **829,346** | **9,958,066** | **4,150,143** | **21,299** | **878,688** | **63,343** | **15,900,885** |
| From inter-segments | **3,899** | **–** | **54,563** | **224,951** | **17,818** | **7,287** | **308,518** |
| **Reportable and all other segments revenue** | **833,245** | **9,958,066** | **4,204,706** | **246,250** | **896,506** | **70,630** | **16,209,403** |
| **Reportable and all other segments (loss)/ profit before income tax** | **(66,363)** | **5,820,449** | **(600,860)** | **(322,491)** | **(528,570)** | **23,092** | **4,325,257** |
| Bank interest income | **1,152** | **105,972** | **6,544** | **13** | **663** | **15,674** | **130,018** |
| Other interest income | **591** | **–** | **1** | **–** | **–** | **15,327** | **15,919** |
| Interest income on financial assets not at fair value through profit or loss | **1,743** | **105,972** | **6,545** | **13** | **663** | **31,001** | **145,937** |
| Finance costs | **(6,338)** | **(439,109)** | **(227,554)** | **–** | **(11,049)** | **(2,480)** | **(686,530)** |
| Depreciation and amortisation | **(65,415)** | **(8,651)** | **(829,880)** | **(16,021)** | **(54,218)** | **(1,122)** | **(975,307)** |
| Loss on deemed disposal of an associate | **(162)** | **–** | **–** | **–** | **–** | **–** | **(162)** |
| (Loss)/Gain on disposal of property, plant and equipment | **(52)** | **(160)** | **33** | **–** | **(3)** | **–** | **(182)** |
| Share of results of associates | **(1,040)** | **(307)** | **14,260** | **–** | **–** | **–** | **12,913** |
| Share of result of a joint venture | **–** | **–** | **165** | **–** | **–** | **–** | **165** |
| Fair value change on financial liability at fair value through profit or loss | **–** | **–** | **26,809** | **–** | **–** | **–** | **26,809** |
| Income tax credit/(expenses) | **915** | **(2,613,258)** | **18,673** | **–** | **(366)** | **(660)** | **(2,594,696)** |
| **Reportable and all other segments assets** | **1,187,978** | **26,853,288** | **11,014,755** | **76,538** | **1,987,794** | **1,960,132** | **43,080,485** |
| Interests in associates | **41,128** | **35,767** | **68,698** | **–** | **–** | **–** | **145,593** |
| Interest in a joint venture | **–** | **–** | **5,413** | **–** | **–** | **–** | **5,413** |
| Additions to non-current segment assets during the year | **71,485** | **2,190** | **915,467** | **8,552** | **171,130** | **4,326** | **1,173,150** |
| **Reportable and all other segments liabilities** | **(502,157)** | **(16,883,989)** | **(5,977,926)** | **(16,195)** | **(833,685)** | **(154,906)** | **(24,368,858)** |

## 5. SEGMENT INFORMATION (Continued)

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Enterprise cloud services *HK$'000* | Property development *HK$'000* | Culture and media services *HK$'000* (Re-presented) | Internet lifestyle platform *HK$'000* | Innovative business *HK$'000* | All other segments *HK$'000* | Total *HK$'000* (Re-presented) |
| Revenue | | | | | | | |
| From external customers | 818,098 | 4,524,877 | 3,224,746 | 26,107 | 411,141 | 45,901 | 9,050,870 |
| From inter-segments | – | – | – | 146,962 | 7,016 | 7,474 | 161,452 |
| **Reportable and all other segments revenue** | 818,098 | 4,524,877 | 3,224,746 | 173,069 | 418,157 | 53,375 | 9,212,322 |
| **Reportable and all other segments (loss)/profit before income tax** | (18,913) | 2,695,432 | 170,322 | (253,523) | (87,257) | (10,431) | 2,495,630 |
| Bank interest income | 587 | 28,964 | 16,411 | 8 | 33 | 7,942 | 53,945 |
| Other interest income | – | 31,566 | – | – | – | – | 31,566 |
| Interest income on financial assets not at fair value through profit or loss | 587 | 60,530 | 16,411 | 8 | 33 | 7,942 | 85,511 |
| Finance costs | (6,587) | (353,036) | (141,199) | – | (1,464) | – | (502,286) |
| Depreciation and amortisation | (56,294) | (4,225) | (439,800) | (10,800) | (14,392) | (507) | (526,018) |
| Gain on deemed disposal of an associate | – | 595,270 | – | – | – | – | 595,270 |
| (Loss)/Gain on disposal of property, plant and equipment | (12) | (120) | 181 | (55) | (1,311) | – | (1,317) |
| Share of results of associates | (1,192) | (48,007) | 12,773 | – | – | – | (36,426) |
| Share of result of a joint venture | – | – | (116) | – | – | – | (116) |
| Fair value change on financial liability at fair value through profit or loss | – | – | 48,374 | – | – | – | 48,374 |
| Income tax credit/(expenses) | 776 | (1,081,092) | (25,537) | – | (1,125) | – | (1.106,978) |
| **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 |
| Interests in associates | 235 | 33,265 | 46,463 | – | – | – | 79,963 |
| Additions to non-current segment assets during the year | 91,847 | 4,015 | 1,285,061 | 28,607 | 44,963 | 1,141 | 1,455,634 |
| **Reportable and all other segments liabilities** | (511,921) | (14,860,935) | (4,217,791) | (11,568) | (741,820) | (31,484) | (20,375,519) |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*For the year ended 31 December 2017*

### 5. SEGMENT INFORMATION (Continued)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Re-presented) |
| Reportable segments revenue | **16,138,773** | 9,158,947 |
| All other segments revenue | **70,630** | 53,375 |
| Elimination of inter-segment revenue | **(308,518)** | (161,452) |
| Group revenue | **15,900,885** | 9,050,870 |
| Reportable segments results before income tax | **4,302,165** | 2,506,061 |
| All other segments results before income tax | **23,092** | (10,431) |
| Bank interest income | **87,206** | 28,408 |
| Other interest income | **8,173** | 3,991 |
| Interest income on financial assets not at fair value through profit or loss | **95,379** | 32,399 |
| Finance costs | **(137,201)** | (14,428) |
| Depreciation and amortisation | **(4,858)** | (3,831) |
| Unallocated corporate expenses | **(62,187)** | (109,213) |
| Profit before income tax | **4,216,390** | 2,400,557 |

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Reportable segments assets | **41,120,353** | 29,468,754 |
| All other segments assets | **1,960,132** | 596,472 |
| Amount due from an associate | **–** | 530 |
| Amounts due from related parties | **–** | 167,560 |
| Available-for-sale financial assets | **131,558** | 324 |
| Pledged and restricted bank deposit | **2,063,134** | 1,908,435 |
| Other financial and corporate assets | **1,617,872** | 604,976 |
| Group assets | **46,893,049** | 32,747,051 |

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Reportable segments liabilities | **24,213,952** | 20,344,035 |
| All other segments liabilities | **154,906** | 31,484 |
| Amount due to a director | **9,878** | 30,108 |
| Provision for tax | **148,618** | 131,391 |
| Bank and other borrowings | **15,088,724** | 6,715,488 |
| Other corporate liabilities | **81,721** | 288,546 |
| Group liabilities | **39,697,799** | 27,541,052 |

**5. SEGMENT INFORMATION (Continued)**

The Group's revenues from external customers and its non-current assets (other than deferred tax assets, financial instruments, amount due from a related party and pledged and restricted bank deposits) are divided into the following geographical areas:

**Revenue from external customers**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Re-presented) |
| Mainland China (domicile) | **15,040,442** | 8,628,932 |
| Hong Kong | **134,199** | 115,678 |
| North America | **386,728** | 143,751 |
| Europe | **147,684** | 69,592 |
| Australia | **93,625** | 48,598 |
| Others | **98,207** | 44,319 |
| Total | **15,900,885** | 9,050,870 |

**Non-current assets**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China (domicile) | **11,314,670** | 6,025,474 |
| Hong Kong | **169,103** | 827,037 |
| North America | **746,521** | 491,890 |
| Europe | **125,659** | 11,026 |
| Australia | **89,337** | 26,517 |
| Others | **202,341** | 91,931 |
| Total | **12,647,631** | 7,473,875 |

### 5. SEGMENT INFORMATION (Continued)

**Non-current assets (Continued)**

The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the non-current assets is based on the physical and operating location of the assets. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities, the Group has the majority of its operations and workforce in Mainland China, and therefore, Mainland China is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 Operating Segments.

