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南海控股有限公司*

NAN HAI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

INTERIM RESULTS

The board of directors (the “Board”) of Nan Hai Corporation Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the comparative figures for 2017 as follows:

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT — UNAUDITED

For the six months ended 30 June 2018

		For the six months ended 30 June	
	<i>Notes</i>	2018	2017
		HK\$'000	HK\$'000
			(Re-presented)
Revenue	5(a)	8,635,655	8,184,548
Cost of sales and services provided		(2,703,856)	(3,285,496)
Gross profit		5,931,799	4,899,052
Other operating income	5(b)	303,474	202,577
Selling and marketing expenses		(1,711,593)	(1,296,470)
Administrative expenses		(672,680)	(455,567)
Other operating expenses		(921,339)	(453,099)
Finance costs		(522,270)	(298,015)
Gain on fair value change on financial liabilities at fair value through profit or loss		29,406	21,573
Impairment loss on trade receivables		(28)	(96)
Impairment loss on other receivables		(16,344)	–
Gain on disposal of non-current assets held-for-sale		21,710	–
Loss on deemed disposal of an associate		–	(162)
Share of results of associates		6,741	10,619
Share of result of a joint venture		521	–
Gain on fair value change on investment properties		1,053	2,117
Profit before income tax	6	2,450,450	2,632,529
Income tax expense	7	(1,452,849)	(1,423,331)
Profit for the period		997,601	1,209,198
Profit/(Loss) for the period attributable to:			
Owners of the Company		984,438	1,258,972
Non-controlling interests		13,163	(49,774)
		997,601	1,209,198
		<i>HK cent</i>	<i>HK cent</i>
Earnings per share for profit attributable to the owners of the Company during the period			
—Basic	9(a)	1.43	1.83
—Diluted	9(b)	1.43	1.83

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME —
UNAUDITED**

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	997,601	1,209,198
Other comprehensive income, including reclassification adjustments		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value change in financial assets at fair value through other comprehensive income, net of tax	16,117	–
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange (loss)/gain on translation of financial statements of foreign operations	(225,394)	183,203
Exchange (loss)/gain on translation of financial statements of foreign associates	(1,562)	2,454
Exchange loss on translation of financial statements of a foreign joint venture	(88)	–
Exchange differences reclassified on deemed disposal of an associate, net of tax	–	359
	<hr/>	<hr/>
Other comprehensive income for the period, including reclassification adjustments	(210,927)	186,016
	<hr/>	<hr/>
Total comprehensive income for the period	786,674	1,395,214
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Owners of the Company	787,994	1,442,218
Non-controlling interests	(1,320)	(47,004)
	<hr/>	<hr/>
	786,674	1,395,214
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	(Unaudited) 30 June 2018	(Audited) 31 December 2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	5,666,555	5,863,807
Investment properties	112,011	112,448
Prepaid land lease payments under operating leases	24,034	24,606
Interests in associates	150,772	145,593
Interest in a joint venture	5,846	5,413
Amounts due from related parties	437,759	254,324
Available-for-sale financial assets	–	135,915
Financial assets at fair value through other comprehensive income	151,817	–
Financial assets at fair value through profit or loss	498	–
Long term trade receivables	1,185	2,370
Deposits, prepayments and other receivables	1,297,340	901,850
Intangible assets	6,335,483	6,438,083
Deferred tax assets	808,790	596,985
Pledged and restricted bank deposits	3,646,153	3,591,605
	18,638,243	18,072,999
Current assets		
Inventories	15,686,035	15,319,232
Financial assets at fair value through profit or loss	98,137	199,474
Financial assets at amortised costs	118,554	–
Held-to-maturity investment	–	120,106
Trade receivables	500,357	677,298
Deposits, prepayments and other receivables	3,174,660	2,992,945
Amounts due from associates	12,599	11,238
Amount due from a joint venture	2,403	2,491
Amounts due from related parties	1,544	4,064
Pledged and restricted bank deposits	6,081,903	5,080,474
Cash and cash equivalents	3,111,520	4,397,710
	28,787,712	28,805,032
Non-current assets held-for-sale	–	15,018
	28,787,712	28,820,050

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

As at 30 June 2018

		(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade payables	<i>11</i>	1,562,571	2,137,185
Other payables and accruals		1,662,516	1,439,633
Contract liabilities	<i>5(a)</i>	7,064,058	–
Receipt in advance and deferred revenue		–	6,851,766
Provision for tax		3,923,873	3,823,364
Amount due to a director		7,177	9,878
Amount due to an associate		5,492	5,492
Amounts due to related parties		94,738	135,669
Bank and other borrowings		10,570,674	9,653,920
Finance lease liabilities		45,214	59,189
Convertible and exchangeable bonds		1,190,211	1,172,381
Financial liability at fair value through profit or loss		49,709	86,908
		<u>26,176,233</u>	<u>25,375,385</u>
Net current assets		<u>2,611,479</u>	<u>3,444,665</u>
Total assets less current liabilities		<u>21,249,722</u>	<u>21,517,664</u>
Non-current liabilities			
Long term trade payables	<i>11</i>	2,943	7,757
Other employee benefits		2,037	2,064
Bank and other borrowings		12,634,443	13,242,534
Finance lease liabilities		11,860	27,984
Provision for warranty		4,058	3,917
Financial liability at fair value through profit or loss		7,793	–
Deferred tax liabilities		1,010,252	1,038,158
		<u>13,673,386</u>	<u>14,322,414</u>
Net assets		<u>7,576,336</u>	<u>7,195,250</u>
EQUITY			
Share capital	<i>12</i>	686,455	686,455
Reserves		5,876,077	5,456,775
Equity attributable to the Company's owners		<u>6,562,532</u>	<u>6,143,230</u>
Non-controlling interests		<u>1,013,804</u>	<u>1,052,020</u>
Total equity		<u>7,576,336</u>	<u>7,195,250</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These condensed consolidated interim financial statements were authorised for issue on 29 August 2018.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2017 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2018. This is the first set of the Group's financial statements in which HKFRS 9 and HKFRS 15 have been adopted. Details of any changes in accounting policies are set out in note 3.

