
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Nine Express Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s).

This Composite Document should be read in conjunction with the accompany Form(s) of Acceptance, the contents of which form part of the terms of the Offers contained herein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and Form(s) of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the Form(s) of Acceptance.

KEYNE HOLDINGS LIMITED

*(incorporated in the Cayman Islands with
limited liability)*

NINE EXPRESS LIMITED

九號運通有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

COMPOSITE DOCUMENT RELATING TO VOLUNTARY CONDITIONAL CASH OFFERS BY



FOR AND ON BEHALF OF
THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE NOTES, AND TO CANCEL
ALL OUTSTANDING SHARE OPTIONS OF NINE EXPRESS
LIMITED (OTHER THAN THOSE
ALREADY OWNED OR AGREED TO BE ACQUIRED BY THE
OFFEROR AND ITS CONCERT PARTIES)

Financial Adviser to the Offeror



Independent Financial Adviser to the
Independent Board Committee, the Independent Shareholders,
the Convertible Noteholders and the Optionholders



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Octal Capital containing, among other things, details of the terms of the Offers is set out on pages 10 to 22 of this Composite Document.

A letter from the Board is set out on pages 23 to 27 of this Composite Document.

A letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this Composite Document.

A letter from First Shanghai, containing its advice to the Independent Board Committee, the Independent Shareholders, the Convertible Noteholders and the Optionholders, is set out on pages IFA-1 to IFA-26 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out on pages I-1 to I-11 in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptances of the Share Offer should be received by the Registrar and the acceptances of Convertible Notes Offer and the Option Offer should be received by the Company by no later than 4:00 p.m. on Friday, 17 November 2017 or such later time and/or the date as the Offeror may decide and announce in accordance with the requirements under the Code.

The Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.nine-express.com.hk> as long as the Offers remain open.

27 October 2017

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate. All time and date references contained in this Composite Document refer to Hong Kong time and dates.

Event	Time & Date
Despatch date of this Composite Document and accompanying Form(s) of Acceptance (<i>Note 1</i>)	Friday, 27 October 2017
Offers open for acceptance	Friday, 27 October 2017
Latest time and date for acceptance of Offers on the first Closing Date (<i>Note 2</i>)	4:00 p.m. on Friday, 17 November 2017
First Closing Date of the Offers (<i>Note 2</i>)	Friday, 17 November 2017
Announcement of the results of the Offers as at the first Closing Date or as to whether the Offers have been revised or extended on the website of the Stock Exchange (<i>Note 2</i>)	not later than 7:00 p.m. on Friday, 17 November 2017
Latest date for posting of remittance for the amounts due under the Offers in respect of valid acceptances received on or before the latest time for acceptance of the Offers on the first Closing Date assuming the Offers become or are declared unconditional on the first Closing Date (<i>Note 3 and 4</i>)	Tuesday, 28 November 2017
Latest time and date for the Offers remaining open for acceptance on the final Closing Date assuming the Offers become or are declared unconditional on the first Closing Date (<i>Note 5</i>)	by 4:00 p.m. on Friday, 1 December 2017
Final Closing Date of the Offers (<i>Note 5</i>)	Friday, 1 December 2017
Announcement of the results of the Offers as at final Closing Date to be posted on the website of the Stock Exchange	by 7:00 p.m. on Friday, 1 December 2017
Latest date for posting of remittance for the amount due under the Offers in respect of valid acceptances received on or before the latest time for the acceptance of the Offers on the final Closing Date assuming the Offers become or are declared unconditional on the first Closing Date (<i>Note 3 and 4</i>)	Tuesday, 12 December 2017

EXPECTED TIMETABLE

Latest time and date by which the Offers

can become or be declared unconditional

as to acceptance (*Note 6*) by 7:00 p.m. on Wednesday, 27 December 2017

Note 1: The Offers, which are conditional, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until the Closing Date.

Note 2: The latest time for acceptance of the Offers is 4:00 p.m. on Friday, 17 November 2017, being 21 days from the date of posting of this Composite Document, unless the Offeror extends the Offers in accordance with the Code. The Offeror will issue an announcement no later than 7:00 p.m. on Friday, 17 November 2017 as to whether the Offers have been revised, extended or expired and, in relation to any revision or extension of the Offers, to state either the next closing date or that the Offers will remain open until further notice. In the event that the Offeror decides to extend the Offers and the announcement does not specify the next closing date, at least 14 days' notice by way of an announcement will be given before the Offers are closed to those Independent Shareholders, Convertible Noteholders and Optionholders who have not accepted the Offers.

Note 3: Subject to the Offers becoming unconditional, remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of acceptances of the Share Offer and Convertible Notes Offer) payable for the Offer Shares, the Convertible Notes and the Share Options under the Offers will be posted to the accepting Shareholders, Convertible Noteholders and Optionholders by ordinary post at their own risk as soon as possible, but in any event within 7 Business Days following the later of (i) the date of receipt by the Registrar of all the relevant documents to render the acceptance under the Offers complete, valid and in compliance with Note 1 to Rule 30.2 of the Code and (ii) the date on which the Offers become or are declared unconditional in all respects.

An acceptor shall be entitled to withdraw after 21 days from the first Closing Date, if the Offers have not by then become unconditional as to acceptances, except in the circumstances as set out in the paragraph headed "8. Right of Withdrawal" in Appendix I to this Composite Document. This entitlement to withdraw shall be exercisable until such time as the Offers become or are declared unconditional as to acceptances.

Note 4: If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning:

- (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Share Offer in respect of valid acceptances, the latest time for acceptance of the Offers and the posting of remittances will remain at 4:00 p.m. on the same Business Day;
- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

Note 5: In accordance with the Code, where the Offers become or are declared unconditional in all respects, the Offers should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed. The Offeror has the right, subject to the Code, to extend the Offers until such date as the offeror may determine or as permitted by the Executive, in accordance with the Code. The Offeror will issue an announcement in relation to any extension of the Offers, which will state the next Closing Date or, if the Offers have become or are at that time unconditional, that the Offers will remain open until further notice.

Note 6: In accordance with the Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on Wednesday, 27 December 2017, being the 60th day after the day this Composite Document is posted. Accordingly, unless the Offers have previously become unconditional as to acceptances, the Offers will lapse on Wednesday, 27 December 2017 unless extended with the consent of the Executive and in accordance with the Code.

EXPECTED TIMETABLE

Save as mentioned above, if the latest time for the acceptance of the Offers and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders, Optionholders and Convertible Noteholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

DEFINITIONS

In this Composite Document, unless otherwise defined or the context otherwise requires, the following expressions shall have the following meanings. Also, where terms are defined and used in only one section of this Composite Document, these defined terms are not included in the table below:

“acting in concert”	has the meaning ascribed thereto under the Code
“associate(s)”	has the meaning ascribed thereto under the Code
“Bermuda”	the Islands of Bermuda
“ BLUE Form of Convertible Notes Offer Acceptance”	the BLUE form of acceptance and transfer of the Convertible Notes and in respect of the Convertible Notes Offer accompanying this Composite Document
“Board”	the board of Directors
“Business Day(s)”	a day on which the banks are open for business in Hong Kong, other than Saturdays, Sundays and public holidays
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	17 November 2017, being the first closing date of the Offers, or if the Offers are extended, any subsequent closing date of the Offers as extended and announced by the Offeror in accordance with the Code
“Code”	the Hong Kong Code on Takeovers and Mergers
“Company”	Nine Express Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Composite Document”	this composite offer and response document jointly issued by or on behalf of the Offeror and the Company to all Independent Shareholders, Optionholders and Convertible Noteholders in accordance with the Code containing, among other things, details of the Offers and the acceptance and transfer forms in respect of the Offers, as may be revised or supplemented as appropriate
“Concert Party(ies)”	in relation to the Offeror, party(ies) acting in concert and presumed to be acting in concert with the Offeror, as determined in accordance with the Code

DEFINITIONS

“Condition”	the condition of the Share Offer, as set out in the paragraph headed “Condition to the Offers” in this Composite Document
“Connected-World”	Connected-World Group Limited (世通集團有限公司), a company incorporated in the British Virgin Islands with limited liability which is independent from and not acting in concert with the Offeror and its Concert Parties and holds 205,175,000 Shares, representing approximately 6.92% of the total issued Shares as at the Latest Practicable Date
“Convertible Noteholders”	the holders of the Convertibles Notes from time to time
“Convertible Notes”	the outstanding convertible notes in the principal amount of HK\$166,869,000 issued by the Company
“Convertible Notes Offer”	the offer made by Octal Capital for and on behalf of the Offeror in accordance with the Code to acquire the Convertible Notes in accordance with the terms described in this Composite Document
“Directors”	the director(s) of the Company from time to time
“Donghai”	Donghai International Financial Holdings Company Limited, a company incorporated in Hong Kong with limited liability
“Donghai Securities”	Donghai International Securities (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation permitted to conduct Type 1 (dealing in securities) regulated activity under the SFO which is indirectly wholly-owned by Donghai
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Shanghai” or “Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee, the Independent Shareholders, the Convertible Noteholders and the Optionholders in relation to the Offers
“Form(s) of Acceptance”	the WHITE Form of Share Offer Acceptance, the BLUE Form of Convertible Notes Offer Acceptance and the YELLOW Form of Option Offer Acceptance (as the context may require) in respect of the Offers which accompany(ies) this Composite Document
“Group”	the Company and its subsidiaries from time to time
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of all the independent non-executive Directors which has been established for the purpose of making a recommendation to the Independent Shareholders, Optionholders and Convertible Noteholders as to whether the Offers are fair and reasonable and as to their acceptance
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and its Concert Parties
“Joint Announcement”	the joint announcement issued by the Offeror and the Company dated 22 September 2017 in relation to the Offers
“Last Trading Day”	18 September 2017, being the last trading day for the Shares prior to the suspension of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	24 October 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained in this Composite Document
“Letter of Undertaking”	the irrevocable undertaking given by Sky-Linked and Connected-World, which hold the Convertible Notes in the principal amount of HK\$166,600,000 and HK\$269,000 respectively as at the Latest Practicable Date, in favour of the Offeror dated 29 September 2017 whereby they have undertaken not to accept the Convertible Notes Offer in respect of and not to create encumbrance over the Convertible Notes, further details of which are set out in “Letter of Undertaking” under the section headed “The Offers” in the “Letter from Octal Capital” set out in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the earlier of (a) the date falling six months after the date of the completion for the Notes; or (b) the 10th day after (i) the Closing Date or any subsequent closing date as may be announced by the Company and approved by the Executive; or (ii) the date on which the Offers lapse or are withdrawn, terminated or rescinded in accordance with the Code, the requirements of the Executive or any other applicable laws and regulations, whichever is earlier
“Ms. Qian”	Ms. Qian Lingling (錢凌玲), an executive Director of the Company, and the mother of Mr. Zhu Boheng

DEFINITIONS

“Notes”	the guaranteed secured notes due on the Maturity Date issued by the Offeror to Donghai in the principal amount of US\$71,000,000 (equivalent to HK\$550,250,000), which is secured by, amongst other things, the Shares to be acquired by the Offeror under the Share Offer, for the purpose of payment of part of the consideration of the Share Offer
“Octal Capital”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, who has been appointed as the financial adviser to the Offeror
“Offeror”	Keyne Holdings Limited, a company incorporated in the Cayman Islands with limited liability, which is wholly-owned by Mr. Zhu Boheng as at the Latest Practicable Date
“Offer(s)”	the Share Offer, the Convertible Notes Offer and/or the Option Offer
“Offer Period”	has the meaning given to it in the Code, being the period commencing from 22 September 2017, being the date of publication of the Joint Announcement until the Closing Date or such other later date as revised or extended by the Offeror, with the consent of the Executive, in accordance with the Code
“Offer Share(s)”	all the issued Shares other than those already owned or agreed to be acquired by the Offeror and its Concert Parties
“Option Offer”	the offer made by Octal Capital for and on behalf of the Offeror in accordance with the Code to cancel all outstanding Share Options in exchange for cash in accordance with the terms described in this Composite Document
“Optionholder(s)”	the holder(s) of the Share Options from time to time
“Optionholders Undertaking”	the irrevocable undertaking given by Ms. Hu Hui, Mr. Mak Kam Fai and Ms. Law Kee, Alice, who are independent from the Offeror and not acting in concert with the Offeror and its Concert Parties and hold an aggregate of 33,348,114 Share Options as at the Latest Practicable Date, in favour of the Offeror dated 24 October 2017 whereby they have undertaken to accept the Option Offer in respect of and not to create encumbrance over their respective Share Options held, further details of which are set out in “Optionholders Undertaking” under the section headed “The Offers” in the “Letter from Octal Capital” set out in this Composite Document

DEFINITIONS

“Overseas Holders”	Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong, and Optionholders and Convertible Noteholders who are not residents of Hong Kong
“PRC”	The People’s Republic of China
“Registrar”	Tricor Standard Limited, the Company’s branch registrar and transfer office in Hong Kong located at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, being the agent to receive the WHITE Form of Share Offer Acceptance under the Share Offer
“Relevant Period”	The period from 22 March 2017, being the date falling six months preceding the date of the Joint Announcement, up to and including the Latest Practicable Date
“RHL”	RHL Appraisal Limited, an independent property valuer to the Company in relation to the Offers
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	the ordinary share(s) of the Company of HK\$0.01 each
“Share Offer”	the voluntary conditional cash offer made by Octal Capital for and on behalf of the Offeror to the Independent Shareholders to acquire the entire issued share capital of the Company not already owned or agreed to be acquired by the Offeror and its Concert Parties at the Share Offer Price in accordance with the terms described in this Composite Document
“Share Offer Price”	the price at which the Share Offer is made, being HK\$0.27 per Share
“Share Options”	the 55,580,190 outstanding share options with an exercise price of HK\$0.94 (corresponding to 55,580,190 new Shares) granted by the Company pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 2 September 2013
“Shareholder(s)”	registered holder(s) of the Shares from time to time

DEFINITIONS

“Sky-Linked”	Sky-Linked International Limited (聯天國際有限公司), a company incorporated in the British Virgin Islands with limited liability which is independent from and not acting in concert with the Offeror and its Concert Parties and does not hold any Share as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“ WHITE Form of Share Offer Acceptance”	the WHITE form of acceptance and transfer of the Offer Shares and in respect of the Share Offer accompanying this Composite Document
“ YELLOW Form of Option Offer Acceptance”	the YELLOW form of acceptance and cancellation of the Share Options and in respect of the Option Offer accompanying this Composite Document
“%”	per cent

LETTER FROM OCTAL CAPITAL



801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

*To the Independent Shareholders,
the Convertible Noteholders
and the Optionholders*

27 October 2017

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFERS BY



FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND ALL OUTSTANDING CONVERTIBLE NOTES, AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF NINE EXPRESS LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY THE OFFEROR AND ITS CONCERT PARTIES)

(I) INTRODUCTION

Reference is made to the Joint Announcement in relation to the Offers. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Composite Document.

On 22 September 2017, the Offeror and the Company jointly announced that Octal Capital would, for and on behalf of the Offeror, make the Share Offer, the Convertible Notes Offer and the Option Offer.

The purpose of this letter is to provide you with, inter alia, information on the Offers, the Offeror and its intention regarding the Group. Further terms of the Offers and the procedures of acceptances and settlement are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

Independent Shareholders, Convertible Noteholders, Optionholders and/or potential investors of the Company are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from First Shanghai” and the appendices as set out in this Composite Document before reaching a decision as to whether or not to accept the Offers.

LETTER FROM OCTAL CAPITAL

(II) THE OFFERS

Principal terms of the Offers

The Offers are made by Octal Capital for and on behalf of the Offeror, on the following basis:

The Share Offer

For each Share HK\$0.27 in cash

The Share Offer is extended to all Independent Shareholders in accordance with the Code. The Shares to be acquired under the Share Offer shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including, without limitation, the right to receive in full all dividends and other distributions, if any, recommended, declared, made or paid on or after the date of despatch of the Composite Document.

As at the Latest Practicable Date, the Company has 2,965,394,504 Shares in issue and the Offeror holds a total of 642,488,592 Shares representing approximately 21.67% of the issued share capital of the Company.

The Share Offer is also extended to all Shares in issue as at the date of the Composite Document and to any further Shares which are unconditionally allotted or issued after the date of the Composite Document and before the Closing Date, including any Shares which are unconditionally allotted or issued pursuant to the exercise of the Share Options and the conversion rights attaching to the Convertible Notes, other than those held or agreed to be acquired by the Offeror and its Concert Parties.

Assuming the Offers are accepted in full on the basis that (i) all of the Share Options are exercised prior to the close of the Offers; (ii) the Convertible Noteholders accepted the Convertible Notes Offer in respect of all the Convertible Notes; and (iii) there is no change in the issued share capital of the Company up to the close of the Offers, a total of 2,322,905,912 issued Shares (representing the Shares not already held or to be acquired by the Offeror and its Concert Parties) will be subject to the Share Offer and a total of 55,580,190 Share Options will be subject to the Option Offer, the maximum cash consideration payable by the Offeror under the Offers would be approximately HK\$698,509,535.04.

Comparison of value

The Share Offer Price of HK\$0.27 per Share represents:

- (a) premium of approximately 5.88% over the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on 18 September 2017, being the Last Trading Day;

LETTER FROM OCTAL CAPITAL

- (b) a premium of approximately 2.27% over the average closing price of approximately HK\$0.264 per Share as quoted on the Stock Exchange for the last 5 trading days prior to and including the Last Trading Day;
- (c) a premium of approximately 1.50% over the average closing price of approximately HK\$0.266 per Share as quoted on the Stock Exchange for the last 10 trading days prior to and including the Last Trading Day;
- (d) a discount of approximately 5.26% to the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (e) a discount of approximately 45.56% to the unaudited net asset value of approximately HK\$0.496 per Share as at 30 June 2017 based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$1,225,245,000 as at 30 June 2017 and 2,471,162,504 Shares in issue as at the 30 June 2017; and
- (f) a discount of approximately 34.15% to the unaudited net asset value of approximately HK\$0.41 per Share as at 30 June 2017 based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$1,225,245,000 as at 30 June 2017 and 2,965,394,504 Shares in issue as at the Latest Practicable Date.

Highest and lowest closing prices of the Share

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.4 on 27 March 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.255 on 18 September 2017.

The Convertible Notes Offer

For every HK\$10,000,000 face value of the Convertible Notes HK\$3,375,000 in cash

The Convertible Notes are acquired as fully paid and free from all liens, charges, options, equities, encumbrances or other third party rights of any nature and together with all rights now or hereafter attaching or accruing to them on or after the date of despatch of the Composite Document.

The Convertible Notes Offer applies to all outstanding Convertible Notes in issue on the date on which the Convertible Notes Offer is made and does not apply to any Convertible Notes which are or have been converted into Shares prior to the close of the Convertible Notes Offer.

As at the Latest Practicable Date, there are outstanding Convertible Notes in the principal amount of HK\$166,869,000 which carry rights to convert into 208,586,250 new Shares in full based on the existing conversion price of HK\$0.80 per Share, and none of the Offeror and its Concert Parties holds any Convertible Notes.

LETTER FROM OCTAL CAPITAL

The offer price for the Convertible Notes is HK\$3,375,000 for every HK\$10,000,000 face value of the Convertible Notes, determined in accordance with Rule 13 of the Code as the “see-through” consideration for the Convertible Notes, being the number of Shares which the Convertible Notes is convertible into (being 208,586,250 Shares) multiplied by the Share Offer Price (of HK\$0.27 per Share), valuing the total Convertible Notes Offer at HK\$56,318,287.5.

The Offeror intends to exercise the conversion rights attached to the Convertible Notes tendered into acceptance into new Shares following the Convertible Notes Offer becoming unconditional.

The Option Offer

Under the Option Offer, since the exercise price HK\$0.94 of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out of the money and the offer price for the cancellation of each Share Option is set at a nominal value of HK\$0.01.

For cancellation of each Share Option HK\$0.01 in cash

As at the Latest Practicable Date, the Company has 55,580,190 outstanding Share Options (corresponding to 55,580,190 new Shares) and none of the Offeror and its Concert Parties holds any Share Options. The Option Offer is extended to all Optionholders in accordance with the Code.

Pursuant to the terms of the Share Option Scheme, if a general offer is made to all the Shareholders (other than the Offeror and/or any person controlled by the Offeror and/or any person acting in concert with the Offeror), and such offer becomes or is declared unconditional, the Optionholders shall, even though the option period has not yet commenced, be entitled to exercise the Share Options (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the option period or the date falling fourteen (14) days from the date on which the offer becomes or is declared unconditional, after which the Share Options shall lapse.

As at the Latest Practicable Date, save for the securities as mentioned above, the Company had no other outstanding warrants, derivatives or convertibles in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

Total consideration for the Offers

Assuming the Offers are accepted in full on the basis that (i) all of the Share Options are exercised prior to the close of the Offers; (ii) the Convertible Noteholders accepted the Convertible Notes Offer in respect of all the Convertible Notes; and (iii) there is no change in the issued share capital of the Company up to the close of the Offers, a total of 2,322,905,912 issued Shares (representing the Shares not already held or to be acquired by the Offeror and its Concert Parties), will be subject to the Share Offer and a total of 55,580,190 Share Options will be subject to the Option Offer, the maximum cash consideration payable by the Offeror under the Offers would be approximately HK\$698,509,535.04.

LETTER FROM OCTAL CAPITAL

Assuming that (i) all of the Share Options (excluding the Share Options subject to the Optionholders Undertaking) are exercised in full prior to the close of the Offers; (ii) none of the Convertible Notes are converted and the Convertible Notes Offer is not accepted on the basis of the Letter of Undertaking; and (iii) there is no other change in the issued share capital of the Company up to the close of the Offers, a total of 2,345,137,988 Shares (representing the Shares not already held or to be acquired by the Offeror and its Concert Parties, including the 22,232,076 new Shares to be issued pursuant to the exercise in full of the Share Options (excluding the Share Options subject to the Optionholders Undertaking)) will be subject to the Share Offer and a total of 33,348,114 Share Options will be subject to the Option Offer, the maximum cash consideration payable by the Offeror under the Offers would amount to approximately HK\$633,520,737.90.

Letter of Undertaking

On 29 September 2017, Sky-Linked and Connected-World which hold the Convertible Notes in the principal amount of HK\$166,600,000 and HK\$269,000 respectively as at the Latest Practicable Date (the “**Remaining Convertible Notes**”), had executed the Letter of Undertaking in favour of the Offeror, pursuant to which Sky-Linked and Connected-World have irrevocably and unconditionally undertaken to the Offeror (a) they shall not (and shall procure any registered holders controlled by them not to) sell, give, transfer or otherwise dispose of any of the Remaining Convertible Notes; (b) they shall continue to be the sole beneficial owner of the Remaining Convertible Notes free from encumbrance of any nature whatsoever which may otherwise prevent them from exercising absolute ownership of the Remaining Convertible Notes and the rights, interest and entitlements of the Remaining Convertible Notes; (c) they shall not (and shall procure any registered holders controlled by them not to) accept the Convertible Notes Offer in connection with all or any of the Remaining Convertible Notes; (d) shall not take any other action to make the Remaining Convertible Notes available for acceptance of the Convertible Notes Offer; and (e) they will remain as beneficial owners of the Remaining Convertible Notes after completion of the Convertible Notes Offer.

As at the Latest Practicable Date, Sky-Linked does not hold any Share while Connected-World holds 205,175,000 Shares, representing approximately 6.92% of the total issued Shares.

Optionholders Undertaking

On 24 October 2017, Ms. Hu Hui, Mr. Mak Kam Fai and Ms. Law Kee, Alice, each of whom holds 11,116,038 Share Options as at the Latest Practicable Date (the “**Existing Options**”), had executed the Optionholders Undertaking in favour of the Offeror, pursuant to which the Optionholders have irrevocably and unconditionally undertaken to the Offeror that (a) they will remain as the registered and beneficial owner of the Existing Options free from all liens, mortgage, charges, encumbrances, option, restriction, right of first refusal, right of pre-emption and third party rights, interests or claims of any nature whatsoever till they tender their acceptance of the Option Offer in respect of the Existing Options; (b) they will not change their registered address in the register of Optionholders (unless such change is to change to an address in Hong Kong); (c) they will, as soon as possible and in any event before 4:00 p.m. (Hong Kong time) on the Closing Date, tender their acceptance of the Option Offer in respect of the Existing Options in accordance with the terms of the Option Offer and their obligation under the Optionholders Undertaking, by lodging with the

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Company the duly completed and signed form of acceptance in respect of the Existing Options in accordance with the instruction printed together with the relevant certificate(s) or other documents (if any) evidencing the grant of Existing Options and any documents of title or entitlement for the Existing Options; (d) they will not withdraw any acceptance of the Option Offer in respect of the Existing Options notwithstanding any withdrawal rights that may be afforded to the Optionholders under the Code or in the terms and conditions of the Option Offer; and (e) they shall not, before the Offers close, lapse or are withdrawn, other than pursuant to the Offers acquire, directly or indirectly, any additional Share Options. If despite the foregoing sentence, they voluntarily or involuntarily receive, are granted, or otherwise acquire any additional Share Options, such Share Options shall be deemed to be Existing Options for the purpose of the Optionholders Undertaking.

As at the Latest Practicable Date, none of Ms. Hu Hui, Mr. Mak Kam Fai or Ms. Law Kee, Alice held any Shares.

Financial resources available to the Offeror

The funds required by the Offeror to satisfy the consideration payable under the Offers will be financed partly from its own internal resources and partly from the issue of the Notes to Donghai. Octal Capital is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers.

The Offeror has pledged its current shareholding of 642,488,592 Shares, representing approximately 21.67% of the issued share capital of the Company; and has undertaken to pledge the Shares to be acquired by the Offeror pursuant to the Share Offer in favour of Donghai as collaterals for the issuance of the Notes by the Offeror to Donghai. Pursuant to the terms of the Notes, the Offeror agreed to issue and Donghai agreed to subscribe for the Notes in the principal amount of US\$71,000,000 (equivalent to HK\$550,250,000) due on the Maturity Date. The Notes bear interest on their outstanding principal amount at a rate of one per cent (1%) per month. On 18 September 2017, the proceeds of the Notes was transferred to the Offeror's securities trading account at Donghai Securities which will be used to finance the payment of part of the consideration for the Offer Shares. The Offeror confirms that the repayment of the interest on, repayment of or security for any liability (contingent or otherwise) for the Notes will not depend, to any significant extent, on the business of the Group.

It is set out in the Notes that the Notes are not freely transferrable (in whole or in part) by Donghai or any person, unless mutually agreed by Donghai and the Offeror in writing. Donghai shall not require the Offeror to redeem all or such part of the outstanding principal of the Notes during the period commencing on the date on which completion of the issue and subscription for the Notes up to the later of (a) 31 October 2017; or (b) the 10th day after the end of the period from and including the date on which the Composite Document is posted up to the earlier of (i) the date on which the Offers lapse or are withdrawn, terminated or rescinded in accordance with the requirements of the Code, the requirements of the Executive or any other applicable laws and regulations; or (ii) the Closing Date or any subsequent closing date as may be announced by the Offeror and approved by the Executive.

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Donghai entered into a placing and subscription agreement with Ever Harmony Enterprises Limited (永鴻企業有限公司) (“**Ever Harmony**”) on 23 June 2017, pursuant to which Donghai agreed to subscribe for and Ever Harmony agreed to issue the note in the principal amount of US\$34,300,000 due 2018. As at the Latest Practicable Date, Ever Harmony is owned as to 70% by Mr. Zhu Boheng (“**Mr. Zhu**”), who is the sole shareholder of the Offeror, and 30% by Ms. Qian, an executive Director. Given the financial arrangement between Donghai and the Offeror in connection with the Offers, Donghai presumed to be a Concert Party pursuant to the Code.

Save and except for the 642,488,592 Shares deposited in Offeror’s securities trading account opened in Donghai Securities and pledged by the Offeror in favour of Donghai as collaterals for the issuance of the Notes by the Offeror to Donghai, Donghai does not have interest in any Shares. The Offeror has considered loan financing from bankers before the issue of the Notes, however the bankers indicated that it was unlikely for the Offeror to obtain loan financing without the pledge of assets. The pledge of bank balances and time deposits would allow the Offeror to obtain loan financing of an amount equivalent to approximately the pledged amount, which then would not provide sufficient capital for the consideration payable under the Offers. In addition, the Offeror did not have any property, plant and equipment as at the Latest Practicable Date to pledge for the loan financing. Hence the Offeror considered that it would not be feasible to obtain the required amount from loan financing at favourable terms. Having considered loan financing, the Offeror are of the view that the issue of the Notes is the most appropriate way to raise fund for the consideration payable under the Offers. The Offeror intends to redeem the Notes by shareholder’s loan from Mr. Zhu.

Condition to the Offers

The Share Offer is conditional upon valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Code, decide) in respect of such number of Shares which, together with the Shares acquired or agreed to be acquired before or during the Offers, will result in the Offeror and its Concert Parties together holding more than 50% of the voting rights of the Company.

Pursuant to Note 2 to Rule 30.1 of the Code, the Offeror should not invoke any condition so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the Offeror in the context of the Offers.

The Convertible Notes Offer and the Option Offer are conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offeror reserves the right to revise the terms of the Offers in accordance with the Code.

In accordance with Rule 15.3 of the Code, the Offeror must publish an announcement when the Share Offer becomes unconditional as to acceptances and when the Offers become unconditional in all respects. The Offers must also remain open for acceptance for at least fourteen (14) days after the Offers become unconditional in all respects.

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Overseas Holders

The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or limited by the laws or regulations of the relevant jurisdictions. Such overseas Shareholders, Optionholders and/or Convertible Noteholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. Persons who are residents, citizens or nationals outside Hong Kong should seek professional advice (legal, financial or otherwise) in order to inform themselves about and observe, at their own responsibilities, any applicable laws, regulations, requirements and restrictions in their own jurisdictions in connection with the acceptance of the Offers, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Any acceptance by Shareholders, Convertible Noteholders and/or Optionholders and beneficial owners of the Shares, Convertible Notes and Share Options who are citizens, residents or nationals of a jurisdiction outside Hong Kong will be deemed to constitute a representation and warranty from such persons to the Offeror that the local laws and requirements have been complied with. Shareholders, Convertible Noteholders and/or Optionholders should consult their professional advisers if in doubt.

Compulsory acquisition

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offers.

Effect of accepting the Offers

Subject to the Share Offer becoming unconditional, provided that valid acceptance forms and the relevant certificate(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the registrar of the Company, the Shareholders will sell their tendered Shares to the Offeror free from all encumbrances and together with all rights attaching to them, including, without limitation, the rights to receive in full all dividends and other distributions, if any, recommended, declared, made or paid on or after the date of the despatch of the Composite Document.

Subject to the Option Offer becoming unconditional, following the acceptance of the Option Offer, the Share Options together with all rights attaching thereto will be entirely cancelled and renounced.

Subject to the Convertible Notes Offer becoming unconditional, acceptance of the Convertible Notes Offer by any Convertible Noteholders will be deemed to constitute a warranty by such person that all Convertible Notes sold by such person under the Convertible Notes Offer are free from all encumbrances whatsoever.