During the year ended 31 December 2017 and 2016, the Group did not derive more than 10% of the Group's total revenue from any single customer.

### 6. FINANCE COSTS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings | **1,253,594** | 821,562 |
| Interest on convertible and exchangeable bonds | **104,549** | 55,468 |
| Interest on finance leases | **7,974** | 6,803 |
| Total finance costs on financial liabilities not at fair value through profit or loss | **1,366,117** | 883,833 |
| Less: Amount capitalised to properties under development* | **(542,386)** | (367,119) |
| | **823,731** | 516,714 |

* Finance costs have been capitalised at a rate of 5.04% to 7.35% (2016: 5.14% to 11.35%) per annum.

## 7. PROFIT BEFORE INCOME TAX

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax is arrived at after charging: | | |
| Amortisation of intangible assets other than goodwill* | **67,049** | 18,528 |
| Auditors' remuneration | | |
| — Audit service | **14,385** | 8,051 |
| — Other service | **2,633** | 6,946 |
| Cost of sales of properties and car parks | **3,306,215** | 1,792,880 |
| Cost of provision of enterprise cloud services | **154,847** | 139,709 |
| Cost of provision of property management services | **50,960** | 35,022 |
| Cost of sales of decoration materials | **81,524** | – |
| Cost of provision of film distribution services | **112,259** | 18,306 |
| Cost of cinema ticketing | **1,330,723** | 1,070,795 |
| Cost of sales of food and beverages | **142,149** | 103,496 |
| Cost of cinema advertising | **1,764** | – |
| Cost of sales and leases of projection equipment | **14,099** | 30,691 |
| Cost of digital media technology services | **13,904** | 21,791 |
| Cost of publication of magazine and advertising | **227,254** | 170,999 |
| Cost of sales of botanic-based personal care and fragrance products | **325,268** | 166,229 |
| Cost of innovative catering services | **2,046** | 1,306 |
| Cost of sales and services provided | **5,763,012** | 3,551,224 |
| Depreciation of owned assets* | **901,155** | 507,240 |
| Depreciation of leased assets* | **11,448** | 3,564 |
| Write-off of deposits, prepayments and other receivables* | **15,707** | 319 |
| Write-off of property, plant and equipment* | **142,574** | 11,092 |
| Write-off of intangible assets other than goodwill* | **670** | – |
| Minimum lease payments | **763,997** | 654,467 |
| Contingent rentals | **20,574** | 20,478 |
| Operating lease charges on land and buildings | **784,571** | 674,945 |
| Operating lease charges on prepaid land lease* | **513** | 517 |
| Direct operating expenses arising from investment properties that generated rental income during the year | **3,106** | 2,670 |
| Direct operating expenses arising from investment properties that did not generate rental income during the year | **–** | 9,210 |
| Provision for impairment of trade receivables* | **2,920** | 5,390 |
| Provision for impairment of deposits, prepayments and other receivables* | **3,570** | 16,080 |
| Provision for impairment of intangible assets other than goodwill* | **5,707** | – |
| Provision for impairment of interest in an associate* | **–** | 6,373 |
| Provision for impairment of goodwill* | **79,612** | 34,473 |
| Provision for impairment of inventories* | **–** | 4,397 |
| Provision for impairment of property, plant and equipment* | **125,762** | – |
| Research and development expenses* | **63,592** | 37,332 |

* included in other operating expenses

## 8. INCOME TAX EXPENSE

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The income tax expense comprises: | | |
| Current tax | | |
| — Hong Kong Profits Tax | | |
| Tax charge for the year | **11,192** | 11,974 |
| Under-provision in respect of prior years | **1,040** | 77 |
| — PRC Enterprise Income Tax ("EIT") | | |
| Tax charge for the year | **1,492,792** | 336,002 |
| Under-provision in respect of prior years | **1,116** | – |
| — Taxation for other jurisdictions | | |
| Tax charge for the year | **366** | 502 |
| — PRC Land Appreciation Tax ("LAT") | | |
| Tax charge for the year | **1,578,909** | 889,189 |
| | **3,085,415** | 1,237,744 |
| Deferred tax | | |
| — Credit for the year | **(471,460)** | (115,579) |
| | **2,613,955** | 1,122,165 |

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

PRC LAT is levied at progressive rates from 30% to 60% (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.

## 9. DIVIDEND

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of 0.23 HK cents per ordinary share (2016: 0.20 HK cents per ordinary share), in an aggregate amount of approximately HK$157,885,000 (2016: approximately HK$137,291,000), has been proposed by the directors of the Company and is subject to the approval of the shareholders in the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company of HK$1,708,027,000 (2016: HK$1,359,553,000) and on 68,645,535,794 (2016: 68,645,535,794) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to the owners of the Company and adjusted to reflect the interests, unrealised exchange difference and fair value change 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 year, which is the same as the basic earnings per share calculation.

Diluted earnings per share for the year ended 31 December 2017 and 31 December 2016 are the same as the basic earnings per share as the convertible and exchangeable bonds outstanding during the year had an anti-dilutive effect on the basic earnings per share.

## 11. TRADE RECEIVABLES

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–90 days | **379,390** | 243,150 |
| 91–180 days | **223,654** | 31,083 |
| 181–270 days | **31,496** | 16,019 |
| 271–360 days | **26,653** | 3,771 |
| Over 360 days | **48,538** | 55,443 |
| Trade receivables, gross | **709,731** | 349,466 |
| Less: Provision for impairment of receivables | **(30,063)** | (24,675) |
| Trade receivables, net | **679,668** | 324,791 |
| Less: Long term trade receivables | **(2,370)** | (3,303) |
| Current portion of trade receivables | **677,298** | 321,488 |

## 12. TRADE PAYABLES

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–90 days | **1,944,465** | 1,307,214 |
| 91–180 days | **84,741** | 35,161 |
| 181–270 days | **21,826** | 25,585 |
| 271–360 days | **20,733** | 34,458 |
| Over 360 days | **73,177** | 94,742 |
| | **2,144,942** | 1,497,160 |
| Less: Long term trade payables | **(7,757)** | (42,482) |
| Current portion of trade payables | **2,137,185** | 1,454,678 |

## 13. SHARE CAPITAL

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

## 14. BUSINESS COMBINATIONS

(a) During the year ended 31 December 2017, the Group acquired equity interest of certain companies owned by independent third parties.