The preparation of these condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated interim financial statements are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") and should be read in conjunction with the 2017 annual financial statements.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs

Adoption of new/amended HKFRSs — effective from 1 January 2018

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers
- HK(IFRIC)-Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 4, Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014–2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to HKAS 40, Transfers of Investment Property
- Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014–2016 Cycle, First-time Adoption of Hong Kong Financial Reporting Standards

The impact of the adoption of HKFRS 9 Financial Instruments (see note 3A below) and HKFRS 15 Revenue from Contracts with Customers (see note 3B below) have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

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

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

Annual Improvements to HKFRSs 2014–2016 Cycle	Improvements to HKFRSs ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HKAS 19	Employee Benefits ¹
HKAS 28	Long-term Interests in Associates or Joint Ventures ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2021

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

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

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

The standard will affect primarily the accounting for the Group’s operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments of HK\$14,410,912,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for a future payments and how this will affect the Group’s profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for the first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

A. HKFRS 9 Financial Instruments (“HKFRS 9”)

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings and FVOCI reserve as of 1 January 2018 as follows (increase/ (decrease)):

	<i>HK\$’000</i>
Retained earnings	
Retained earnings as at 31 December 2017	1,985,580
Increase in expected credit losses (“ECLs”) in trade receivables and other receivables (note 3A(ii) below)	(139,139)
Increase in deferred tax assets relating to impairment provisions	<u>34,784</u>
Restated retained earnings as at 1 January 2018	<u><u>1,881,225</u></u>
	<i>HK\$’000</i>
FVOCI reserve	
Reserves balances at 31 December 2017	–
Restated reserves balance as at 1 January 2018	<u>(1,580)</u>
FVOCI reserve as at 1 January 2018	<u><u>(1,580)</u></u>

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised costs”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(i) Classification and measurement of financial instruments (Continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group’s financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(i) Classification and measurement of financial instruments (Continued)

- (a) As of 1 January 2018, certain investment in unlisted equity investments were reclassified from available-for-sale financial assets to FVOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVOCI. As a result, financial assets with a carrying amount of HK\$135,591,000 were reclassified from available-for-sale financial assets at cost to FVOCI and fair value loss of HK\$1,580,000 were recognised to the FVOCI reserve on 1 January 2018.
- (b) In addition to (a) above, listed debt investments were reclassified from held-to-maturity investment to financial assets at amortised cost, as the Group’s business model is to collect contractual cash flow from these financial assets. These listed debt investments meet the SPPI criterion. As such, listed debt investments with a carrying amount of HK\$120,106,000 were reclassified from held-to-maturity investment to financial assets at amortised costs and there was no impact on the statement of financial position on 1 January 2018.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKRS 9 for each class of the Group’s financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK\$’000	Carrying amount as at 1 January 2018 under HKFRS 9 HK\$’000
Listed equity investments	Held-for-trading	FVTPL	199,474	199,474
Unlisted debt investments	Available-for-sale (at fair value)	FVTPL	324	324
Listed debt investments	Held-to-maturity investment (note 3A(i)(b))	Amortised cost	120,106	120,106
Unlisted equity investments	Available-for-sale (at cost) (note 3A(i)(a))	FVOCI	135,591	134,011
Trade and other receivables	Loans and receivables	Amortised cost	2,724,822	2,585,683
Other loans and receivables	Loans and receivables	Amortised cost	272,117	272,117
Pledged and restricted bank deposits	Loans and receivables	Amortised cost	8,672,079	8,672,079
Cash and cash equivalents	Loans and receivables	Amortised cost	<u>4,397,710</u>	<u>4,397,710</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “ECL model”. HKFRS 9 requires the Group to recognise ECLs for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents and pledged and restricted bank deposits are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information. The Group’s debt investment at FVOCI are considered to have low credit risk since the issuers’ credit rating are high.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 360 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(ii) Impairment of financial assets (Continued)

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were HK\$52,043,000. The loss allowances further increased by HK\$28,000 during the six months period ended 30 June 2018.

(b) Impairment of debt investments

All of the Group’s debt investments at amortised costs and FVTPL are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs. The directors considered that the loss allowance for the Group’s debt investments under 12 months ECLs are insignificant and no provision is made.

(c) Impairment of other receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for other receivables. To measure the ECLs, other receivables have been grouped based on shared credit risk characteristics and the days past due.

The increase in loss allowance for other receivables upon the transition to HKFRS 9 as of 1 January 2018 were HK\$87,096,000. The loss allowances further increased by HK\$16,344,000 during the six months period ended 30 June 2018.

As a result of the above changes, the impact of the new HKFRS 9 impairment model results in additional impairment allowance as follows:

	<i>HK\$’000</i>
Loss allowance as at 1 January 2018 under HKAS 39	57,543
Additional impairment recognised for trade receivables	52,043
Additional impairment recognised for other receivables	87,096
	<hr/>
Loss allowance as at 1 January 2018 under HKFRS 9	<u>196,682</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

A. HKFRS 9 Financial Instruments (“HKFRS 9”) (Continued)

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application (the “DIA”) of HKFRS 9:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”)

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the DIA (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

The following tables summarised the impact, net of tax, of transition to HKFRS 15 on the opening balance of retained earnings as follows (increase/(decrease)):

	<i>HK\$’000</i>
Retained earnings	
Contract liabilities (<i>note 3B(a), (b)</i>)	(136,929)
Increase in deferred tax assets	<u>32,392</u>
Impact at 1 January 2018	<u><u>(104,537)</u></u>

The following tables summarised the impact of adopting HKFRS 15 on the Group’s condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended 30 June 2018. There was no material impact on the Group’s condensed consolidated statement of cash flow for the six months period ended 30 June 2018.