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Taxation advice

Independent Shareholders, Convertible Noteholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror, its Concert Parties, the Company, Octal Capital and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offers accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

Hong Kong stamp duty

Seller's Hong Kong ad valorem stamp duty arising from acceptance of the Share Offer will be payable by each accepting Independent Shareholder at the rate of 0.1% of the market value of the Shares (as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance, Chapter 117 of the laws of Hong Kong), or the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount due to such accepting Independent Shareholder. The Offeror will then pay the seller's stamp duty on behalf of the accepting Independent Shareholders. The Offeror will pay its own buyer's Hong Kong ad valorem stamp duty in respect of valid acceptances received under the Share Offer.

Seller's Hong Kong ad valorem stamp duty arising from acceptance of the Convertible Notes Offer will be payable by each accepting Convertible Noteholders at the rate of 0.1% of the value of the Convertible Notes (as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance, Chapter 117 of the laws of Hong Kong), or the consideration payable by the Offeror in respect of the relevant acceptances of the Convertible Notes Offer, whichever is higher, will be deducted from the cash amount due to such accepting Convertible Noteholders. The Offeror will pay its own buyer's Hong Kong ad valorem stamp duty in respect of valid acceptances received under the Convertible Notes Offer.

No stamp duty is payable in connection with the acceptances of the Option Offer.

Payment

Payment in cash in respect of acceptances of the Offers, net of seller's Hong Kong ad valorem duty, will be made as soon as possible but in any event within seven (7) business days (as defined under the Code) from the date on which (i) the duly completed acceptances of the Offers and the relevant documents of title of the Shares, Convertible Notes and Share Options in respect of such acceptances are received by or for the Offeror to render such acceptances complete and valid; and (ii) the Offers have become or are declared unconditional in all respects, whichever is later.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder, an Optionholder or a Convertible Noteholder who accepts the Offers (as the case may be) will be rounded up to the nearest cent.

LETTER FROM OCTAL CAPITAL

Interests in the Company's securities

As at the Latest Practicable Date, the Offeror and its Concert Parties collectively hold a total of 642,488,592 Shares, representing approximately 21.67% of the issued share capital of the Company. The Offeror and its Concert Parties do not hold any share options, convertible securities, warrants or derivatives in the Company.

(III) INFORMATION OF THE OFFEROR

The Offeror was incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the Offeror is wholly-owned by Mr. Zhu. The Offeror had not conducted any business since its incorporation and did not have any material assets. The Offeror holds a total of 642,488,592 Shares as at the Latest Practicable Date, representing approximately 21.67% of total issued share capital of the Company.

Mr. Zhu, son of Ms. Qian, is the sole director of the Offeror. Mr. Zhu, aged 28, obtained a bachelor degree in Bachelor of Arts from the University of British Columbia in May 2013. He began his career as an executive with Shanghai Huahu Golden Equity Investment Fund Management Company Limited* (上海華滙金瑞股權投資基金管理有限公司), a company mainly engaged in fund management. Mr. Zhu then worked as an assistant to the president in Nan Jing Jing Gao Real Estate Development Limited Company* (南京金高房地產開發有限公司). Since July 2017, he has served as an assistant to the president in the Company.

(IV) SHAREHOLDING STRUCTURE OF THE GROUP

Your attention is drawn to the details of the information of the Group as set out under the section headed "Information of the Group" in the "Letter from the Board" in this Composite Document.

Shareholders	As at the Latest Practicable Date		Immediately upon the full conversion and exercise of the outstanding Convertible Notes and the Share Options (Note 4)	
	No. of Shares	Approximate %	No. of Shares	Approximate %
The Offeror and its Concert Parties (Note 1)	642,488,592	21.67%	642,488,592	19.89%
China U-ton Holdings Limited (Note 2)	332,284,073	11.21%	332,284,073	10.29%
Wan Peizhong (Note 3)	123,000	≈0%	123,000	≈0%
Public Shareholders	1,990,498,839	67.12%	2,254,665,279	69.81%
Total	2,965,394,504	100.00%	3,229,560,944	100.00%

Notes:

- Mr. Zhu is the sole shareholder of the Offeror, he is therefore deemed to be interested in all the Shares held by the Offeror for the purpose of the SFO.

LETTER FROM OCTAL CAPITAL

2. China U-ton Holdings Limited is incorporated in Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 6168). China U-ton Holdings Limited is independent from and not acting in concert with the Offeror and its Concert Parties.
3. Mr. Wan Peizhong is an executive Director.
4. Upon the full conversion and exercise of the outstanding Convertible Notes and the Share Options and assuming there is no other change in the issued share capital of the Company, a total of 264,166,440 new Shares will be issued.

(V) INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Referring to the announcement in relation to the memorandum of understanding in respect of a possible acquisition of the Company dated 19 July 2017, the Company intends to acquire and Ever Harmony, which the entire issued share capital is held as to 70% by Mr. Zhu and 30% by Ms. Qian, an executive Director, intends to sell a company which engages in the development and management of the real estate projects and the hotel management (the “**Possible Acquisition**”). As at the Latest Practicable Date, Ms. Qian does not hold any Shares. As at the Latest Practicable Date, the Company and Ever Harmony are negotiating the structure of the Possible Acquisition and detailed terms of a definitive agreement which both parties intend to enter into on or before 19 January 2018. Further announcement(s) in respect of the Possible Acquisition will be made by the Company in compliance with the Listing Rules as and when appropriate.

Save and except for the Possible Acquisition, the Offeror does not intend to avail itself of any powers of compulsory acquisition and has no intention to either cause the Group to change its existing businesses or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business following the close of the Offers.

The Offeror considers that the Offers provide an opportunity for it to increase its stake and to strengthen its controlling power in the Company. The Offeror believes that if the Offers become unconditional, it would allow the Offeror to become a controlling shareholder of the Company and the Group would be able to leverage on the extensive commercial network of Mr. Zhu in the industry of real estate and hotel property development to support and penetrate the Group’s existing business. In light of the interest alignment between the Group and the Offeror, it is expected that the motivation for the Offeror to play a greater role in directing the future development of the Group would increase significantly, which will improve financial performance of the Group and create greater value for the Shareholders in long term perspective.

In addition, the Offeror is of the view that the price of the Shares has not been satisfactory since 2015. The price of the Shares reflects the sluggish performance of the Group for the past recent years. Moreover, the average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 14.8 millions Shares per day, representing only approximately 0.5% of the total issued Shares as at the Latest Practicable Date. As such, the Share Offer presents an immediate opportunity for Independent Shareholders to realise their investments in the Shares in return for immediate cash.

LETTER FROM OCTAL CAPITAL

After the close of the Offers, the Offeror will review the businesses of the Group, including among others, the Group's relationships with its distributors and suppliers, portfolio of products, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organise and optimise the businesses and operations of the Group. The Offeror intends that the Group will continue to operate its business in substantially its current state. As at the Latest Practicable Date, the Offeror had no existing plans for any disposal, termination or downsizing of the Group's existing business or assets. However, the Offeror may consider to enter into agreements, arrangements, understanding to downsize or disposal of Group's existing business and material operating assets in order to enhance its growth potential after review of the Group is conducted.

Save for the proposed change to the Board composition as detailed in the sub-section headed "Proposed change to Board composition" immediately below in this "Letter from Octal Capital", the Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment, however, the Offeror reserves the rights to terminate any employee or make any changes to the employment of the Group's employees after review of the Group's employment structure is conducted.

If necessary, the Offeror is willing to provide assistance to the Group in obtaining external financing, including but not limited to charging or pledging the Shares held by the Offeror as security for such financing.

Proposed change to Board composition

The Board comprises five executive Directors, namely Mr. Wan Peizhong (Chairman), Mr. Xiang Junjie (Chief Executive Officer), Mr. Ji Jianguo, Ms. Qian Ling Ling and Mr. Zhang Li, and three independent non-executive Directors, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny. The Offeror may nominate directors who will have the relevant knowledge and experience in the industry that the Group is now carrying on the business to the Board for appointment after the close of the Offers. As at the Latest Practicable Date, the Offeror had not decided on the future composition of the Board. Any changes to the composition of the Board will be made in compliance with the Code and the Listing Rules and further announcement will be made as and when appropriate.

Public float and maintaining the listing status of the Company

The Offeror intends to maintain the listing status of the Shares on the Main Board after the close of the Offers.

The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) that there are insufficient Shares in public hands to maintain an orderly market;

LETTER FROM OCTAL CAPITAL

it will exercise its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

(VI) ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding further terms and conditions of the Offers, the procedures for acceptance and settlement and the acceptance period as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

(VII) GENERAL

All documents and remittances to be sent to the Independent Shareholders, Convertible Noteholders and Optionholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders, Convertible Noteholders and Optionholders at their respective addresses as they appear in the register of the members of the Company, register of Convertible Noteholders or register of Optionholders and in the case of joint Independent Shareholders, Convertible Noteholders and Optionholders, to such Independent Shareholders, Convertible Noteholders and Optionholders whose name appears first in the register of members of the Company, register of Convertible Noteholders or register of Optionholders. The Offeror, its Concert Parties, the Company, Octal Capital and their respective ultimate beneficial owners, directors, officers, agents, advisers and associates or any other parties involved in the Offers will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

(VIII) ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to carefully read the “Letter from the Board”, the recommendation of the Independent Board Committee, the recommendation of First Shanghai and other information about the Group, which are set out in this Composite Document before deciding whether or not to accept the Offers.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

LETTER FROM THE BOARD



NINE EXPRESS LIMITED **九號運通有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

Executive Directors:

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

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Independent non-executive Directors:

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

*Head office and principal place of
business in Hong Kong:*

Room 4101, 41st Floor
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

27 October 2017

To the Independent Shareholders, Optionholders and Convertible Noteholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
OCTAL CAPITAL LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL OF THE ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE NOTES, AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
NINE EXPRESS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY THE OFFEROR AND ITS CONCERT PARTIES)**

INTRODUCTION

Reference is made to the Joint Announcement pursuant to which the Offeror and the Company jointly announced on 22 September 2017 that Octal Capital would, for and on behalf of the Offeror, make the voluntary conditional cash offers to acquire all of the Shares and all outstanding Convertible Notes, and to cancel all outstanding Share Options of the Company (other than those already owned or agreed to be acquired by the Offeror and its Concert Parties).

LETTER FROM THE BOARD

The purpose of this Composite Document is to provide you with, among other things: (i) further details of the Offers; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders, Optionholders and Convertible Noteholders in respect of the Offers; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders, Optionholders and Convertible Noteholders in respect of the Offers; and (iv) information relating to the Group and the Offeror.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny, has been established for the purpose of making a recommendation to the Independent Shareholders, Optionholders and Convertible Noteholders as to whether the Offers are fair and reasonable and as to acceptance.

First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the Offers and as to acceptance and such appointment has been approved by the Independent Board Committee.

THE OFFERS

As at the Latest Practicable Date, there are (i) 2,965,394,504 Shares in issue, (ii) 55,580,190 Share Options outstanding (corresponding to 55,580,190 new Shares), and (iii) outstanding Convertible Notes in the principal amount of HK\$166,869,000 which carry rights to convert into 208,586,250 new Shares in full based on the existing conversion price of HK\$0.80 per Share.

Save for the aforesaid, the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Code) as at the Latest Practicable Date.

As set out in the “*Letter from Octal Capital*” in this Composite Document, Octal Capital is making the Offers on behalf of the Offeror in compliance with the Code on the following bases:

The Share Offer

For each Share HK\$0.27 in cash

The Convertible Notes Offer

For every HK\$10,000,000 face value of the Convertible Notes HK\$3,375,000 in cash

The Option Offer

For cancellation of each Share Option HK\$0.01 in cash

Under the Option Offer, since the exercise price HK\$0.94 of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out of the money and the offer price for the cancellation of each Share Option is set at a nominal value of HK\$0.01.

LETTER FROM THE BOARD

Further details of the Offers, including, among other things, the terms and conditions and the procedures for acceptance and settlement are set out in the “*Letter from Octal Capital*” in this Composite Document, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

INFORMATION OF THE GROUP

The Company is incorporated in Bermuda with limited liability and its Shares are listed on the Main Board of the Stock Exchange. As at the Latest Practicable Date, the principal activities of the Group consist of film distribution and licensing, film processing, rental of property, property and hotel development and investment in centralised heat supply.

As at the Latest Practicable Date, the Board had no existing plans for any disposal, termination or downsizing of the Group’s existing business or assets. However, the Board may consider to enter into agreements, arrangements, understanding to downsize or disposal of the Group’s existing business and material operating assets in order to enhance its growth potential and for the benefit of the Company and the Shareholders as a whole.

Your attention is drawn to Appendices II and III to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company as at the Latest Practicable Date and immediately upon the full conversion and exercise of the outstanding Convertible Notes and the Share Options is as follows:

Shareholders	As at the Latest Practicable Date		Immediately upon the full conversion and exercise of the outstanding Convertible Notes and the Share Options (Note 4)	
	No. of Shares	Approximate %	No. of Shares	Approximate %
The Offeror and its Concert Parties (Note 1)	642,488,592	21.67%	642,488,592	19.89%
China U-ton Holdings Limited (Note 2)	332,284,073	11.21%	332,284,073	10.29%
Wan Peizhong (Note 3)	123,000	≈0%	123,000	≈0%
Public Shareholders	1,990,498,839	67.12%	2,254,665,279	69.81%
Total	2,965,394,504	100.00%	3,229,560,944	100.00%

Notes:

- Mr. Zhu is the sole shareholder of the Offeror, he is therefore deemed to be interested in all the Shares held by the Offeror for the purpose of the SFO.

LETTER FROM THE BOARD

2. China U-ton Holdings Limited is incorporated in Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 6168). China U-ton Holdings Limited is independent from and not acting in concert with the Offeror and its Concert Parties.
3. Mr. Wan Peizhong is an executive Director.
4. Upon the full conversion and exercise of the outstanding Convertible Notes and the Share Options and assuming there is no other change in the issued share capital of the Company, a total of 264,166,440 new Shares will be issued.

INFORMATION ON AND INTENTIONS OF THE OFFEROR

Your attention is drawn to the sub-sections headed “*Letter from Octal Capital – Information on the Offeror*” and “*Letter from Octal Capital – Intentions of the Offeror in relation to the Group*” in this Composite Document, and Appendix IV to this Composite Document.

The Board notes that save and except for the Possible Acquisition, the Offeror does not intend to avail itself of any powers of compulsory acquisition and has no intention to either cause the Group to change its existing businesses or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business following the close of the Offers. The Board also notes the intentions of the Offeror in respect of the Group and its employees as disclosed in the “*Letter from Octal Capital*” in this Composite Document and is willing to cooperate with the Offeror which is in the interests of the Company and the Shareholders as a whole.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Board notes that the Offeror intends to maintain the listing status of the Shares on the Main Board after the close of the Offers as disclosed in the “*Letter from Octal Capital*”.

The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) that there are insufficient Shares in public hands to maintain an orderly market;

it will exercise its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is also drawn to the “*Letter from the Independent Board Committee*” as set out on pages IBC-1 to IBC-2 of this Composite Document which contains its recommendation to the Independent Shareholders, Optionholders and Convertible Noteholders in respect of the Offers, and the “*Letter from First Shanghai*” as set out on pages IFA-1 to IFA-26 of this Composite Document containing its advice to the Independent Board Committee in respect of the Offers.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form(s) of Acceptance in respect of the acceptance and settlement procedures of the Offers.

Your attention is also drawn to the additional information contained in the appendices to this Composite Document. In considering what action to be taken in connection with the Offers, you should also consider your own tax position, if any, and in case of doubt, consult your professional adviser.

Yours faithfully,
By Order of the Board
Nine Express Limited
XIANG JUNJIE
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Offers which has been prepared for the purpose of inclusion in the Composite Document.



NINE EXPRESS LIMITED

九號運通有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

27 October 2017

To the Independent Shareholders, Optionholders and Convertible Noteholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
OCTAL CAPITAL LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL OF THE ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE NOTES, AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
NINE EXPRESS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY THE OFFEROR AND ITS CONCERT PARTIES)**

We refer to the Composite Document dated 27 October 2017 jointly issued by the Offeror and the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as defined in the Composite Document unless the context requires otherwise.

We have been appointed as members of the Independent Board Committee to consider the Offers and to make recommendations to you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders, Optionholders and Convertible Noteholders are concerned and as to acceptances of the Offers. First Shanghai has been appointed, with approval of the Independent Board Committee, as the independent financial adviser to advise us in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at its advice, are set out in the “Letter from First Shanghai” on pages IFA-1 to IFA-26 of the Composite Document.

We also wish to draw your attention to the “Letter from Octal Capital”, the “Letter from the Board” and the additional information set out in the appendices to the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Offers and the advice from First Shanghai, in particular the factors, reasons and advice as set out in its letter in the Composite Document, we consider that (i) the terms of the Share Offer and Option Offer are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned; and (ii) the terms of the Convertible Notes Offer are not fair and reasonable as the Convertible Noteholders are concerned. Accordingly, we recommend the Independent Shareholders and Optionholders to accept the Share Offer and Option Offer and the Convertible Noteholders not to accept the Convertible Notes Offer.

The Independent Shareholders, Optionholders and Convertible Noteholders are recommended to read the full text of the “*Letter from First Shanghai*” as set out in the Composite Document. Notwithstanding our recommendations, the Independent Shareholders, Optionholders and Convertible Noteholders are strongly advised that their decisions to realise or to hold their investment in the Shares, Share Options and Convertible Notes are subject to individual circumstances and investment objectives. If in any doubt, the Independent Shareholders, Optionholders and Convertible Noteholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Nine Express Limited

Mr. Tsui Pui Hung
*Independent Non-executive
Director*

Mr. Tang Ping Sum
*Independent Non-executive
Director*

Mr. Chiu Sin Nang, Kenny
*Independent Non-executive
Director*

LETTER FROM FIRST SHANGHAI

The following is the full text of a letter of advice from First Shanghai to the Independent Board Committee, the Independent Shareholders, the Convertible Noteholders and the Optionholders in relation to the Offers, which has been prepared for the purpose of inclusion in this Composite Document.



19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

27 October 2017

*To: The Independent Board Committee,
the Independent Shareholders,
the Convertible Noteholders, and
the Optionholders*

Nine Express Limited
Room 4101, 41st Floor
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
OCTAL CAPITAL LIMITED
FOR AND ON BEHALF OF
THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
ALL OUTSTANDING CONVERTIBLE NOTES, AND TO CANCEL
ALL OUTSTANDING SHARE OPTIONS OF NINE EXPRESS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY THE OFFEROR AND ITS CONCERT PARTIES)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee, the Independent Shareholders, the Convertible Noteholders and the Optionholders in relation to the Offers, details of which are set out in the “Letter from Octal Capital” and the “Letter from the Board”

LETTER FROM FIRST SHANGHAI

contained in the Composite Document dated 27 October 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

Octal Capital is, for and on behalf of the Offeror, making the Share Offer, the Convertible Notes Offer and the Option Offer. The Offers are now being made by Octal Capital for and on behalf of the Offeror, on the following basis:

The Share Offer

For each Share HK\$0.27 in cash

As at the Latest Practicable Date, there are 2,965,394,504 Shares in issue, and the Offeror and its Concert Parties collectively hold a total of 642,488,592 Shares, representing approximately 21.67% of the issued share capital of the Company.

The Convertible Notes Offer

For every HK\$10,000,000 face value of the
Convertible Notes HK\$3,375,000 in cash

As at the Latest Practicable Date, there are outstanding Convertible Notes in the principal amount of HK\$166,869,000 which carry rights to convert into 208,586,250 new Shares in full based on the existing conversion price of HK\$0.80 per Share, and none of the Offeror and its Concert Parties holds any Convertible Notes.

The Option Offer

For cancellation of each Share Option HK\$0.01 in cash

As at the Latest Practicable Date, there are 55,580,190 outstanding Share Options (corresponding to 55,580,190 new Shares), and none of the Offeror and its Concert Parties holds any Share Options.

The Share Offer is conditional upon valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Code, decide) in respect of such number of Shares which, together with the Shares acquired or agreed to be acquired before or during the Offers, would result in the Offeror and its Concert Parties holding more than 50% of the voting rights in the Company.

The Convertible Notes Offer and the Option Offer are conditional upon the Share Offer becoming or being declared unconditional in all respects.

LETTER FROM FIRST SHANGHAI

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny, has been established to give recommendations to the Independent Shareholders, the Convertible Noteholders and the Optionholders in respect of the Offers as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers.

We, First Shanghai, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee on the Offers, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or any interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. During the last two years, there was no previous engagement between us and the Group or the Offeror. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser in relation to the Offers, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and our appointment by the Independent Board Committee is in compliance with Rule 2 of the Code. Given our independent role as the Independent Financial Adviser in this appointment, we consider us to be eligible for providing independent and objective advice and forming our opinion in respect of the Offers.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date and up to the end of the Offer Period, the Independent Shareholders, the Convertible Noteholders and the Optionholders would be notified as soon as possible. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and that the information which we have received is sufficient to enable us to reach our opinion and provide the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document were true at the date of the Composite Document. However, we have not conducted any independent investigation into the businesses and affairs of the Group.

We have not considered the tax implications on the Independent Shareholders who accept the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM FIRST SHANGHAI

In formulating our opinion, we have also made reference to some comparable companies and the subject companies of the Comparables (as defined hereafter), which are listed on the Main Board of the Stock Exchange for analysis purpose and the relevant information was obtained from the website of the Stock Exchange (www.hkex.com.hk). We have assumed the truthfulness and accuracy of the information available to us regarding the Comparables. We have not, however, carried out any independent verification of the information available to us regarding the subject companies of the Comparables, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of these companies. Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date. Independent Shareholders are advised to refer to the paragraph headed “Material Changes” in the Appendix II to the Composite Document, and there have been certain adverse changes in the operating performance and financial position of the Group after 31 December 2016 up to the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Offers and in giving our recommendations to the Independent Board Committee, the Independent Shareholders, the Convertible Noteholders and the Optionholders, we have taken into account the following principal factors and reasons:

1. Background of the Group

The Company is an investment holding company incorporated in Bermuda with limited liability, and the Shares of which have been listed on the Main Board of the Stock Exchange since 12 September 2001.

As at the Latest Practicable Date, the principal activities of the Group consist of film distribution and licensing, film processing, rental of property, property and hotel development and investment in centralised heat supply. In terms of segment revenue, the Group’s income from property rental and property and hotel development had accounted for around 83% of its total revenue for the two FYs 2015 and 2016 and the six months ended 30 June 2017; while the same from its film distribution and processing business had accounted for the remaining 17% of its total revenue. The Group’s centralised heat supply segment had not yet generated meaningful revenue during the period.

LETTER FROM FIRST SHANGHAI

2. Historical financial performance and prospects of the Group

The following table summarises the audited consolidated results, operating cash flows and financial positions of the Group for each of the five financial years (the “FY(s)”) ended 31 December 2016; and unaudited consolidated results, operating cash flow and financial position for the six months ended 30 June 2017. More details of the latest two FYs ended 31 December 2016 and the six months ended 30 June 2017 are set out in the Appendix II to the Composite Document.

FY ended 31 December or six months ended 30 June	Revenue	Loss before income tax from continuing operations	Loss attributable to owners of the Company	Operating cash inflow/ (outflow) generated from/ utilised in operating activities	Net asset value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(Audited)</i>					
FY 2012	34,813	30,933	17,422	(152,380)	1,228,520
FY 2013	26,801	80,065	65,576	(182,029)	1,506,140
FY 2014	27,127	172,390	178,032	(287,824)	1,454,455
FY 2015	24,422	708,579	643,538	(124,558)	968,825
FY 2016	23,047	332,830	328,714	(617)	1,446,837
<i>(Unaudited)</i>					
30 June 2016	12,237	25,315	27,122	14,731	1,791,157
30 June 2017	14,312	222,762	220,792	10,884	1,225,245

Overview

During the past five FYs, the Group’s scale of business operation in terms of revenue had generally been limited and contracting from its relatively higher level of approximately HK\$34.8 million in the FY 2012 to that of approximately HK\$23.0 million in the FY 2016, while its loss-making position had also been deteriorating during the same period with net losses of approximately HK\$17.4 million in the FY 2012 to approximately HK\$643.5 million and HK\$328.7 million in the FYs 2015 and 2016 respectively, mainly due to the continuing international political instability and sluggish global economic downturn over the years, which had adversely affected the overall business environment. Meanwhile, the Group had basically incurred persistent operating losses for the past five FYs since the FY 2012 up to the six months ended 30 June 2017.

Considering another performance indicator, other than during the first half of the FY 2017, the Group had not generated positive operating cash inflow from its business operations for the past five FYs from 2012 to 2016. In particular, the Group incurred the largest operating cash outflow of approximately HK\$287.8 million in the FY 2014, with an accumulated operating cash outflow in aggregate of approximately HK\$747.4 million over the past five FYs up to the FY 2016.

LETTER FROM FIRST SHANGHAI

Further, the Group's net asset value had dropped from approximately HK\$1,506.1 million as at 31 December 2013 to that of approximately HK\$968.8 million as at 31 December 2015, representing a considerable decrease in net asset value by approximately 35.6% FYs between the said two year end dates mainly due to the accumulated net losses of approximately HK\$821.6 million. As a consequence of such adverse operating performance, the Group had relatively higher gearing positions (i.e. to be defined as the Group's interest-bearing borrowings over its net asset value) at approximately 57.7% and 68.3% as at 31 December 2016 and 30 June 2017, respectively, to finance its operations.

FY 2015 versus FY 2014

As extracted from the Company's annual report for the FY 2015, the Group recorded revenue of approximately HK\$24.4 million for the FY 2015, representing a decrease of approximately 10.0% when compared to that of approximately HK\$27.1 million for the FY 2014, mainly due to the downsize of film distribution and licensing and film processing business. Property rental income became the main revenue contributor to the Group's total revenue and amounted to/accounted for approximately HK\$20.1 million or 82.4% (2014: approximately HK\$21.3 million or 78.6%) of its total revenue during the FY 2015.

Loss attributable to the owners of the Company for the FY 2015 amounted to approximately HK\$643.5 million (2014: approximately HK\$178.0 million), primarily due to the fair value loss on an investment property and impairment loss of assets in the hotel development operation of approximately HK\$48.8 million and HK\$604.2 million, respectively. The significant impairment loss of assets recognised in the property and hotel development business during the FY 2015 were triggered by various reasons, including but not limited to, the deterioration of the hotel room rate and occupancy rate, the enduring sluggish luxury hotel operation in PRC, the delay of the commencement of the hotel operation, the increase in cost of borrowings to the Company and the decrease in property prices due to the pile up of property inventory by property developers in the second and third-tier cities as a result of the generally slow-down of the PRC economy.

The Group generally financed its operations through a combination of internally generated cash flows, shareholders' equity, interest-bearing borrowings and finance lease payables. As at 31 December 2015, the Group had net asset value of approximately HK\$968.8 million (2014: approximately HK\$1,454.5 million) and interest-bearing borrowings, comprising bank borrowings and finance lease payables, of approximately HK\$685.8 million (2014: approximately HK\$602.3 million), representing a gearing ratio of approximately 70.8% (2014: approximately 41.4%), such obvious increase was mainly due to the considerable decrease in net asset value of the Group as a consequence of the huge net loss of approximately HK\$643.5 million incurred during the FY 2015. On 27 January 2015, the Group completed the issue of the convertible notes with principal amount of US\$20,000,000 (equivalent to approximately HK\$155.2 million), the net proceeds of which had been used up entirely for the Group's residential property and hotel development projects in Mainland China. On 13 July 2015, the Company issued a total of 265,000,000 warrants at the issue price of HK\$0.057 per warrant, the net proceeds of which had mainly been used for payment of interest due under the convertible notes issued by the Company in January 2015.

LETTER FROM FIRST SHANGHAI

As at 31 December 2015, the Group had current assets of approximately HK\$1,201.6 million (2014: approximately HK\$1,533.0 million), and current liabilities of approximately HK\$465.6 million (2014: approximately HK\$717.6 million), representing a net current asset position and current ratio of approximately HK\$736.0 million (2014: approximately HK\$815.4 million) and 2.6 times (2014: approximately 2.1 times), respectively. The Group's current ratio was well above 1.0 times, this level can be regarded as healthy. As at 31 December 2015, the Group had cash and bank balances of approximately HK\$57.2 million (2014: approximately HK\$61.7 million).

FY 2016 versus FY 2015

As extracted from the Company's annual report for the FY 2016, the Group recorded revenue of approximately HK\$23.0 million for the FY 2016, representing a decrease of approximately 5.6% when compared to that of approximately HK\$24.4 million in the FY 2015. The Group's property rental income was basically stable over the past two FYs 2015 and 2016 and contributed approximately HK\$19.3 million (2015: approximately HK\$20.1 million) to the total revenue; while film distribution and processing businesses accounted for approximately 16.2% (2015: approximately 17.6%) of the total revenue and amounted to approximately HK\$3.7 million when compared to that of approximately HK\$4.3 million in the FY 2015.

Loss attributable to shareholders of the Company for the FY 2016 amounted to approximately HK\$328.7 million (2015: approximately HK\$643.5 million), representing a considerable decrease by approximately 48.9% mainly due to the impairment loss on hotel development of approximately HK\$604.2 million recognised in the FY 2015 was no longer required in the FY 2016; whilst impairment loss on investment in an associate of approximately HK\$148.7 million, impairment loss on available-for-sale financial assets of approximately HK\$20.0 million and properties development in progress written down of approximately HK\$47.0 million were to be provided for in the FY 2016.

The Group generally financed its operations through a combination of internally generated cash flows, shareholders' equity, interest-bearing borrowings and convertible notes. As at 31 December 2016, the Group had net asset value of approximately HK\$1,446.8 million (2015: approximately HK\$968.8 million) and interest-bearing borrowings of approximately HK\$834.5 million (2015: approximately HK\$685.8 million), representing a gearing ratio of approximately 57.7% (2015: approximately 70.8%) of the Group. Such improvement of gearing position was mainly due to certain convertible notes were converted into ordinary Shares during the FY 2016 so as to enhance the Shareholders' equity/net asset base of the Group.

As at 31 December 2016, the Group had current assets of approximately HK\$1,115.0 million (2015: approximately HK\$1,201.6 million), and current liabilities of approximately HK\$592.9 million (2015: approximately HK\$465.6 million), representing a net current asset position and current ratio of approximately HK\$522.1 million (2015: approximately HK\$736.0 million) and 1.9 times (2015: approximately 2.6 times), respectively. On such basis, the Group's liquidity position had been deteriorating over the past two FYs, but was still at a healthy and acceptable level of 1.9 times, which was slightly above a general safe level at one time. As at 31 December 2016, the Group had cash and cash equivalents of approximately HK\$24.0 million (2015: approximately HK\$57.2 million).

LETTER FROM FIRST SHANGHAI

Six months ended 30 June 2017 versus six months ended 30 June 2016

As disclosed in the interim report of the Company for the six months ended 30 June 2017 (the “**Interim Report**”), the Directors considered that global economic environment was getting stable, the Group holds out strong optimism about the economic prospect of Mainland China and remains fully confident in the country’s development. The Group will strengthen the investment in property projects with strong development potential under the leadership of its new management team.