The Group's material business combinations are detailed as follows:

(i) On 25 January 2017, True Vision Limited, an indirect wholly-owned subsidiary of the Group, entered into a sale and purchase agreement to acquire Orange Sky Golden Harvest Cinemas (China) Company Limited through the acquisition of the total issued share capital of City Entertainment Corporation Limited ("OSGH"), which is a company incorporated in Hong Kong. OSGH and its subsidiaries are principally engaged in cinema operation in Mainland China. Through the acquisition, the Group is able to increase the number of cinemas and screens significantly that the Group operates and manages in the PRC and strengthen its position in the PRC cinema industry. The acquisition was completed on 28 July 2017 (the "OSGH Acquisition Date").

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

| | **Fair value** |
|---|---|
| | ***HK$'000*** |
| Property, plant and equipment | **1,244,282** |
| Interests in associates | **1,285** |
| Interest in a joint venture | **5,061** |
| Intangible assets | **571,146** |
| Inventories | **12,813** |
| Trade receivables *(note (b))* | **195,085** |
| Deposits, prepayments and other receivables *(note (b))* | **228,636** |
| Cash and cash equivalents | **178,729** |
| Trade payables | **(75,394)** |
| Other payables and accruals | **(375,816)** |
| Receipt in advance and deferred revenue | **(175,531)** |
| Bank and other borrowings | **(169,006)** |
| Finance lease liabilities | **(47,728)** |
| Deferred tax liabilities | **(158,178)** |
| Total identifiable net assets at fair value | **1,435,384** |
| Non-controlling interests *(note (c))* | **(10,467)** |
| Goodwill *(note (a))* | **2,291,084** |
| Fair value of consideration | **3,716,001** |
| Purchase consideration | **(3,716,001)** |
| Add: cash and cash equivalents in subsidiaries acquired | **178,729** |
| Net cash outflows in acquisition | **(3,537,272)** |

### 14. BUSINESS COMBINATIONS (Continued)

(a) (i) (Continued)

*Notes:*

(a) The goodwill of HK$2,291,084,000 arising from the acquisition of OSGH, which is not deductible for tax purposes, 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 OSGH's existing customer network in Mainland China. The cinemas and screens that the Group operates and manages in the PRC increase significantly in number as well as geographical coverage.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to HK$195,085,000 and HK$228,636,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(c) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$10,467,000.

(d) The Group incurred transaction costs of HK$6,746,000 for the acquisition which have been expensed and recognised as administrative expense in the profit or loss for the year.

(e) OSGH contributed revenue of HK$453,994,000 and net loss of HK$303,432,000 to the Group since the OSGH Acquisition Date to 31 December 2017. Had the acquisition occurred on 1 January 2017, consolidated revenue and consolidated profit for the year would have been HK$16,531,704,000 and HK$1,508,157,000 respectively.

(ii) On 13 July 2017, 大地影院管理有限公司, an indirect non-wholly-owned subsidiary of the Group, entered into a sale and purchase agreement in respect of the acquisition of entire equity interest in 福建中瑞文化投資有限責任公司 ("福建中瑞"), which is a company incorporated in the PRC. 福建中瑞 and its subsidiaries are principally engaged in cinema operation in Fujian. The Group aims to expand its presence in Fujian through this acquisition. The acquisition was completed on 9 August 2017 (the "福建中瑞 Acquisition Date").

**14. BUSINESS COMBINATIONS (Continued)**

(a) (ii) (Continued)

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

| | **Fair value** |
|---|---|
| | ***HK$'000*** |
| Property, plant and equipment | **126,807** |
| Intangible assets | **29,997** |
| Deferred tax assets | **1,581** |
| Inventories | **822** |
| Trade receivables *(note (b))* | **10,566** |
| Deposits, prepayments and other receivables *(note (b))* | **57,780** |
| Cash and cash equivalents | **4,461** |
| Trade payables | **(12,763)** |
| Other payables and accruals | **(48,193)** |
| Receipt in advance and deferred revenue | **(1,009)** |
| Amount due to a related party | **(2,791)** |
| Bank and other borrowings | **(20,470)** |
| Deferred tax liabilities | **(11,173)** |
| Total identifiable net assets at fair value | **135,615** |
| Non-controlling interests *(note (c))* | **(1,572)** |
| Goodwill *(note (a))* | **380,302** |
| Fair value of consideration | **514,345** |
| Purchase consideration | **(514,345)** |
| Add: cash and cash equivalents in subsidiaries acquired | **4,461** |
| Net cash outflows in acquisition | **(509,884)** |

*Notes:*

(a) The goodwill of HK$380,302,000 arising from the acquisition of 福建中瑞, which is not deductible for tax purposes, 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 福建中瑞's existing customer network in Fujian.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to HK$10,566,000 and HK$57,780,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

**14. BUSINESS COMBINATIONS (Continued)**

(a) (ii) (Continued)

*Notes:* (Continued)

(c) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$1,572,000.

(d) The Group incurred transaction costs of HK$556,000 for the acquisition which have been expensed and recognised as administrative expense in profit or loss for the year.

(e) 福建中瑞 has contributed revenue of HK$56,067,000 and net profit of HK$4,646,000 to the Group since the 福建中瑞 Acquisition Date to 31 December 2017. Had the acquisition occurred on 1 January 2017, consolidated revenue and consolidated profit for the year would have been HK$15,992,864,000 and HK$1,603,668,000 respectively.

(iii) During the year ended 31 December 2017, 深圳半島城邦房地產開發有限公司, an indirect wholly-owned subsidiary of the Group, entered into a sale and purchase agreement in respect of the acquisition of entire equity interest in 北京奧萊惠通置業有限公司 ("奧萊惠通"), which is a company incorporated in the PRC. 奧萊惠通 is principally engaged in property development in Beijing. The Group aims to expand its property development business through this acquisition. The acquisition was completed on 17 July 2017 (the "奧萊惠通 Acquisition Date").

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

| | **Fair value** |
|---|---|
| | ***HK$'000*** |
| Property, plant and equipment | **39** |
| Inventories | **3,522** |
| Deposits, prepayments and other receivables *(note (b))* | **84,069** |
| Cash and cash equivalents | **5,834** |
| Trade payables | **(70)** |
| Other payables and accruals | **(42,450)** |
| Total identifiable net assets at fair value | **50,944** |
| Goodwill *(note (a))* | **40,421** |
| Fair value of consideration | **91,365** |
| Purchase consideration | **(91,365)** |
| Add: cash and cash equivalents in a subsidiary acquired | **5,834** |
| Net cash outflows in acquisition | **(85,531)** |

**14. BUSINESS COMBINATIONS (Continued)**

(a) (iii) (Continued)

*Notes:*

(a) The goodwill of HK$40,421,000 arising from the acquisition of 奧萊惠通, which is not deductible for tax purposes, represents the synergetic effect by enabling the Group to expand its resource on property development.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to nil and HK$84,069,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(c) The Group incurred transaction costs of HK$104,000 for the acquisition which have been expensed and recognised as administrative expense in profit or loss for the year.

(d) 奧萊惠通 has contributed revenue of nil and net loss of HK$76,000 to the Group since the 奧萊惠通 Acquisition Date to 31 December 2017. Had the acquisition occurred on 1 January 2017, consolidated revenue and consolidated profit for the year would have been HK$ 15,900,885,000 and HK$1,596,498,000 respectively.

(b) During the year ended 31 December 2016, the Group acquired equity interest of certain companies owned by independent third parties and a related party.