	As reported	Adjustments	Amount without application of HKFRS 15
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Assets			
Deferred tax assets	<u>808,790</u>	<u>(56,114)</u>	<u>752,676</u>
Equity			
Retained earnings	<u>2,603,241</u>	<u>176,350</u>	<u>2,779,591</u>
Liabilities			
Contract liabilities	7,064,058	(7,064,058)	–
Receipt in advance and deferred revenue	<u>–</u>	<u>6,831,594</u>	<u>6,831,594</u>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

The impact on the condensed consolidated income statement for the six months ended 30 June 2018:

	As reported <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Amount without application of HKFRS 15 <i>HK\$'000</i>
Revenue (<i>note 3B(a), (b)</i>)	8,635,655	(1,334)	8,634,321
Interest costs (<i>note 3B(a)</i>)	(522,270)	96,869	(425,401)
Profit before income tax	2,450,450	95,535	2,545,985
Income tax expense	(1,452,849)	(23,722)	(1,476,571)
Profit for the period	997,601	71,813	1,069,414
Total comprehensive income for the period	<u>786,674</u>	<u>71,813</u>	<u>858,487</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various goods and services are set out below:

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Property development	<p>Customers obtain control of the property units when the properties are delivered to and have been accepted by them. Revenue is thus recognised upon when the customers accept the property units so delivered. In addition, it is the Group’s practice to provide standard decoration to customers to maintain the properties’ quality, therefore, decoration provision is also considered as a performance obligation by practice.</p> <p>Right of return No right of return is noted from the Group’s contract with customers.</p> <p>Financing component Should the contract contain a significant financing component, the transaction price should reflect the time value of money.</p> <p>The Group is not required to consider the time value of money if the period between payment and the transfer of the property unit is one year or less, as a practical expedient. In assessing whether a contract contains a significant financing component, the Group considers various factors, including the length of time between when the Group expected to transfer the property unit to the customer and when the customer pays for them, and the interest rate in the contract and prevailing interest rates in the relevant market.</p> <p>Revenue is discounted when the inflow of cash or cash equivalents is deferred. Interest is calculated and recognised using the effective interest method.</p>	<p>Impact As of 1 January 2018, an increase in contract liabilities of HK\$129,558,000, and a decrease in retained earnings of HK\$97,166,000 were recognised for the financing components of the contracts, net of tax.</p>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(b)	Enterprise cloud service	<p>The Group provides a one-stop service from domain name registration, website design services to website constructions with specific add-on features to the website to small and medium enterprise (“SME”) customers. The Group accounts for these contracts as a bundle of goods and services and such bundled services as a whole is considered as a single performance obligation. Revenue from such bundled services is recognised over time by reference to the Group’s inputs to the satisfaction of the performance obligation relative to the total expected input. Payment received in advance that are related to the provision of such bundled services not yet delivered to customers are deferred and recognised as contract liabilities.</p> <p>The Group provides various corporate cloud products to SME customers. Revenue from the corporate cloud services are recognised on a straight-line basis over the contract period. Payment received in advance that are related to the provision of corporate cloud products not yet delivered to customers are deferred and recognised as contract liabilities.</p> <p>The Group also renders various internet-based services without further bundled services and maintenance service to customers. Revenue from provision of services is recognised when the services are rendered according to the terms of the agreements.</p>	<p>Impact</p> <p>As of 1 January 2018, an increase in contract liability of HK\$7,371,000, and an decrease in retained earnings of HK\$7,371,000 were recognised for the change in the estimate stage of completion of performance obligations.</p>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

3. CHANGES IN HKFRSs (Continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (Continued)

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(c)	Ticketing income	<p>The Group has determined that for contracts with customers under ticketing income, there is only one performance obligation, which is the provision of movie services in the Group’s cinema. The Group has determined that the customers simultaneously receives and consumes the benefits of the Group’s performance and thus the Group concludes that the service should be recognised overtime.</p> <p>Tickets are issued according to contractual terms to individual customers which payment is made immediately. For tickets sell through agents, payment is usually payable within 30 days.</p> <p>Right of return No right of return is noted from the Group’s contract with customers.</p>	<p>Impact There is no impact on the adoption of HKFRS 15 for ticketing income as the revenue recognised for the ticketing income has been the same under HKAS 18 and HKFRS 15.</p>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

4. SEGMENT INFORMATION

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

The Group has identified the following five reportable segments:

- (a) Enterprise cloud services
- (b) Property development
- (c) Culture and media services
- (d) Internet lifestyle platform*
- (e) Innovative business

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

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of segment's profit or loss that is used by the chief operating decision maker for assessment of segment performance.