For the six months ended 30 June 2017, the Group recorded revenue of approximately HK\$14.3 million when compared to that of approximately HK\$12.2 million for the corresponding period in the FY 2016, representing an increase of approximately 17.0%. During the same period, property rental income was stable and contributed approximately HK\$9.6 million (2016: approximately HK\$10.1 million) to the total revenue of the Group and accounted for approximately 66.7% (2016: approximately 82.8%); while the same from film distribution and processing businesses accounted for approximately 16.2% (2016: approximately 17.2%) of its total revenue with revenue amounted to approximately HK\$2.3 million (2016: approximately HK\$2.1 million). The Group’s revenue from property and hotel development segment contributed approximately HK\$2.4 million during the six months ended 30 June 2017.

Loss attributable to the owners of the Company for the six months ended 30 June 2017 amounted approximately HK\$220.8 million when compared to that of approximately HK\$27.1 million for the corresponding period in the FY 2016, mainly because the significant impairment loss on investment in an associate and properties development/held for sale written down in aggregate amount of HK\$187.0 million incurred during the six months ended 30 June 2017.

According to the Interim Report, the Group’s unaudited net asset value was approximately HK\$1,225.2 million as at 30 June 2017, representing a decrease by approximately 15.3% from the audited net asset value of approximately HK\$1,446.8 million as at 31 December 2016, mainly resulting from the net loss of approximately HK\$220.8 million incurred during the same period.

The Group generally financed its operations through a combination of internally generated cash flows, shareholders’ equity, interest-bearing borrowings and convertible notes. As at 30 June 2017, the Group had net asset value of approximately HK\$1,225.2 million (31 December 2016: approximately HK\$1,446.8 million) and interest-bearing borrowings, comprising bank borrowings, other loans and convertible notes, of approximately HK\$837.3 million (31 December 2016: approximately HK\$834.5 million), representing a gearing ratio of approximately 68.3% (31 December 2016: approximately 57.7%), such increase was mainly due to the decrease in net asset value of the Group as a consequence of the net loss of approximately HK\$220.8 million incurred during the six months ended 30 June 2017.

As at 30 June 2017, the Group had current assets of approximately HK\$1,100.0 million (31 December 2016: approximately HK\$1,115.0 million), and current liabilities of approximately HK\$831.8 million (31 December 2016: approximately HK\$592.9 million), representing a net current asset position and current ratio of approximately HK\$268.2 million (31 December 2016: approximately HK\$522.1 million) and 1.3 times (31 December 2016: approximately 1.9 times), respectively. Based on such scenario, the Group’s liquidity position had been further deteriorating

LETTER FROM FIRST SHANGHAI

during the six months ended 30 June 2017, but was still at an acceptable level of 1.3 times, which was slightly above a safe level at 1.0 times. As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$15.8 million (31 December 2016: approximately HK\$24.0 million).

Prospects and outlook

As noted from the Interim Report, amidst the volatility of the world economy, the Group will continue to execute a prudent business diversification strategy, in order to stabilise its advantages and profitability under this challenging economic environment. The Group will be focusing on its existing business segments and the following investment projects:

(i) Xiangtan Project

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

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

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

Looking ahead in the second half of 2017 the Group will speed up the construction of the remaining Phase 1 property development (comprising the development of semi-detached villas and low-to medium rise apartments) to accommodate the property market boom in Xiangtan City, Hunan Province, the PRC.

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

LETTER FROM FIRST SHANGHAI

(ii) *Chengdu Project*

The Group's five-storey shopping centre located in Jinniu District, Chengdu, Sichuan Province, the PRC remained almost fully leased and occupied, become the main steady income driver for the Group.

(iii) *Film distribution and processing business*

The Group has restructured its existing film group for strategic planning purposes and less resources will be put in the sector.

Apart from the Group's existing business, the Company has been actively exploring new business opportunities to diversify its future business development. In July 2017, the Company entered into a non-legally binding memorandum in relation to a Possible Acquisition (as defined below), which will enable the Company to further invest in real estates and hotels with the focus on tourism and commercial properties. The Possible Acquisition presents an excellent opportunity for the Group to further expand and diversify its business portfolio.

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

In respect of the business prospects and plan, the Company intends to acquire and focus on investing in real estate projects both in residential and commercial properties, which presents an excellent opportunity for the Group to further expand and diversify its current business portfolio. Further, the Group will actively explore other potential and feasible business opportunities to integrate and diversify its business portfolio in order to strengthen the overall income base and maximize the Group's value as well improve our competitiveness.

Given the persistent macroeconomic uncertainties resulting in weak market conditions spreading all over the world including the Group's target markets, we are of the view that its prospects and outlook would still remain uncertain and challenging going forward.

Conclusion

In view of the facts that (i) the Group's scale of operation in terms of revenue had been limited and declining from its relatively higher level of approximately HK\$34.8 million in the FY 2012 to that of approximately HK\$23.0 million in the FY 2016; (ii) the Group had incurred persistent net losses for the past five FYs from 2012 to 2016 and the six months ended 30 June 2017; (iii) the Group had never generated positive operating cash inflow from its business operations since the FY 2012 up to FY 2016; (iv) the Group's current ratios had been deteriorating from 2.6 times, 1.9 times to 1.3 times as at 31 December 2015 and 2016 and 30 June 2017, respectively; and (v) the Group had relatively higher gearing positions at approximately 70.8%, 57.7% and 68.3% as at 31 December

LETTER FROM FIRST SHANGHAI

2015 and 2016 and 30 June 2017 respectively, we consider that the Group's profitability, liquidity and financial stability had been deteriorating, but its liquidity and financial stability were still at rather acceptable levels, whilst its prospects and outlook would remain uncertain and challenging in the absence of a turnaround going forward.

3. Basic terms of the Offers

Octal Capital, on behalf of the Offeror, is making the Share Offer at HK\$0.270 for each Share. The Share Offer Price of HK\$0.270 per Offer Share represents:

		Price/value per Share approximately HK\$	Premium over/ (discount) to at approximately %
(i)	The closing price as quoted on the Stock Exchange on 18 September 2017, being the Last Trading Day	0.255	5.88
(ii)	The average closing price of the Shares as quoted on the Stock Exchange for the last five trading days prior to and including the Last Trading Day	0.264	2.27
(iii)	The average closing price of the Shares as quoted on the Stock Exchange for the last ten trading days prior to and including the Last Trading Day	0.266	1.50
(iv)	The Group's audited consolidated net asset value of approximately HK\$1,446,837,000 attributable to the Shareholders as at 31 December 2016 (based on the then number of issued Shares of 2,471,162,504 as at 31 December 2016, being the date to which the latest audited financial results of the Group were made up)	0.585	(53.85)
(v)	The Group's unaudited consolidated net asset value of approximately HK\$1,225,245,000 attributable to the Shareholders as at 30 June 2017 (based on the then number of issued Shares of 2,471,162,504 as at 30 June 2017)	0.496	(45.56)
(vi)	The Group's unaudited consolidated net asset value of approximately HK\$1,225,245,000 attributable to the Shareholders as at 30 June 2017, to be adjusted by the net proceeds of approximately HK\$115,990,000 received by the Company from the Placing completed in July 2017 (based on the number of issued Shares of 2,965,394,504 as at the Latest Practicable Date)	0.452	(40.27)

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		Price/value per Share approximately HK\$	Premium over/ (discount) to at approximately %
(vii)	The Group's unaudited consolidated net asset value of approximately HK\$1,225,245,000 attributable to the Shareholders as at 30 June 2017, to be adjusted by (a) the net proceeds of approximately HK\$115,990,000 received by the Company from the Placing completed in July 2017; and (b) the net appreciation gain of approximately HK\$334.4 million on portfolio basis of all the five properties numbered 1 to 5 as set out in the property valuation report in Appendix V to the Composite Document (based on the number of issued Shares of 2,965,394,504 as at the Latest Practicable Date)	0.565	(52.21)
(viii)	The closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date	0.285	(5.26)

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the "Letter from Octal Capital" and the Appendix I to the Composite Document.

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Historical price performance of the Shares

The monthly highest and lowest closing prices and the monthly average daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 September 2016 to 18 September 2017 (i.e. for a period of at least 12 complete calendar months) up to and including the Last Trading Day (the “**Review Period**”), and further up to and including the Latest Practicable Date are shown as follows:

	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$	Number of trading days in each month
2016				
September	0.420	0.244	0.313	21
October	0.405	0.335	0.367	19
November	0.560	0.370	0.469	22
December	0.500	0.455	0.476	20
2017				
January	0.475	0.420	0.439	19
February	0.425	0.300	0.392	20
March	0.400	0.315	0.344	23
April	0.375	0.315	0.338	17
May	0.345	0.315	0.328	20
June	0.350	0.290	0.312	22
July	0.310	0.270	0.294	21
August	0.290	0.270	0.277	22
September (up to and including the Last Trading Day) (<i>Note 1</i>)	0.275	0.255	0.266	12
September (after the Last Trading Day up to 30 September 2017)	0.280	0.270	0.275	5
October (up to the Latest Practicable Date)	0.300	0.265	0.279	15

Notes:

- Trading in the Shares was suspended for four days from 19 September up to 22 September 2017 pending the release of the Joint Announcement in relation to the Offers.

Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing price of the Shares had been fluctuating considerably between the lowest of HK\$0.244 per Share, which was recorded on 2 September 2016 for the Shares during the Review Period, to the highest of HK\$0.560 (with day high at HK\$0.580) recorded on 24

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November 2016, being the second trading day immediately after the Company's announcement dated 22 November 2016 (the "**First Disposal Announcement**") disclosing that Full Dragon Group Limited ("**Full Dragon**"), being the then controlling Shareholder, entered into a share purchase agreement with Keyne Holdings Limited, being the Offeror and a substantial Shareholder currently holding approximately 21.7% of the issued share capital of the Company, for disposal of 642,488,592 Shares, representing approximately 26.0% of the then issued share capital of the Company at that time at the total consideration of US\$22,867,207 (or approximately HK\$178.4 million), or approximately HK\$0.278 per Share (the "**First Disposal**"). Immediately following completion of the First Disposal on 22 November 2016, Full Dragon was no longer the controlling Shareholder, but still held 232,284,703 Shares, representing approximately 9.4% of the then issued share capital of the Company at that time. Perhaps, the First Disposal Announcement might lead to certain market speculation activities with sudden increase in trading volume of 159,868,000 Shares transacted on 24 November 2016. Afterwards, the closing prices of the Shares had generally experienced a gradual decreasing trend from December 2016 to September 2017 up to the Last Trading Day. During such period, the trading price of the Shares had fluctuated within the range from HK\$0.580 to HK\$0.250.

On 28 April 2017, the Company made an announcement in similar nature disclosing that each of the two then existing Shareholders, namely Full Dragon and Connected-World Group Limited, entered into share purchase agreements with two purchasers for disposal of (i) 232,284,073 Shares, representing approximately 9.4% of the then issued capital of the Company at the consideration of US\$7,308,599 (or approximately HK\$57.0 million) (the "**Second Disposal**"); and (ii) 100,000,000 Shares, representing approximately 4.047% of the then issued capital of the Company at the consideration of US\$3,146,586 (or approximately HK\$24.5 million). The disposal price was consistent between the said two disposals at approximately HK\$0.245 per Share. Immediately following the Second Disposal, Full Dragon was no longer a Shareholder. However, there was no obvious increase or decrease of the trading price of the Shares immediately and shortly after the announcement on 28 April 2017. Afterwards, the closing prices of the Shares had also experienced a gradual decreasing trend from May to September 2017 up to the Last Trading Day. During such period, the trading price of the Shares had fluctuated narrowly within the range from HK\$0.365 to HK\$0.250.

On 23 June 2017, the Company announced that it entered into a placing agreement with the placing agent to place, on a best effort basis, up to 494,232,500 Shares to not less than six placees who are independent third parties at an agreed placing price of HK\$0.24 per Share (the "**Placing**"), which was subsequently completed on 17 July 2017 with net proceeds received by the Company of approximately HK\$116.0 million.

Save for the First Disposal Announcement dated 22 November 2016 and its ancillary subsequent announcements in the similar nature on 28 April 2017 and the Placing on 23 June 2017, we are not aware of any other public announcements made by the Company that were price sensitive in nature and thus, we consider that the recent Share price level shall be a fairly reliable and meaningful benchmark for the purpose of analysing the fairness and reasonableness of the Share Offer Price.

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We are aware of that the Share Offer Price was closely comparable to the recent market prices of the Shares immediately prior to the Last Trading Day and might not appear to be very attractive for the Independent Shareholders, however, we consider that the determination of the Share Offer Price is justifiable taking into account the facts that (i) the Group had incurred persistent net losses for the past five FYs since the FY 2012 and up to the six months ended 30 June 2017; (ii) the Group had never generated positive operating cash inflow from its business operations for the five FYs from 2012 to 2016; (iii) the uncertain prospects and outlook of the Group as detailed in the section headed “Historical financial performance and prospects of the Group” above; (iv) the Company has never declared and distributed any cash dividend for many years since the FY 2002; (v) the Share Offer Price of HK\$0.270 is (a) basically comparable to the purchase price of approximately HK\$0.278 for each Share under the First Disposal, and (b) higher than the purchase price of approximately HK\$0.245 for each Share under the Second Disposal, paid by the then relevant purchasers; and (vi) the Share Offer Price of HK\$0.270 is also higher than the placing price of HK\$0.240 fixed for the Placing to not less than six placees who are independent third parties completed in July 2017. Given the Group’s operating performance and financial position had not been improved so far, or even deteriorating, we consider that the sale prices under the First Disposal (i.e. at HK\$0.278 per Share) and the Second Disposal (i.e. at HK\$0.245 per Share), the placing price of HK\$0.240 per placing Share under the Placing completed recently and the prevailing market price of the Shares prior to the Last Trading Day could fairly reflect the true value of the Shares, so the Share Offer Price at HK\$0.270 is fair and reasonable.

However, we note that the closing price of the Shares has been slightly above the Share Offer Price during the period after the Last Trading Day up to and including the Latest Practicable Date with closing prices of the Shares ranging from HK\$0.265 to HK\$0.300. In particular, the highest transacted price of the Shares during such period was HK\$0.310 per Share on 17 October 2017, which was approximately 14.8% above the Share Offer Price. Independent Shareholders who wish to dispose of their Shares may consider selling their Shares in the stock market rather than accepting the Share Offer if the net proceeds from a sale of their Shares in the stock market would, after deducting all transaction costs, yield a higher consideration than the net amount to be received under the Share Offer.

We would like to remind the Independent Shareholders that although the Share Offer Price is below the recent closing prices of the Shares, and represents a considerable discount to the closing price of the Shares after the Last Trading Day and up to the Latest Practicable Date, there is no guarantee that the trading price of the Shares will sustain and be higher than the Share Offer Price during and after the Offer Period. The Independent Shareholders, in particular those who may wish to realise their investments in the Shares, are thus reminded to closely monitor the market price of the Shares during the Offer Period for acceptance.

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Liquidity of the Shares

The average daily number of Shares traded per month, and the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day and further up to the Latest Practicable Date; and (ii) the total number of issued Shares as at the Last Trading Day and further up to the Latest Practicable Date, are tabulated as follows:

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the average total issued Shares (Note 1)	% of average daily trading volume of the Shares to average public float Shares (Note 2)	Number of trading days in each month
2016					
September	640,744,580	30,511,647	1.23%	2.73%	21
October	338,910,600	17,837,400	0.72%	1.60%	19
November	1,058,122,660	48,096,485	1.95%	4.30%	22
December	159,198,000	7,959,900	0.32%	0.71%	20
2017					
January	62,528,460	3,290,972	0.13%	0.29%	19
February	324,536,520	16,226,826	0.66%	1.45%	20
March	204,555,380	8,893,712	0.36%	0.80%	23
April	254,820,800	14,989,459	0.61%	1.34%	17
May	197,327,055	9,866,353	0.40%	0.88%	20
June	302,263,432	13,739,247	0.56%	1.23%	22
July	156,542,720	7,454,415	0.25%	0.37%	21
August	45,115,200	2,050,691	0.07%	0.10%	22
September (up to and including the Last Trading Day)	50,816,880	4,234,740	0.14%	0.21%	12
September (after the Last Trading Day and up to 30 September 2017)	112,973,900	22,594,780	0.76%	1.14%	5
October (up to the Latest Practicable Date)	126,522,000	8,434,800	0.28%	0.42%	15

Notes:

1. Based on respective number of 2,471,162,504 Shares from September 2016 to June 2017, and 2,965,394,504 Shares for July to September 2017 in issue as at the end of the relevant months during the Review Period and the Latest Practicable Date.

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2. *Based on respective number of 1,118,006,589 Shares from September 2016 to June 2017, and 1,990,394,504 Shares for July to September 2017 in issue as at the end of the relevant months during the Review Period and the Latest Practicable Date.*

Source: the website of the Stock Exchange (www.hkex.com.hk)

The above table illustrates that the average daily trading volume of the Shares per month was generally thin during the Review Period. Save and except for November 2016, the average daily trading volume of the Shares was below 3.0% of the total number of issued Shares held by the public Shareholders from time to time during the entire Review Period. Other than the First Disposal Announcement and its ancillary subsequent announcement(s) in the similar nature on 22 November 2016 and 28 April 2017 and the Placing on 23 June 2017, the Directors are not aware of any other reasons which might materially affect the fluctuation of trading volume of the Shares during the Review Period. Given that the Shares were generally illiquid during the Review Period even after the publication of the Joint Announcement and up to the Latest Practicable Date, we consider that Independent Shareholders who may wish to realise their investment in the Company, especially those with relatively sizeable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares. Therefore, we consider that the Share Offer provides an alternative for the Independent Shareholders who would like to realise their investment in the Shares.

For the above reason, there is no guarantee that Independent Shareholders would be able to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at the price level prior to the Last Trading Day or at a price much higher than the Share Offer Price.

Furthermore, those Independent Shareholders who, after considering the information about the Offeror's intentions regarding the Group as detailed in the Composite Document and briefly set forth under the section headed "Information on the Offeror" and "Intentions of the Offeror in relation to the Group" of this letter, are optimistic about the prospects of the Group after the Offers, may, having regard to their own circumstances, consider retaining all or any part of their Shares. However, we note that, other than the Possible Acquisition (as defined below) which was announced by the Company on 19 July 2017 but no binding agreement in relation thereto has yet been entered into between the vendor and the Company, the Offeror has no intention or concrete plan for any acquisition of assets and/or business by the Group as at the Latest Practicable Date.

Comparable analysis

As at the Latest Practicable Date, the principal activities of the Group consist of film distribution and licensing, film processing, rental of property, property and hotel development and investment in centralised heat supply. In terms of segment revenue, the Group's income from property rental and property and hotel development had accounted for around 83% of its total revenue for the two FYs 2015 and 2016 and the six months ended 30 June 2017; while the same from its film distribution and processing business had accounted for the remaining 17% of its total revenue. The Group's centralised heat supply segment had not yet generated meaningful revenue during the period. According to the Stock Exchange's website, the Company has been classified as being engaged in "property investment" industry by Hang Seng Indexes Company Limited. We concur with this industry classification.

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In assessing the fairness and reasonableness of the Share Offer Price, it is the general practice to apply commonly used benchmarks for evaluating the value of companies. We have considered applying the price-to-book ratios (the “**P/B Ratio(s)**”) in our analysis. We have not considered applying (i) the price-earnings ratios (the “**P/E Ratio(s)**”) as the Company has generally been at a loss-making position since the FY 2012 and no meaningful earnings could then be applied to calculate the P/E Ratio; and (ii) the dividend approach as the Company has not declared and distributed any cash dividends for many years since the FY 2002. Nevertheless, taking into account the nature of the business of the Company, the Group’s total assets mainly comprise of property, plant and equipment, land use rights, investment properties, investment in associates, available-for-sale financial assets, properties development in progress, properties held for sale, financial assets at fair value through profit or loss, we consider the net asset approach (i.e. by computing the P/B Ratios) is an appropriate alternate approach to assess the fairness and reasonableness of the Share Offer Price. Accordingly, we have decided to apply the P/B Ratios in our analysis.

We have searched for comparable companies listed on the Stock Exchange which are primary engaged in businesses similar to those of the Group. We identified nine comparable companies (the “**Comparables**”), all of which are engaged in similar line of business to that of the Group (i.e. principally engaged in the rental of property and property investment and development, with (i) rental income accounted for at least 70% of their total revenue and (ii) market capitalisation of below HK\$3.0 billion). Based on our independent researches conducted, the list of Comparables is exhaustive; and we consider the Comparables are fair and representative comparables to the Company on the grounds that we have included all meaningful available Comparables in the market, and their principal business activities are closely comparable to that of the Group. Independent Shareholders should note that the business, scale of operation, trading prospect, target market, product mix and capital structure of the Company are not exactly the same as those of the Comparables and we have not conducted any in-depth investigation into business and operations of the Comparables save for the aforesaid selection criteria. Nevertheless, we consider that the Comparables can still be a meaningful reference in assessing the fairness and reasonableness of the Share Offer Price. Our relevant findings are summarised in the table below.

Company name (Stock Code)	Principal business activities	Share price as at	Market	Net asset value	P/B Ratios
		the Last Trading Day HK\$	capitalisation as at the Last Trading Day HK\$' million	HK\$' million (Note 1)	Times (Notes 2 & 3)
Asiasec Properties Limited (271)	Property investment, property rental and estate management	1.99	2,472	4,957	0.50
Cheuk Nang (Holdings) Limited (131)	Property development and investment and the provision of property management and related services.	5.15	2,736	5,531	0.49
Dynamic Holdings Limited (29)	Property investment and development	8.38	1,886	1,867	1.01
Pioneer Global Group Limited (224)	Property investment and hotel operation, and other investments	2.02	2,331	5,911	0.39

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Company name (Stock Code)	Principal business activities	Share price as at the Last Trading Day HK\$	Market capitalisation as at the Last Trading Day HK\$' million	Net asset value HK\$' million (Note 1)	P/B Ratios Times (Notes 2 & 3)
Pokfulam Development Company Limited (225)	Property investment and management, trading of visual and sound equipment, securities investment and investment holding	19.30	2,126	4,655	0.46
Tai Sang Land Development Limited (89)	Property investment, property rental, property development, estate management and agency, hotel operation and restaurant operation	5.26	1,513	6,794	0.22
Tern Properties Company Limited (277)	Property investment and treasury investment	6.00	1,847	3,645	0.51
Winfair Investment Company Limited (287)	Property and share investments, property development and securities dealing	13.36	534	811	0.66
Y.T. Realty Group Limited (75)	Property investment and trading; provision of property management and related services; and investment holding	2.44	1,951	1,558	1.25
			Maximum		1.25
			Average		0.61
			Median		0.50
			Minimum		0.22
		Share Offer Price			
The Company (9)		0.27	756	1,341 (Note 3)	0.60

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The net asset values attributable to owners of the Comparables are extracted from their respective latest published annual/interim reports prior to the Last Trading Day.
2. P/B Ratios of the Comparables are calculated based on their respective closing prices as at the Last Trading Day and the net asset values attributable to owners of the Comparables as at their latest year/period end dates as extracted from their latest annual/interim reports published on the Stock Exchange's website, divided by the total number of issued shares as at the Last Trading Day.

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3. *The implied P/B Ratio of the Company is calculated based on the Share Offer Price multiplied by 2,965,394,504 Shares in issue of the Company as at Last Trading Day over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$1,225,245,000 as at 30 June 2017, plus the net proceeds of approximately HK\$115,990,000 raised from the Placing completed in July 2017.*

As illustrated in the above table, the P/B Ratios of the Comparables ranged from approximately 0.22 times to 1.25 times. The average P/B Ratios of the Comparables are approximately 0.61 times. The implied P/B Ratio of the Company, based on the Share Offer Price of HK\$0.27 per Offer Share, is approximately 0.60 times, which is within the range, and very closely comparable to the average of approximately 0.61 times, of the Comparables' P/B Ratios.

We also note that one out of the nine Comparables, namely Tern Properties Company Limited (Stock Code: 277), had incurred net loss in its latest full FY ended 31 March 2017 with P/B Ratio of approximately 0.51, which we consider to be more closely comparable to the Group's persistent loss-making performance over the past five FYs since the FY 2012 and up to the six months ended 30 June 2017. Accordingly, the implied P/B Ratio from the Share Offer Price of approximately 0.60 times is higher than that of the Comparable with loss-making position.

Having considered that (i) the implied P/B Ratio from the Share Offer Price of approximately 0.60 times is very closely comparable to the average of the Comparables' P/B Ratios of approximately 0.61 times; (ii) the Share Offer Price of HK\$0.270 is also closely comparable to or higher than, as the case maybe, the sale prices under the First Disposal (i.e. at HK\$0.278 per Share) and the Second Disposal (i.e. at HK\$0.245 per Share), the placing price of HK\$0.240 per placing Share under the Placing completed recently and the prevailing market price of the Shares prior to the Last Trading Day; (iii) the generally loss-making operating performance of the Group during the past five FYs since the FY 2012 and up to the six months ended 30 June 2017; and (iv) the future outlook and prospects of the Group are still uncertain and challenging, we consider the Share Offer Price, with reference to the above implied P/B Ratios, is fair and reasonable when compared to the current market valuation and pricing of shares of the other listed companies in the same industry.

Referring to the Group's five properties as set out in the property valuation report in the Appendix V to the Composite Document as at 9 October 2017 (the "**Valuation Report**"), there were (i) appreciation in market value in respect of properties numbered 1, 2 and 5 set out in the Valuation Report in amounts of approximately HK\$287.2 million, HK\$54.5 million and HK\$12.4 million respectively (i.e. approximately HK\$354.1 million in aggregate); whilst (ii) devaluation in market value in respect of properties numbered 3 & 4 set out therein in amounts of HK\$18.9 million and HK\$0.9 million respectively (i.e. approximately HK\$19.8 million in aggregate). According to the Company's accounting policies and the relevant accounting standards (i.e. Hong Kong Accounting Standard 36 – Impairment of Assets), the above appreciation in market value in respect of properties numbered 1, 2 and 5 is not required to be recognised in the consolidated financial statements of the Group, and hence no direct financial impact to its unaudited net asset value as at 9 October 2017, because which is attributable to the Group's residential and hotel development projects adopting cost approach and subject to annual impairment indication on assessment purpose only using value-in-use method to ascertain the recoverable value of the relevant assets so that any gain on revaluation would not be recognised.

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On the other hand, the devaluation in market value in respect of properties numbered 3 and 4 set out in the Valuation Report will be subject to impairment loss to be recognised in the consolidated financial statements of the Group. As a consequence, the financial impact to the Group's unaudited net asset value as at 9 October 2017 would amount to approximately HK\$19.8 million in aggregate, which would slightly (i.e. 1.6% thereof) affect the Group's unaudited net asset value of approximately HK\$1,225.2 million as at 30 June 2017. Accordingly, the pro forma P/B Ratio after such adjustment would then slightly increase to approximately 0.61 times.

Independent Shareholders may note that, for illustration purpose only and not necessary for the Group's financial reporting requirements in accordance with the existing accounting policies in force, should the net appreciation gain on all the five properties set out in the Valuation Report amounted to approximately HK\$334.4 million be recognised on portfolio basis, its adjusted unaudited net asset value as at 9 October 2017 would amount to approximately HK\$1,675.6 million. On such pro forma basis, the implied P/B Ratio of the Company, based on the Share Offer Price of HK\$0.27 per Offer Share, would decrease to approximately 0.48 times, which is still within the range, and very closely comparable to the median of approximately 0.50 times, of the Comparables' P/B Ratios. Accordingly, we still maintain our view that the Share Offer Price is fair and reasonable, irrespective of whether or not the net appreciation gain on the Group's properties numbered 1 to 5 in the Valuation Report is to be adjusted or revised for analysis.

4. Information on the Offeror

The Offeror was incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the Offeror is wholly-owned by Mr. Zhu. The Offeror had not conducted any business since its incorporation and did not have any material assets. The Offeror holds a total of 642,488,592 Shares as at the Latest Practicable Date, representing approximately 21.67% of total issued share capital of the Company.

Mr. Zhu, son of Ms. Qian, is the sole director of the Offeror. Mr. Zhu, aged 28, obtained a bachelor degree in Bachelor of Arts from the University of British Columbia in May 2013. He began his career as an executive with Shanghai Huahu Golden Equity Investment Fund Management Company Limited* (上海華滙金瑞股權投資基金管理有限公司), a company mainly engaged in fund management. Mr. Zhu then worked as an assistant to the president in Nan Jing Jing Gao Real Estate Development Limited Company* (南京金高房地產開發有限公司). Since July 2017, he has served as an assistant to the president in the Company.

5. Intentions of the Offeror in relation to the Group

Referring to the announcement in relation to the memorandum of understanding in respect of a possible acquisition of the Company dated 19 July 2017, the Company intends to acquire and Ever Harmony, which the entire issued share capital is held as to 70% by Mr. Zhu and 30% by Ms. Qian, an executive Director, intends to sell a company which engages in the development and management of the real estate projects and the hotel management (the "Possible Acquisition"). As at the Latest Practicable Date, Ms. Qian does not hold any Shares. As at the Latest Practicable Date, the Company and Ever Harmony are negotiating the structure of the Possible Acquisition and detailed terms of a definitive agreement which both parties intend to enter into on or before 19 January 2018. Further announcement(s) in respect of the Possible Acquisition will be made by the Company in compliance with the Listing Rules as and when appropriate.

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Save and except for the Possible Acquisition, the Offeror does not intend to avail itself of any powers of compulsory acquisition and has no intention to either cause the Group to change its existing businesses or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business following the close of the Offers.

The Offeror considers that the Offers provide an opportunity for it to increase its stake and to strengthen its controlling power in the Company. The Offeror believes that if the Offers becomes unconditional, it would allow the Offeror to become a controlling shareholder of the Company and the Group would be able to leverage on the extensive commercial network of Mr. Zhu in the industry of real estate and hotel property development to support and penetrate the Group's existing business. In light of the interest alignment between the Group and the Offeror, it is expected that the motivation for the Offeror to play a greater role in directing the future development of the Group would increase significantly, which will improve financial performance of the Group and create greater value for the Shareholders in long term perspective.

In addition, the Offeror is of the view that the price of the Shares has not been satisfactory since 2015. The price of the Shares reflects the sluggish performance of the Group for the past recent years. Moreover, the average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 14.8 million Shares per day, representing only approximately 0.5% of the total issued Shares as at the date of the Joint Announcement. As such, the Share Offer present an immediate opportunity for Independent Shareholders to realise their investments in the Shares in return for immediate cash.

After close of the Offers, the Offeror will review the businesses of the Group, including among others, the Group's relationships with its distributors and suppliers, portfolio of products, assets, corporate and organisational structure, capitalisation, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organise and optimise the businesses and operations of the Group. The Offeror intends that the Group will continue to operate its business in substantially its current state. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's businesses and operations.

The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment, except for the proposed change of the Board composition as detailed immediately below.

Proposed change of Board composition

The Board comprises five executive Directors, namely Mr. Wan Peizhong (Chairman), Mr. Xiang Junjie (Chief Executive Officer), Mr. Ji Jianguo, Ms. Qian Ling Ling and Mr. Zhang Li; and three independent non-executive Directors, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny.