The Group's material business combinations are detailed as follows:

(i) The Group entered into a sale and purchase agreement in respect of the acquisition of 100% equity interest in 重慶嘉裕影視傳媒有限公司 ("嘉裕") which is a company incorporated in the PRC, on 23 November 2015. 嘉裕 is principally engaged in cinema operation. The Group aimed to expand its presence in Chongqing through this acquisition. The acquisition was completed on 1 January 2016 (the "嘉裕 Acquisition Date").

### 14. BUSINESS COMBINATIONS (Continued)

(b) (i) (Continued)

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

| | Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 28,790 |
| Intangible assets | 14,902 |
| Inventories | 58 |
| Trade receivables *(note (b))* | 1,980 |
| Amount due from a related party | 839 |
| Deposits, prepayments and other receivables *(note (b))* | 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 (a))* | 41,815 |
| Fair value of consideration | 82,724 |
| Purchase consideration | (82,724) |
| Add: cash and cash equivalents in a subsidiary acquired | 7,733 |
| Net cash outflows in acquisition | (74,991) |

*Notes:*

(a) The goodwill of HK$41,815,000 arising from the acquisition of 嘉裕, which was not deductible for tax purposes, represented 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 嘉裕's existing customer network in Chongqing.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to HK$1,980,000 and HK$34,937,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(c) The Group incurred transaction costs of HK$1,330,000 for the acquisition which were expensed and recognised as administrative expense in profit or loss for the year.

(d) 嘉裕 has contributed revenue of HK$35,365,000 and net profit of HK$3,561,000 to the Group since the 嘉裕 Acquisition Date to 31 December 2016.

## 14. BUSINESS COMBINATIONS (Continued)

(b) (Continued)

(ii) The Group entered into a sale and purchase agreement in respect of the acquisition of 100% equity interest in 重慶雄都影院投資有限公司 (“雄都”), which is a company incorporated in the PRC, on 23 November 2015. 雄都 is principally engaged in cinema operation. The Group aimed to expand its presence in Chongqing through this acquisition. The acquisition was completed on 29 February 2016 (the “雄都 Acquisition Date”).

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

| | Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 23,382 |
| Intangible assets | 8,988 |
| Inventories | 218 |
| Trade receivables *(note (b))* | 1,978 |
| Deposits, prepayments and other receivables *(note (b))* | 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 (a))* | 76,131 |
| Fair value of consideration | 83,463 |
| Purchase consideration | (83,463) |
| Add: cash and cash equivalents in a subsidiary acquired | 2,076 |
| Net cash outflows in acquisition | (81,387) |

*Notes:*

(a) The goodwill of HK$76,131,000 arising from the acquisition of 雄都, which was not deductible for tax purposes, represented 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 雄都's existing customer network in Chongqing.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to HK$1,978,000 and HK$5,952,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(c) The Group incurred transaction costs of HK$1,190,000 for the acquisition which were expensed and recognised as administrative expense in profit or loss for the year ended 31 December 2016.

(d) 雄都 has contributed revenue of HK$12,635,000 and net loss of HK$6,755,000 to the Group since the 雄都 Acquisition Date to 31 December 2016. Had the acquisition occurred on 1 January 2016, consolidated revenue and consolidated profit for the year ended 31 December 2016 would have been HK$8,922,159,000 and HK$1,278,886,000 respectively.

**14. BUSINESS COMBINATIONS (Continued)**

(b) (Continued)

(iii) The Group entered into a sale and purchase agreement in respect of the acquisition of 70% equity interest in CE Holdings Limited ("Crabtree & Evelyn"), which is a company incorporated in the British Virgin Islands, on 15 December 2015. Crabtree & Evelyn is principally engaged in manufacturing, retail and distribution of botanic-based personal care and fragrance products. The acquisition aimed to expand the Group's retail and entertainment businesses. The acquisition was completed on 30 September 2016 (the "Crabtree & Evelyn Acquisition Date").

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

| | Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 234,270 |
| Intangible assets | 401,787 |
| Inventories | 268,367 |
| Trade receivables *(note (b))* | 53,435 |
| Deposits, prepayments and other receivables *(note (b))* | 454,368 |
| Cash and cash equivalents | 49,851 |
| Trade payables | (101,067) |
| Other payables and accruals | (819,211) |
| Provision for tax | (1,032) |
| Deferred tax liabilities | (11,440) |
| Finance lease liabilities | (163) |
| Total identifiable net assets at fair value | 529,165 |
| Non-controlling interests *(note (c))* | (383,947) |
| Goodwill *(note (a))* | 750,658 |
| Fair value of consideration | 895,876 |
| Purchase consideration | (895,876) |
| Add: cash and cash equivalents in subsidiaries acquired | 49,851 |
| Net cash outflows in acquisition | (846,025) |

*Notes:*

(a) The goodwill of HK$750,658,000 arising from the acquisition of Crabtree & Evelyn, which was not deductible for tax purposes, represented the unidentifiable intangible assets other than Crabtree & Evelyn's brand name and sales network, and the future profit expected to be recovered in the Mainland China market through the Group's distribution channel.

(b) The fair value and the gross amount of trade receivables and other receivables amounted to HK$53,435,000 and HK$454,368,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(c) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$383,947,000.

**14. BUSINESS COMBINATIONS (Continued)**

(b) (iii) (Continued)

(d) The Group incurred transaction costs of HK$6,518,000 for the acquisition which were expensed and recognised as administrative expense in profit or loss for the year ended 31 December 2016.

(e) Crabtree & Evelyn has contributed revenue of HK$408,810,000 and net loss of HK$63,787,000 to the Group since the Crabtree & Evelyn Acquisition Date to 31 December 2016. Had the acquisition occurred on 1 January 2016, consolidated revenue and consolidated profit for the year ended 31 December 2016 would have been HK$9,542,171,000 and HK$856,655,000 respectively.

(iv) On 14 July 2016, the Board announced that the Group received a notice of exercise of the put option of 30% equity interest by a holder of non-controlling interest of Listar Properties Limited ("Listar"). The Group acquired such interest accordingly. After the completion of the transfer, Listar became a 73% owned subsidiary of the Group. The acquisition was completed on 15 September 2016 (the "Listar Acquisition Date").

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

| | Fair value<br>*HK$'000* |
|---|---|
| Property, plant and equipment | 4,459 |
| Inventories | 4,547,107 |
| Trade receivables *(note (c))* | 36,397 |
| Deposits, prepayments and other receivables *(note (c))* | 1,153,599 |
| Pledged and restricted bank deposits | 249,478 |
| Cash and cash equivalents | 139,722 |
| Trade payables | (403,257) |
| Other payables and accruals | (1,528,297) |
| Receipt in advance and deferred revenue | (1,315,495) |
| Provision for tax | (38,790) |
| Bank and other borrowings | (863,315) |
| Deferred tax liabilities | (875,386) |
| Total identifiable net assets at fair value | 1,106,222 |
| Non-controlling interests *(note (d))* | (298,680) |
| Fair value of 43% share of Listar held by the Group immediately prior to the Listar Acquisition Date | (988,778) |
| Goodwill *(note (b))* | 1,519,329 |
| Fair value of consideration | 1,338,093 |
| Purchase consideration | (1,338,093) |
| Add: cash and cash equivalents in subsidiaries acquired | 139,722 |
| Net cash outflows in acquisition | (1,198,371) |

## 14. BUSINESS COMBINATIONS (Continued)

(b) (iv) (Continued)

*Notes:*

(a) As the acquisition of 30% equity interest in Listar is considered as a step acquisition under HKFRS 3, equity interest previously held in Listar is treated as if it was disposed of and reacquired at fair value on the Listar Acquisition Date. Accordingly, it was remeasured to its acquisition-date fair value, and a gain on deemed disposal of associate amounted to HK$595,270,000 is recognised in profit or loss.