- * This segment had gradually transformed itself into a media-driven IT enterprise from a media company. The purpose of this segment is to build an internet lifestyle platform and attract traffic with media content. Its commercial value will be realised through advertising, local lifestyle services and other means. Therefore, the name of the segment was amended from "New media" to "Internet lifestyle platform" to adapt its commercial strategy in 2017.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)**

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (Continued)

The segment results for the six months ended 30 June 2018 and 30 June 2017 are as follows:

	For the six months ended 30 June 2018 (Unaudited)						Total HK\$'000
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	
Revenue							
From external customers	503,883	5,106,057	2,691,571	20,916	288,473	24,755	8,635,655
From inter-segments	4,633	-	28,995	81,461	7,634	10,446	133,169
Reportable and all other segments revenue	508,516	5,106,057	2,720,566	102,377	296,107	35,201	8,768,824
Reportable and all other segments (loss)/profit before income tax	(68,752)	3,291,124	2,801	(180,517)	(363,482)	(56,724)	2,624,450
	For the six months ended 30 June 2017 (Unaudited)						
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	Total HK\$'000
			(Re-presented)				(Re-presented)
Revenue							
From external customers	372,472	5,686,196	1,753,940	5,293	341,362	25,285	8,184,548
From inter-segments	-	-	-	124,991	3,600	16,207	144,798
Reportable and all other segments revenue	372,472	5,686,196	1,753,940	130,284	344,962	41,492	8,329,346
Reportable and all other segments (loss)/profit before income tax	(32,635)	3,075,653	28,471	(150,207)	(192,235)	(1,882)	2,727,165

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (Continued)

Revenue is disaggregated by primary geographical markets and timing of revenue recognition as follows:

	For the six months ended 30 June 2018 (Unaudited)						Total HK\$'000
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	
Primary geographical markets							
Mainland China (domicile)	503,863	5,106,057	2,691,571	–	4,252	24,755	8,330,498
Hong Kong	20	–	–	20,685	40,805	–	61,510
North America	–	–	–	231	133,303	–	133,534
Europe	–	–	–	–	50,554	–	50,554
Australia	–	–	–	–	29,374	–	29,374
Others	–	–	–	–	30,185	–	30,185
Total	503,883	5,106,057	2,691,571	20,916	288,473	24,755	8,635,655
Timing of revenue recognition							
At a point in time	154,005	5,106,057	313,599	489	288,473	–	5,862,623
Transferred over time	349,878	–	2,377,972	20,427	–	24,755	2,773,032
Total	503,883	5,106,057	2,691,571	20,916	288,473	24,755	8,635,655
	For the six months ended 30 June 2017 (Unaudited)						
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	Total HK\$'000
			(Re-presented)				(Re-presented)
Primary geographical markets							
Mainland China (domicile)	372,462	5,686,196	1,753,938	–	939	25,285	7,838,820
Hong Kong	10	–	2	4,590	65,541	–	70,143
North America	–	–	–	703	152,470	–	153,173
Europe	–	–	–	–	49,009	–	49,009
Australia	–	–	–	–	38,594	–	38,594
Others	–	–	–	–	34,809	–	34,809
Total	372,472	5,686,196	1,753,940	5,293	341,362	25,285	8,184,548

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (Continued)

The reportable segment assets and liabilities as at 30 June 2018 and 31 December 2017 are as follows:

	As at 30 June 2018 (Unaudited)						Total HK\$'000
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	
Reportable and all other segments assets	471,656	28,177,448	11,629,679	56,187	1,976,156	1,070,965	43,382,091
Reportable and all other segments liabilities	<u>(295,145)</u>	<u>(16,355,430)</u>	<u>(6,806,876)</u>	<u>(20,360)</u>	<u>(777,558)</u>	<u>(40,488)</u>	<u>(24,295,857)</u>
	As at 31 December 2017 (Audited)						
	Enterprise cloud services HK\$'000	Property development HK\$'000	Culture and media services HK\$'000	Internet lifestyle platform HK\$'000	Innovative business HK\$'000	All other segments HK\$'000	Total HK\$'000
Reportable and all other segments assets	1,187,978	26,853,288	11,014,755	76,538	1,987,794	1,960,132	43,080,485
Reportable and all other segments liabilities	<u>(502,157)</u>	<u>(16,883,989)</u>	<u>(5,977,926)</u>	<u>(16,195)</u>	<u>(833,685)</u>	<u>(154,906)</u>	<u>(24,368,858)</u>

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

	(Unaudited) For the six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Reportable segments revenue	8,733,623	8,287,854
All other segments revenue	35,201	41,492
Elimination of inter-segment revenue	<u>(133,169)</u>	<u>(144,798)</u>
Group revenue	<u>8,635,655</u>	<u>8,184,548</u>
Reportable segments results before income tax	2,681,174	2,729,047
All other segments results before income tax	(56,724)	(1,882)
Bank interest income	32,398	23,699
Other interest income	900	4,537
Finance costs	(110,568)	(60,692)
Depreciation and amortisation	(2,002)	(1,852)
Unallocated corporate expenses	<u>(94,728)</u>	<u>(60,328)</u>
Profit before income tax	<u>2,450,450</u>	<u>2,632,529</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

For the six months ended 30 June 2018

5. REVENUE AND OTHER OPERATING INCOME

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
		(Re-presented)
Sales of properties and car parks	5,048,162	5,686,196
Sales of decoration materials	57,895	–
Enterprise cloud services	503,883	372,472
Property management services	24,755	25,285
Film distribution services	1,508	11,855
Cinema ticketing income	2,073,604	1,350,871
Sales of food and beverages	295,087	195,904
Cinema advertising income	147,704	90,542
Sales and leases of projection equipment	18,512	10,514
Digital media technology services	155,156	94,254
Publication of magazines and advertising income	20,916	5,293
Sales of botanic-based personal care and fragrance products	287,890	338,897
Innovative catering services	583	2,465
	<u>8,635,655</u>	<u>8,184,548</u>

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	(Unaudited)	
	30 June	1 January
	2018	2018
	HK\$'000	HK\$'000
		(Restated)
Trade receivables	<u>501,542</u>	<u>627,625</u>
Contract liabilities	<u>7,064,058</u>	<u>6,988,695</u>

The contract liabilities mainly relate to the advance consideration received from customers. HK\$1,334,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue for the six months ended 30 June 2018 from performance obligations satisfied due to the changes in the estimate stage of completion of some infrastructures.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