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The Offeror may nominate directors who will have the relevant knowledge and experience in the industry that the Group is now carrying on the business to the Board for appointment after the close of the Offers. As at the Latest Practicable Date, the Offeror had not decided on the future composition of the Board. Any changes to the composition of the Board will be made in compliance with the Code and the Listing Rules and further announcement will be made as and when appropriate.

Public float and maintaining the listing status of the Company

The Offeror intends to maintain the listing status of the Shares on the Main Board after the close of the Offers.

Pursuant to the Listing Rules, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that: (a) a false market exists or may exist in the trading of the Shares; or (b) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend dealings in the Shares.

In order to ensure that within a reasonable period after the close of the Offers, there will be not less than 25% of the Company's entire issued ordinary share capital held by the public, the Offeror will undertake to the Stock Exchange to take appropriate steps within a reasonable period following the close of the Offers to ensure that at least 25% of the Shares will be held by the public.

RECOMMENDATIONS

The Share Offer

Taking into consideration the above-mentioned principal factors and reasons of the Offers, being:

- the Group basically had incurred persistent net losses over the past five FYs since the FY 2012 up to the six months ended 30 June 2017;
- the Group had not generated meaningful operating cash inflow over the past five FYs since the FY 2012;
- the prospects and outlook of the Group would remain uncertain and challenging in the near future;
- the Company has not declared and distributed any cash dividends for many years since the FY 2002;
- the Share Offer Price of HK\$0.270 is closely comparable to or higher than, as the case maybe, the sale prices under the First Disposal (i.e. at HK\$0.278 per Share) and the Second Disposal (i.e. at HK\$0.245 per Share), the placing price of HK\$0.240 per placing Share under the Placing completed recently and the prevailing market price of the Shares prior to the Last Trading Day;

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- the trading liquidity of the Shares had been generally thin during the Review Period; and
- the Share Offer Price of HK\$0.27 per Offer Share represents an implied P/B Ratio of the Company of approximately 0.60 times, which is within the range, and very closely comparable to the average of approximately 0.61 times, of the Comparables' P/B Ratios,

we are of the opinion that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

As different Shareholders would have different investment criteria, objectives, risk preference and tolerance level and/or circumstances, we would recommend any Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

The Independent Shareholders, in particular those who intend to accept the Share Offer, are reminded to note the recent fluctuation in the Share price after the release of the Joint Announcement, and that there is no guarantee that the current market price will or will not sustain, and will or will not be higher than the Offer Price, during and after the close of the Offer Period. The Independent Shareholders who intend to accept the Share Offer are reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period for acceptance and shall, having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Share Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Share Offer.

The Convertible Notes Offer

As set out in the "Letter from the Board" of the Composite Document, at the Latest Practicable Date, the total outstanding principal amount of the Convertible Notes was HK\$166,869,000. On the basis that the prevailing conversion price of the Convertible Notes is HK\$0.80 per Share, the Convertible Notes, upon conversion in full, can be converted into 208,586,250 Shares in total. As required under Rule 13 of the Code, the Share Offer Price (i.e. also applicable to the Convertible Notes Offer) is regarded as the "see-through" price of the Convertible Notes. As such, the terms of the Convertible Notes Offer to acquire the Convertible Notes will be the same as that of the Share Offer Price of HK\$0.27 in cash.

Upon assessing the terms of the Convertible Notes Offer, we envisage that the adoption of a "see-through" price (representing the difference between the offer price for ordinary shares and any given conversion price of the convertible instrument) is commonly regarded as the minimum offer price for any convertible instrument in conjunction with a general offer for ordinary shares. On such basis, the Convertible Notes subject to the Convertible Notes Offer would not command any positive sum of "see-through" price, as the Share Offer Price (also applicable to the Convertible Notes Offer) of HK\$0.27 payable by the Offeror for each underlying Share representing a total outstanding principal value of the Convertible Notes would be HK\$56,318,287.50, we consider that the terms of the Convertible Notes Offer is not fair and reasonable so far as the Convertible Noteholders are concerned, and therefore not acceptable for the Convertible Noteholders on the grounds that if they consider not to accept the Convertible Notes Offer and hold the Convertible Notes until the date of maturity on 30 September 2019, they will get back the original

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outstanding principal amount thereof at HK\$166,869,000, which is 2.96 times of the value for accepting the Convertible Notes Offer. Accordingly, we advise the Independent Board Committee to recommend the Convertible Noteholders not to accept the Convertible Notes Offer.

Based on the above analysis, the Noteholders may also alternatively consider to hold the total outstanding principal amount of the Convertible Notes of HK\$166,869,000 until the date of their maturity on 30 September 2019, so the Company shall repay such principal moneys outstanding under the Convertible Notes on the 42 months from their date of issue (i.e. on 30 March 2016).

The Option Offer

As set out in the “Letter from Octal Capital” of the Composite Document, as at the Latest Practicable Date, there were a total of 55,580,190 outstanding Share Options entitling the Optionholders to subscribe for the sum of 55,580,190 Shares at the exercise price of HK\$0.94 per Share, which were issued by the Company pursuant to the Share Option Scheme adopted in September 2013. Upon assessing the terms of the Option Offer, we envisage that the adoption of a “see-through” price (representing the difference between the offer price for ordinary shares and any given exercise price of the convertible instrument) is commonly regarded as the minimum offer price for any convertible instrument in conjunction with a general offer for ordinary shares. On such basis, the Share Options subject to the Option Offer would not command any positive sum of “see-through” price, as the Share Offer Price of HK\$0.27 per Offer Share payable under the Share Offer is much lower than the exercise price of HK\$0.94 per Share for the Share Options subject to the Option Offer. In general, it would be unwise for the Optionholders to exercise the Share Options, and pay for the necessary subscription money, at HK\$0.94 per Share prior to the close of the Offers, and in turn accept the Share Offer in exchange for the Share Offer Price at HK\$0.27 in cash for each Share; so it shall be fair and reasonable so far as the Optionholders are concerned to accept the Option Offer by receiving the nominal offer price at HK\$0.01 in cash for each outstanding Share Option, even though which is a negligible amount, because the Share Options are far “out-of-the-money” and therefore has no value in substance. Otherwise, the outstanding Share Options will lapse and become valueless 14 days after the Offers becoming unconditional. Accordingly, we advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

On the other hand, for those Optionholders who wish to retain some or all of their Share Options and/or exercise some or all of their subscription rights under the Share Options and retain their Shares thereupon as they are attracted by and confident in the prospects and/or the management of the Group or otherwise, they should carefully consider the intentions of the Offeror in relation to the Group, details of which are set out in the “Letter from Octal Capital” of the Composite Document. The Optionholders are also reminded that the outstanding Share Options will lapse 14 days after the Offers becoming unconditional and be cancelled thereafter.

Optionholders should read carefully the procedures for accepting the Option Offer as detailed in the “Letter from Octal Capital” of and the Appendix I to the Composite Document.

The Independent Shareholders, the Convertible Noteholders and the Optionholders, in particular those who intend to accept the Offers, are reminded to note the recent fluctuation in the Share price after the release of the Joint Announcement, and that there is no guarantee that the current market price will or will not sustain, and will or will not be higher than the Share Offer Price during and after the close of the Offers.

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The Independent Shareholders, the Convertible Noteholders and the Optionholders who intend to accept the Offers are also reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period for acceptance and shall, having regard to their own circumstances, consider exercising the Convertible Notes or the Share Options and/or selling the Shares (as the case may be) in the open market, instead of accepting the Offers, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offers.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Fanny Lee	Nicholas Cheng
<i>Managing Director</i>	<i>Director</i>

Note:

Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO and have over 15 years of experience in corporate finance industry. Both of them have participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. PROCEDURES FOR ACCEPTANCE

To accept any of the Offers, you should complete and sign the relevant accompanying Forms of Acceptance in accordance with the instructions printed thereon, which instructions forms part of the terms of the relevant Offers.

1.1 The Share Offer

- (a) To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which forms part of the terms of the Share Offer.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong marked "Nine Express Limited – Share Offer" on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the Closing Date or such later times and/or dates as the Offeror may determine and announce in accordance with the Code.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or

transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or Octal Capital and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.
- (e) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s)

and/or other document(s) of title in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given should be provided to the Registrar.

- (f) Acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar on or before the latest time for the acceptance of the Share Offer and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Code have been so received, and is:
 - (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

1.2 The Convertible Notes Offer

- (a) If you accept the Convertible Notes Offer and the certificate(s) of the Convertible Notes and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are in your name, you should complete the **BLUE** Form of Convertible Notes Offer Acceptance in accordance with the instructions printed thereon in respect of the outstanding principal amount of the Convertible Notes held by you that you wish to tender to the Convertible Notes Offer, which instructions form part of the terms and conditions of the Convertible Notes Offer.

- (b) The completed **BLUE** Form of Convertible Notes Offer Acceptance should be forwarded, together with the relevant certificate(s) of the Convertible Notes and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) which you intend to accept the Convertible Notes Offer, by post or by hand to the Company at Room 4101, 41/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong, marked “Nine Express Limited — Convertible Notes Offer” on the envelope, as soon as possible but in any event no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Code.
- (c) No acknowledgement of receipt of any **BLUE** Form of Convertible Notes Offer Acceptance and/or certificate(s) of the Convertible Notes and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

1.3 The Option Offer

- (a) If you are an Optionholder and you wish to accept the Option Offer in respect of your Share Options (whether in full or in part), you must send the duly completed and signed **YELLOW** Form of Option Offer Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Share Options which you hold that you wish to tender to the Option Offer to the Company at Room 4101, 41/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong, marked “Nine Express Limited – Option Offer” on the envelope as soon as possible but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Code.
- (b) No stamp duty will be deducted from the amount paid or payable to the Optionholder(s) who accept(s) the Option Offer.
- (c) No acknowledgement of receipt of any **YELLOW** Form of Option Offer Acceptance and/or the certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Share Options will be given.

2. SETTLEMENT UNDER THE OFFERS**2.1 The Share Offer**

Provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by Note 1 to Rule 30.2 of the Code are complete and in good order in all respects and have been received by the Registrar before the close of the Share Offer, a cheque for the amount due to each of the Shareholders who accept the Share Offer less seller's ad valorem stamp duty in respect of the Offer Shares tendered by him/her under the Share Offer will be despatched to such Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) Business Days of (i) the date on which the duly completed acceptances of the Share Offer and the relevant documents of title in respect of such acceptances are received by the Registrar to render each such acceptance complete and valid or (ii) the date on which the Share Offer becomes or is declared unconditional in all respects, whichever is the later.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

2.2 The Convertible Notes Offer

Provided that a valid **BLUE** Form of Convertible Notes Offer Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Company before the close of the Convertible Notes Offer, a cheque for the amount due to each of the Convertible Noteholders who accepts the Convertible Notes Offer less seller's ad valorem stamp duty in respect of the Convertible Notes tendered by it/him/her under the Convertible Notes Offer will be despatched to such Convertible Noteholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven Business Days following the later of (i) the date of receipt by the Company of all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Code; and (ii) the date on which the Convertible Notes Offer becomes or is declared unconditional in all respects.

No fractions of a cent will be payable and the amount of cash consideration payable to a Convertible Noteholder who accepts the Convertible Notes Offer will be rounded up to the nearest cent.

Settlement of the consideration to which any accepting Convertible Noteholder is entitled under the Convertible Notes Offer will be implemented in full in accordance with the terms of the Convertible Notes Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Convertible Noteholder.

2.3 The Option Offer

Provided that a valid **YELLOW** Form of Option Offer Acceptance and the relevant certificate(s) in respect of the Share Options (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Company before the close of the Option Offer, a cheque for the amount due to each of the Optionholders who accepts the Option Offer in respect of the Share Option tendered by it/him/her under the Option Offer will be despatched to such Optionholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven Business Days following the later of (i) the date of receipt by the Company of all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Code; and (ii) the date on which the Option Offer becomes or is declared unconditional in all respects.

Settlement of the consideration to which any accepting Optionholder is entitled under the Share Option will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Optionholder.

No fractions of a cent will be payable and the amount of cash consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offers are made on 27 October 2017, being the date of despatch of this Composite Document, and is open for acceptance on and from this date.
- (b) Unless the Offers have previously been declared unconditional or revised or extended with the consent of the Executive in accordance with the Code, to be valid, the **WHITE** Form of Share Offer Acceptance must be received by the Registrar and the **BLUE** Form of Convertible Notes Offer Acceptance and **YELLOW** Form of Option Offer Acceptance must be received by the Company, in each case, in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date, or if the Offers are extended, any subsequent closing date of the Offer will be announced by the Offeror in accordance with the Code. The Share Offer is conditional upon, amongst other things, the Offeror having received acceptances in respect of the Offer Shares which, together with the Shares already owned by or to be acquired before or during the Share Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company. The Convertible Notes Offer and the Option Offer are

conditional upon the Share Offer becoming or being declared unconditional in all respects. In the event that the Offers become or are declared unconditional in all respects, the Offers will remain open for acceptance for not less than fourteen (14) days thereafter.

- (c) The Offeror reserves the right to revise the terms of the Offers after the despatch of this Composite Document until such day as it may determine and in accordance with the Code. If the Offeror revises the terms of the Offers, all the Independent Shareholders, Convertible Noteholders and Optionholders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms.
- (d) If the Offers are extended, the Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders, Convertible Noteholders and Optionholders who have not accepted the relevant Offers before the Offers are closed. The revised Offers will be kept open for at least fourteen (14) days thereafter.
- (e) If, in the course of the Offers, the Offeror revises the terms of the Offers, all Independent Shareholders, Convertible Noteholders and Optionholders, whether or not they have already accepted the Offers, will benefit under the revised terms. A revised offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.
- (f) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

4. EXERCISE OF SHARE OPTIONS

The Optionholder who wishes to accept the Share Offer may (i) exercise his/her/its Share Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Share Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the Share Options to the Company before the Offers close; and (ii) at the same time, or in any event no later than 4:00 p.m. on the Closing Date, complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to the Company for exercising the Share Options. Exercise of the Share Options is subject to the terms and conditions of the Share Option Scheme and the terms attaching to the grant of the relevant Share Options. Delivery of the completed and signed **WHITE** Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Share Options but will only be deemed to be an irrevocable authority to the Offeror and/or Octal Capital and/or any of their respective agent(s) or such other person(s) as they may direct to collect from the Company or the Registrar on his/her/its behalf the relevant share certificate(s) when issued on exercise of the Share Options as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

If the Optionholder fails to exercise his/her/its Share Options as aforesaid and in accordance with the terms and conditions of the Share Option Scheme, there is no guarantee that the Company may issue the relevant share certificate in respect of the Shares allotted pursuant to his/her/its exercise of the Option(s) to such Optionholder in time for it to accept the Share Offer as a Shareholder of such Shares under the terms of the Share Offer.

5. LAPSE OF SHARE OPTIONS

Following acceptance of the Option Offer, the relevant Share Options together with all rights attaching thereto will be entirely cancelled and renounced on the Closing Date. Optionholders should note that according to the rules of the Share Option Scheme, the Optionholders are entitled to exercise their Share Options (to the extent not exercised) in full or in part by notice in writing to the Company at any time until whichever is the earlier of the date of expiry of the option period or the date falling fourteen (14) days from the date on which the offer becomes or is declared unconditional, after which the Share Options shall lapse. Optionholders are reminded that acceptance of the Option Offer made in relation to any Share Option that has lapsed will not render acceptance to be valid. Optionholders are therefore recommended to consult their own professional advisers as to the exercise of the Share Options pursuant to the rules of the Share Option Scheme and the implications as to accepting or rejecting the Option Offer.

Nothing in this Composite Document or the Option Offer will serve to extend the life of any Share Option which lapses under the Share Option Scheme. No exercise of Share Options or acceptance of the Option Offer may be made in relation to any Share Option that has lapsed.

6. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

7. ANNOUNCEMENTS

- (a) By 4:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Code on the Stock Exchange's website by 7:00 p.m. the Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state the total number of Shares, Convertible Notes and Share Options and right over Shares:
 - (i) for which acceptances of the Offers have been received;
 - (ii) held, controlled or directed by the Offeror and its Concert Parties before the Offer Period; and

- (iii) acquired or agreed to be acquired during the Offer Period by the Offeror and its Concert Parties.

The announcement must also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Code) in the Company which the Offeror or any Concert Party has borrowed or lent (save for any borrowed Shares which have been either on lent or sold) and specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) In computing the total number or principal amount of Shares, Convertible Notes and Share Options represented by acceptances, only valid acceptances that are complete and in good order, and which have been received by the Registrar (in the case of the Share Offer) or the Company (in the case of the Convertible Notes Offer and Option Offer), no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.
- (c) As required under the Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Code and the Listing Rules.

8. RIGHT OF WITHDRAWAL

The Share Offer is conditional upon fulfilment of the Condition set out in the “Letter from Octal Capital” in this Composite Document and the Convertible Notes Offer and the Option Offer are conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Share Offer, the Convertible Notes Offer and the Option Offer tendered by Shareholders, Convertible Noteholders and Optionholders, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the subparagraph (a) and (b) below:

- (a) in compliance with Rule 17 of the Code, which provides that an acceptor of the Share Offer, the Convertible Notes Offer and the Option Offer shall be entitled to withdraw his/her/its consent after 21 days from the first Closing Date (being, 17 November 2017) if the Offers have not by then become unconditional as to acceptances. An acceptor of the Share Offer, the Convertible Notes Offer or the Option Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar (as regards the Share Offer) and/or the Company (as regards the Convertible Notes Offer or the Option Offer);
- (b) in the circumstances set out in Rule 19.2 of the Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed “7. Announcements” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

9. OVERSEAS HOLDERS

The making of the Offers to the Overseas Holders may be affected by the laws of the relevant jurisdictions. The Overseas Holders should observe any applicable legal or regulatory requirements. The Overseas Holders should obtain appropriate legal advice regarding the implications of the Offers in the relevant jurisdictions with a view to observing any applicable legal or regulatory requirements. It is the responsibility of the Overseas Holders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or regulatory or legal requirements. The Overseas Holders will also be fully responsible for the payment of any transfer or other taxes and duties by the accepting Overseas Holders payable in respect of all relevant jurisdictions. Acceptance of the Offers by the Overseas Holders will constitute a representation and warranty by such person that the local laws and requirements have been complied with and such person is permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.

10. TAX IMPLICATIONS

Independent Shareholders, Convertible Noteholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror and its Concert Parties, the Company, Octal Capital and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

11. GENERAL

- (i) All communications, notices, Form(s) of Acceptance, share certificates, certificate(s) of Options, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Shareholders, Convertible Noteholders and/or the Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, Octal Capital and any of their respective directors nor the Registrar or the Company or other parties involved in the Offers accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (ii) If the Offers do not become, or is not declared, unconditional in all respects within the time permitted by the Code, the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar or the Company will be returned to the Independent

Shareholders, Convertible Noteholders and Optionholders, who have accepted the Share Offer, the Convertible Notes Offer or the Option Offer by ordinary post at their own risk as soon as possible but in any event within 10 days after the Offers has lapsed.

- (iii) The provisions set out in the accompanying Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (iv) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (v) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (vi) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, Octal Capital, or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offers.
- (vii) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares, Convertible Notes and/or the Share Options (as the case may be) sold to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made, being the date of despatch of this Composite Document. For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.
- (viii) Reference to the Offers in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.
- (ix) The English text of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese text for the purpose of interpretation.
- (x) The Offers are made in accordance with the Code.

1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the unaudited financial results of the Group for the six months ended 30 June 2017, as set out in the relevant annual reports and interim report of the Company.

The auditors of the Company have not issued any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

The Group had items which were exceptional because of size, nature or incidence for each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, as shown below:

	Six months ended 30 June 2017 HK\$'000 (unaudited)	Year ended 31 December 2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Impairment loss on goodwill	–	–	–	(198,037)
Fair value loss on an investment property/properties	–	(21,445)	(48,780)	–
Impairment loss on hotel development	–	–	(604,173)	–
Impairment loss on investment in an associate	(106,486)	(148,674)	–	–
Impairment loss on available-for- sale financial assets	–	(20,008)	–	–
Properties development in progress written down	(63,287)	(46,953)	–	–
Provision for PRC Enterprise Income tax	–	(28,200)	–	–
Properties held for sale written down	(17,211)	–	–	–
Loss on early redemption of convertible notes	(972)	–	–	–

No dividend has been paid or proposed by the Company for the three years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2017.

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

	Six months ended 30 June	Year ended 31 December		
	2017	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
Revenue	<u>14,312</u>	<u>23,047</u>	<u>24,422</u>	<u>27,127</u>
Loss before income tax	(222,762)	(332,830)	(708,579)	(172,390)
Income tax credit/(expense)	<u>1,970</u>	<u>4,116</u>	<u>65,041</u>	<u>(5,642)</u>
Loss for the period/year	<u>(220,792)</u>	<u>(328,714)</u>	<u>(643,538)</u>	<u>(178,032)</u>
Loss for the period/year attributable to:				
– Owners of the Company	(220,792)	(328,714)	(643,538)	(178,032)
– Non-controlling interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>(220,792)</u>	<u>(328,714)</u>	<u>(643,538)</u>	<u>(178,032)</u>
Loss per share				
– Basic and diluted	<u>HK(8.93) cents</u>	<u>HK(14.54) cents</u>	<u>HK(42.34) cents</u>	<u>HK(13.34) cents</u>

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

Set out below is the financial information of the Group as extracted from the published audited financial statements of the Group for the year ended 31 December 2016.

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	7	23,047	24,422
Cost of sales	9	(5,919)	(5,424)
Gross profit		17,128	18,998
Other income and gains	7	87,891	123
Fair value loss on investment properties	16	(21,445)	(48,780)
Impairment loss on investment in an associate	18	(148,674)	–
Impairment loss on available-for-sale financial assets	19	(20,008)	–
Properties development in progress written down	20	(46,953)	–
Impairment loss on hotel development	23	–	(604,173)
Provision for PRC Enterprise Income tax	41	(28,200)	–
Administrative expenses	9	(56,612)	(44,055)
Selling and marketing expenses	9	(1,947)	(3,003)
Operating loss		(218,820)	(680,890)
Finance income	8	42	920
Finance costs	8	(51,432)	(24,385)
Finance costs – net	8	(51,390)	(23,465)
Share of losses of investments in associates	18	(1,398)	(4,224)
Loss on deemed disposal of an associate	18	(61,222)	–
Loss before income tax		(332,830)	(708,579)
Income tax credit	11	4,116	65,041
Loss for the year attributable to owners of the Company		(328,714)	(643,538)
Loss per share	13		
Basic		HK(14.54)cents	HK(42.34)cents
Diluted		HK(14.54)cents	HK(42.34)cents

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

	2016 HK\$'000	2015 HK\$'000
Loss for the year attributable to owners of the Company	(328,714)	(643,538)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(42,818)	(56,563)
Share of other comprehensive income of an associate accounted for using the equity method	56	–
Other comprehensive income for the year, net of tax	(42,762)	(56,563)
Total comprehensive income for the year attributable to owners of the Company	(371,476)	(700,101)

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Financial Position***As at 31 December 2016*

	Note	2016 HK\$'000	2015 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	71,994	66,133
Land use rights	15	79,285	92,435
Investment properties	16	256,868	272,953
Investments in associates	18	891,420	145,868
Available-for-sale financial assets	19	167,722	105,050
Prepayments and other receivables	22	16,495	20,389
Film rights		102	102
Financial assets at fair value through profit or loss	24	63,400	—
Total non-current assets		1,547,286	702,930
Current assets			
Properties development in progress	20	1,035,652	1,073,710
Inventories		2	7
Trade and rental receivables	21	10,642	10,726
Prepayments and other receivables	22	11,738	57,307
Tax recoverable		7	83
Financial assets at fair value through profit or loss	24	24,231	—
Restricted bank deposits	25	8,692	2,561
Cash and cash equivalents	26	24,010	57,175
Total current assets		1,114,974	1,201,569
LIABILITIES			
Current liabilities			
Trade payables	27	18,146	28,031
Other payables, accruals and deposits received	28	201,002	45,641
Borrowings	29	371,610	390,890
Finance lease payables	30	—	1,018
Current tax liabilities		2,121	—
Total current liabilities		592,879	465,580
Net current assets		522,095	735,989
Total assets less current liabilities		2,069,381	1,438,919

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

	Note	2016 HK\$'000	2015 HK\$'000
Non-current liabilities			
Deposits received	28	2,501	2,659
Borrowings	29	326,075	293,874
Convertible notes	31	136,828	—
Deferred tax liabilities	32	157,140	173,561
Total non-current liabilities		622,544	470,094
Net assets		1,446,837	968,825
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	33	24,712	16,825
Other reserves	36	1,422,125	952,000
Total equity		1,446,837	968,825

Consolidated Statement of Cash Flows*For the year ended 31 December 2016*

	Note	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(332,830)	(708,579)
Adjustments for:			
Interest income on short-term bank deposits	8	(42)	(132)
Finance costs	8	51,220	24,385
Depreciation	14	4,425	4,354
Gain on disposal of property, plant and equipment	7	(110)	(26)
Fair value gains on financial assets at fair value through profit or loss	7	(87,631)	–
Fair value loss on investment properties	16	21,445	48,780
Impairment loss on investment in an associate	18	148,674	–
Share of losses of investments in associates	18	1,398	4,224
Impairment loss on available-for-sale financial assets	19	20,008	–
Properties development in progress written down	20	46,953	–
Impairment loss on hotel development	23	–	604,173
Provision for impairment of trade receivables	9	69	–
Reversal of provision for impairment of trade receivables	9	(85)	(44)
Provision for PRC Enterprise Income tax	41	28,200	–
Loss on deemed disposal of an associate	18	61,222	–
		(37,084)	(22,865)
Changes in working capital:			
Increase in properties development in progress		(69,059)	(29,117)
Decrease in inventories		5	8
Increase in trade and rental receivables		(471)	(1,340)
Decrease in prepayments and other receivables		46,277	215,486
Decrease in trade and land payables		(8,219)	(295,290)
Increase in other payables, accruals and deposits received		67,918	8,554
Cash used in operations		(633)	(124,564)
Hong Kong profits tax refunded		16	6
Net cash used in operating activities		(617)	(124,558)

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

	Note	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to an associate		(1,131)	–
Transaction costs attributable to acquisition of an associate		(5,137)	–
Purchase of available-for-sale financial assets		–	(105,050)
Purchase of property, plant and equipment		(5,113)	(49,421)
Proceeds from disposal of property, plant and equipment		521	106
Purchase of investment properties		(21,921)	–
Increase in restricted bank deposits		(5,979)	(2,561)
Interest received	8	42	132
Net cash used in investing activities		(38,718)	(156,794)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	206,292
Proceeds from issue of warrants		–	15,105
Transaction costs attributable to issue of shares and warrants		–	(6,926)
Proceeds from borrowings		351,014	446,827
Repayment of borrowings		(320,728)	(347,529)
Interest paid on borrowings and commitment fee		(38,086)	(24,300)
Interest element of finance lease rental payments		(20)	(85)
Capital element of finance lease rental payments		(1,018)	(1,452)
Net cash (used in)/generated from financing activities		(8,838)	287,932
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(48,173)	6,580
Cash and cash equivalents at beginning of year		57,175	61,696
Effect of foreign exchange rate changes, net		12,027	(11,101)
Cash and cash equivalents at end of year		21,029	57,175
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	26	24,010	57,175
Bank overdraft – secured	29	(2,981)	–
		21,029	57,175

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company										
	Issued share capital (note 33) HK\$'000	Share premium (note 36(b)(i)) HK\$'000	Contributed surplus (note 36(b)(ii)) HK\$'000	Equity component of the convertible notes (note 36(b)(vi)) HK\$'000	Exchange reserve (note 36(b)(iii)) HK\$'000	Special reserve (note 36(b)(iv)) HK\$'000	Share options reserve (note 36(b)(vi)) HK\$'000	Warrants reserve (note 36(b)(vii)) HK\$'000	Other reserve (note 36(b)(viii)) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2015	14,981	939,167	459,047	–	63,743	17,926	46,438	2,114	–	(88,961)	1,454,455
Total comprehensive income for the year	–	–	–	–	(56,563)	–	–	–	–	(643,538)	(700,101)
Issue of shares (note 33(a)&(b))	1,844	206,442	–	–	–	–	–	(1,994)	–	–	206,292
Share issue expenses	–	(5,197)	–	–	–	–	–	–	–	–	(5,197)
Issue of warrants	–	–	–	–	–	–	–	15,105	–	–	15,105
Warrants issue expenses	–	–	–	–	–	–	–	(1,729)	–	–	(1,729)
Share options lapsed	–	–	–	–	–	–	(6,634)	–	–	6,634	–
Change in equity for the year	1,844	201,245	–	–	(56,563)	–	(6,634)	11,382	–	(636,904)	(485,630)
Balance at 31 December 2015	16,825	1,140,412	459,047	–	7,180	17,926	39,804	13,496	–	(725,865)	968,825
Balance at 1 January 2016	16,825	1,140,412	459,047	–	7,180	17,926	39,804	13,496	–	(725,865)	968,825
Total comprehensive income for the year	–	–	–	–	(42,818)	–	–	–	56	(328,714)	(371,476)
Issue of shares (note 33(c))	7,887	740,262	–	(334,561)	–	–	–	–	–	–	413,588
Issue of convertible notes (note 31)	–	–	–	435,900	–	–	–	–	–	–	435,900
Warrants lapsed	–	–	–	–	–	–	–	(13,285)	–	13,285	–
Change in equity for the year	7,887	740,262	–	101,339	(42,818)	–	–	(13,285)	56	(315,429)	478,012
Balance at 31 December 2016	24,712	1,880,674	459,047	101,339	(35,638)	17,926	39,804	211	56	(1,041,294)	1,446,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. CORPORATE INFORMATION**

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

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

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

2. BASIS OF PREPARATION

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

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

2. BASIS OF PREPARATION *(Continued)*

As at 31 December 2016, the Group had total current liabilities of approximately HK\$592,879,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK\$24,010,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK\$328,714,000 and had cash outflow from operating activities of approximately HK\$617,000 for the year ended 31 December 2016. The Group's other loan with carrying amount of approximately HK\$153,459,000 will mature in January 2018. These events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management has prepared cash flow projections which cover a period of eighteen months from the date of the consolidated statement of financial position. The Directors of the Company have reviewed the Group's cash flow projections. The Directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include obtaining additional financing from banks and others with lower interest cost and rollover of existing loans. The Group also received a letter of financial support from a substantial shareholder of the Company confirming that it will continue to provide adequate funds for the Group to meet its present and future financial obligations as they fall due. In the opinion of the Directors, in light of the above, together with the anticipated cash outflows from operations, the Group will have sufficient working capital to fulfill its financial obligations as and when they fall due in the coming eighteen months from the date of the consolidated statement of financial position. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised HKFRSs are relevant to the Group.

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

(a) Application of new and revised HKFRSs *(Continued)*

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

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

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018

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

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

	Effective for accounting periods beginning on or after
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

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

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

HKFRS 9 Financial Instruments (Continued)

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group's financial assets that are currently classified as available-for-sale include certain unlisted equity securities and fund investment. These financial assets are currently measured at cost less impairment with any impairment losses recognised in profit or loss.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

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

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a detailed analysis is completed.