(b) The goodwill of HK$1,519,329,000 arising from the acquisition of Listar, which was not deductible for tax purposes, represented the synergetic effect by enabling the Group to expand its resource on property development.

(c) The fair value and the gross amount of trade receivables and other receivables amounted to HK$36,397,000 and HK$1,153,599,000 respectively. None of these receivables was impaired and it was expected that the full contractual amounts could be collected.

(d) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of these companies and amounted to HK$298,680,000.

(e) The Group incurred transaction costs of HK$68,000 for the acquisition which were expensed and recognised as administrative expense in profit or loss for the year ended 31 December 2016.

(f) Listar has contributed revenue of HK$553,134,000 and net loss of HK$270,333,000 to the Group since the Listar Acquisition Date to 31 December 2016. Had the acquisition occurred on 1 January 2016, consolidated revenue and consolidated profit for the year ended 31 December 2016 would have been HK$9,309,560,000 and HK$1,167,356,000 respectively.

(v) On 28 December 2016, the Group acquired the remaining 27% non-controlling interests of Listar. After the completion of the transfer, Listar became a wholly-owned subsidiary of the Group.

As the transfer of the equity interest did not change the control of Listar, the transaction was classified as transaction between owners as capacity of owners and any change in equity interests were recognised in equity directly.

During the year ended 31 December 2016, loss attributable to the non-controlling interest of Listar amounted to HK$72,990,000.

### 15. EVENTS SUBSEQUENT TO REPORTING PERIOD

On 26 February 2018, 南海智辰投資顧問(北京)有限公司 (Nan Hai Zhichen Investment Consultancy (Beijing) Company Limited) ("Nan Hai Zhichen"), an indirect wholly-owned subsidiary of the Company, as settlor and beneficiary and 渤海國際信託股份有限公司 (Bohai International Trust Company Limited) (the "Trust Company") as the trustee entered into the contract in relation to the fund in the amount of RMB148,500,000 (equivalent to approximately HK$178,357,000) (the "Entrusted Fund") (the "Entrusted Fund Contract") pursuant to which Nan Hai Zhichen entrusted the Trust Company with the Entrusted Fund for the purposes of granting the Entrusted Loan in the principal amount of RMB148,500,000 (the "Entrusted Loan") to 北京大地夢工廠投資合夥企業(有限合夥) (Beijing Dadi Dreamworks Investment Partnership (Limited Partnership) ("Dadi Dreamworks"), with a term of five years. The Trust Company as lending agent and Dadi Dreamworks as borrower, entered into an entrusted loan contract pursuant to which the Trust Company granted the Entrusted Loan in the principal amount of RMB148,500,000 to Dadi Dreamworks, with a term of five years.

### 16. COMPARATIVE FIGURES

Comparative amount of cinema advertising income of approximately HK$135,291,000 has been reclassified from "Other operating income" to "Revenue" in the consolidated income statement for the year ended 31 December 2016, to conform with the presentation in the current year's consolidated income statement.

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the Company continued to operate in the areas of culture and media, property development and enterprise cloud services. With the experience and market resources of Dadi Media (Dadi Media (HK) Limited together with its subsidiaries, Dadi Cinema Investment Limited together with its subsidiaries, Oristar Technology (HK) Limited and its subsidiaries (collectively as "Dadi Media")) in the film industry for the past ten years, the Group has established a development strategy regarding the Internet transformation for the entire culture and media business in the next five to ten years based on comprehensive research and demonstration. At the same time, the Group's enterprise cloud services business, which is operated by Sino-i Technology Limited together with its subsidiaries (collectively as "Sino-i", stock code: 250), also began to undergo Internet transformation in 2017. The cloud computing services of 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet") and the portal business of 中企動力科技股份有限公司 (CE Dongli Technology Company Limited) ("CE Dongli") have also stably commenced, which has played a significant role in promoting the growth of the number of users. Although the two new businesses, namely "Internet Lifestyle Platform" and "Innovative Business", which are operated by the Company, are still in the investment stage and have a limited contribution to the Company's revenue in the short term, their business nature is in line with the market demand, and therefore their future development will be positive. The Group will continue to balance the Company's profitability and the requirements of sustainable development in the medium and long term; and to conduct new businesses and transform existing businesses from the perspective of enhancing corporate value. In terms of raising capital, the Group has issued a total of US$900 million of credit enhanced notes in May and July 2017 respectively, further widening the Company's financing channels. The issuance is conducive to the Group reducing the financing cost and optimizing the liability structure, which demonstrates the investor's recognition on the Company's overall strength.

During the year, revenue of the Group substantially increased by approximately 75.7% to HK$15,900.9 million (2016: HK$9,050.9 million). Net profit attributable to owners of the Company was approximately HK$1,708.0 million (2016: HK$1,359.6 million). The increase in profit was mainly attributable to the increase in revenue driven by the continuous recognition of the sales income of Phase 3 of "The Peninsula" property project of the Group during the year. Net assets attributable to owners of the Company were HK$6,143.2 million (2016: HK$4,051.8 million).

## Culture and Media Services

### *Business Review*

During the year, revenue of the culture and media services segment was approximately HK$4,150.1 million (2016: HK$3,224.7 million). Loss before income tax was approximately HK$600.9 million (2016: profit before income tax of HK$170.3 million).

In 2017, the scale of the cinema operations of Dadi Media continued to increase through organic growth and acquisition of OSGH, and the layout was evenly balanced. Both the box office and admission enjoyed rapid growth. Relying on the scale advantages of the cinema operation, the investment in content is strengthened under the premise of controllable risks. Excluding the adverse effect of one-off loss due to closure and adjustment of accounting policies, 廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited) and its subsidiaries ("Dadi Cinema") recorded a profit of HK$76.4 million while OSGH recorded a loss of HK$69.3 million. In 2018, the Company will optimize the income structure of OSGH and adjust its organizational structure to strive for a turnaround.

In 2017, the Group gradually shifted the focus of cinema business from scale development to both scale and profitability. At the end of the year, the Group reassessed cinemas with poor operating and financial performance, and closed certain cinemas with relatively long operating history or located in districts with irreversible changes. We have made a provision for impairment and adjusted the changes in the accounting estimates of the acquired OSGH, resulting in an one-off loss of HK$470.5 million. However, such strategies will have a positive impact on brand positioning, meeting user demand and long-term profitability.

*Cinema Operation*

In 2017, the national gross box office in China amounted to RMB52.38 billion (excluding service charges), representing a year-on-year increase of 15.1%. The annual admission of audiences was approximately 1,620 million, representing a year-on-year increase of 18.2% and became the second largest film market in the world after North America. The number of screens in China amounted to 52,670, and ranked the first in the world. In terms of admission, in 2017, the box office of first and second tier cities recorded a year-on-year growth of 11.15%, while the box office of third and fourth tier cities increased by 20.9% compared to the same period last year, demonstrating a year-on-year rising trend. In terms of movies, the box office of "Wolf Warriors 2" (《戰狼2》) has reached RMB5,680 million, being the highest gross box office film of all time in China. 《岡仁波齊》 and 《二十二》 have attracted market attentions and catered to a range of audiences.