For the six months ended 30 June 2018

5. REVENUE AND OTHER OPERATING INCOME (Continued)

(b) Other operating income:

	(Unaudited)	
	For the six months	
	ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Re-presented)	
Bank interest income	98,845	86,612
Other interest income	17,766	7,373
Gain on fair value change on financial assets at fair value through profit or loss	–	1,866
Gain on disposal of property, plant and equipment	203	19
Government grants	41,876	16,091
Rental income	18,091	6,532
Write-back of provision for impairment of other receivables	–	20,845
Realised gain on trading of financial assets at fair value through profit or loss	22,283	–
Dividend income on financial assets at fair value through profit or loss	3,543	6,527
Sundry income	100,867	56,712
	303,474	202,577

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

For the six months ended 30 June 2018

6. PROFIT BEFORE INCOME TAX

	(Unaudited)	
	For the six months	
	ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets other than goodwill*	65,034	14,942
Depreciation of owned assets*	492,183	315,042
Depreciation of leased assets*	9,612	4,741
Costs of sales and services provided	2,703,856	3,285,496
Loss/(Gain) on fair value change on financial assets at fair value through profit or loss		
— Listed equity investments	21,661	(1,866)
— Derivatives	(174)	—
Gain on fair value change on financial liabilities at fair value through profit or loss		
— Derivatives	(29,406)	(21,573)
Write-off of property, plant and equipment*	2,691	9,444
Write-off of inventories*	6,195	—
Write-off of intangible assets other than goodwill*	2,789	—
Write-off of deposits, prepayments and other receivables*	—	20,551
Minimum lease payments	492,602	303,348
Contingent rentals	9,563	9,689
Operating lease charges on land and buildings	502,165	313,037
Operating lease charges on prepaid land lease*	272	251
Provision for impairment of trade receivables	28	96
Provision for impairment of other receivables	16,344	—
Provision for impairment of intangible assets other than goodwill*	1,410	—
Provision for impairment of property, plant and equipment*	844	—
Provision for impairment of goodwill*	76,417	—
Loss on disposal of property, plant and equipment*	164	232
Gain on disposal of non-current assets held for sale	(21,710)	—
Research and development expenses*	61,606	12,594

* included in other operating expenses

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

For the six months ended 30 June 2018

7. INCOME TAX EXPENSE

	(Unaudited)	
	For the six months	
	ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
The income tax expense comprises:		
Current tax		
— Hong Kong Profits Tax		
Tax charge for the period	5,222	6,064
— The People's Republic of China ("PRC")		
Enterprise Income Tax ("EIT")		
Tax charge for the period	798,978	781,708
Over-provision in respect of prior years	(943)	—
— Taxation for other jurisdictions		
Over-provision in respect of prior years	(31)	—
— PRC land appreciation tax ("LAT")		
Tax charge for the period	828,121	858,054
	1,631,347	1,645,826
Deferred tax		
— Credit for the period	(178,498)	(222,495)
	1,452,849	1,423,331

For the six months ended 30 June 2018, Hong Kong Profits Tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit for the period.

For the six months ended 30 June 2018, PRC EIT has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 25% (six months ended 30 June 2017: 25%), unless preferential rates are applicable in the cities where the subsidiaries are located.

For the six months ended 30 June 2018, PRC LAT is levied at progressive rates from 30% to 60% (six months ended 30 June 2017: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2018

8. DIVIDEND

No dividend was paid and declared during the six months ended 30 June 2018. A final dividend in respect of the year ended 31 December 2017 of 0.23 HK cents per ordinary share (for the year ended 31 December 2016: 0.20 HK cents per ordinary share), amounting to a total dividend of approximately HK\$157,885,000 (six months ended 30 June 2017: approximately HK\$137,291,000) was proposed and approved at the annual general meeting of the Company held on 30 May 2018.

9. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the profit for the period attributable to the owners of the Company of HK\$984,438,000 (six months ended 30 June 2017: HK\$1,258,972,000) and on 68,645,535,794 (six months ended 30 June 2017: 68,645,535,794) ordinary shares in issue during the period.
- (b) The calculation of diluted earnings per share is based on the profit for the period attributable to the owners of the Company and adjusted to reflect the interests, unrealised exchange difference and fair value change of embedded derivatives on the convertible and exchangeable bonds and profit or loss attributable to non-controlling interests. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, which is the same as the basic earnings per share calculation.

Diluted earnings per share for the six months ended 30 June 2018 and 30 June 2017 are the same as the basic earnings per share as the convertible and exchangeable bonds outstanding during the periods had an anti-dilutive effect on the basic earnings per share.

10. TRADE RECEIVABLES

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

	(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
0–90 days	291,774	379,390
91–180 days	90,887	223,654
181–270 days	33,207	31,496
271–360 days	115,926	26,653
Over 360 days	48,446	48,538
Trade receivables, gross	580,240	709,731
Less: Provision for impairment of trade receivables	(78,698)	(30,063)
Trade receivables, net	501,542	679,668
Less: Long term trade receivables	(1,185)	(2,370)
Current portion of trade receivables	500,357	677,298

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

For the six months ended 30 June 2018

11. TRADE PAYABLES

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

	(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
0–90 days	1,296,232	1,944,465
91–180 days	98,465	84,741
181–270 days	58,699	21,826
271–360 days	35,376	20,733
Over 360 days	76,742	73,177
	<u>1,565,514</u>	<u>2,144,942</u>
Trade payables	1,565,514	2,144,942
Less: Long term trade payables	(2,943)	(7,757)
	<u>1,562,571</u>	<u>2,137,185</u>
Current portion of trade payables	<u>1,562,571</u>	<u>2,137,185</u>

12. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	HK\$'000
Authorised: At 1 January 2017, 31 December 2017 (audited), and 30 June 2018 (unaudited)	<u>500,000,000,000</u>	<u>5,000,000</u>
Issued and fully paid: At 1 January 2017, 31 December 2017 (audited), and 30 June 2018 (unaudited)	<u>68,645,535,794</u>	<u>686,455</u>

13. BUSINESS COMBINATIONS — UNAUDITED

During the six months ended 30 June 2018 and 30 June 2017, there was no material business combination.