HKFRS 16 Leases

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

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

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

HKFRS 16 Leases (Continued)

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

As disclosed in note 38, the Group's future minimum lease payments under non-cancellable operating leases for its office properties and equipment amounted to HK\$7,600,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation

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

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

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

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

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

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

(b) Business combination and goodwill

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(d) Foreign currency translation** *(Continued)**(iii) Translation on consolidation*

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

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

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

(e) Property, plant and equipment

Property, plant and equipment, including leasehold land and buildings (classified as finance leases), held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(e) Property, plant and equipment *(Continued)***

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

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

Leasehold land and buildings	Shorter of remaining lease term or useful life
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms or 20%
Motor vehicles	10% – 25%
Plant, machinery and equipment	20% – 33 $\frac{1}{3}$ %

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

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

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

(f) Investment properties

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(g) Film rights**

Perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Costs of film rights represent the purchase price of the perpetual film rights and are amortised over the period of the expected income from distribution and licensing of video rights and other broadcasting rights following their release.

(h) Leases*The Group as lessee***(i) Operating leases**

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

Prepaid land lease payments or land use rights are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

*The Group as lessor***Operating leases**

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(i) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Properties development in progress

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

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

(k) Recognition and derecognition of financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) Financial assets

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

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

(i) Financial assets at fair value through profit or loss

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

(o) Financial liabilities and equity instruments

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

(p) Borrowings

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

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

(q) Convertible notes

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(q) Convertible notes** *(Continued)*

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

(r) Trade and other payables

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

(s) Equity instruments

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

(t) Revenue recognition

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

Revenue from the sale of goods is recognised, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

Revenue from the production and distribution of films is recognised, when the production is completed and the film has been released, and distributed to the cinema circuit and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts;

Revenue from the licensing of the distribution and broadcasting rights over films and television series is recognised, when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers;

Revenue from the provision of film processing services is recognised, when the services are provided;

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

Dividend income is recognised, when the shareholder's right to receive payment has been established.

(u) Employee benefits

(i) Employee leave entitlements

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

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

The Group participates various post-employment scheme in form of defined contribution pension plans.

(ii) Pension obligations

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

(iii) Termination benefits

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

(v) Share-based payments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Taxation *(Continued)*

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

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

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

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

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

(y) PRC land appreciation tax (“LAT”)

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC Enterprise Income tax (“EIT”) purposes.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Impairment of non-financial assets

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

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

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(aa) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Impairment of financial assets *(Continued)*

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

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

(bb) Provisions and contingent liabilities

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

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

(cc) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)***Critical judgements in applying accounting policies *(Continued)****(a) Classification of investment*

Determining whether an investment in another entity should be classified as an investment in an associate requires judgement. Management considers all aspects of the relationship between the investor and the investee in order to determine whether the Group has significant influence over the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has performed an assessment and considered the current accounting treatments for its associates to be appropriate. Talent Films Limited (“Talent Films”) and Ever-Grand Development Limited (“Ever-Grand”) are accounted for as associates since the Group has significant influence on but no control or joint control over Talent Films and Ever-Grand. As the majority of the directors of Talent Films and Ever-Grand are nominated by the respective major shareholders, the Group does not control or joint control Talent Films and Ever-Grand.

(b) Contingent liabilities

As described in notes 18 and 41 to the consolidated financial statements, the Group acquired 49% equity interest in Ever-Grand and its PRC subsidiaries during the year, but had not yet reported the relevant transaction to the PRC tax authority. The relevant PRC tax laws and regulations would enable the tax authority to impose a penalty of 50% to 3 times of the unpaid EIT.

After consulting PRC legal counsel, the Directors are of the opinion that the Group has already substantially withheld the EIT and made adequate provision for the non-withheld portion, thereby containing the risk of penalty to reasonably low level.

The Directors conclude that it is not probable that the Group will be required to pay the penalty and no provision in relation to any penalty is necessary as at 31 December 2016. As a result, the Directors classify the potential penalty as contingent liabilities and disclose as such in note 41.

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

Key source of estimation uncertainty

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

(a) Estimation of fair value of investment properties

The fair value of investment properties are determined by using income capitalisation valuation approach and direct comparison approach. Details of the judgement and assumptions have been disclosed in note 44.

The carrying amount of investment properties as at 31 December 2016 was HK\$256,868,000 (2015: HK\$272,953,000).

(b) Useful lives and depreciation of property, plant and equipment

Management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and with reference to the industry practices. It may also change significantly as a result of technical innovations and competitor actions in response to industry cycles.

Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of property, plant and equipment, land use rights and prepayment for construction costs

The Group assesses annually whether property, plant and equipment, land use rights and prepayment for construction costs have any indication of impairment. The recoverable amounts, if required, are determined based on value-in-use calculations or market valuations. These calculations require the use of judgement and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and affecting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)***Key source of estimation uncertainty *(Continued)****(c) Impairment of property, plant and equipment, land use rights and prepayment for construction costs (Continued)*

No impairment was made for the year ended 31 December 2016. Impairment losses of HK\$319,084,000, HK\$194,235,000 and HK\$90,854,000 for construction in progress, land use rights and prepayment for construction costs were made for the year ended 31 December 2015. Details of the impairment losses are set out in note 23 to the consolidated financial statements.

(d) Net realisable value of properties development in progress

The Group writes down properties development in progress to net realisable value based on assessment of the realisability of properties development in progress which takes into account cost to completion based on management's experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties development in progress to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties development in progress is adjusted in the period in which such estimate is changed.

Properties development in progress written down of HK\$46,953,000 was made for the year ended 31 December 2016 (2015: HK\$Nil).

(e) Impairment of trade and rental receivables and prepayments

Management regularly reviews the recoverability and/or ageing of trade and rental receivables and prepayments. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated statement of profit or loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Specific allowance is only made for receivables and prepayments that are unlikely to be collected or realised and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and their carrying value.

As at 31 December 2016, provision for impairment of trade and rental receivables amounted to HK\$109,000 (2015: HK\$125,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)***Key source of estimation uncertainty *(Continued)****(f) Impairment of investments in associates*

At the end of each reporting period, the Group reviews internal and external sources of information to identify indicators that the Group's investments in associates may be impaired.

The recoverable amounts of the investments in associates are the higher of value-in-use and fair value less costs of disposal. In determining value-in-use, an entity estimates either: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate and proceeds on disposal, or (b) the present value of estimated future cash flows expected to arise from dividends to be received and proceeds on disposal. Any impairment loss is recognised by writing down the investments in associates.

Impairment loss of HK\$148,674,000 for investment in an associate was made for the year ended 31 December 2016 (2015: HK\$Nil).

(g) Income taxes (including VAT)

The Group is subject to income taxes mainly in statutory jurisdictions of Hong Kong and the PRC. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

During the year, HK\$4,116,000 (2015: HK\$65,041,000) of income tax was credited to profit or loss based on the estimated profit from continuing operations.

(h) Impairment of investments in available-for-sale financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to identify indicators that the Group's investments in available-for-sale financial assets may be impaired.

The amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment loss of HK\$20,008,000 was made for available-for-sale financial assets for the year ended 31 December 2016 (2015: HK\$Nil).

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

Key source of estimation uncertainty *(Continued)*

(i) *Estimation of fair value of financial assets at fair value through profit or loss*

The fair value of financial asset at fair value through profit or loss is determined by using discounted cash flow approach. Details of the judgement and assumptions have been disclosed in note 44.

The carrying amount of financial assets at fair value through profit or loss was HK\$87,631,000 (2015: HK\$Nil).

(j) *Estimation of fair value of investment retained after deemed disposal of an associate*

The fair value of investment retained after deemed disposal of an associate is determined by using discounted cash flow approach. Details of the assumptions have been disclosed in note 18(b).

The carrying amount of investment retained after deemed disposal of an associate as at deemed disposal date was HK\$82,680,000 (2015: HK\$Nil).

6. SEGMENT INFORMATION

For management purposes, the Group is organised into five business units – property rental, film distribution and licensing, film processing, property and hotel development and centralised heat supply.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit (loss), which is a measure of adjusted profit (loss) before income tax. The profit (loss) before income tax is measured consistently with the Group's profit (loss) before income tax except that finance income, finance costs, as well as head office and corporate expenses, and certain other income are excluded from such measurement.

Segment assets exclude restricted bank deposits, cash and cash equivalents, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a Group basis.

Segment liabilities exclude finance lease payables of a motor vehicle used on a Group basis, convertible notes and other unallocated head office and corporate liabilities as these liabilities are managed on a Group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(Continued)***Year ended 31 December 2016**

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Total HK\$'000
Segment revenue:						
External revenue	19,303	1,285	2,459	–	–	23,047
Total revenue	19,303	1,285	2,459	–	–	23,047
Segment results	(9,364)	(14,143)	(2,007)	(58,829)	(148,169)	(232,512)
Unallocated corporate expenses						(48,928)
Finance income						42
Finance costs						(51,432)
Loss before income tax						(332,830)
Income tax credit						4,116
Loss for the year						(328,714)

As at 31 December 2016

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Centralised heat supply HK\$'000	Unallocated HK\$'000	Total HK\$'000
Assets and liabilities							
Segment assets	269,808	140	2,851	1,349,286	–	148,755	1,770,840
Segment liabilities	51,569	8,338	1,858	893,424	–	260,234	1,215,423
Investments in associates	–	–	–	–	891,420	–	891,420
Other segment information:							
Capital expenditure	774	–	86	2,731	–	1,522	5,113
Depreciation	923	–	480	300	–	2,722	4,425
Fair value loss on investment properties	21,445	–	–	–	–	–	21,445
Property development in progress written down	–	–	–	46,953	–	–	46,953
Impairment loss on investment in an associate	–	–	–	–	148,674	–	148,674
Share of losses (profits) of investments in associates	–	–	–	1,966	(568)	–	1,398

6. SEGMENT INFORMATION *(Continued)***Year ended 31 December 2015**

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Total HK\$'000
Segment revenue:					
External revenue	20,112	2,374	1,936	–	24,422
Total revenue	20,112	2,374	1,936	–	24,422
Segment results	(35,865)	(15,655)	(1,875)	(620,540)	(673,935)
Unallocated corporate expenses					(11,179)
Finance income					920
Finance costs					(24,385)
Loss before income tax					(708,579)
Income tax credit					65,041
Loss for the year					(643,538)

As at 31 December 2015

	Property rental HK\$'000	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property and hotel development HK\$'000	Unallocated HK\$'000	Total HK\$'000
Assets and liabilities						
Segment assets	304,644	8,416	2,800	1,410,031	178,608	1,904,499
Segment liabilities	57,406	8,452	1,023	865,497	3,296	935,674
Investments in associates	–	–	–	145,868	–	145,868
Other segment information:						
Capital expenditure	229	69	390	51,318	–	52,006
Depreciation	1,004	496	398	383	2,073	4,354
Fair value loss on investment properties	48,780	–	–	–	–	48,780
Impairment loss on hotel development	–	–	–	604,173	–	604,173
Share of losses of investments in associates	–	285	–	3,939	–	4,224

6. SEGMENT INFORMATION *(Continued)*

(a) Geographical information

2016

	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	Total HK\$'000
Revenue	3,226	19,303	518	23,047
Non-current assets (excluding available-for-sale financial assets and financial assets at fair value through profit or loss)	5,880	1,310,284	–	1,316,164
Capital expenditure	1,504	3,609	–	5,113

2015

	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	Total HK\$'000
Revenue	2,643	20,112	1,667	24,422
Non-current assets (excluding available-for-sale financial assets)	2,344	595,536	–	597,880
Capital expenditure	459	51,547	–	52,006

(b) Information about major customers

Revenue of HK\$13,110,000 (2015: HK\$13,730,000) and HK\$3,620,000 (2015: HK\$3,790,000) were derived from two individual tenants of property rental segment.

7. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of film rights licensed, after allowances for trade discounts; the value of services rendered; and rental income received and receivable from its investment property less business tax during the year.

	2016 HK\$'000	2015 HK\$'000
Revenue		
Property rental income	19,303	20,112
Film distribution and licensing income	1,285	2,374
Film processing income	2,459	1,936
	23,047	24,422
Other income and gains		
Fair value gains on financial assets at fair value through profit or loss (note 24)	87,631	—
Gain on disposal of property, plant and equipment	110	26
Others	150	97
	87,891	123

8. FINANCE COSTS – NET

	2016 HK\$'000	2015 HK\$'000
Finance costs:		
Interest on bank borrowings wholly repayable within five years	43,414	59,003
Interest on finance leases	20	85
Interest on other borrowings	32,407	29,736
Interest on convertible notes (note 31(b))	13,114	–
Foreign exchange difference, net	212	–
	89,167	88,824
Less: amounts capitalised on qualifying assets	(37,735)	(64,439)
Total finance costs	51,432	24,385
Finance income:		
Interest income on short-term bank deposits	(42)	(132)
Foreign exchange difference, net	–	(788)
Total finance income	(42)	(920)
Finance costs – net	51,390	23,465

Borrowing costs of the loans used to finance the property development projects (2015: property and hotel development projects) of the Group have been capitalised at a capitalisation rate of 11.24% during the year (2015: 12.59%).

9. EXPENSES BY NATURE

	2016 HK\$'000	2015 HK\$'000
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	18,437	13,401
Pension costs – defined contribution plans and social security costs	982	600
	19,419	14,001
Directors' remuneration (note 10)	5,410	2,922
Auditors' remuneration	1,881	1,636
Depreciation (note 14)	4,425	4,354
Cost of inventories recognised as expenses*	83	140
Operating lease rentals in respect of buildings	4,655	6,045
Direct operating expenses of investment property that generate rental income	3,226	2,911
Provision for impairment of trade receivables (note 21)	69	–
Reversal of provision for impairment of trade receivables (note 21)	(85)	(44)
Professional fees	14,173	8,669
Selling and marketing expenses	1,947	3,003
Others	9,275	8,845
Total cost of sales, administrative expenses and selling and marketing expenses	64,478	52,482

* The cost of inventories recognised as expenses for the year is included in “cost of sales” of the consolidated statement of profit or loss.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS

(a) Directors' and chief executive's emoluments

	2016 HK\$'000	2015 HK\$'000
Fees	451	320
Other emoluments:		
Salaries and allowances	4,865	2,421
Pension costs – defined contribution plans	94	181
	5,410	2,922

2016

	Fees HK\$'000	Salaries and allowances HK\$'000	Employer's contribution to pension scheme HK\$'000	Estimated money value of other benefit HK\$'000	Total remuneration HK\$'000
Executive Directors:					
Mr. Xiang Junjie					
(Chief executive) (Note (i))	–	1,006	14	–	1,020
Mr. Ji Jianguo (Note (ii))	–	489	–	–	489
Mr. Deng Guohong (Note (ii))	–	50	–	–	50
Mr. Wang Li (Note (ii))	–	50	–	–	50
Mr. Wan Peizhong (Note (iii))	–	383	–	–	383
Ms. Qian Ling Ling (Note (iv))	–	55	–	–	55
Mr. Zhang Li (Note (iv))	–	55	–	–	55
Ms. Law Kee, Alice (Note (v))	–	309	23	–	332
Mr. Hui Wai Lee, Willy (Note (vi))	–	221	16	–	237
Mr. Tai Yat Chung	–	104	5	–	109
Mr. Li Wenjun (Note (vii))	–	721	18	–	739
Mr. Zhong Yingchang (Note (vii))	–	1,422	18	–	1,440
	–	4,865	94	–	4,959
Independent non-executive Directors:					
Mr. Tsui Pui Hung	120	–	–	–	120
Mr. Tang Ping Sum	96	–	–	–	96
Mr. Chiu Sin Nang, Kenny	96	–	–	–	96
Mr. Gao Hong (Note (viii))	139	–	–	–	139
	451	–	–	–	451
	451	4,865	94	–	5,410

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS *(Continued)***(a) Directors' and chief executive's emoluments** *(Continued)*

Note:

- (i) Appointed on 31 March 2016
- (ii) Appointed on 3 June 2016 and resigned on 18 August 2016
- (iii) Appointed on 12 August 2016
- (iv) Appointed on 13 December 2016
- (v) Resigned on 31 March 2016
- (vi) Resigned on 12 August 2016
- (vii) Resigned on 13 December 2016
- (viii) Appointed on 3 June 2016

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS *(Continued)*(a) Directors' and chief executive's emoluments *(Continued)*

2015

	Fees HK\$'000	Salaries and allowances HK\$'000	Employer's contribution to pension scheme HK\$'000	Estimated money value of other benefit HK\$'000	Total remuneration HK\$'000
Executive Directors:					
Mr. Jin Lei (Note (i))	–	534	59	–	593
Ms. Law Kee, Alice (Chief executive)	–	1,367	95	–	1,462
Mr. Hui Wai Lee, Willy	–	237	18	–	255
Mr. Tai Yat Chung (Note (ii))	–	31	1	–	32
Mr. Li Wenjun (Note (iii))	–	126	4	–	130
Mr. Zhong Yingchang (Note (iii))	–	126	4	–	130
	–	2,421	181	–	2,602
Independent non-executive Directors:					
Mr. Tsui Pui Hung	120	–	–	–	120
Mr. Tang Ping Sum	96	–	–	–	96
Mr. Chu To, Jonathan (Note (iv))	54	–	–	–	54
Mr. Chiu Sin Nang, Kenny (Note (v))	50	–	–	–	50
	320	–	–	–	320
	320	2,421	181	–	2,922

Note:

- (i) Resigned on 21 September 2015
- (ii) Appointed on 15 September 2015
- (iii) Appointed on 16 October 2015
- (iv) Resigned on 22 June 2015
- (v) Appointed on 23 June 2015

There were no arrangements under which a director waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS *(Continued)*

(b) Emoluments of five-highest paid individuals

In 2016 and 2015, the five individuals whose emoluments were the highest in the Group included two (2015: one) Directors of which one was a then Director and becomes an employee of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (including the then director and becoming an employee of the Company) (2015: four) individuals during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and allowances	4,683	3,699
Pension costs – defined contribution plans	135	114
	4,818	3,813

The emoluments of the four (2015: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2016	2015
Emolument bands (in HK dollar)		
Nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	4	2

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

11. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

The applicable tax rate for the Group's operations in Mainland China is 25%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016 HK\$'000	2015 HK\$'000
Current tax – Hong Kong		
Charge for the year	–	7
Overprovision in prior years	(5)	(20)
Current tax – PRC		
Charge for the year	2,286	–
Total current tax	2,281	(13)
Deferred tax (note 32(a))	(6,397)	(65,028)
Total tax credit	(4,116)	(65,041)

A reconciliation of the income tax credit applicable to loss before income tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax credit is as follows:

	2016 HK\$'000	2015 HK\$'000
Loss before income tax	(332,830)	(708,579)
Tax at the statutory tax rates	(63,875)	(180,499)
Tax effects of:		
– Expenses not deductible for tax purposes	63,676	109,570
– Income not subject to tax	(14,876)	(1,024)
– Tax losses for which no deferred income tax asset was recognised	10,849	6,228
– Associate's results reported net of tax	231	697
Overprovision in prior years	(5)	(20)
Temporary difference not recognised	(116)	7
Utilisation of tax loss	(234)	(2,794)
Release of deferred tax assets relating to tax loss	234	2,794
Total tax credit	(4,116)	(65,041)

The weighted average effective tax rate was 19.2% (2015: 25.5%).

12. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016 HK\$'000	2015 HK\$'000
Loss for the year attributable to owners of the Company	(328,714)	(643,538)
Weighted average number of ordinary shares in issue (thousands)	2,261,158	1,520,003

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had three (2015: two) categories of dilutive potential ordinary shares, share options, warrants and convertible notes for the year ended 31 December 2016 (2015: share options and warrants).

For the year ended 31 December 2016, the convertible notes were assumed to have been converted into ordinary shares, and the net loss was adjusted to eliminate the interest expense less the tax effect. Potential ordinary shares arising from the assumed conversion of convertible notes were not included in the calculation of diluted loss per share because they are anti-dilutive for the year ended 31 December 2016. For share options and warrants, calculation is done to determine the number of shares that could have acquired at fair value (determined as average annual market share price of the Company's shares) based on the monetary value of the subscription right attached to the outstanding share options and warrants. As the exercise price of the share options and warrants granted by the Company was higher than the average annual market price of the Company's shares for the year ended 31 December 2016, the outstanding share options and warrants had no dilutive effect on loss per share. Therefore, diluted loss per share for the year ended 31 December 2016 equals basic loss per share.

In calculating the diluted loss per share for the year ended 31 December 2015, the potential ordinary shares arising from the assumed conversion of the share options and warrants has no dilutive effect on loss per share. Therefore, diluted loss per share equals basic loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Plant, machinery and equipment HK\$'000	Total HK\$'000
At 1 January 2015							
Cost	323,067	1,100	1,961	7,139	17,547	3,938	354,752
Accumulated depreciation	–	(373)	(1,469)	(4,038)	(8,835)	(2,946)	(17,661)
Net carrying amount	323,067	727	492	3,101	8,712	992	337,091
Year ended 31 December 2015							
Opening net carrying amount	323,067	727	492	3,101	8,712	992	337,091
Additions	59,654	–	51	164	–	536	60,405
Disposals/write off	–	–	–	–	(74)	–	(74)
Depreciation	–	(28)	(156)	(865)	(2,975)	(330)	(4,354)
Impairment loss (note 23)	(319,084)	–	–	–	–	–	(319,084)
Exchange realignment	(7,614)	–	(19)	(102)	(99)	(17)	(7,851)
Closing carrying amount	56,023	699	368	2,298	5,564	1,181	66,133
At 31 December 2015							
Cost	365,191	1,100	1,978	7,103	17,015	4,438	396,825
Accumulated depreciation	–	(401)	(1,610)	(4,805)	(11,451)	(3,257)	(21,524)
Accumulated impairment loss	(309,168)	–	–	–	–	–	(309,168)
Net carrying amount	56,023	699	368	2,298	5,564	1,181	66,133
Year ended 31 December 2016							
Opening net carrying amount	56,023	699	368	2,298	5,564	1,181	66,133
Additions	10,676	–	51	1,350	824	230	13,131
Disposals/write off	–	–	(90)	–	(343)	–	(433)
Depreciation	–	(27)	(114)	(1,229)	(2,614)	(441)	(4,425)
Exchange realignment	(2,246)	–	(19)	(74)	(63)	(10)	(2,412)
Closing carrying amount	64,453	672	196	2,345	3,368	960	71,994
At 31 December 2016							
Cost	355,239	1,100	1,840	5,789	17,009	4,623	385,600
Accumulated depreciation	–	(428)	(1,644)	(3,444)	(13,641)	(3,663)	(22,820)
Accumulated impairment loss	(290,786)	–	–	–	–	–	(290,786)
Net carrying amount	64,453	672	196	2,345	3,368	960	71,994

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of HK\$267,000 (2015: HK\$189,000) has been charged in “cost of sales” and HK\$4,158,000 (2015: HK\$4,165,000) in “administrative expenses”.

Construction in progress as at 31 December 2016 and 2015 mainly comprised hotel units being constructed in the PRC, which were pledged to secure borrowings granted to the Group (note 29).

During the year, the Group capitalised borrowing costs amounting to HK\$Nil (2015: HK\$35,529,000) on qualifying assets within construction in progress.

At 31 December 2016, no motor vehicle (2015: one) was held under finance leases as follows:

	2016 HK\$'000	2015 HK\$'000
Cost	–	7,980
Accumulated depreciation	–	(6,650)
Net carrying amount	–	1,330

The Group leased vehicles under non-cancellable finance lease agreements. The lease terms were within 1 year, and ownership of the assets lies within the Group.

The net carrying amount of the Group’s interests in leasehold land classified as finance lease and buildings are analysed as follows:

	2016 HK\$'000	2015 HK\$'000
In Hong Kong, held on leases of:		
Between 10 to 50 years	672	699

At 31 December 2016, the Group’s leasehold land classified as finance lease and building with a net carrying amount of HK\$672,000 (2015: HK\$699,000) were pledged to secure borrowings granted to the Group (note 29).

15. LAND USE RIGHTS

Land use rights represent prepaid operating lease payments and their net carrying amount are analysed as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	92,435	304,875
Amortisation of land use rights	(8,018)	(8,399)
Impairment loss (note 23)	–	(194,235)
Exchange realignment	(5,132)	(9,806)
At 31 December	79,285	92,435

During the year, the Group capitalised amortisation of land use rights amounted to HK\$8,018,000 (2015: HK\$8,399,000) to construction in progress (note 14).

At 31 December 2016 and 2015, the Group's land use rights were pledged to secure borrowings granted to the Group (note 29).

16. INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
At fair value		
At 1 January	272,953	338,074
Additions	21,921	–
Fair value loss	(21,445)	(48,780)
Exchange realignment	(16,561)	(16,341)
At 31 December	256,868	272,953

An independent valuation of the Group's investment properties was performed by the valuer, RHL Appraisal Limited, to determine the fair value of the investment properties as at 31 December 2016 and 2015. The revaluation loss is included in "fair value loss on investment properties" in the consolidated statement of profit or loss.

17. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ownership interest		Principal activities
			2016	2015	
Adore Capital Limited	British Virgin Islands ("BVI")/Hong Kong, limited liability company	United States dollars ("US\$") 1	100	100	Investment holding
Brilliant Field Corporation Limited ("Brilliant Field")	Hong Kong, limited liability company	HK\$1	100	100	Investment holding
Mandarin Films Limited	Hong Kong, limited liability company	HK\$1	100	100	Production and distribution of films and provision of management services
Grimston Limited	BVI/Hong Kong, limited liability company	US\$10,000	100	100	Investment holding
Handful Cotton (Piecegoods) Company Limited	Marshall/Hong Kong, limited liability company	US\$1	100	100	Investment holding
Paramount Universal Limited	Hong Kong, limited liability company	HK\$1	100	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong, limited liability company	HK\$20 ordinary shares and HK\$10,000,000 non-voting deferred shares (note)	100	100	Distribution of films produced or purchased by the Group
Mandarin Laboratory (International) Limited	Hong Kong, limited liability company	HK\$1,000,000	100	100	Film processing
Mandarin Films Library Limited	Hong Kong, limited liability company	HK\$1	100	100	Films licensing
Cheung Wo (Hunan) Property Limited ("Cheung Wo (Hunan)")	BVI/Hong Kong, limited liability company	US\$1	100	100	Investment holding

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ownership interest		Principal activities
			2016	2015	
Vast Build Limited	BVI/Hong Kong, limited liability company	US\$1	100	100	Investment holding
Sino Step Inc. ("Sino Step")	BVI/Hong Kong, limited liability company	US\$99	100	100	Investment holding
Walsbo Limited	Hong Kong, limited liability company	HK\$2 ordinary shares and HK\$9,800 non-voting deferred shares (note)	100	100	Investment holding
Elite State Developments Limited	BVI/Hong Kong limited liability company	US\$1	100	100	Investment holding
Profit Source International Limited ("Profit Source")	Hong Kong, limited liability company	HK\$2	100	100	Investment holding
成都中發黃河實業有限公司 [^] (Chengdu Zhongfa Real Estate Development Co. Ltd.) ("Chengdu Zhongfa")	PRC, limited liability company	Renminbi ("RMB") 176,000,000	100	100	Property holding
Prosper China Limited	BVI/Hong Kong, limited liability company	US\$100	100	100	Investment holding
湖南九華國際新城開發 建設有限公司 [^] (Hunan Jiuhua International City Development Construction Company Limited) ("Hunan Jiuhua")	PRC, limited liability company	RMB260,000,000	100	100	Property development
湖南九華東方酒店有限公司 [^] (Hunan Jiuhua Dong Fang Hotel Company Limited) ("Dong Fang Hotel")	PRC, limited liability company	RMB180,798,500	100	100	Hotel development

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note: Those deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

^ Chengdu Zhongfa, Hunan Jiuhua and Dong Fang Hotel are registered as wholly-foreign-owned enterprises under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

The Company directly holds the interests in Adore Capital Limited, Elite State Developments Limited, Grimston Limited, Sino Step, Cheung Wo (Hunan) and Vast Build Limited. All other interests shown above are held indirectly.

18. INVESTMENTS IN ASSOCIATES

	2016 HK\$'000	2015 HK\$'000
Unlisted investments:		
Share of net (liabilities)/assets	(1,410)	115,868
Goodwill	1,040,373	—
Loans to associates	1,131	30,000
Impairment loss	(148,674)	—
	891,420	145,868

The loans to associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the loans are considered as quasi-equity investment in associates.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2016 HK\$'000	2015 HK\$'000
Share of losses	(1,398)	(4,224)

Set out below are the associates of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held indirectly by the Company.

Particulars of the Group's investments in associates as at 31 December 2016 and 2015 are as follows:

Name of entity	Place of incorporation/ operations and form of legal entity	Particulars of issued share capital	Percentage of ownership interest and voting power held indirectly		Principal activities
			2016	2015	
Talent Films (Note a)	Hong Kong, limited liability company	HK\$10,000	35	35	Production and distribution of film
Broad World Holdings Limited ("Broad World") (Note b)	BVI/PRC, limited liability company	100 ordinary shares of US\$1 each	N/A	45	Provision of consultancy services
Ever-Grand (Note c)	BVI/PRC, limited liability company	100 ordinary shares of US\$1 each	49	–	Construction and operation of steam heat distribution system

There are no contingent liabilities relating to the Group's associates.

18. INVESTMENTS IN ASSOCIATES *(Continued)***Summarised financial information on the associates**

The following table shows information on the associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

	Talent Films		Broad World		Ever-Grand		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December:								
Non-current assets (note d)	5	5	–	286,935	11,368	–	11,373	286,940
Current assets	4,994	5,163	–	950	1,221	–	6,215	6,113
Non-current liabilities	–	–	–	–	–	–	–	–
Current liabilities	(8,081)	(8,184)	–	(30,400)	(16,131)	–	(24,212)	(38,584)
Net (liabilities)/assets	(3,082)	(3,016)	–	257,485	(3,542)	–	(6,624)	254,469
Non-controlling interest's ("NCI's") share of net liabilities	–	–	–	–	665	–	665	–
Net (liabilities)/assets excluding NCI's portion	(3,082)	(3,016)	–	257,485	(2,877)	–	(5,959)	254,469
Group's share of net assets	–	–	–	115,868	(1,410)	–	(1,410)	115,868
Loan to associates	–	–	–	30,000	1,131	–	1,131	30,000
Goodwill	–	–	–	–	1,040,373	–	1,040,373	–
Impairment loss (note e)	–	–	–	–	(148,674)	–	(148,674)	–
Group's share of carrying amount of interests	–	–	–	145,868	891,420	–	891,420	145,868

18. INVESTMENTS IN ASSOCIATES *(Continued)***Summarised statement of profit or loss and other comprehensive income**

	Talent Films		Broad World		Ever-Grand		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	78	–	–	–	15,327	–	15,405	–
Profit (loss) for the year	(66)	(3,832)	(4,370)	(8,753)	697	–	(3,739)	(12,585)
Other comprehensive income for the year	–	–	–	–	(76)	–	(76)	–
Total comprehensive income for the year	(66)	(3,832)	(4,370)	(8,753)	621	–	(3,815)	(12,585)

The information above reflects the amounts presented in the financial statements of the associates (and not Nine Express Limited's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

As at 31 December 2016, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to HK\$446,000. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes:

- (a) In accordance with the shareholders agreement dated 21 June 2010 entered into between the Group and Filmko, the Group's profit sharing ratio to Talent Films' profit is 35%.
- (b) In the prior year, the Group held a 45% interest in Broad World and accounted for the investment as an associate. On 2 June 2016, Broad World entered into a share purchase agreement with Exemplary Global Limited ("EG Limited"), issuing additional 174 ordinary shares and paying HK\$68,000,000 to EG Limited to purchase a subsidiary from EG Limited, thus leading to the shareholding interest of the Group diluting from 49% to 19%. The Group has accounted for the remaining 19% interest as an available-for-sale investment whose fair value at the date of deemed disposal was HK\$82,680,000, which was determined using a discounted cash flow model using estimated future cash flows expected to be generated by Broad World and an appropriate discount rate. This transaction has resulted in the recognition of a loss on deemed disposal of an associate, calculated as follows:

	HK\$'000
Fair value of investment retained	82,680
Less: Carrying amount of 45% investment on the date of loss of significant influence	(143,902)
Loss on deemed disposal of an associate	(61,222)

- (c) On 16 November 2015, the Group entered into a formal sale and purchase agreement with Sky-Linked International Limited (the "Vendor"), pursuant to which the Group has agreed to acquire 49% of the entire issued share capital of Ever-Grand, at the consideration of HK\$882,000,000 which will be satisfied by: (i) HK\$60,000,000 in cash; and (ii) HK\$822,000,000 by way of issuing of convertible notes in the same principal amount.