## Culture and Media Services (Continued)

### *Business Review (Continued)*

*Cinema Operation (Continued)*

During the year, the cinema business of the Company achieved a box office revenue (tax included) of RMB2,841 million (including box office from OSGH after completion), representing a significant growth of market share from 4.9% to 5.4%, ranking second among cinema investment and management companies throughout China. Its admission of audiences of 91.61 million marked another record high. As at 31 December 2017, the cinema business of the Company had an aggregate of 464 cinemas with 2,745 screens operating in 29 provinces and 177 cities in China. In addition, there are over 300 cinemas contracted but not yet in operation.

In 2017, the Company acquired OSGH and its cinema operation in the first and second tier cities has served as a solid complement to the market of Dadi Cinema which mainly targeted the second to fourth tier cities, thereby optimizing the market of the cinema operation of the Company in China, strengthening its core competitiveness and creating scale effect.

In 2017, the Company initially explored the combination of live music and cinema to bring a variety of entertainment and leisure experiences to the audience. By expanding its advertising business to other cinema media and developing innovative products, the brand's customer base and advertising revenue have been raised to a new level. In the future, the Company will continue to increase pilots and innovations in high-margin businesses such as music, dining, derivatives and advertising to achieve a deep integration of "Film + Innovative Culture" and optimize the income structure.

*Dadi Film*

During the year, Dadi Media (HK) Limited and its subsidiaries (collectively as "Dadi Film") under Dadi Media continued to step up its efforts in three businesses, namely film contents, animation and distribution .

The Company's film content team obtained content reserves for specific types of films through various means, including self-development, copyright procurement, cooperation with external established creative teams and product bundling, so as to secure multi-channel copyright income from films, media platforms other than cinemas, derivatives and games as well as film distribution income in combination with its distribution business. During the year, the planning and development of various high-quality projects were initiated. It is expected that certain projects will gradually realize income from such rights in the coming years.

## Culture and Media Services (Continued)

### *Business Review (Continued)*

*Dadi Film (Continued)*

As for animation contents industry, 驚奇大地(北京)科技有限公司 (Magical Kingdom Anime (Beijing) Technology Limited) ("Magical Kingdom Anime"), as the main operator, provides comics and animation contents and aims at two-dimensional and children's market by adopting various models including co-production, equity investments and obtaining exclusive distribution rights in specific markets, and focusing on the development and operation of IP (a type of intellectual property which mainly refers to the copyright of literary and artistic works). During the year, more than 20 original self-developed and co-produced works were stocked, and the Chinese exclusive distribution rights of more than 20 overseas kids animated series with over 15,000 episodes have been acquired. During the year, Magical Kingdom Anime cooperated with various enterprises such as Sumitomo Corporation in respect of domestic and foreign IP development and operation.

As for distribution business, two models, namely buy-out distribution and agency distribution, were mainly used. During the year, Dadi Film distributed and promoted five films as lead distributor and jointly distributed and promoted six films as co-distributor.

*Oristar*

Oristar Technology (HK) Limited and its subsidiaries (collectively referred to as "Oristar") provide one-stop total solutions for cinemas, its products and services which covers over 30 provinces, autonomous regions and municipalities across the country with nearly 5,000 halls as of the end of 2017.

In order to meet the demand of cinema investors for high-quality projection solutions, Oristar continued to develop and produce its laser screening equipment. Oristar has established a strategic partnership with Christie, a world-famous cinema projector producer, and the newly-established laser R&D center has been put into operation, allowing more cinemas to enter the "laser screening" era and thus bringing ultimate viewing experience for audiences.

### *Prospects*

In 2017, the national gross box office amounted to RMB52.38 billion (excluding service charges). A total of 90 films recorded box office over RMB100 million, of which 49 were domestic films. As the world's second largest movie market, China has become the main growth driver of the global movie market. Dadi Media has initially formed three complementary businesses for its screening, distribution and content products. Capitalizing on its existing advantages and channels, Dadi Media has continuously devoted its efforts to content industry to create integrated advantages with the Group .

## Culture and Media Services (Continued)

### *Prospects (Continued)*

As for the cinema operation business, in 2018, we will regard the users as our core to conduct various operations, continuously optimizing the user experiences. Leveraging on OMO (Online-Merge-Offline) transformation, integrating online and offline membership data, offering more membership benefits through alliance with different industries and implementing precision marketing based on big data, we aim at achieving effective cooperation with cinema-related industries and sharing passenger flow.

As for the content, we will continue to develop strategic partnerships with creative personnel, and carry out market research and marketing strategy research as well as market analysis, audience analysis, marketing strategy analysis based on the data obtained, so as to guide the Company's content investment strategy. By enhancing the development of high-quality creative content and expanding the distribution network, multi-dimensional content can be achieved and realized.

As for the cinema screening services, Oristar, being an "all-rounded cinema solution expert", will pay more attention to the viewing experience and quality services, thereby bringing positive forces to facilitate the progress of refinement and Internet transformation in the cinema industry.

## Property Development

### *Business Review*

During the year, revenue of this business segment was approximately HK$9,958.1 million (2016: HK$4,524.9 million) and profit before income tax was approximately HK$5,820.4 million (2016: HK$2,695.4 million). Profit for the year was mainly attributable to the continuous recognition of the sales income of Phase 3 of "The Peninsula" property project of the Group during the year.

During the year, although control policies have been increasingly tightened, all real estate projects of Nan Hai Development Limited and its subsidiaries (collectively referred to as "Nan Hai Development") continued to develop and sell at a good pace and achieved excellent returns during the year leveraging on their good reputation, outstanding quality and positioning.

## Property Development (Continued)

### *Business Review (Continued)*

*"The Peninsula" Project in Shenzhen*

"The Peninsula" project of Nan Hai Development adheres to provide quality 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 effect. There are a total of five phases in "The Peninsula" project, and the sale of Phase 3 was launched on 9 April 2016 in Shekou, Shenzhen. In 2017, large-sized units were the sales focus of Phase 3, generating sales of RMB6.9 billion with 232 units being sold. As of 31 December 2017, accumulated sales amounted to RMB18.172 billion, with a cumulative sales of 1,000 units and a sales area of approximately 163,400 sq.m.. Phase 4 of "The Peninsula" commenced construction in July 2015, which includes residential area of approximately 79,000 sq.m. and commercial area of approximately 55,800 sq.m.. The residential part has been capped during the year and will be pre-sold in 2018. The commercial part, which will be self-owned by the Company, is expected to commence the operation of various businesses such as smart hotel, smart enterprise and shared office in 2019.

*"Free Man Garden" Project in Guangzhou*

"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. There are a total of eight phases in "Free Man Garden" project, of which Phase 4 and Phase 7 were major pre-sale targets for 2017. Among them, all units in Phase 4 had been pre-sold as of 31 December 2017, recording a total sales of approximately RMB2.439 billion with a total sales area of approximately 181,600 sq.m.. Phase 7 was opened for pre-sale in March 2017 and all units had been pre-sold as of 31 December 2017, recording a sales of approximately RMB1.628 billion with a total sales area of approximately 97,600 sq.m.. The remaining Phase 5, 6 and 8 will be saleable, while Phase 3 will be self-owned for commercial use. Among them, the saleable residential area of Phase 5 and 6 is approximately 223,200 sq.m., which is expected to commence pre-selling in 2018.

### *Prospects*

Since 2017, the government has continuously tightened its control policies, and the restrictions on purchases, loans, sales and prices have gradually escalated. Despite of the insignificant volatility of the real estate market, an overall momentum of stable development in terms of record high transaction volume and price of land as well as 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 notable level of sale.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Property Development (Continued)

#### *Prospects (Continued)*

In this context, the Company will try to strengthen its land bank. In 2018, we will actively expand our residential and commercial real estate projects in Shenzhen, Guangzhou and other first and second tier cities. At the same time, the Group will make good use of its advantages in the cultural and communication industry to realize the linkage between culture and real estate, and explore new models for real estate development and operation. By upholding the business philosophy of "user-friendly designs, high quality and building humanity community", the Group will integrate its resources to achieve business model innovation, which will be the future focus of the real estate sector.