14. EVENT AFTER REPORTING DATE

On 9 July 2018, a wholly-owned subsidiary of the Company completed the acquisition of 浙江視博影業有限公司 (“Shibo”), through the acquisition of the total issued share capital of Shibo. Up to the date of this announcement, the initial accounting for the business combination is incomplete and the assessment of the fair value of Shibo’s assets and liabilities is still in progress.

15. COMPARATIVE FIGURES

Comparative amount of cinema advertising income of approximately HK\$90,542,000 has been reclassified from “Other operating income” to “Revenue” in the condensed consolidated income statement for the six months ended 30 June 2017, to conform with the presentation in the current period’s condensed consolidated income statement.

Comparative amount of impairment loss on trade receivables of approximately HK\$96,000 has been reclassified from “Other operating expense” to “Impairment loss on trade receivables” in the condensed consolidated income statement for the six months ended 30 June 2017, to conform with the presentation in the current period’s condensed consolidated income statement.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to operate in the areas of culture and media services, property development and enterprise cloud services, through Dadi Media (HK) Limited and its subsidiaries, Dadi Cinema Investment Limited and its subsidiaries and Oristar Technology (HK) Limited and its subsidiaries (collectively referred to as “Dadi Media”), Nan Hai Development Limited and its subsidiaries (collectively referred to as “Nan Hai Development”) and Sino-i Technology Limited (stock code: 250) and its subsidiaries (collectively referred to as “Sino-i”), and the businesses have developed steadily. In the meantime, the Group has also commenced new businesses stably through Dadi News Media (HK) Limited together with its subsidiaries (collectively referred to as “Internet Lifestyle Platform”) and Dadi Innovation (HK) Limited together with its subsidiaries (collectively referred to as “Dadi Innovation”).

The Group issued US\$120,000,000 guaranteed senior notes at a coupon rate of 9.75% in May 2018, which was due 2019 and successfully listed on the Hong Kong Stock Exchange. The successful issuance of the notes further expanded the Group’s financing sources, optimized the Group’s debt structure and further enhanced the Group’s ability in respect of capital operation in capital market, thereby supporting the Group’s growth in the future.

During the reporting period, turnover of the Group was approximately HK\$8,635.7 million (for the six months ended 30 June 2017: HK\$8,184.5 million), representing an increase of approximately HK\$451.2 million as compared to the corresponding period of last year. Profit before income tax was approximately HK\$2,450.5 million (for the six months ended 30 June 2017: HK\$2,632.5 million). After deducting income tax expense of HK\$1,452.8 million, profit for the period was approximately HK\$997.6 million (for the six months ended 30 June 2017: HK\$1,209.2 million). The net assets attributable to the owners of the Company were approximately HK\$6,562.5 million (31 December 2017: HK\$6,143.2 million), representing a net asset value of approximately HK\$0.096 (31 December 2017: HK\$0.089) per share.

Culture and Media Services

Business Review

During the reporting period, turnover of the culture and media services segment was approximately HK\$2,691.6 million (for the six months ended 30 June 2017: HK\$1,753.9 million). Profit before income tax was approximately HK\$2.8 million (for the six months ended 30 June 2017: HK\$28.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Culture and Media Services (Continued)

Cinema Operation

During the reporting period, the national box office in China amounted to RMB29.969 billion (excluding service charges), representing a year-on-year increase of 17.46%. The admission of audiences was approximately 900 million, representing a year-on-year increase of 15.34%. There are 8 films with box office more than RMB1 billion, including 5 domestic films, and 38 films with box office over RMB100 million. During the reporting period, the cinema business of the Group achieved a box office revenue (tax included) of RMB1,745 million (excluding service charges), representing an increase of approximately 40.94% as compared to corresponding period in 2017 (excluding box office (tax included) of City Entertainment Corporation Limited (“City Entertainment”) for the corresponding period as the acquisition was completed on 28 July 2017). The main reason for the increase was the inclusion of box office (tax included) income of City Entertainment in the first half of 2018 and the box office growth brought about by the improvement of cinema operating efficiency, contributing to approximately 5.82% of the national box office receipts. That consolidates its status of ranking second among cinema investment and management companies throughout China. Its admission of audiences of 53.13 million marked another record high. As at 30 June 2018, the cinema business of the Company had an aggregate of 476 cinemas with 2,863 screens operating in 29 provinces and 179 cities in China. In addition, there are approximately 320 cinemas contracted to be opened but not yet to be in operation. During the reporting period, the Group continued to optimize the income structure and management model of City Entertainment, further improve its strategic layout and adjust its organizational structure.

Riding on the scale of cinema operation, the Company focused on the long-term development of the industry with further deepening and implementation of forward looking “Film +” strategy, which is applied in diversified scene model, set up a number of business segments such as innovative catering, leisure and entertainment, live performances, etc. to form a cohesive professional operation team, creating an eco-system of cinema experience integrated with diversified operation. In respect of the performance, the Group officially launched “Music Me Live (音樂me現場)”, which combined live music with cinemas, allowing interaction between offline performance and online fans and bringing diversified entertainment experience to the audience. At the same time, the Group has also stepped up its efforts in innovation and investment in high-margin businesses, such as film related products, self-catering and multi-brand cross-industry alliance, so as to optimize income structure and increase operating profit. Through these initiatives, the quality resources of all parties have been further integrated and the membership system has been constantly developed.