Ever-Grand holds 80% equity interest in Dongguan City Dejin Energy Technology Company Limited and Dongguan City Dejin Thermal Power Company Limited, which are engaged in an energy-saving environmental protection project through the provision of steam and heat produced at a power plant in Dongguan City to industrial customers in certain areas of Humen and Changan in Dongguan City, Guangdong Province.

On 30 March 2016, the acquisition was completed.

- (d) As at 31 December 2015, other assets of Broad World include HK\$80,000,000 advance to an external PRC property developer and HK\$69,000,000 advance to two related companies. Further details on advance to two related parties are set out in note 40(i)(b).
- (e) For impairment assessment, the Group had estimated the value in use of Ever-Grand, based on the share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operation of the associate and the proceeds from the ultimate disposal of the investment. For the year ended 31 December 2016, due to delay in pipeline construction, an impairment loss of HK\$148,674,000 was recognised in profit or loss. The pre-tax discount rate used was 19.4%.

The investment in Ever-Grand was included in the segment of "centralised heat supply".

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK\$'000	2015 HK\$'000
Unlisted equity investment		
– GLC Special Situations Fund L.P. (the “Fund”) (Note a)	105,050	105,050
– Broad World (Note b)	62,672	–
	167,722	105,050

Notes:

- (a) On 14 December 2015, the Group’s indirectly wholly-owned subsidiary, Prosper China Limited, had committed to make an investment of HK\$110,000,000 in the Fund, by way of a subscription for a limited partnership interest in the Fund, which is registered under the Exempted Partnership Law (as amended) of the Cayman Islands. As at 31 December 2016 and 2015, Prosper China Limited has contributed HK\$105,050,000 to the Fund.

The Fund has a term of eight years from the date of initial closing. Purpose of the Fund is to generate financial returns and achieve long-term appreciation through debt and/or equity investments in private companies.

The Fund was stated at cost less accumulated impairment loss (if any) because the range of reasonable fair value estimates is so significant that the Directors consider that its fair value cannot be measured reliably. The Directors considered that no impairment loss was required for the investment in the Fund.

- (b) On 2 June 2016, Broad World, an associate of the Group, entered into a share purchase agreement with EG Limited, issuing additional 174 ordinary shares and paying HK\$68,000,000 to EG Limited to purchase a subsidiary from EG Limited (“S&P transaction”), thus leading to the shareholding interest of the Group in Broad World diluting from 49% to 19%. This S&P transaction has resulted in Broad World previously accounted for as an associate, being accounted for as an available-for-sale financial asset from the date of S&P transaction.

The investment in Broad World was stated at cost less accumulated impairment loss (if any) because the range of reasonable fair value estimates is so significant that the Directors consider its fair value cannot be measured reliably. During the year ended 31 December 2016, due to the sluggish property market of the PRC, an impairment loss of HK\$20,008,000 was recognised in the consolidated statement of profit or loss.

20. PROPERTIES DEVELOPMENT IN PROGRESS

	2016 HK\$'000	2015 HK\$'000
At 1 January	1,073,710	1,093,998
Additions	70,326	36,634
Written down	(46,953)	—
Exchange realignment	(61,431)	(56,922)
At 31 December	1,035,652	1,073,710
Properties development in progress comprise:		
Land use rights	808,135	868,410
Construction costs and capitalised expenditures	117,880	128,894
Finance costs capitalised	109,637	76,406
	1,035,652	1,073,710
Amounts are expected to be completed: Within the normal operating cycle included under current assets	1,035,652	1,073,710

At 31 December 2016, the Group's land use rights included in the properties development in progress with a net carrying amount of HK\$441,466,000 (2015: HK\$469,374,000) was pledged to secure certain borrowings granted to the Group (note 29).

The carrying amount of the properties development in progress expected to be recovered after more than twelve months from 31 December 2016 amounted to HK\$962,120,000 (2015: HK\$1,058,236,000).

21. TRADE AND RENTAL RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	554	1,242
Less: provision for impairment of trade receivables	(109)	(125)
Trade receivables – net	445	1,117
Rental receivables	10,197	9,609
	10,642	10,726

The carrying amounts of trade and rental receivables approximate their fair values.

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

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

	2016 HK\$'000	2015 HK\$'000
0 – 90 days	415	448
91 – 180 days	30	598
181 – 365 days	–	6
Over 1 year	–	65
	445	1,117

Aging of trade receivables which are past due but not impaired is as follows:

	2016 HK\$'000	2015 HK\$'000
0 – 90 days	234	281
91 – 180 days	–	–
More than 180 days	–	65
	234	346

21. TRADE AND RENTAL RECEIVABLES *(Continued)*

As at 31 December 2016, trade receivables of HK\$234,000 (2015: HK\$346,000) were past due but not impaired that relate to customers that have good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Movements in the provision for impairment of trade receivables are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	125	169
Provision for impairment of trade receivables (note 9)	69	–
Reversal of provision for impairment of trade receivables (note 9)	(85)	(44)
	109	125

The impairment loss recognised on trade receivables is mainly for customers who have financial difficulties.

At 31 December 2016, trade receivables of HK\$109,000 (2015: HK\$125,000) were individually determined to be impaired. The individually impaired trade receivables relate to receivables which are expected not to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of the trade and rental receivables are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
HK\$	445	668
RMB	10,197	9,609
Other currency	–	449
	10,642	10,726

22. PREPAYMENTS AND OTHER RECEIVABLES

	Note	2016 HK\$'000	2015 HK\$'000
Prepayment for construction costs	(i)	97,800	103,982
Impairment loss	23	(82,796)	(90,854)
Exchange realignment		–	2,824
Prepayment for construction costs – net		15,004	15,952
Other prepayments		2,497	47,129
Other receivables	(ii)	8,166	11,906
Utility and other deposits		2,566	2,709
		28,233	77,696
Less: current portion		(11,738)	(57,307)
Non-current portion		16,495	20,389

(i) The balance represents prepayments to a subcontractor in the PRC relating to the construction project of the Group in Hunan for developing the residential units and the hotel.

(ii) The balance includes a compensation income receivable of HK\$Nil (2015: HK\$4,000,000) in relation to a movie production.

The carrying amounts of other receivables approximate their fair values as the impact of discounting is not significant.

None of the other receivables is either past due or impaired. Other receivables included in the above balances had no recent history of default.

23. IMPAIRMENT LOSS ON HOTEL DEVELOPMENT

No impairment was made for the year ended 31 December 2016.

As at 31 December 2015, the Group carried out review of recoverable amount of its hotel development operation having regard to the latest market conditions. In particular the deterioration of hotel occupancy rates in Changsha region and Hunan province in the fourth quarter of 2015 which indicated that hotel room oversupply coupled with economic headwind would endure longer than expected. The hotel development operation is a cash-generating unit (“CGU”) within property and hotel development segment. The review led to the recognition of impairment losses of HK\$319,084,000, HK\$194,235,000 and HK\$90,854,000 for construction in progress (note 14), land use rights (note 15) and prepayment for construction costs (note 22), respectively. These impairment losses have been recognised in profit or loss. The recoverable amount of HK\$164,410,000 for the relevant CGU has been determined on the basis of its value-in-use using discounted cash flow method. The pre-tax discount rate used was 14.27%.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK\$'000	2015 HK\$'000
Contingent consideration receivable, at fair value	87,631	–
Less: current portion	(24,231)	–
Non-current portion	63,400	–

The carrying amounts of the above financial assets are designated as at fair value through profit or loss on initial recognition.

During the year, the Group acquired 49% equity interest in Ever-Grand, details of which are set out in note 18(c). Pursuant to the sale and purchase agreement entered into among the Company, the Vendor, Mr. Cheng Ngok Fai (the “Guarantor C”) and Mr. Li Ruiguang (the “Guarantor L”), the Vendor, Guarantor C and Guarantor L jointly guarantee to the Company that the audited consolidated annual net profit of Ever-Grand after tax (exclusive of non-recurring profits) attributable to the Company (referred to as “Ever-Grand Net Profit”) for the relevant year shall not be less than the following amounts:

Relevant year	Guaranteed consolidated audited profit after tax
1 January 2016 to 31 December 2016	HK\$24,500,000
1 January 2017 to 31 December 2017	HK\$53,900,000
1 January 2018 to 31 December 2018	HK\$112,700,000

As at 30 March 2016, the completion date of acquisition of 49% equity interest of Ever-Grand, the fair value of the contingent consideration receivable was zero. As at 31 December 2016, the fair value of the contingent consideration receivable was HK\$87,631,000. The fair value was estimated by the discounted cash flows of the expected income streams derived from Ever-Grand Net Profit in 2016, 2017 and 2018.

25. RESTRICTED BANK DEPOSITS

	2016 HK\$'000	2015 HK\$'000
Guarantee deposits for construction of pre-sale properties	8,675	2,419
Pledged bank deposits (note 29(v))	17	142
	8,692	2,561

In accordance with the Administration of Pre-sale of Commodity Premises Regulations in the PRC, the Group is required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for construction of related properties. The deposits can only be used for purchases of construction materials and the payments of construction costs of the relevant property project when approval from PRC State-Owned Land Resources and Housing Administrative Bureau is obtained. Such guarantee deposits will only be released after completion of related pre-sale properties.

As at 31 December 2016, the restricted bank deposits of the Group denominated in RMB amounted to HK\$8,692,000 (2015: HK\$2,561,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. CASH AND CASH EQUIVALENTS

	2016 HK\$'000	2015 HK\$'000
Cash and bank balances	24,010	57,175

The carrying values of cash and cash equivalents approximate their fair values.

At 31 December 2016, cash and bank balances of the Group denominated in RMB amounted to HK\$21,646,000 (2015: HK\$8,701,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. CASH AND CASH EQUIVALENTS *(Continued)*

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
HK\$	2,232	44,529
RMB	21,646	8,701
US\$	11	3,509
Other currencies	121	436
	24,010	57,175

27. TRADE PAYABLES

At 31 December 2016, the aging analysis of the trade payables, based on the invoice date, is as follows:

	2016 HK\$'000	2015 HK\$'000
0 – 90 days	16,357	25,619
91 – 180 days	1,175	745
181 – 365 days	290	1,012
Over 1 year	324	655
	18,146	28,031

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
HK\$	49	8
RMB	18,097	28,023
	18,146	28,031

28. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2016 HK\$'000	2015 HK\$'000
Other payables	116,451	10,371
Accruals	7,042	5,474
Accrued interest expense	21,508	21,929
Proceeds received from pre-sale of properties	55,296	4,901
Deposits received in advance	3,206	5,625
	203,503	48,300
Less: non-current portion	(2,501)	(2,659)
Current portion	201,002	45,641

The carrying amounts of the other payables, accruals and deposits received approximate their fair value.

29. BORROWINGS

	Maturity	2016 HK\$'000	2015 HK\$'000
Current			
Bank loan – secured (note i)	On demand	627	839
Bank loan – secured (note ii)	2016-2021	19,756	94,529
Entrusted bank loan – secured (note iii)	August 2016	–	295,404
Bank loan – secured (note iv)	August 2017	275,061	–
Bank loan – secured (note v)	June 2017	11	118
Bank overdraft – secured (note vii)	On demand	2,981	–
Loans from a shareholder – unsecured (note viii)	January and February 2017	15,828	–
Other loan – unsecured (note ix)	On demand	57,346	–
		371,610	390,890
Non-current			
Bank loan – secured (note ii)	2016-2021	172,616	141,794
Other loan – secured (note vi)	January 2018	153,459	152,080
		697,685	684,764

29. BORROWINGS *(Continued)*

At 31 December 2016, the Group's borrowings were repayable as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 year or on demand	371,610	390,890
Between 1-2 years	184,589	94,529
Between 2-5 years	141,486	199,345
	697,685	684,764

- (i) At 31 December 2016, the Group's bank borrowing of HK\$627,000 (2015: HK\$839,000) was secured by the leasehold land and buildings with a net carrying amount of HK\$672,000 (2015: HK\$699,000) and was interest-bearing at prime rate minus 1.5% per annum (2015: same).
- (ii) At 31 December 2016, the Group's bank borrowing of HK\$192,372,000 (2015: HK\$236,323,000) was secured by the Group's land use right and construction in progress with a net carrying amount of HK\$79,285,000 (2015: HK\$92,435,000) and HK\$64,453,000 (2015: HK\$56,023,000) respectively. According to the repayment terms, the bank borrowing will be repayable from 2016 to 2021. The bank borrowing was interest-bearing per annum at the benchmark interest rate determined by the People's Bank of China for loans over 5 years granted by financial institutions (2015: same).
- (iii) At 31 December 2015, the Group's bank borrowing of HK\$295,404,000 was secured by the Group's properties development in progress with a net carrying amount of HK\$469,374,000. The bank borrowing was repaid in August 2016. The bank borrowing was interest-bearing at 7.6% per annum.
- (iv) At 31 December 2016, the Group's bank borrowing of HK\$275,061,000 was secured by the Group's properties development in progress with a net carrying amount of HK\$441,466,000. According to the repayment terms, the bank borrowing will be repayable in August 2017. The bank borrowing was interest-bearing at 9% per annum.
- (v) At 31 December 2016, the Group's bank borrowing of HK\$11,000 (2015: HK\$118,000) was secured by the Group's bank deposits of HK\$17,000 (2015: HK\$142,000). The bank borrowing was interest-bearing at 4.40% per annum.

29. BORROWINGS *(Continued)*

- (vi) At 31 December 2016, the Group's other borrowing of HK\$153,459,000 (2015: HK\$152,080,000) was interest-bearing at 20% per annum.

The other borrowing was secured and guaranteed by:

- (a) share charges over certain subsidiaries of the Group, namely Cheung Wo (Hunan), Brilliant Field, Sino Step, Profit Source and Chengdu Zhongfa. At 31 December 2016, the aforementioned subsidiaries held properties, plant and equipment, land use rights, investment properties, prepayment and other receivables, properties development in progress, rental receivables, restricted bank deposits and cash and cash equivalents, amounting to HK\$67,597,000, HK\$79,285,000, HK\$256,868,000, HK\$25,591,000, HK\$1,035,652,000, HK\$10,197,000, HK\$8,692,000 and HK\$21,798,000 respectively;
- (b) inter-companies loans, amounting to HK\$3,341,095,000;
- (c) a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a shareholder of the Company.

During the year ended 31 December 2016, the Group is subject to certain financial covenants under its other borrowings (2015: Same) (note 43(e)).

- (vii) At 31 December 2016, the Group's bank overdraft of HK\$2,981,000 was secured by the leasehold land and buildings with a net carrying amount of HK\$672,000 and carried floating-rate interest based on the Prime Rate minus 1% per annum.
- (viii) At 31 December 2016, the Group's loans from a shareholder were unsecured and non-interest bearing. Subsequent to the reporting period, the maturity dates of the loans were extended from January and February 2017 to April and May 2017 respectively.
- (ix) At 31 December 2016, the Group's other loan was interest-free, unsecured and repayment on demand.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
HK\$	17,108	839
RMB	524,791	531,845
US\$	155,786	152,080
	697,685	684,764

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair values, as the impact of discounting is not significant. The fair value of the non-current bank loan of HK\$150,929,000 (2015: HK\$128,058,000) are based on cash flows discounted using a rate based on the borrowing rate of 4.9% (2015: 4.9%) and are within Level 2 of the fair value hierarchy.

30. FINANCE LEASE PAYABLES

No finance lease payables was remained as at 31 December 2016. For the year ended 31 December 2015, the Group leased its motor vehicles for business use. The leases are classified as finance leases and have remaining lease terms of within one year. Interest rates underlying all finance lease payables are fixed at contract rate of 4.28%. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Amounts payable:				
Within one year	–	1,038	–	1,018
Between 1 and 2 years	–	–	–	–
Between 2 and 5 years	–	–	–	–
Total minimum finance lease payments	–	1,038	–	1,018
Future finance charges	–	(20)		
Total net finance lease payables	–	1,018		
Portion classified as current liabilities	–	(1,018)		
Non-current portion	–	–		

As at 31 December 2015, finance lease payables were denominated in HK\$.

31. CONVERTIBLE NOTES

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

During the year ended 31 December 2016, convertible notes with a total principal amount of HK\$630,900,000 were fully converted into 788,625,000 ordinary shares at conversion price of HK\$0.80. As at 31 December 2016, convertible notes with a total principal amount of HK\$191,100,000 were outstanding.

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

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

- (b) Movements of the liability component of the convertible notes during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	—	—
Liability component on initial recognition	537,302	—
Conversion of convertible notes	(413,588)	—
Interest expense	13,114	—
At 31 December	136,828	—

For the year ended 31 December 2016, interest expense on the liability component of the convertible notes is calculated using the effective interest method, applying the effective interest rate of 12.9% per annum to the liability component.

- (c) The Directors estimate the fair value of the liability component of the convertible loan notes at 31 December 2016 to be HK\$145,526,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

32. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity in the same taxation authority. The offset amounts are as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets	–	–
Deferred tax liabilities	157,140	173,561
	157,140	173,561

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets:		
Deferred tax assets to be recovered within 12 months	–	(238)
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after 12 months	157,140	173,799
Deferred tax liabilities (net)	157,140	173,561

The net movements of the deferred tax account are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	173,561	249,755
Deferred tax credited to consolidated statement of profit or loss (note 11)	(6,397)	(65,028)
Exchange realignment	(10,024)	(11,166)
At 31 December	157,140	173,561

32. DEFERRED TAX *(Continued)*

- (b) The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxable entity in same taxation authority) during the year are as follows:

Deferred tax liabilities

	Revaluation of land use right HK\$'000	Revaluation of investment properties HK\$'000	Different bases in reporting revenue with tax authority HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2015	187,726	61,831	3,214	93	252,864
Deferred tax (credited) charged to consolidated statement of profit or loss during the year	(56,886)	(11,254)	318	–	(67,822)
Exchange realignment	(8,147)	(2,916)	(180)	–	(11,243)
At 31 December 2015	122,693	47,661	3,352	93	173,799
Deferred tax (credited) charged to consolidated statement of profit or loss during the year	(2,567)	(4,392)	328	–	(6,631)
Exchange realignment	(7,179)	(2,635)	(214)	–	(10,028)
At 31 December 2016	112,947	40,634	3,466	93	157,140

Deferred tax assets

	Tax losses	
	2016 HK\$'000	2015 HK\$'000
At 1 January	(238)	(3,109)
Deferred tax charged to the consolidated statement of profit or loss during the year	234	2,794
Exchange realignment	4	77
At 31 December	–	(238)

At 31 December 2016, the Group had unused tax losses in Hong Kong of HK\$107,720,000 (2015: HK\$101,810,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and unused tax losses in the PRC of HK\$28,716,000 (2015: HK\$38,643,000) available for offsetting against future profits of the PRC subsidiaries which will expire in 5 years. No deferred tax assets in respect of such losses has been recognised due to the unpredictability of future taxable profit streams.

33. SHARE CAPITAL

	2016 HK\$'000	2015 HK\$'000
Authorised:		
100,000,000,000 (2015: 100,000,000,000) ordinary shares of HK\$0.01 (2015: HK\$0.01) each	1,000,000	1,000,000
Issued and fully paid:		
2,471,163,000 (2015: 1,682,538,000) ordinary shares of HK\$0.01 (2015: HK\$0.01) each	24,712	16,825

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

	Note	Number of shares	Amount HK\$'000
Authorised:			
At 1 January 2015, 31 December 2015 and 2016		100,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2015		1,498,096,766	14,981
Shares placement	(a)	175,500,000	1,755
Issue of shares	(b)	8,940,738	89
At 31 December 2015 and 1 January 2016		1,682,537,504	16,825
Issue of shares	(c)	788,625,000	7,887
At 31 December 2016		2,471,162,504	24,712

- (a) On 25 November 2015, the Company completed a share placement by issuing 175,500,000 ordinary shares of HK\$0.01 each at a placing price of HK\$1.14 per placing share.
- (b) During the year ended 31 December 2015, some of the warrant holders have exercised their subscription rights to subscribe for 7,141,000 and 1,800,000 ordinary shares of HK\$0.01 each at a subscription price of HK\$0.70 and HK\$0.68 per share respectively.
- (c) On 7 and 11 April 2016, convertible notes with principal amount of HK\$378,540,000 and HK\$252,360,000 were converted into 473,175,000 and 315,450,000 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.80 each per conversion share.

34. WARRANTS

The following table set out details of the Company's warrants at 31 December 2016 and 2015:

		2016		2015	
	Note	Number of unlisted warrants (‘000)	Exercise price HK\$	Number of unlisted warrants (‘000)	Exercise price HK\$
Unlisted warrants issued in 2014 (“2014 Warrants”)	(i)	792	0.65	792	0.65
Unlisted warrants issued in 2015 (“2015 Warrants”)	(ii)	–	–	263,200	0.67
		792		263,992	

(i) The followings table set out details of the 2014 Warrants movements:

		2016		2015	
	Note	Number of unlisted warrants (‘000)	Exercise price HK\$	Number of unlisted warrants (‘000)	Exercise price HK\$
Outstanding at 1 January		792	0.65	7,933	0.70
Exercised	33(b)	–	–	(7,141)	0.70
Adjusted upon issuance of 2015 Warrants	34(ii)	–	–	–	0.66
Adjusted upon issuance of placement shares	33(a)	–	–	–	0.65
Outstanding at 31 December		792	0.65	792	0.65

The exercisable period of the 2014 Warrants is from 5 March 2014 to 5 March 2017.

34. WARRANTS *(Continued)*

- (ii) On 13 July 2015, the Company issued 265,000,000 warrants (“2015 Warrants”) at the issue price of HK\$0.057 per warrant. The exercise price of the 2015 Warrants is HK\$0.68. The following table set out details of the 2015 Warrants movements:

		2016		2015	
	Note	Number of unlisted warrants (‘000)	Exercise price HK\$	Number of unlisted warrants (‘000)	Exercise price HK\$
Outstanding at 1 January		263,200	0.67	–	–
Granted		–	–	265,000	0.68
Exercised	33(b)	–	–	(1,800)	0.68
Adjusted upon issuance of placement shares	33(a)	–	–	–	0.67
Lapsed		(263,200)	0.67	–	–
Outstanding at 31 December		–	–	263,200	0.67

The exercisable period of the 2015 Warrants is from 13 July 2015 to 13 July 2016.

35. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2016 HK\$'000	2015 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	6,174	6,173
Financial assets at fair value through profit or loss	24	63,400	–
Total non-current assets		69,574	6,173
Current assets			
Prepayments and other receivable		277	10,431
Amounts due from subsidiaries		1,622,643	915,138
Financial assets at fair value through profit or loss	24	24,231	–
Cash and cash equivalents		75	39,727
Total current assets		1,647,226	965,296
LIABILITIES			
Current liabilities			
Other payables and accruals		104,581	15,071
Borrowings		19,436	839
Total current liabilities		124,017	15,910
Net current assets		1,523,209	949,386
Total assets less current liabilities		1,592,783	955,559
Non-current liability			
Borrowings		153,459	152,080
Convertible notes		136,828	–
Total non-current liabilities		290,287	152,080
Net assets		1,302,496	803,479

35. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*(a) Statement of financial position of the Company *(Continued)*

	Note	2016 HK\$'000	2015 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Issued share capital		24,712	16,825
Other reserves	35(b)	1,277,784	786,654
Total equity		1,302,496	803,479

35. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

		Share	Contributed	Equity component of the convertible notes	Share options reserve	Warrants reserve	Accumulated losses	Total
	Note	premium HK\$'000	surplus HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015		939,167	503,119	–	46,438	2,114	(89,773)	1,401,065
Loss for the year		–	–	–	–	–	(827,038)	(827,038)
Total comprehensive income for the year		–	–	–	–	–	(827,038)	(827,038)
Issue of shares	33(a) & (b)	206,442	–	–	–	(1,994)	–	204,448
Share issue expenses		(5,197)	–	–	–	–	–	(5,197)
Issue of warrants		–	–	–	–	15,105	–	15,105
Warrants issue expenses		–	–	–	–	(1,729)	–	(1,729)
Share options lapsed		–	–	–	(6,634)	–	6,634	–
At 31 December 2015		1,140,412	503,119	–	39,804	13,496	(910,177)	786,654
Loss for the year		–	–	–	–	–	(350,471)	(350,471)
Total comprehensive income for the year		–	–	–	–	–	(350,471)	(350,471)
Issue of shares	33(c)	740,262	–	(334,561)	–	–	–	405,701
Issue of convertible notes	31	–	–	435,900	–	–	–	435,900
Warrants lapsed		–	–	–	–	(13,285)	13,285	–
At 31 December 2016		1,880,674	503,119	101,339	39,804	211	(1,247,363)	1,277,784

36. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

36. RESERVES *(Continued)***(b) Nature and purpose of reserves***(i) Share premium reserve*

The share premium reserve represents the amount of the excess of issue price of the Company's shares over its par value.

(ii) Contributed surplus reserve

The contributed surplus reserve comprises (i) HK\$44,072,000 arising from the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company in exchange thereof at the time of the Group reorganisation; and (ii) HK\$459,047,000 arising from the Company's capital reorganisation on 6 September 2010 and 24 May 2012.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d) to the consolidated financial statements.

(iv) Special reserve

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

(v) Equity component of the convertible notes

The equity component of the convertible notes represents the value of the unexercised equity component of the convertible notes issued by the Company in accordance with the accounting policy adopted for the convertible notes in note 4(q) to the consolidated financial statements.

(vi) Share options reserve

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(v) to the consolidated financial statements.

36. RESERVES *(Continued)***(b) Nature and purpose of reserves *(Continued)****(vii) Warrants reserve*

The warrants reserve represents warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments. The net proceeds received from the issue of warrants are recognised in this reserve. The warrants reserve will be transferred to share capital and share premium upon the exercise of the warrants. When the warrants still exist and not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to retained earnings.

(viii) Other reserve

The other reserve represents the share of other comprehensive income of an associate.

37. SHARE-BASED PAYMENTS

Share options are granted to Directors and to selected employees. The exercise price of the granted options is HK\$0.94 which is equal to the market price of the shares on the date of the grant at 5 November 2013. The options are exercisable in ten years starting from the grant date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options granted at 5 November 2013 was determined using the binomial valuation model which was valued at HK\$0.5968 per option. The significant inputs into the model were the share price at the grant date, exercise price shown above, volatility of 79.5%, dividend yield of nil, an expected average option conversion period of five years and an annual risk-free interest rate of 0.966%.

Movements in the number of share options outstanding are as follows:

	Number of options	
	2016	2015
At 1 January	66,696,228	77,812,266
Lapsed	–	(11,116,038)
At 31 December	66,696,228	66,696,228

No options were exercised and lapsed during the year ended 31 December 2016.

No options were exercised and 11,116,038 options were lapsed during the year ended 31 December 2015. All of the outstanding options were exercisable as at 31 December 2016 (2015: All).

38. OPERATING LEASE COMMITMENTS

(a) As lessor

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

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

	2016 HK\$'000	2015 HK\$'000
Within one year	18,609	19,449
Between two to five years	76,154	81,941
Over five years	102,684	125,600
	197,447	226,990

(b) As lessee

The Group leases certain of its office properties and equipment under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

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

	2016 HK\$'000	2015 HK\$'000
Within one year	3,556	3,913
Between two to five years	4,044	7,393
	7,600	11,306

39. CAPITAL COMMITMENTS

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

	2016 HK\$'000	2015 HK\$'000
Contracted but not provided for:		
Property and hotel development	1,696,135	1,887,590
Available-for-sale financial assets	4,950	4,950
	1,701,085	1,892,540

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the reporting period:

- (a) During the year ended 31 December 2015, a subsidiary of the Company has entered into a construction contract with a PRC entity, for the provision of hotel decoration services. Mr. Cheng was the shareholder of the PRC entity as at 31 December 2015.

The subsidiary has advanced RMB88,000,000 (equivalent to HK\$110,000,000) to this PRC entity as prepayment for construction costs as at 31 December 2015 (note 22).

Such PRC entity was not owned by Mr. Cheng as at 31 December 2016.

- (b) In prior years, an associate of the Company, Broad World, entered into certain cooperation agreements with two PRC real estate developers for the provision of consultancy services on certain residential and hotel development projects. The ultimate shareholder of these developers is Mr. Cheng. Pursuant to the cooperation agreements, the consultancy fees for the services provided by Broad World for the hotel project will be charged at 30% of the exhibition income when the hotel is successfully named under “Forbes” brand, and RMB300 per square meter for the residential projects when the residential units are sold.

Moreover, during the year ended 31 December 2014, Broad World also advanced HK\$29,000,000 and HK\$40,000,000 to these two developers respectively for paying certain professional costs to be incurred on the property and hotel development projects. The advanced balances remained outstanding as at 31 December 2016 and 2015.

40. RELATED PARTY DISCLOSURES *(Continued)***(i) Related party transactions** *(Continued)*

- (c) During the year ended 31 December 2016, Full Dragon Group Limited, a shareholder of the Company, entered into loan agreements with the Company of US\$300,000 and HK\$13,500,000. Details of the terms and maturity date are disclosed in note 29(viii) to the financial statements.

(ii) Compensation of key management personnel

The Directors are the key management personnel of the Group. Details of their remunerations are disclosed in note 10(a) to the financial statements.

41. CONTINGENT LIABILITIES

According to Tax Circular 698 and Public Notice [2015] No. 7 (“Public Notice 7”) of the State Administration of Taxation (the “SAT”), the acquisition of 49% equity interest in Ever-Grand (note 18(c)) during the year had led to an indirect acquisition of subsidiaries of Ever-Grand in the PRC, including 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited) and 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited). Such arrangement shall be re-characterised as a direct transfer by the PRC tax authorities and the capital gain derived will be subject to EIT. The Group should act as EIT withholding agent and report the indirect equity transfer (and settle the EIT, if applicable) to the tax authority within 30 days after the equity transfer agreement is concluded.