### Enterprise Cloud Services

#### *Business Review*

By virtue of the comprehensive cloud computing infrastructure services, e-commerce and total "Internet+" solutions offered for corporate clients in the PRC, this segment remained confident about the development of digitalization and smart operation. Leveraging on its unremitting efforts, this segment has successfully established an outstanding 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, after prolonged exploration and promotion, this segment began to undergo Internet transformation, and launched a series of leading cloud services corporate digitalization and smart operation in the industry in 2017. Xinnet's cloud computing services and CE Dongli's portal business have also stably commenced, which played a significant role in promoting the growth of the number of users.

During the year, with key subsidiaries CE Dongli and Xinnet as its main business entities, more efforts were continuously made in the development of cloud services for corporate digitalization and smart operation by providing comprehensive IaaS (Infrastructure as a service), cloud application, corporate e-commerce services, total "Internet+" solutions and big data-based business intelligence service to SMEs and individual clients in the PRC. During the year, revenue of this segment was approximately HK$829.3 million (2016: HK$818.1 million), representing an increase of approximately 1.4% over the corresponding period last year. Loss before income tax was approximately HK$66.4 million (2016: HK$18.9 million).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Enterprise Cloud Services (Continued)

***Business Review (Continued)***

*CE Dongli*

With 18 years' experience of being a services provider for enterprises 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 year, CE Dongli continued to strengthen the management of its direct branch offices and further enhances its localized service capacity through the establishment of customer care divisions in various branches across the country. 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 to 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 industry solutions to meet the needs of enterprises or certain specific industries.

*Xinnet*

During the year, Xinnet continued its cloud services such as IaaS, 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 and gained recognition from the market and its client. On this basis, Xinnet will establish a direct sales team in core first-tier cities to provide local SMEs with targeted cloud computing solutions in a localized service model.

## 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. Meanwhile, with the further development of AI technology and IoT technology, business intelligence services based on big data will be developed, and large and medium enterprises with first-party data will take the lead in adoption. 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 by regarding users as its core, relying on the industry and making full use of Internet, 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, with an in-depth understanding of the industry's business scenarios, the Group will quickly respond to the needs of business scenarios in different industries based on the cloud product model, open platform and big data technology. Furthermore, this segment will also increase its capital investment in data centre, cloud computing technology, automatic operation and maintenance technology, big data technology, AI technology and application, and enhance its overall technical core competence to further develop and optimize its products and services for the enterprise's digital intelligent business scenario.

## Internet Lifestyle Platform

There are two business divisions under the Internet lifestyle platform, namely "HK01" and "Duowei Media". During the year, total revenue of the Internet lifestyle platform was approximately HK$246.3 million (2016: HK$173.1 million), of which approximately HK$225.0 million (2016: HK$147.0 million) was the advertising income from other segments within the Group. Net loss before income tax was approximately HK$322.5 million (2016: HK$253.5 million).

## Internet Lifestyle Platform (Continued)

### *Business Review*

Focusing on news and lifestyle media, "HK01" has gradually transformed itself into a media-driven IT enterprise with over 670 employees in Hong Kong. "HK01" aims to build a localized Internet lifestyle platform in Hong Kong and attract traffic with media content. In the future, its commercial value will be realized through advertising, local lifestyle services and other means, so as to make up for the lack of local Internet lifestyle platform."HK01" reformed its organizational structure in response to the transformation of the Internet in 2017, and further investment has been made in products and technology systems to improve the development of products that meet the needs of users. A series of transformations have achieved initial success. In 2017, the number of monthly active users of the website and APP achieved rapid growth, laying a good foundation for realizing future traffic. "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 with relatively stable circulation.

### *Prospects*

For our promising prospect, we will continue to invest resources in the future to develop innovative new products and fully explore user value. Meanwhile, we plan to integrate the businesses of "HK01" and "Duowei Media" with a view to using resources more effectively and enhancing synergies.

## Innovative Business

### *Business Review*

During the year, revenue of Dadi Innovation (HK) Limited and its subsidiaries (collectively referred to as "Dadi Innovation") was approximately HK$878.7 million (2016: HK$411.1 million) and loss before income tax was approximately HK$528.6 million (2016: HK$87.3 million).

2017 was a year in which Crabtree & Evelyn rejuvenated and implemented a series of restructuring initiatives such as brand positioning, sales strategies, product planning and development of new products, among which the change in sales strategies are mainly aimed at eliminating the abuse of sales discounts, resulting in a decline in sales and gross profit in the short term. However, this move has played a positive role in rebuilding brand image over the longer term with gradually strengthened customer loyalty and steady growth in gross profit margin. In addition, the development pace of new products has gradually accelerated since the acquisition of Crabtree & Evelyn, and the development of the daily natural care products is progressing steadily which is expected to be launched to market gradually in 2018. Besides, Crabtree & Evelyn has successively increased investment in informatization, optimization of supply chain and team building which is expected to gradually show results after 2018. Temporary inputs and losses are expected to lay a solid foundation for long-term development.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Innovative Business (Continued)

#### *Prospects*

In addition to the further implementation of the above restructuring initiatives, Crabtree & Evelyn will fully enter the PRC market in 2018 and the development of e-commerce platform and membership system will be its business focus for 2018, thereby creating synergy with the e-commerce and membership strategies of the Group's cinema operations, which would be beneficial to the long-term development of the Group.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group continued to adopt prudent funding and treasury policies. As at 31 December 2017, net assets attributable to the owners of the Company amounted to approximately HK$6,143.2 million (31 December 2016: approximately HK$4,051.8 million), including cash and bank balances of approximately HK$13,069.8 million (31 December 2016: approximately HK$8,171.4 million) which were mainly denominated in US dollars, Renminbi and Hong Kong dollars. As at 31 December 2017, the Group's aggregate borrowings were approximately HK$24,156.0 million (31 December 2016: approximately HK$15,467.4 million), of which approximately HK$12,705.3 million (31 December 2016: approximately HK$8,781.9 million) were bearing interest at fixed rates while approximately HK$11,450.7 million (31 December 2016: approximately HK$6,685.5 million) were at floating rates. The Group currently has not taken any interest rate hedge.

As at 31 December 2017, the gearing ratio of the Group, which is calculated as the net debt divided by the adjusted capital plus net debt was approximately 60.64% as at 31 December 2017 (31 December 2016: approximately 58.36%).

As at 31 December 2017, the capital commitment of the Group was approximately HK$3,104.6 million (31 December 2016: approximately HK$3,416.0 million), of which approximately HK$57.2 million would be used for the renovation of the headquarters of enterprise cloud services, approximately HK$186.8 million would be used as capital expenditures for the expansion of its cinema business, approximately HK$2,840.4 million would be used for property development, and approximately HK$20.2 million would be used for other business.

As at 31 December 2017, the Group's contingent liabilities were approximately HK$19.5 million in connection with the guarantees given to secure credit facilities (31 December 2016: approximately HK$18.6 million).

As at 31 December 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$12,025.6 million were pledged to secure the credit facilities granted to the Group (31 December 2016: approximately HK$10,160.5 million). In addition, trading securities with a carrying value of approximately HK$0.3 million and certain shares of several subsidiaries were pledged and bank accounts were charged for securing the Group's credit facilities (31 December 2016: approximately HK$0.2 million).