On this basis, the Company continued to boost its efforts in market expansion based on its optimistic judgment on the development of film market in China in future. Its high-end cinema brands of iFree Cineplex and City Entertainment continued to strengthen the expansion in first and second-tier cities, while further widening the market layout in third, fourth and fifth-tier cities.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Culture and Media Services (Continued)

Cinema Operation (Continued)

In addition, the Group has also expanded its advertising business to other figurative offline entertainment scenes through the cinema-driven marketing model, enhancing brand influence and economic benefits and further accumulating advertising users. As for advertising business development, the Company has further strengthened the professional advertising sales team building, provided professional cinema entertainment integrated marketing solutions for three types of core customers such as national customers, regional customers and business district customers, comprehensively developed the advertising customer market and promoted the improvement of advertising business performance. As for cinema advertising products, the Company continued to innovate and upgrade on the levels of interconnection, interaction, experience and content, setting a benchmark for advertising products in the cinema industry.

Dadi Film

Since 2017, the film market in China has returned to a rational level and become mature. In 2018, it entered the era of driving box office by content. With the steady growth of box office of Chinese movies, the film industry in China underwent a gradual and in-depth structural optimization, presenting an overall development trend of “big market, positive energy, new layout”.

To go with the trend, Dadi Media (HK) Limited and its subsidiaries (collectively referred to as “Dadi Film”) under Dadi Media continued to develop content, launch series of products as main producer based on adequate market research and data analysis and purposefully introduce quality films with Chinese elements and international production standards.

During the reporting period, in combination with its own team characteristics and riding on the synergies with the Group’s other segments in different industries, the Company’s film content team actively explored and focused on suitable film categories for its own development and put in a great deal of efforts in this respect, so as to explore core competitiveness and produce quality content. The team secured content reserves and development for relevant film categories through self-development, copyright procurement, cooperation with external established creative teams, etc. At the same time, Dadi Film participated in the investment of a number of movies with good reputation and high box office. During the reporting period, the distribution team was involved in the distribution and promotion of three movies in the capacity of main distributor, as well as the distribution and promotion of a film in the capacity of co-distributor.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Culture and Media Services (Continued)

Dadi Film (Continued)

As for animation content business, the Company focused on IP (a type of intellectual property which mainly refers to the copyright of literary and artistic works) reserves, operation and licensing regarding quality content in such areas as comics, 2D animation and teen animation under the brand of “Magical Kingdom Anime”. As for IP content, the team built up its knowledge by way of self-development, commissioned development, copyright procurement, etc. During the reporting period, the team has cooperated with outstanding content production partners, such as SAMG Animation (a company in South Korea) and Genco (a company in Japan), and invested in a number of TV series and films, thus providing high quality work for the operation of IP content library. As for the IP content operation, according to the differences in the audience of the content, the channels are classified to pursue operational efficiency and value maximization. During the reporting period, the team exclusively distributed new animation series of “Magical Girl Ore (魔法少女 俺)” and “Rokuhodo (鹿楓堂)” on Bilibili, a website that gathers animation fans, as a new attempt to refine the operation of animation content. Besides, the self-developed comic mobile APP — Man Ying Comics (漫影漫畫) was officially launched, which established a platform for refined operation of comic content.

Oristar

After a decade of meticulous efforts, products of Oristar Technology (HK) Limited and its subsidiaries (collectively referred to as “Oristar”) are well received by the market. During the reporting period, Oristar participated in facility construction for approximately 8,500 halls, and entered into technology service contracts with over 1,400 cinemas, covering 30 provinces, autonomous regions and municipalities across China.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Culture and Media Services (Continued)

Oristar (Continued)

During the reporting period, Oristar launched the platform of “Huiyingyun (慧影雲) with the big data of cinema users as the core, providing cinemas with comprehensive product development matrix in three major scenarios of marketing, operation and security, and setting up scene marketing channels and data platform to provide comprehensive services.

Oristar continued to endeavor in laser screening business and launched the first domestic self-developed 6P RGB laser projection system (6P RGB激光放映系統). The fast-growing cinema industry in China has commanded higher requirements in terms of screening quality and technical services. To respond to the development trend of the industry, Oristar has proposed “high-quality screening service” — integrated solution for cinemas with laser screening, and continued to provide one-stop integrated solutions and services for cinemas.

Prospects

In the first half of 2018, the national gross box office amounted to RMB29.969 billion (excluding service charges), representing a year-on-year increase of 17.46%. The records in film industry keep refreshing. The box office of domestic films amounted to RMB17.930 billion, representing a year-on-year increase of 81.9%, accounting for 59.82% of the total box office, which dominates the market. Thanks to the enhancement of the quality of domestic films and the increase in the number of screens, the box office of films keep rising and become a key driver of the steady growth of the global film market. The Group will capitalize on two key drivers of urbanization development and consumption upgrading by taking users as the core, adopting multi-brand expansion strategies and standardized business model, using international hi-end screening equipment, intensifying the knock-on effects of the brand and continuously increasing brand awareness and market share.

As for the cinema operation business, the Group will continue to deepen the “Film +” strategy, devote more resources to diversified fields, such as live performances, leisure and recreation, derivatives and catering, so as to create a diversified scene model for the cinema, improve profitability and economic efficiency. Meanwhile, the Group will make use of the OMO (online and offline integration) transformation to pave the way for online and offline operations of cinemas, promote member interests, enhance member loyalty, carry out precise marketing with big data and self-developed ticketing platform, and establish the experience-oriented cinema ecosystem under cross-industry operation with core of “film culture group”.