In case the Group fails to fulfill its withholding obligation and the Vendor, has not paid the EIT, the PRC tax authorities would demand the Vendor for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT on the Group. The penalty may be relieved if the indirect transfer has been voluntarily reported to the PRC tax authorities by the Group.

The Company has already held back a sum of HK\$60,000,000 payable to the Vendor to serve as withholding EIT and further made a EIT provision of HK\$28,200,000, but has not yet reported the transaction or paid EIT to the PRC tax authorities. After consulting PRC legal counsel, the Directors are of the opinion that the Group has already substantially fulfilled the withholding obligation, thereby containing the risk of penalty to reasonably low level.

41. CONTINGENT LIABILITIES *(Continued)*

According to sale and purchase agreement dated 16 November 2015 entered into among the Company, the Vendor and the Guarantors, namely Guarantor C and Guarantor L, the Vendor is responsible for the filing and the settlement of the EIT arising from the indirect equity transfer in accordance to the relevant PRC tax laws and regulations. The Vendor shall compensate the Company in case the Vendor fails to report and payment of the EIT on the indirect equity transfer. In addition, such arrangement was further formally executed through a deed of tax indemnify entered into among the Company, the Vendor and the Guarantors on 30 March 2016. Therefore, the Directors believe the Vendor, who still own 51% equity interest in Ever-Grand, would voluntarily report and pay the EIT to the PRC tax authorities, as well as compensating the Group for any penalty to be imposed to the Group, if any. The Directors do not consider it probable that a claim will be made against the Group regarding the penalty mentioned above.

The Group has no material contingent liabilities as at 31 December 2015.

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
Financial assets		
Available-for-sale financial assets	167,722	105,050
Trade and rental receivables	10,642	10,726
Other receivables	8,166	11,906
Financial assets at fair value through profit or loss (contingent consideration receivable)	87,631	—
Restricted bank deposits	8,692	2,561
Cash and cash equivalents	24,010	57,175
	306,863	187,418
	2016 HK\$'000	2015 HK\$'000
Financial liabilities		
Trade payables	18,146	28,031
Other payables	116,451	10,371
Accruals	7,042	5,474
Accrued interest expense	21,508	21,929
Borrowings	697,685	684,764
Finance lease payables	—	1,018
Convertible notes	136,828	—
	997,660	751,587

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise restricted bank deposits, cash and cash equivalents, borrowings, finance lease payables and convertible notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade, rental and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks which are summarised below.

(a) Interest rate risk

At 31 December 2016, the Group had bank borrowings of HK\$275,061,000 (2015: HK\$Nil), entrusted bank borrowings of HK\$Nil (2015: HK\$295,404,000), other borrowings of HK\$153,459,000 (2015: HK\$152,080,000) and finance lease payables of HK\$Nil (2015: HK\$1,018,000), which were interest bearing with fixed interest rates.

At 31 December 2016, the Group had bank borrowings of HK\$195,992,000 (2015: HK\$237,280,000), which are interest bearing with floating interest rates. If interest rates on the bank borrowings have been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been HK\$1,473,000 (2015: HK\$7,000) higher/lower mainly as a result of higher/lower interest expense on floating rate borrowings, while the total non-current assets would have been HK\$Nil (2015: HK\$1,773,000) higher/lower mainly as a result of higher/lower interest expense of floating rate borrowings capitalised on qualifying assets within property, plant and equipment and properties development in progress.

(b) Foreign currency risk

The Group carries on its sale and purchase/expenses transactions and raising borrowings mainly in HK\$, US\$ and RMB. As the foreign currency risk generated from the sales and purchases/expenses can be set off with each other, and the Group's subsidiaries borrow in its respective functional currencies, hence the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases/expenses in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of the business.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)***(c) Credit risk**

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and rental receivables and other receivables are disclosed in note 21 and note 22 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(d) Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirement.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities, raising additional share capital, and the facilities obtained from banks and others.

The Directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include raising additional capital; obtaining additional financing from banks and others; and realising certain assets held by the Group through disposal, if considered necessary. The Group is expected to be able to generate sufficient cash flows to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)***(d) Liquidity risk *(Continued)***

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within one year or on demand HK\$'000	Between two to five years HK\$'000	Total HK\$'000
2016			
Trade payables	18,146	–	18,146
Other payables	116,451	–	116,451
Accruals	7,042	–	7,042
Accrued interest expense	21,508	–	21,508
Borrowings ¹	428,612	367,510	796,122
Convertible notes	–	191,100	191,100
	591,759	558,610	1,150,369
2015			
Trade payables	28,031	–	28,031
Other payables	10,371	–	10,371
Accruals	5,474	–	5,474
Accrued interest expense	21,929	–	21,929
Borrowings ¹	448,023	351,136	799,159
Finance lease payables	1,038	–	1,038
	514,866	351,136	866,002

¹ Included in borrowings is a term loan amounted to HK\$627,000 (2015: HK\$839,000). The loan agreement contains a repayment on-demand clause, giving the lenders the unconditional right to call in the loan at any time and, therefore, for the purpose of the above maturity profile, the total amount is classified as “on demand”.

Notwithstanding the above clause, the Directors do not believe that the loan will be called in its entirety within 12 months, and they consider that the loan will be repaid in accordance with the maturity dates as set out in the loan agreement. This evaluation was made considering the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time. At 31 December 2016, in accordance with the maturity terms of the loan, HK\$240,000 will be due in 2017 and HK\$421,000 will be due between 2018 to 2019.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)***(e) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for and benefit shareholders and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amounts of dividend paid to shareholders, return capital to shareholders, issue new shares or selling assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1. The current ratios at 31 December 2016 and at 31 December 2015 were as follows:

	2016 HK\$'000	2015 HK\$'000
Current assets	1,114,974	1,201,569
Current liabilities	592,879	465,580
Current ratio	1.88	2.58

In addition, the Group is subject to financial covenants under its other borrowings. The Group has to maintain its net asset value not be less than US\$40,000,000 at any time, the ratio of total interest bearing debt to consolidated total assets not exceed 0.60 to 1.00 at any time, the ratio of consolidated total liabilities to consolidated total asset not exceed 0.60 to 1.00 at any time and the ratio of consolidated total current liabilities to consolidated total current asset not exceed 0.65 to 1.00 at any time. During the years ended 31 December 2016 and 2015, the Group complied with the aforesaid ratio requirements.

(f) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting period.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)***(f) Fair value estimation *(Continued)***

The carrying value less impairment provision of trade, rental and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Disclosures of the investment properties and financial assets at fair value through profit or loss that are measured at fair value at 31 December 2016 are set out in note 16 and note 24 respectively.

(g) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements for years ended 31 December 2016 and 2015.

44. FAIR VALUE MEASUREMENTS

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

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

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

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

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

44. FAIR VALUE MEASUREMENTS *(Continued)*

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurement using:			Total
	Level 1	Level 2	Level 3	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Financial assets				
Financial asset at fair value through profit or loss:				
Contingent consideration receivable	–	–	87,631	87,631
Investment properties				
Shopping mall – the PRC	–	–	241,165	241,165
Villas – the PRC	–	–	15,703	15,703
	–	–	256,868	256,868
Total	–	–	344,499	344,499

Description	Fair value measurement using:			Total
	Level 1	Level 2	Level 3	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Investment properties				
Shopping mall – the PRC	–	–	272,953	272,953
Total	–	–	272,953	272,953

44. FAIR VALUE MEASUREMENTS *(Continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment properties– Shopping mall HK\$'000	Investment properties– Villas HK\$'000	Contingent consideration receivable HK\$'000	Total 2016 HK\$'000
At beginning of year	272,953	–	–	272,953
Additions	–	21,920	–	21,920
Total gains or losses recognised in profit or loss ^(#)	(16,298)	(5,147)	87,631	66,186
Exchange realignment	(15,490)	(1,070)	–	(16,560)
At end of year	241,165	15,703	87,631	344,499

^(#) Include gains or losses for
assets held at end of
reporting period

	(16,298)	(5,147)	87,631	66,186
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	Investment properties– Shopping mall HK\$'000	Total 2015 HK\$'000
At beginning of year	338,074	338,074
Additions	–	–
Total losses recognised in profit or loss ^(#)	(48,780)	(48,780)
Exchange realignment	(16,341)	(16,341)
At end of year	272,953	272,953

^(#) Include losses for assets held at end of reporting period

All the gains or losses recognised in profit or loss for the year arise from the fair value loss on investment properties and the fair value gain on contingent consideration receivable held at the end of reporting period.

44. FAIR VALUE MEASUREMENTS *(Continued)***(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:**

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

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

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value	
					2016 HK\$'000	2015 HK\$'000
Shopping mall – the PRC	Income approach (term and reversionary method)	Term yield	2% – 4% (2015: ditto)	Decrease	241,165	272,953
		Reversionary yield	7% (2015: ditto)	Decrease		
		Market unit rent	RMB131-218 per sq. m. (2015: RMB126-210 per sq. m.)	Increase		
Villas – the PRC	Direct comparison approach	Asking discount	-10% (2015: N/A)	Decrease	15,703	N/A
		Condition discount	-10% – 0% (2015: N/A)	Decrease		
		Size discount	-2% – 0.2% (2015: N/A)	Decrease		
Contingent consideration receivable	Discounted cash flow approach	Discount rate	11.13% (2015: N/A)	Decrease	87,631	N/A
		Expected profit after tax attributable to the Group from the new business acquired	2017: HK\$2,993,000 2018: HK\$90,302,000 (2015: N/A)	Decrease		

44. FAIR VALUE MEASUREMENTS *(Continued)***(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: *(Continued)****Level 3 fair value measurements (Continued)*

For the shopping mall in the PRC, the valuation was based on income capitalisation approach (term and reversionary method) which largely involves unobservable inputs (e.g. market rent, yield, etc) and taking into account the significant adjustment on yields to accounts for the security of the existing tenancies, and the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

For the villas in the PRC, the valuation was based on direct comparison approach which largely involves recent selling prices and taking into account of several unobservable inputs (e.g. asking discount, condition discount, size discount, etc).

For contingent consideration receivable, the valuation was based on discounted cash flow approach which largely involves unobservable inputs (e.g. discount rate, the expected profit after tax derived attributable to the Group from the new business acquired, etc) and taking into account profitability on best, normal and worst scenario.

During the two years, there were no changes in the valuation techniques used.

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

Set out below is the financial information of the Group as extracted from the published unaudited financial statements of the Group for the six months ended 30 June 2017.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

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

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****Condensed Consolidated Statement of Financial Position***At 30 June 2017*

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

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

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30 June 2017*

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

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

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

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2017*

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1 Corporate information**

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

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

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

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

2 Basis of preparation

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

3 Principal accounting policies

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

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

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

3 Principal accounting policies (continued)***Adoption of new and revised Hong Kong Financial Reporting Standards***

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

4 Estimates

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

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

5 Revenue and segmental information

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

For the six months ended 30 June 2017 (unaudited)

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

5 Revenue and segmental information *(continued)*

For the six months ended 30 June 2016 (unaudited)

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

5 Revenue and segmental information *(continued)*

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

As at 30 June 2017 (unaudited)

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

As at 31 December 2016 (audited)

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

6 Finance costs – net

An analysis of finance costs and income is as follows:

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

7 Operating loss

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

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

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

8 Income tax (credit)/expense

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

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

9 Dividends

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

10 Loss per share**(a) Basic**

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

(b) Diluted

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

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

11 Investments in associates

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

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

12 Trade and rental receivables

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

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

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

13 Trade payables

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

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

14 Borrowings

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

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

14 Borrowings *(continued)*

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

The other loan was secured and guaranteed by:

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

15 Convertible notes

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

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

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

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

15 Convertible notes (continued)

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

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

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

16 Issued share capital

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

16 Issued share capital (continued)

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

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

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

17 Commitments**(a) Operating lease commitments****(i) As lessor**

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

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

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

17 Commitments (continued)**(a) Operating lease commitments (continued)****(ii) As lessee**

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

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

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

(b) Other commitments

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

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

18 Related party disclosures**(i) *Related party transactions***

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

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

(ii) *Compensation of key management personnel*

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

19 Event after the reporting period

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

20 Approval of the condensed consolidated financial statements

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

4. INDEBTEDNESS

As at the close of business on 31 August 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this Composite Document, the Group had the following outstanding indebtedness:

- a) bank loans with total principal amounts and accrued interests of approximately HK\$196,832,000, in which HK\$481,000 was secured by the Group's leasehold land and buildings and corporate guarantee of a subsidiary, and HK\$196,351,000 was secured by land use rights and construction in progress of a subsidiary and corporate guarantee of a former related party;
- b) entrusted bank loans with total principal amounts and accrued interests of approximately HK\$236,421,000, which were secured by properties development in progress of a subsidiary, and corporate and personal guarantees of related parties and former related parties;
- c) loans from a former shareholder with total principal amounts of approximately HK\$15,839,000, which were non-interest bearing and unsecured;
- d) other loan with total principal amount and accrued interest of approximately HK\$158,845,000, which was secured by charges over equity interests of certain subsidiaries of the Group and personal guarantee by a former shareholder of the Company;
- e) other loans with total principal amounts of approximately HK\$62,926,000, which were non-interest bearing and unsecured;
- f) the Convertible Notes with principal amount of HK\$166,869,000;
- g) remaining consideration payable amounted to HK\$60,000,000 in connection with the acquisition of equity interests of Ever-Grand Development Limited; and
- h) contingent liabilities amounted to approximately HK\$264,600,000 representing the maximum penalty to be imposed on the Group should the relevant tax authorities ruled the Group had failed to fulfill its tax withholding and reporting obligation in relation to the acquisition of equity interests of Ever-Grand Development Limited in the PRC.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have, as at the close of business on 31 August 2017, any material debt securities (issued and outstanding or agreed to be issued), term loans, bank overdrafts, debentures or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or finance lease commitments, mortgages and charges, guarantees or other material contingent liabilities.

5. MATERIAL CHANGES

The Directors confirmed that, save and except as disclosed below, there was no material change in the financial and trading position or outlook of the Group since 31 December 2016 (being the date to which the latest published audited financial statements of the Group have been made up) and up to the Latest Practicable Date:

- (i) as disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group suffered from material increases in expenses mainly derived from (a) the impairment loss on investment in an associate amounted to approximately HK\$106.5 million; (b) the properties development in progress written down of approximately HK\$63.3 million; (c) the properties held for sale written down of approximately HK\$17.2 million; and (d) finance costs relating to bank borrowings, convertible notes and other borrowings of approximately HK\$23.0 million during the six months ended 30 June 2017, which had ultimately led to the Group having much larger loss-making results for the same period when compared to that of the corresponding period in 2016;
- (ii) as disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group recorded a material decrease in total equity in its consolidated statement of financial position as at 30 June 2017 mainly due to the net loss of approximately HK\$220.8 million incurred during the period;
- (iii) as disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group's other payables, accruals and deposits received had increased by approximately HK\$58.3 million during the period from 1 January to 30 June 2017, which was substantially attributable to deposits received for pre-sale of properties under development;
- (iv) subsequent to the interim period ended 30 June 2017, the Company completed a share placement on 17 July 2017 by issuing 494,232,000 Shares of HK\$0.01 each at a placing price of HK\$0.24 per placing share with net proceeds from the placing of approximately HK\$116.0 million, which had improved the cash position and net asset base of the Group; and
- (v) as disclosed in the interim report of the Company for the six months ended 30 June 2017, further on 25 July 2017, a subsidiary of the Group entered into certain supplemental loan agreements with a PRC bank for three term loans with aggregate loan amount of RMB200,000,000 for a period of three years, which are interest-bearing at the prevailing market rate and had been drawn down by the Group on 3 August 2017. Pursuant to such loan agreements, the borrowings were secured by the land situated in Xiangtan, Hunan Province, the PRC (which was acquired by the Group in October 2013 for the residential development project) and guaranteed by certain related parties of the Company.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and the Concert Parties), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and the Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:		<i>HK\$</i>
<u>100,000,000,000</u>	Shares	<u>1,000,000,000</u>
Issued and fully paid-up:		<i>HK\$</i>
<u>2,965,394,504</u>	Shares	<u>29,653,945.04</u>

All issued Shares are fully paid-up and rank pari passu with each other in all respects, including the rights in respect of capital, dividends and voting.

Since 31 December 2016, being the end of the last financial year of the Company, and up to the Latest Practicable Date, 494,232,000 Shares were allotted and issued on 17 July 2017 as a result of the completion of the placing under the general mandate pursuant to the placing agreement entered into between the Company and Riches Depot Securities Co., Limited dated 23 June 2017.

As at the Latest Practicable Date, there were 55,580,190 Share Options outstanding entitling the Optionholders to subscribe for 55,580,190 new Shares.

Pursuant to the terms of the Share Option Scheme, if a general offer is made to all the Shareholders (other than the Offeror and/or any person controlled by the Offeror and/or any person acting in concert with the Offeror), and such offer becomes or is declared unconditional, the Optionholders shall, even though the option period has not yet commenced, be entitled to exercise the Share Options (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the option period or the date falling fourteen (14) days from the date on which the offer becomes or is declared unconditional, after which the Share Options shall lapse.

As at the Latest Practicable Date, there were outstanding Convertible Notes in the principal amount of HK\$166,869,000 which carry rights to convert into 208,586,250 new Shares in full based on the existing conversion price of HK\$0.80 per Share.

Save as aforesaid, as at the Latest Practicable Date, the Company has no outstanding shares, options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue.

3. MARKET PRICES

The table below sets out the closing price of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; (iii) 18 September 2017, being the last trading day of the Shares prior to the commencement of the Offer Period; and (iv) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 March 2017	0.355
28 April 2017	0.320
31 May 2017	0.345
30 June 2017	0.290
31 July 2017	0.285
31 August 2017	0.270
18 September 2017 (Last Trading Day)	0.255
29 September 2017	0.270
24 October 2017 (Latest Practicable Date)	0.285

During the Relevant Period, the highest closing price of the Shares quoted on the Stock Exchange was HK\$0.400 on 27 March 2017 and the lowest closing price of the Shares quoted on the Stock Exchange was HK\$0.255 on 18 September 2017.

4. DISCLOSURE OF INTERESTS

Directors' and the chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the

register maintained by the Company or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange or required to be disclosed under the Code are as follows:

Name	Capacity	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Wan Peizhong	Beneficial owner	123,000(L)	≈0%

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

Mr. Wan Peizhong does not intend, in respect of his own beneficial shareholding in the Shares, accept the Share Offer. Save as disclosed above, none of the Directors was interested in or owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any such Shares, and was not entitled to the Offers.

5. DEALINGS IN SECURITIES OF THE COMPANY

During the Relevant Period:

- (a) none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (b) none of the subsidiaries of the Company, or any pension funds of the Group, or any adviser to the Company as specified in class (2) of the definition of “associate” under the Code (but excluding exempt principal traders) had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (c) save and except for the Notes, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Code had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (d) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had, without the consent of the Executive, dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (e) none of the Company or any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

6. DEALINGS IN SECURITIES OF THE OFFEROR

During the Relevant Period, none of the Company or any of the Directors had any dealings in the shares or any convertible securities, warrants, options or derivatives in respect of any such shares of the Offeror.

7. OTHER DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

- (a) neither the Company nor any of the Directors was interested in or owned or controlled any shares or any convertible securities, warrants, options or derivatives in respect of any such shares of the Offeror;
- (b) save as disclosed in the section headed “*Disclosure of Interests*” in this appendix, none of the Directors was interested in or owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any such Shares;
- (c) no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares was owned or controlled by a subsidiary of the Company, or by a pension fund of the Group, or by an adviser to the Company as specified in class (2) of the definition of “associate” under the Code (but excluding exempt principal traders);
- (d) no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares was owned or controlled by any persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Code; and
- (e) no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares were managed on a discretionary basis by any fund managers (other than exempt fund managers) connected with the Company without the consent of the Executive.

8. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit was given to any Directors as compensation for loss of office or otherwise in connection with the Offers;
- (b) save and except for the Notes and the related personal guarantee provided by Ms. Qian, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and

- (c) save and except for the Notes, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

9. DIRECTORS' SERVICE CONTRACTS

On 31 March 2016, Mr. Xiang Junjie (“**Mr. Xiang**”) entered into a director’s service agreement (the “**XJJ Service Agreement**”) with the Company for an initial fixed term of 1 year commencing from 31 March 2016 and shall continue thereafter until terminated by either party. Pursuant to the XJJ Service Agreement, Mr. Xiang shall be entitled to (i) a monthly basic remuneration of HK\$102,850; and (ii) a discretionary bonus to be determined by reference to the audited consolidated net profit of the Group after taxation and minority interests but before extraordinary items (the “**Net Profit**”) provided that the aggregate amount of discretionary bonuses payable in each financial year to all executive Directors shall not exceed 5 percent of the Net Profit of the relevant financial year. On 1 June 2017, Mr. Xiang entered into a supplemental director’s service agreement (the “**Supplemental Service Agreement**”) with the Company in relation to the XJJ Service Agreement, pursuant to which the monthly basic remuneration was adjusted from HK\$102,850 to HK\$80,000 with all other terms remain in full force and effect. On 1 August 2017, Mr. Xiang entered into a further supplemental director’s service agreement with the Company in relation to the XJJ Service Agreement and the Supplemental Service Agreement, pursuant to which his monthly basic remuneration was further adjusted to HK\$50,000 with all other terms remain in full force and effect.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any service contracts with the Company or any of its subsidiaries or any of its associated companies which (i) had been entered into or amended within 6 months before the commencement of the Offer Period (including both continuous and fixed term contracts); (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

11. MATERIAL CONTRACTS

Save as disclosed below, the Group did not enter into any contract which are or may be material other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries within two years immediately preceding the commencement of the Offer Period and up to and including the Latest Practicable Date:

- (a) the non-legally binding memorandum of understanding dated 22 October 2015 entered into between the Company as purchaser and Sky-Linked as vendor in relation to a proposed acquisition of the equity interests in 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*) and 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*);

- (b) the placing agreement dated 6 November 2015 entered into between the Company and Kingston Securities Limited (“**Kingston Securities**”) in relation to the placing of up to 175,500,000 new Shares at a placing price of HK\$1.14 per Share by Kingston Securities at a commission of 2.5% of the proceeds from such placing;
- (c) the agreement dated 16 November 2015 entered into among the Company, Sky-Linked, Mr. Cheng Ngok Fai and Mr. Li Ruiguang, pursuant to which, Sky-Linked agreed to sell and the Company agreed to acquire 49% of the issued share capital of Ever-Grand Development Limited at a consideration of HK\$882,000,000 (the “**Ever-Grand Acquisition Agreement**”);
- (d) the non-legally binding memorandum of understanding dated 15 December 2015 entered into between the Company and Mr. Cheng Keung Fai in relation to the possible acquisition(s) by the Company from Mr. Cheng Keung Fai of not less than 40% equity interest in the companies (either directly or indirectly) owned by Mr. Cheng Keung Fai and being engaging in the operation of two five-star resorts and hotels in the PRC;
- (e) the subscription agreement dated 17 December 2015 entered into between Prosper China Limited (“**Prosper China**”), a wholly-owned subsidiary of the Company, as investor, and GLC S.S. GP Limited, the general partner of GLC Special Situations Fund L.P. (the “**Fund**”), a Cayman Islands exempted limited partnership registered under the Exempted Limited Partnership Law (as amended) of the Cayman Islands, pursuant to which Prosper China agrees to subscribe for an interest in the Fund as a limited partner in accordance with the terms of the amended and restated limited partnership agreement dated 14 December 2015 with a capital commitment of HK\$110 million;
- (f) the supplemental agreement dated 28 December 2015 entered into between the Company and Taiping Trustees Limited (“**Taiping**”) in relation to the subscription agreement dated 12 August 2015 entered into between the Company and Taiping, pursuant to which Taiping agreed to subscribe for the convertible notes in the principal amount of US\$30,000,000 to be issued by the Company;
- (g) the non-legally binding memorandum of understanding dated 4 January 2016 entered into between the Company and 福建乾暉股權投資中心(有限合夥)(Fujian Qianhui Equity Investment Centre (Limited Partnership*)) (“**Fujian Qianhui**”) in relation to a possible acquisition by the Company from Fujian Qianhui of approximately 7.04% of the entire equity interest in 天津股權交易所有限公司 (Tianjin Equity Exchange Enterprise Limited*);
- (h) the supplemental agreement dated 17 February 2016 entered into among the Company, Sky-Linked, Mr. Cheng Ngok Fai and Mr. Li Ruiguang in relation to the Ever-Grand Acquisition Agreement;
- (i) the non-legally binding memorandum of understanding dated 23 March 2016 entered into among the Company, Skyroar Limited and Mirage Vision Limited in relation to a potential acquisition by the Company from Skyroar Limited of the issued shares of Mirage Vision Limited held by Skyroar Limited;

- (j) the non-legally binding memorandum of understanding dated 30 March 2016 entered into between Vast Build Limited, a wholly-owned subsidiary of the Company, and Sky-Linked in relation to a potential acquisition by Vast Build Limited from Sky-Linked of not less than 25% of the issued share capital of Ever-Grand Development Limited;
- (k) the non-legally binding memorandum of understanding dated 9 May 2016 entered into between Mandarin Films Distribution Company Limited (“**Mandarin Films**”), an indirect wholly-owned subsidiary of the Company, and 深圳市龍創藝文化傳播有限公司 (Shenzhen City Long Chuang Yi Culture Communication Company Limited*) (“**Long Chuang Yi**”) in relation to a possible cooperation between Long Chuang Yi and Mandarin Films in relation to the co-production and global distribution of a movie with the proposed name of “Legend of Master Situ” (司徒大佬);
- (l) the non-legally binding memorandum of understanding dated 17 May 2016 entered into between the Company and Bestford Investments Limited in relation to a possible acquisition of certain shares of a subsidiary of Bestford Investments Limited which will hold interest in the two companies incorporated in the PRC that carry on the business of cogeneration business and distribution of steam in Inner Mongolia, the PRC by the Company from Bestford Investments Limited;
- (m) the non-legally binding memorandum of understanding dated 21 June 2016 entered into between the Company and HK Lu Yin Investment Group Shares Limited in relation to a possible cooperation in the areas of (i) internet and financial services; (ii) culture media and culture tourism projects; and (iii) new energy environmental projects in the PRC;
- (n) the placing agreement dated 13 July 2016 entered into between the Company and Upbest Securities Company Limited (“**Upbest Securities**”) in relation to the placing of up to 494,232,500 new Shares at a placing price of HK\$0.323 per placing Share by Upbest Securities at a commission of 3.5% of the proceeds from such placing (the “**Upbest Placing Agreement**”);
- (o) the deed of termination dated 3 August 2016 entered into between the Company and Upbest Securities, pursuant to which, the Company and Upbest Securities agreed to terminate the Upbest Placing Agreement;
- (p) the subscription agreement dated 5 August 2016 entered into between Cheung Wo (Hunan) Property Limited (“**Cheung Wo (Hunan)**”), a wholly-owned subsidiary of the Company, and Silver Ridge International Limited (“**Silver Ridge**”), pursuant to which, Silver Ridge agreed to subscribe for and Cheung Wo (Hunan) agreed to allot and issue 63 shares of Cheung Wo (Hunan) (the “**Proposed Subscription**”), representing 63% of the issued share capital of Cheung Wo (Hunan) immediate after the Proposed Subscription, at the subscription price of HK\$200,000,000 (the “**Subscription Agreement**”);
- (q) the supplemental agreement dated 26 September 2016 entered into between Cheung Wo (Hunan) and Silver Ridge, in relation to the Subscription Agreement;

- (r) the placing agreement dated 23 June 2017 entered into between the Company and Riches Depot Securities Co., Limited (“**Riches Depot**”) in relation to the placing of up to 494,232,500 new Shares at a placing price of HK\$0.24 per placing Share by the Riches Depot at a commission of 2% of the proceeds from such placing;
- (s) the non-legally binding memorandum of understanding dated 19 July 2017 entered into between the Company and Ever Harmony Enterprises Limited in relation to the possible acquisition of the shareholding in 揚州亞太置業有限公司 (Yangzhou Ya Tai Zhi Ye Company Limited*) by the Company from the Ever Harmony Enterprises Limited; and
- (t) the investment management agreement dated 19 July 2017 entered into between the Company and CSOP Asset Management Limited (“**CSOP**”) in relation to the provision of the investment management services by CSOP to the Company.

12. QUALIFICATIONS OF EXPERTS AND CONSENTS

In addition to the Offeror’s expert listed in paragraph 5 of Appendix IV to this Composite Document, the following are the qualifications of the experts who have given opinions or advice, which are contained in this Composite Document:

Name	Qualifications
First Shanghai	a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
RHL	Independent property valuer

Each of First Shanghai and RHL has given, and has not withdrawn, its written consent to the issue of this Composite Document with the inclusion therein of its letter and references to its name in the form and context in which it appears in this Composite Document.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:30 a.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong; (ii) on the website of the Company (<http://www.nine-express.com.hk>); and (iii) on the website of the SFC (www.sfc.hk) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2016;
- (c) the interim report of the Company for the six months ended 30 June 2017;

- (d) the letter from the Board, the text of which is set out on pages 23 to 27 of this Composite Document;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages IBC-1 to IBC-2 of this Composite Document;
- (f) the letter from First Shanghai, the text of which is set out on pages IFA-1 to IFA-26 of this Composite Document;
- (g) the written consents from the parties referred to in the section headed “*Qualifications of Experts and Consents*” in this appendix;
- (h) the material contracts referred to in the section headed “*Material Contracts*” in this appendix;
- (i) the service agreements referred to in the section headed “*Directors’ Service Contracts*” in this appendix; and
- (j) the property valuation report from RHL, the text of which is set out in appendix V to this Composite Document.

14. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The Company’s head office and principal place of business in Hong Kong is situated at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (c) The Company’s share registrar and transfer office in Hong Kong is Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The registered office of First Shanghai is situated at 19/F Wing On House, 71 Des Voeux Road, Central, Hong Kong.
- (e) The English texts of this Composite Document and the accompanying Form(s) of Acceptance shall prevail over the respective Chinese texts in case of any inconsistency.

1. RESPONSIBILITY STATEMENT

The information contained in this Composite Document relating to the Offeror and its intention has been supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Board) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests of the Offeror and its Concert Parties in the Company**

As at the Latest Practicable Date, the Offeror and its Concert Parties collectively hold a total of 642,488,592 Shares, representing approximately 21.67% of the issued share capital of the Company. The Offeror and its Concert Parties do not hold any share options, convertible securities, warrants or options in the Company.

(b) Interests of parties that have irrevocably committed to accept or reject the Offers

As at the Latest Practicable Date, Connected-World holds 205,175,000 Shares, representing approximately 6.92% of the total issued Shares, and Convertible Notes in the principal amount of HK\$269,000 and Sky-Linked holds Convertible Notes in the principal amount of HK\$166,600,000.

As at the Latest Practicable Date, none of Ms. Hu Hui, Mr. Mak Kam Fai or Ms. Law Kee, Alice held any Shares.