## 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 year 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 is 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. It will also proactively select the currency of assets and liabilities according to the Group's pre-judgment of currency movements where possible. As at the date of this announcement, the Group has not used any foreign exchange hedging instruments.

## EMPLOYEE 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. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of the Group. In general, salary review is conducted annually. As at 31 December 2017, the Group had approximately 20,813 employees (2016: 17,741 employees). The salaries of and allowances for employees for the year ended 31 December 2017 were about HK$2,042.2 million (2016: HK$1,358.9 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 THE REPORTING PERIOD

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

## FINAL DIVIDEND

The Board has recommended a final dividend of 0.23 HK cents per ordinary share for the year ended 31 December 2017 (for the year ended 31 December 2016: 0.20 HK cents per ordinary share). The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

## PROPOSED REDUCTION OF SHARE PREMIUM

The Board intends to put forward a proposal to the shareholders at the annual general meeting of the Company to be held on 30 May 2018 ("Annual General Meeting") for the reduction of share premium pursuant to the Bye-laws and the laws of Bermuda.

As at 31 December 2017, based on the audited financial statements of the Company, the total amount of the share premium account ("Share Premium Account") of the Company was approximately HK$965.9 million. It is proposed that the share premium account of the Company will be reduced by HK$965.9 million and the amount arising from the reduction will be transferred to the contributed surplus account of the Company ("Reduction of Share Premium").

It is proposed that after the proposed Reduction of Share Premium, the directors be granted the authority to utilise and apply any credit balance in the contributed surplus account of the Company in the future in accordance with the Bye-laws and all applicable laws (including the application of any credit balance to set off against accumulated losses of the Company and making distribution out of the contributed surplus account of the Company to the shareholders of the Company), as and when the directors may consider appropriate.

The Reduction of Share Premium does not involve any reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the shares.

Implementation of the reduction of share premium will not, of itself, affect the underlying assets, liabilities, business operations, management or financial position of the Company or the interests of the shareholders as a whole or the share capital of the Company other than related expenses incurred.

The Reduction of Share Premium is conditional upon, inter alia, the following being fulfilled:

(i) the passing of a special resolution by the shareholders to approve the Reduction of Share Premium at the Annual General Meeting;

(ii) compliance with the requirements of the Companies Act in Bermuda, including (a) the publication of a notice of the Reduction of Share Premium in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the date on which the Reduction of Share Premium shall become effective, being (subject to compliance with the Companies Act of Bermuda) the business day immediately following the day of passing of the special resolution to approve the Reduction of Share Premium at the Annual General Meeting ("Effective Date"); and (b) the Directors being satisfied that on the Effective Date, there are no reasonable grounds for believing that the Company is, or after the Reduction of Share Premium will be unable to pay its liabilities as they become due; and

(iii) compliance with the relevant legal procedures and requirements under the Listing Rules, the Bye-laws and the laws of Bermuda to effect the Reduction of Share Premium.

## PROPOSED REDUCTION OF SHARE PREMIUM (Continued)

Subject to the fulfillment of the above conditions, it is expected that the Reduction of Share Premium will become effective on the business day immediately following the date of passing of the special resolution of the shareholders approving the Reduction of Share Premium.

The Board considers that the Reduction of Share Premium will provide more flexibility for future dividend distribution plans. The Board considers that the Reduction of Share Premium is beneficial to the Company and its shareholders as a whole.

As none of the shareholders is interested in the Reduction of Share Premium, no shareholder is required to abstain from voting on the resolution proposed to consider and approve the Reduction of the Share Premium.

A circular relating to the Annual General Meeting containing, amongst others, details of the Reduction of Share Premium together with the notice of Annual General Meeting and the related proxy form, will be sent to the shareholders in due course.

**Shareholders and potential investors should note that the Reduction of Share Premium is conditional upon satisfaction of the conditions set out in this announcement. Therefore, the Reduction of Share Premium may or may not proceed.**

**Shareholders and potential investors are advised to exercise caution when dealing in the Shares and other securities of the Company. If they are in any doubt, they should consult their professional advisers.**

## PROPOSED AMENDMENTS TO THE BYE-LAWS

In addition, the Board also intends to propose to the shareholders at the Annual General Meeting for the approval of a special resolution to amend the Bye-laws in order to (i) expressly provide that the Company may by ordinary resolution make distribution out of the contributed surplus account of the Company; (ii) allow the Board to resolve to make distribution out of the contributed surplus account of the Company; (iii) remove the obsolete requirements for (a) notice of declaration of an interim dividend be given by advertisement in Hong Kong; and (b) newspaper advertisement for book closures, given that relevant announcements will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules; and (iv) effect the corresponding changes to the Bye-laws as a result of (i) and (ii) above.

This announcement in relation to the proposed amendments to the Bye-laws is made pursuant to Rule 13.51(1) of the Listing Rules. These proposals will be put forward to the shareholders for approval by way of special resolutions at the Annual General Meeting.

A circular relating to the Annual General Meeting containing, among others, details of the proposed amendments to the Bye-laws together with the notice of Annual General Meeting and the related proxy form, will be sent to the shareholders in due course.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday, 30 May 2018 in Hong Kong. The notice of Annual General Meeting will be published and despatched to the shareholders in due course.

## CLOSURE OF REGISTER

The register of members of the Company will be closed from 25 May 2018 to 30 May 2018, both days inclusive, during which period no transfer of shares will be effected for the purposes of determining the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting. In order to register the transfers, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 May 2018.

The register of members of the Company will be closed from 5 June 2018 to 6 June 2018, both days inclusive. during which period no transfer of shares will be effected, for the purpose of determining the shareholders' entitlement to the final dividend. In order to register the transfers, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 June 2018. The final dividend is payable on or before 5 July 2018 to the shareholders whose names appear on the register of members on 4 June 2018.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the Board, the Company has complied with the Corporate Governance Code (the "CG Code") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the year ending 31 December 2017 and as of the date of this announcement, except for the deviations mentioned below:

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.

During the year ended 31 December 2017, the Company has not complied with CG Code Provision A.2.1 as it has not appointed a CEO. During the year ended 31 December 2017, the role of CEO is also performed by Mr. Yu Pun Hoi who is 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. For good corporate governance, on 12 February 2018, the Company appointed Ms. Liu Rong as the CEO and the Company has therefore complied with the requirements under CG Code Provision A.2.1 since 12 February 2018.

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

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE (Continued)

During the period from 1 January 2017 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 by 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 year ending 31 December 2017.

## AUDIT COMMITTEE

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 the auditor of the Company and the management, this results announcement and the audited consolidated financial statements of the Group for the year ending 31 December 2017 and discussed the auditing, financial control, internal control and risk management systems.

## SCOPE OF WORK PERFORMED BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ending 31 December 2017 have been agreed by the Company's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year ending 31 December 2017. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO on the preliminary results announcement.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 25 May 2017 and 21 July 2017, Amber Treasure Ventures Limited (a wholly-owned subsidiary of the Company) 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, respectively, both of which are due 2020 and 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 year ending 31 December 2017.

## PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Hong Kong Stock Exchange and the Company (http://www.nanhaicorp.com). The 2017 annual report of the Company containing all the relevant information required by Appendix 16 to the Listing Rules will be published on the websites of the Hong Kong Stock Exchange and the Company and despatched to the shareholders of the Company in due course.

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

Hong Kong, 28 March 2018

As at the date of this announcement, the directors 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 |