Save and except for the Letter of Undertaking and the Optionholders Undertaking, no person had irrevocably committed himself or herself or itself to accept or reject the Offers as at the Latest Practicable Date.

(c) Other disclosures

As at the Latest Practicable Date:

- (i) there is no outstanding derivative in respect of the securities in the Company entered into by the Offeror or any of its Concert Parties;
- (ii) save and except for the Notes (including the arrangement of the pledge of 642,488,592 Shares), there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Code in relation to the Shares or the shares of the Offeror which might be material to the Offers;

- (iii) save and except for 642,488,592 Shares held by the Offeror, none of the Offeror and its Concert Parties owns or has control or direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;
- (iv) there is no agreement or arrangement to which the Offeror (nor any of its Concert Parties) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers; and
- (v) there are no relevant securities (as defined in Note 4 to Rule 22 of the Code) in the Company which the Offeror (or any of its Concert Parties) has borrowed or lent.

3. DEALINGS IN SECURITIES IN THE COMPANY

Save and except for the pledge of 642,488,592 Shares held by the Offeror in favour of Donghai as collaterals for the issuance of the Notes by the Offeror to Donghai, during the Relevant Period, the Offeror and its Concert Parties have not dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares.

As confirmed by Connected-World and Sky-Linked, during the Relevant Period, Connected-World and Sky-Linked have not dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares, save and except for the followings:

- (i) On 4 May 2017, Connected-World disposed of 100,000,000 Shares at a unit price of US\$0.031 per Share;
- (ii) On 16 May 2017, Connected-World disposed of 50,000,000 Shares at a unit price of HK\$0.229 per Share; and
- (iii) On 31 May 2017, Sky-Linked transferred the Convertible Notes in a principal amount of HK\$269,000 (convertible to 336,250 Shares upon exercise of the rights attached thereto) to Connected-World at a consideration of HK\$269,000.

As confirmed by Ms. Hu Hui, Mr. Mak Kam Fai and Ms. Law Kee, Alice, during the Relevant Period, Ms. Hu Hui, Mr. Mak Kam Fai and Ms. Law Kee, Alice have not dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares, save and except on 9 June 2017, Mr. Mak Kam Fai disposed of 60,000 Shares at a unit price of HK\$0.325 per Share.

4. ARRANGEMENTS IN CONNECTION WITH THE OFFERS

As at the Latest Practicable Date:

- (i) no benefit (other than statutory or pre-existing contractual compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Offers;

- (ii) save and except for the Notes and the related personal guarantee provided by Mr. Zhu, Peter, the father of Mr. Zhu, Ms. Qian and Mr. Zhu, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror and its Concert Parties and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence on the Offers;
- (iii) there was no agreement or arrangement to which the Offeror or its ultimate beneficial owner is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers; and
- (iv) save for the pledge of 642,488,592 Shares and pledging of all the Shares to be acquired under the Share Offer by the Offeror in favour of Donghai pursuant to the terms of the Notes and the willingness of the Offeror to charge or pledge the Shares to provide assistance to the Group in obtaining external financing, there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons.

5. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualifications of the expert whose letter/opinion is contained in this Composite Document:

Name	Qualifications
Octal Capital	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

Octal Capital has given, and has not withdrawn, its written consent to the issue of this Composite Document with the inclusion herein of its advice, letter and/or references to its name in the form and context in which it appears.

6. MISCELLANEOUS

- (a) The Offeror was incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the Offeror is wholly-owned by Mr. Zhu. The Offeror had not conducted any business since its incorporation and did not have any material assets.
- (b) The registered office of the Offeror is at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.
- (c) The principal members of the Offeror's concert group are Mr. Zhu Boheng and Ms. Qian.
- (d) The sole director of the Offeror is Mr. Zhu Boheng.

- (e) The corresponding address of Mr. Zhu Boheng is 16F, Keyne International Center, No. 333 Jiangdong Road(m), Jianye District, Nanjing, Jiangsu Province, China.
- (f) The corresponding address of Ms. Qian is Room 501, Building 11, Yueya Lake, Baixia District, Nanjing, Jiangsu Province, China.
- (g) The principal place of business of Octal Capital is at 801 – 805, 8th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.
- (h) In case of inconsistency, the English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the websites of the SFC at <http://www.sfc.com.hk> and the Company at <http://www.nine-express.com.hk>; and (ii) during normal business hours from 9:00 a.m. to 5:00 p.m. on any day (except Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at Room 4101, 41/F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong, from the date of this Composite Document up to and including the Closing Date or the date on which the Offers are withdrawn or lapse, whichever is earlier:

- (a) the memorandum and articles of association of the Offeror;
- (b) the Letter of Undertaking;
- (c) the Optionholders Undertaking;
- (d) the letter from Octal Capital, the text of which is set out on pages 10 to 22 of this Composite Document;
- (e) this Composite Document and the accompanying Forms of Acceptance; and
- (f) the written consent referred to under the paragraph headed “Qualifications and Consent of Expert” in this appendix.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Composite Document received from RHL Appraisal Limited, an independent valuer, in connection with its valuation as at 9 October 2017 of the Properties held by Nine Express Limited.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

27 October 2017

The Board of Directors

Nine Express Limited

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

Dear Sir/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interests (“**the Properties**”) held by Nine Express Limited (the “**Company**”) and its subsidiary companies (together referred to as the “**Group**”) located in the People’s Republic of China (the “**PRC**”) and Hong Kong. We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 9 October 2017 (the “**Valuation Date**”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value (“**Market Value**”) which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

For the completed portion and vacant site of Property 1, direct comparison method (the “**Direct Comparison Method**”) is adopted based on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

And for portions of construction in progress of Property 1, depreciated replacement cost approach (the “**DRC**”) is applied. DRC is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

Direct Comparison Method also apply in valuation of Property 2, Property 4 and Property 5.

For Property 3, we have valued the property on the basis of capitalization of the net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate case, made provisions for reversionary income potential. Direct Comparison Method is also adopted for cross-checked by making reference to the comparable market transactions as available to us.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Rule 11 of the Codes on Takeovers and Mergers and Share Repurchases of the Securities and Futures Commission; Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

- i. all necessary statutory approvals for the Properties have been obtained;
- ii. transferable land use rights in respect of the Properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid;
- iii. the owner of the Properties have enforceable title to the Properties and has free and uninterrupted right to use, occupy or assign the Properties for the whole of the respective unexpired terms as granted;
- iv. no deleterious or hazardous materials or techniques have been used in the construction of the Properties; and
- v. the Properties are connected to main services and sewers which are available on normal terms.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the property interests. However, we have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Group's PRC legal advisers, Beijing Junhe Law Firm (北京市君合律師事務所), concerning the validity of the titles to the Properties.

LIMITING CONDITIONS

We have conducted on-site inspections to properties located in the People's Republic of China in October 2017 by our Mr. Kevin Mok (BSc. In Civil Engineering) who has 8 year experience in property inspection. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Properties are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the Properties but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

None of the services have been tested by us and we are, therefore, unable to report on their present conditions. We have no duty to verify that no deleterious or hazardous materials or techniques have been used in the construction of or making addition or alteration to the Properties. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the Properties. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the Properties or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

Our valuation has been made on the basis that there is no substantial change in the physical conditions of the Properties between the Valuation Date and the date of our inspection.

We have relied to a considerable extent on information provided by the Group and accepted advices given to us on such matters, in particular, but not limited to land use rights contract, tenure, planning approvals, statutory notices, easements, particulars of occupancy, size, site and floor areas and all other relevant matters in the identification of the Properties. We assume no responsibility for their accuracy.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing neither on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale.

For properties located in Hong Kong, the potential tax liability which would arise on the disposal of the property interests held by the Group mainly includes stamp duty (ranging from 1.5% to 8.5%). For properties located in the PRC, the potential tax liability including value-added tax (5%), value-added surtax (0.57%), stamp duty (0.05%), land appreciation tax (ranging from 30% to 60%) and corporate income tax (25%). Among the Properties, only portion of Property 1 has residential properties (villas or low-high rise apartments) which is held for sale after completion, the estimated tax expenses is around RMB60,000,000 for such part as advised by the Group; other properties are held for investment or self-occupied, there is no intention expressed from the Company that such property interests held by the Group will be disposed in the foreseeable future, it is unlikely that such tax liability will be crystallized in the foreseeable future. In the course of our valuations, we have not taken into account such taxes.

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the legal advisers of the Group. Neither have we verified the correctness of any information supplied to us concerning the Properties.

This report is for the exclusive use of the addressee stated herein and for that particular purpose only. The contents of this report either in whole or in part shall not be disclosed to any other parties and we accept no responsibility if it is used or relied upon by any others or for purposes other than that stated herein. Neither the whole nor any part of this report or any reference thereto may be included in any published documents, circular or statement nor published in any way without our written approval or the form and context in which it may appear.

REMARKS

We have valued the property located in Hong Kong in Hong Kong Dollars (HKD) and the property located in the PRC in Renminbi (RMB).

We enclose herewith the summary of values and valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Sr Serena S. W. Lau
FBKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Sr Jessie X. Chen
MRICS, MSc (Real Estate), BEcon
Associate Director

Sr Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 20 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Sr Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Sr Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 5 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Sr Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

SUMMARY OF VALUES

Group I – Property located in the PRC		Market Value as at 9 October 2017 <i>RMB</i>	Interest attribute to the Group	Market Value attributable to the Group as at 9 October 2017 <i>RMB</i>
1.	A clubhouse, 29 blocks of villas and various construction in progress located at Phase I of Oriental Venice, the east of Jiuhua Main Avenue, Jiuhua Economic Development Zone, Xiangtan City, Hunan Province, the PRC	887,000,000	100%	887,000,000
2.	Varis parcels of land located at Phase II of Oriental Venice, the east of Jiuhua Main Avenue, Jiuhua Economic Development Zone, Xiangtan City, Hunan Province, the PRC	446,000,000	100%	446,000,000
3.	Mingzu Plaza, No. 19 Yongling Road, Jinnu District, Chengdu, Sichuan Province, the PRC	200,000,000	100%	200,000,000
4.	Two villas No.100 and No.133 located in Gaoerfu Lingli, Zhonghang Yunling, No.19 Yunling Road, Shengli Town, Chengdu City, Sichuan Province, the PRC	13,350,000	100%	13,350,000
Total:		1,546,350,000		1,546,350,000

SUMMARY OF VALUES

Group II – Property located in the Hong Kong		Market Value as at 9 October 2017 <i>Hong Kong Dollars</i>	Interest attribute to the Group	Market Value attributable to the Group as at 9 October 2017 <i>Hong Kong Dollars</i>
5.	Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong	13,100,000	100%	13,100,000
	111/4800th shares of and in Kwun Tong Inland Lot Nos. 420 & 421			
Total:		13,100,000		13,100,000

Group I – Properties located in the PRC

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 RMB
1. A clubhouse, 29 blocks of villas and various construction in progress located at Phase I of Oriental Venice, the east of Jiuhua Main Avenue, Jiuhua Economic Development Zone, Xiangtan City, Hunan Province, the PRC	<p>Oriental Venice (the “Development”) is proposed to be a large-scale development erected on a parcel of land with a total site area of approximately 486,218.91 sq.m. (5,233,617 sq.ft.). The Development is designed to be a multifunctional complex which includes various buildings and facilities for residential, hotel, commercial, recreation, entertainment, education and exhibition uses. The Development is divided into two phases (the “Phase I” and “Phase II”). Phase I is expected to be completed by 2020 while Phase II is pending for further development.</p> <p>The property comprises Phase I of Oriental Venice, currently it has a clubhouse, 29 blocks of villas, various construction in progress (the “CIP”) and remaining vacant site pending for development with a total site area of approximately 325,989.00 sq.m. (3,508,916 sq.ft.).</p> <p>Completed gross floor area of the property is approximately 43,353.00 sq.m. (466,648 sq.ft.) while planned gross floor area of the CIP is approximately 88,417.74 sq.m. (951,721 sq.ft.) with details as below:</p>	<p>The property is currently under development. (Please refer to note 9-note 11 below)</p>	<p>887,000,000 (RENMINBI EIGHT HUNDRED AND EIGHTY SEVEN MILLION ONLY)</p> <p>100% interest attributed to the Group: RMB887,000,000</p>

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 RMB
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Completed Property	Approx. GFA (sq.m.)
A clubhouse	2,931.00
29 Blocks of villas located in Zone A (including underground level) and Zone B of the property	40,422.00 (including GFA of Underground level: 15,713.55 sq.m.)
Sub-total	<u>43,353.00</u>

CIP	Planned Approx. GFA (sq.m.)
The Oriental Venice Sofitel Grand Hotel	73,469.00
27 Blocks of villas located in Zone D of the property	14,978.74
Sub-total	<u>88,417.74</u>
Total:	<u><u>131,770.74</u></u>

The land use rights of the property have been granted for a term of 70 years expiring on 10 June 2080 for residential use and for a term of 40 years expiring on 10 June 2050 for commercial use.

Notes:

1. Pursuant to a State Land Use Rights Contract – GF-2008-2601 dated 10 June 2010, the land use rights of the property with a total site area of approximately 325,989.00 sq.m. have been granted to Hunan Jiuhua International City Development Construction Company Limited (湖南九華國際新城開發建設有限公司) (“**Jiuhua International City**”), an indirectly wholly owned subsidiary of the Company with details as follows:

Restricted Items	Parameters
Plot Ratio	No more than 1.5
Usage	35,651.00 sq.m. for Government Road (please refer to note 2 below); remaining site area for commercial and residential use
Site Coverage	No more than 30%
Ratio of Green Space	No more than 35%
Maximum Gross Floor Area	442,200.00 sq.m.

2. Pursuant to two State-owned Land Use Rights Certificates – Tan Jiu Guo Yong (2011) Di No. A01035 dated 3 July 2011 and Tan Jiu Guo Yong (2012) Di No. A01044 dated 1 June 2012 (潭九國用(2011)第A00111號 及 潭九國用(2012)第A01044號), the land use rights of the property with a total site area of approximately 294,800.00 sq.m. have been granted to Jiuhua International City and Hunan Jiuhua Dong Fang Hotel Company Limited (湖南九華東方酒店有限公司) (“**Jiuhua Dong Fang**”), an indirectly wholly owned subsidiary of the Company, respectively with details as follows:

State-owned Land Use Rights Certificate No.	Land Use Rights Expiring Date	Permitted Usage	Approx. Site Area (sq.m.)
Tan Jiu Guo Yong (2011) Di No. A01035 (潭九國用(2011)第A01035號)	10 June 2080	Residential	157,558.00
Tan Jiu Guo Yong (2012) Di No. A01044 (潭九國用(2012)第A01044號)	10 June 2050	Commercial	137,242.00
Total:			294,800.00

3. Pursuant a Constriction Land Planning Permit – Di Zi No.2012014400 (地字第2012014400號) dated 8 June 2012, permission towards the planning of the subject land with a site area of approximately 145,241.00 sq.m. has been granted to Jiuhua Dong Fang for commercial use.

APPENDIX V

PROPERTY VALUATION REPORT

4. Pursuant to six Construction Project Planning Permits, the construction works of the property with total planned gross floor area of 250,594.00 sq.m. have been approved in favour of Jiuhua International City with details as follows:

Construction Project Planning Permit No.	Date of Issuance	Construction	Usage	Approx. Gross Floor Area (sq.m.)
Jian Gui (Jian) Zi Di No.2013002146 (建規(建)字第2013002146號)	14 October 2013	Block Nos.1-18 and underground floor, Zone A, Phase I of Oriental Venice	Residential/ Underground Floor	15,241.50/ 15,687.50
Jian Gui (Jian) Zi Di No.2013002126 (建規(建)字第2013002126號)	18 July 2013	Block Nos.69-79, Zone B, Phase I of Oriental Venice	Residential	9,488.00
Jian Gui (Jian) Zi Di No.2013002147 (建規(建)字第2013002147號)	15 October 2013	Block Nos.59-68 and underground floor, Zone C, Phase I of Oriental Venice	Residential/ Commercial/ Underground Floor	93,416.00/ 375.00/ 25,138.00
Jian Gui (Jian) Zi Di No.430302201500142 (建規(建)字第430302201500142號)	8 December 2015	Block Nos.28-54, Zone D, Phase I of Oriental Venice	Residential	14,852.00
Jian Gui (Jian) Zi Di No.2013002105 (建規(建)字第2013002105號)	28 March 2013	Main Building of the Oriental Venice Sofitel Grand Hotel	Newly-built Building	73,469.00
Jian Gui (Jian) Zi Di No.2012007125 (建規(建)字第2012007125號)	26 December 2012	Clubhouse	Newly-built Building	2,927.00
Total:				<u>250,594.00</u>

5. Pursuant to four Construction Work Commencement Permit, the construction works of property conducted by Jiuhua Dong Fang with planned gross floor area of 131,770.74 sq.m. have been approved for construction in favour of Jiuhua International City with details as follows:

Construction Work Commencement Permit No.	Date of Issuance	Construction	Approx. Gross Floor Area (sq.m.)
Bian Hao No. 430304201407301301 (Bu Ban) (編號430304201407301301(補辦))	30 July 2014	Block Nos.1-18 and underground floor, Zone A, Phase I of Oriental Venice	15,241.50/ 15,687.50
Bian Hao No. 430304201407301401 (Bu Ban) (編號430304201407301401(補辦))	30 July 2014	Block Nos.69-79, Zone B, Phase I of Oriental Venice	9,493.00
Bian Hao 430304201704270101	27 April 2017	Block Nos.28-54, Zone D, Phase I of Oriental Venice	14,948.74
Bian Hao 430304201310121101	12 October 2013	Main Building of the Oriental Venice Sofitel Grand Hotel and the Clubhouse	76,400
<u>131,770.74</u>			

6. Pursuant to a Pre-sale Permit – Tan Fang Yu Xu Zi (2015) Di No.8 (潭房預許字(2015)第8號) dated 5 May 2015, Block No.1-18 and No.69-79 of the Phase I, Oriental Venice with a total gross floor area of approximately 24,708.45 sq.m. are permitted to pre-sale in favour of Jiuhua International City.

7. Pursuant to the Construction Completion Report – Xiang Zhi Jian Tong Bian Bei No.2015-2 (湘質監統編備2015-2號) dated 2 March 2017 and the Construction Completion Records Table – Xiang Jian Bei Zi (2017) Di No.0502 (湘建備字(2017)第0502號), the construction works of Zone B with a total gross floor area of approximately 9,493.00 sq.m. is qualified as completed.
8. As advised by the Company, portions of the completed property in Zone A and Zone B with a total gross floor area of approximately 23,602.68 sq.m. has been pre-sold with a total contracted price of RMB165,458,541. In the course of our valuation, we have taken into account such contracted price.
9. During our site inspection, we have noticed that the main structure and facade external wall of the Oriental Venice Sofitel Grand Hotel (the “**Hotel**”) has completed in about 2016 and is pending for interior decoration. As advised by the Company, the total incurred construction cost of the construction of the Hotel as at the Valuation Date is approximately RMB 204,000,000. In the course of our valuation, we have taken into account such incurred construction cost.
10. During our site inspection, we have noticed that the 27 Blocks of villas located in Zone D of the property (the “**Zone D**”) is structural completed with some facade work under construction. As advised by the Company, the outstanding construction cost of the construction of the Zone D as at the Valuation Date is approximately RMB15,000,000.
11. As advised by the Company, various villas and apartments with a total planned gross floor area of approximately 240,000 sq.m. will be developed in the remaining vacant site at a total projected construction cost of RMB705,600,000. The estimated gross development value of such part is approximately RMB1,200,000,000.
12. As advised by the Group’s PRC legal advisor, Beijing Junhe Law Firm (北京市君合律師事務所), Jiuhua International City and Jiuhua Dong Fang are in the process of obtaining the title certificates or related construction permits/approvals for the remaining portion of the buildings/structures. In the course of our valuation, we have assumed that Jiuhua International City and Jiuhua Dong Fang have no impediment to obtain all the necessary permits/approvals for the construction works of all current development or any future development of the property.
13. The property is situated at the east of Jiuhua Main Avenue (九華大道), where the area is concentrated with vacant land to be developed into commercial facilities and residential areas.
14. We have been provided with a legal opinion by the Group’s PRC legal advisor, Beijing Junhe Law Firm (北京市君合律師事務所), regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by Jiuhua International City and Jiuhua Dong Fang;
 - ii. all land grant premium of the property has been fully settled;
 - iii. current usage of the property is allowed by laws and statutory regulations where applicable;
 - iv. Jiuhua International City and Jiuhua Dong Fang are entitled to transfer, lease, mortgage or dispose of the property freely in the market; and
 - v. Portion of the property including various properties, construction in progress and vacant site on a parcel of land with a total site area of approximately 137,242.00 sq.m. is subject to mortgage. Except that, the remaining property is free from any mortgages or third parties’ encumbrances.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 RMB
2. Various parcels of land located at Phase II of Oriental Venice, the east of Jiuhua Main Avenue, Jiuhua Economic Development Zone, Xiangtan City, Hunan Province, the PRC	<p>Oriental Venice (the “Development”) is proposed to be a large-scale development erected on a parcel of land with a total site area of approximately 486,218.91 sq.m. (5,233,617 sq.ft.). The Development is designed to be a multifunctional complex which includes various buildings and facilities for residential, hotel, commercial, recreation, entertainment, education and exhibition uses. The Development is divided into two phases (the “Phase I” and “Phase II”). Phase I is expected to be completed by 2020 while Phase II is pending for further development.</p> <p>The property comprises Phase II of the Development comprising by three pieces of land with a total site area of approximately 160,229.9 sq.m. (1,724,700 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 70 years expiring during 28 September 2083 and 30 September 2083 for residential use and for a term of 40 years expiring during 28 September 2053 and 30 September 2053 for commercial use.</p>	<p>The property is currently vacant and pending for future development.</p>	<p>446,000,000 (RENMINBI FOUR HUNDRED AND FORTY SIX MILLION ONLY)</p> <p>100% interest attributed to the Group: RMB446,000,000</p>

Notes:

1. Pursuant to three State Land Use Rights Contracts – XC(1)006419, XC(1)006420, XC(1)006421 dated 29 September 2013, the land use rights of the property with a total site area of approximately 160,229.90 sq.m. have been granted to Hunan Jiuhua International City Development Construction Company Limited (湖南九華國際新城開發建設有限公司) (“**Jiuhua International City**”), an indirectly wholly owned subsidiary of the Company with details as follows:

Restricted Items	Parameters
Plot Ratio	No more than 2.5
Usage	37,905.98 for commercial use; 85,626.75 for residential use; 36,697.18 for small-to-medium-sized (below 90.00 sq.m.) residential units; Upon completion, there shall be no less than 3600 (including 1080 small-to-medium-sized) residential units
Site Coverage	No more than 25%
Ratio of Green Space	No more than 35%
Maximum Gross Floor Area	400,574.80 sq.m.

2. Pursuant to three State-owned Land Use Rights Certificate – Tan Jiu Guo Yong (2013) No. A01067, A01068, A01069 (潭九國用(2013)第A01067號, 第A01068號, 第A01069號) dated 13 November 2013, the land use rights of the property with a total site area of approximately 160,229.9 sq.m. have been granted to Jiuhua International City with details as follows:

State-owned Land Use Rights Certificate No.	Land Use Rights Expiring Date	Permitted Usage	Approx. Site Area (sq.m.)
Tan Jiu Guo Yong (2013) Di No. A01067 (潭九國用(2013)第A01067號)	30 September 2053/ 30 September 2083	Commercial/ Residential	43,950.0
Tan Jiu Guo Yong (2013) Di No. A01068 (潭九國用(2013)第A01068號)	28 September 2053/ 28 September 2083	Commercial/ Residential	63,184.5
Tan Jiu Guo Yong (2013) Di No. A01069 (潭九國用(2013)第A01069號)	29 September 2053/ 29 September 2083	Commercial/ Residential	53,095.4
Total:			160,229.9

The above land use rights were acquired on 29 September 2013 at a land premium of RMB 118,110,000, RMB 154,090,000 and RMB 107,470,000 respectively.

3. The property is situated at the east of Jiuhua Main Avenue (九華大道), where the area is concentrated with vacant land to be developed into commercial facilities and residential areas.

4. We have been provided with a legal opinion by the Group's PRC legal advisor, Beijing Junhe Law Firm (北京市君合律師事務所), regarding the legal title of the property, which contains, inter alia, the followings:
- i. the property is legally held by Jiuhua International City;
 - ii. all land grant premium of the property has been fully settled;
 - iii. current usage of the property is allowed by laws and statutory regulations where applicable;
 - iv. Jiuhua International City is entitled to transfer, lease, mortgage or dispose of the property freely in the market;
 - v. Jiuhua International City has no impediment to obtain all the necessary permits/approvals for the construction works of any future development of the property; and
 - vi. the property is subject to mortgage.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 RMB
3. Mingzu Plaza, No. 19 Yongling Road, Jinnu District, Chengdu, Sichuan Province, the PRC	<p>The property comprises a 5-storey commercial development (with a basement level) erected over a parcel of land with a site area of approximately 9,246.17 sq.m. (99,526 sq.ft.) completed in about 1999.</p> <p>The property has a total gross floor area of approximately 30,741.82 sq.m. (330,905 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 28 September 2027 for commercial use.</p>	<p>The property is subject various tenancy agreements with the latest one expiring on 6 June 2027 for commercial use.</p>	<p>200,000,000 (RENMINBI TWO HUNDRED MILLION ONLY)</p> <p>100% interest attributed to the Group: RMB200,000,000</p>

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Cheng Guo Yong (2004) No.927 (成國用(2004)第927號), the land use rights of the property with a site area of approximately 9,246.17 sq.m. were granted to Chengdu Zhongfa Huanghe Enterprise Limited (成都中發黃河實業有限公司) (“Chengdu Zhongfa”), an indirectly wholly owned subsidiary of the Company, for a term expiring on 28 September 2027 for commercial use.
- Pursuant to a Building Ownership Certificate – Cheng Fang Quan Zheng Jian Zheng Zi No.1895388 (成房權證監證字第1895388號), the building ownerships of the property with a total gross floor area of approximately 30,741.82 sq.m. are vested in Chengdu Zhongfa for commercial, garage and other uses.
- Portions of the property with a total gross floor area of approximately 29,660.47 sq.m. are subject to six tenancy agreements for commercial use at a total area rental of RMB16,928,500 (2016-2017) with the latest one expiring on 6 June 2027. Remaining portion of the property is currently vacant or used for ancillary facility.
- We have been provided with a legal opinion by the Group’s PRC legal advisor, Beijing Junhe Law Firm (北京市君合律師事務所), regarding the legal title of the property, which contains, inter alia, the followings:
 - the property is legally held by the Chengdu Zhongfa;
 - Chengdu Zhongfa is entitled to freely transfer, lease, mortgage or dispose of the property; and
 - the property is free from any mortgage and third parties’ encumbrance

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 RMB								
4. Two villas No.100 and No.133 located in Gaoerfu Lingli, Zhonghang Yunling, No.19 Yunling Road, Shengli Town, Chengdu City, Sichuan Province, the PRC	<p>The property comprises two 3-storey villas (with a basement level) completed in about 2006.</p> <p>The property has a total gross floor area of approximately 1,048.32 sq.m. (11,284 sq.ft.) with breakdown as below:</p> <table><tr><td>Property</td><td>Approx. GFA (sq.m.)</td></tr><tr><td>Villa No.100</td><td>527.02</td></tr><tr><td>Villa No.133</td><td>521.30</td></tr><tr><td>Total:</td><td><u>1,048.32</u></td></tr></table>	Property	Approx. GFA (sq.m.)	Villa No.100	527.02	Villa No.133	521.30	Total:	<u>1,048.32</u>	<p>The property is currently vacant.</p>	<p>13,350,000 (RENMINBI THIRTEEN MILLION THREE HUNDRED AND FIFTY THOUSAND ONLY)</p> <p>100% interest attributed to the Group: RMB13,350,000</p>
Property	Approx. GFA (sq.m.)										
Villa No.100	527.02										
Villa No.133	521.30										
Total:	<u>1,048.32</u>										
	<p>The land use rights of the property were granted for a term expiring on 7 March 2070 for residential use.</p>										

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Shuang Guo Yong (2016) No.7910 (雙國用(2016)第7910號), the land use rights of Villa No.100 of the property with a site area of approximately 1,133.92 sq.m. are granted to Chengdu Zhongfa Huanghe Enterprise Limited (成都中發黃河實業有限公司) (“**Chengdu Zhongfa**”), an indirectly wholly owned subsidiary of the Company, for a term expiring on 7 March 2070 for residential use.
- Pursuant to a State-owned Land Use Rights Certificate – Shuang Guo Yong (2016) No.7912 (雙國用(2016)第7912號), the land use rights of Villa No.133 of the property with a site area of approximately 1,121.61 sq.m. are granted to Chengdu Zhongfa for a term expiring on 7 March 2070 for residential use.
- Pursuant to a Building Ownership Certificate – Shuang Fang Quan Zheng Jian Zheng Zi No.1389149 (雙房權證監證字第1389149號), the building ownerships of Villa No.100 of the property with a total gross floor area of approximately 527.02 sq.m. are vested in Chengdu Zhongfa for residential use.
- Pursuant to a Building Ownership Certificate – Shuang Fang Quan Zheng Jian Zheng Zi No.1389148 (雙房權證監證字第1389148號), the building ownerships of Villa No.133 of the property with a total gross floor area of approximately 521.30 sq.m. are vested in Chengdu Zhongfa for residential use.
- We have been provided with a legal opinion by the Group’s PRC legal advisor, Beijing Junhe Law Firm (北京市君合律師事務所), regarding the legal title of the property, which contains, inter alia, the followings:
 - the property is legally held by the Chengdu Zhongfa;
 - Chengdu Zhongfa is entitled to freely transfer, lease, mortgage or dispose of the property; and
 - the property is free from any mortgage and third parties’ encumbrance

Group II – Property located in Hong Kong

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 9 October 2017 (HKD)
5. Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong	<p>The property comprises a workshop unit on 2nd floor of a 15-storey industrial building completed in 1988.</p> <p>The property has a gross floor area of approximately 292.46 sq.m. (3,148 sq.ft.) and a saleable area of 232.59 sq.m. (2,579 sq.ft.).</p>	The property is currently occupied by the Group for office use.	13,100,000 (HONG KONG DOLLARS THIRTEEN MILLION ONE HUNDRED THOUSAND ONLY)
111/4800th shares of and in Kwun Tong Inland Lot Nos.420 & 421	<p>The property is held under conditions of sale No. UB7941 and government lease for terms of 21 years renewable for 14 years commencing on 1 July 1962. We have assumed in our valuation that such leases are extended without premium until 30 June 2047 and that a rent of three percent of the ratable value of the property is charged from the date of extension.</p>		100% interest attributed to the Group: HKD13,100,000

Notes:

- The registered owner of the property is Walsbo Limited, an indirectly wholly owned subsidiary of the Company, vide memorial no. UB8263770 dated 30 November 2000.
- Deed of Mutual Covenant vide memorial no. UB362748 dated 5 February 1988.
- The property is subject to a mortgage in favor of Industrial and Commercial Bank of China (Asia) Limited for part of all moneys vide memorial no. 09092402320017 dated 17 September 2009.