Thanks to the increases in the number of cinema advertising products, the level of digitalization, the recognition of the market towards cinema media and the number of cinemas that can screen advertisements, the Group will have stronger scale economies effect and competitive advantages in the cinema advertising market, which will have a positive impact on the brand awareness and operating results of the Company’s advertising business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Culture and Media Services (Continued)

Prospects (Continued)

As for the content, in the second half of 2018, Dadi Film will continue to develop strategic partnership with high-quality creative teams in the industry with strict budget control and risk control in mind, and make use of quality resources to enrich the existing film lists. At the same time, the Group will conduct in-depth market research and marketing strategy research, and direct the Company's content development and investment strategy based on the market analysis, audience analysis, marketing strategy analysis, etc., so as to launch market-competitive film products efficiently.

As for the animation content, the team plans to cooperate with well-established animation companies and comic studios in China and overseas countries to jointly develop various projects, including animation series of “Katana Maidens ~ Toji No Miko (刀使巫女)”, “Dies irae”, “Miniforce X (迷你特工隊)” and comics of “Celestial Track of Peng Lai (蓬萊仙師)”, and continue to explore and refine the operation model in accordance with the characteristics of the respective IP content. In the future, the Group will strengthen the connection between comics and animation films and series, strive carry out IP content operation and licensing on all-round, multi-angle and international basis and fully control and explore the intrinsic value of IP.

As for the cinema screening service, regarding the fast-growing cinema industry in China, Oristar will actively promote the popularization of the “Huiyingyun” platform, so as to enhance the core competitiveness of the cinemas and improve its operational efficiency and profitability. The Company upholds its faith in “high quality screening service” to provide quality one-stop products and services for cinemas.

Property Development

Business Review

During the reporting period, revenue of this business segment was approximately HK\$5,106.1 million (for the six months ended 30 June 2017: HK\$5,686.2 million) and profit before income tax was approximately HK\$3,291.1 million (for the six months ended 30 June 2017: HK\$3,075.7 million). Profit for the period was mainly attributable to the continuous recognition of the income of Phase 3 of “The Peninsula” during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Property Development (Continued)

Business Review (Continued)

“The Peninsula” Project in Shenzhen

“The Peninsula” project of Nan Hai Development adheres to provide quality products with exquisite decorations. The sale of Phase 3 of “The Peninsula” was launched on 9 April 2016 in Shekou, Shenzhen. As of 30 June 2018, accumulated sales amounted to RMB20.29 billion. Up to 79,000 sq.m. in Phase 4 of “The Peninsula” will be made available for pre-selling in the second half of 2018. The construction has progressed steadily with established outlook. The project also has commercial area of approximately 55,800 sq.m., which is held by the Group and will be commenced in 2019. It is expected to operate a number of businesses including smart hotel, intelligent business and sharing office.

“Free Man Garden” Project in Guangzhou

The “Free Man Garden” project of Nan Hai Development in Guangzhou is located at the junction of Baiyun District and Huadu District, which not only enjoys the comprehensive ancillary facilities in Baiyun District, but also the favorable factors brought by the airport economic area. There are a total of eight phases in “Free Man Garden”, of which Phase 1, Phase 2, Phase 4 and Phase 7 have been sold out before 2018. The remaining Phase 5, Phase 6 and Phase 8 will be saleable, while Phase 3 will be self-owned for commercial use. Phase 4 obtained the certificate of acceptance for the planning of construction project (規劃驗收合格證) in December 2017 and is expected to be delivered in September 2018. Phase 7 obtained the certificate of acceptance for the planning of construction project (規劃驗收合格證) in June 2018. Phase 5 and Phase 6 are under construction in full swing and have been capped at present with the saleable area of approximately 223,200 sq.m., which is expected to commence pre-selling at the end of 2018 or the beginning of 2019.

Prospects

There were challenges in the real estate industry in 2018. Domestic regulation continued to increase, limiting purchase, loan and price; limited funding sources and rising capital costs have also led to cautious expansion of property developers. Nan Hai Development will actively recoup sales proceeds from pre-selling activities, while developing premium projects in various forms in China to achieve stable and sustainable development of the real estate business.

The Group is committed to green building and environmental-friendly technology, focusing on stereoscopic greening, key technology research and development as well as commercial transformation in the field of ecological construction. Its subsidiary 深圳市翠築科技綠化工程有限公司 (Shenzhen Cui Lu Technology Engineering Company Limited*) will soon launch the first vertical greening system with international technology level in the country, solving a lot of technical problems in stereoscopic greening and will be presented for the first time in the “Free Man Garden” project in Guangzhou in the second half of 2018.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Enterprise Cloud Services

Business Review

By virtue of the comprehensive cloud computing infrastructure services, e-commerce and total “Internet+” solutions offered for corporate clients in the PRC, this segment spent unremitting efforts on the development of digitalization and smart operation. Leveraging on its unremitting efforts, this segment has successfully established an outstanding national business and localized service network in the industry, so as to effectively address “the last kilometer” problems from service providers to corporate clients. In the meantime, in respect of product development, after prolonged exploration and promotion, this segment successfully launched a series of leading cloud services corporate digitalization and transformation in the industry. 中企動力科技股份有限公司 (CE Dongli Technology Company Limited, “CE Dongli”)’s portal business and 北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited, “Xinnet”)’s cloud computing services have also commenced stably, which played a significant role in promoting the growth of the number of users.

During the reporting period, with key subsidiaries CE Dongli and Xinnet as its main business entities, more efforts were continuously made in the development of cloud services for corporate digitalization and smart operation by providing comprehensive IaaS (Infrastructure as a service), cloud application, corporate e-commerce services, “corporate digitalization transformation” total solutions and big data-based business intelligence cloud service to the PRC market. During the reporting period, turnover of this segment was approximately HK\$503.9 million (for the six months ended 30 June 2017: HK\$372.5 million), representing an increase of approximately 35.3% over the corresponding period of last year. Loss before income tax was approximately HK\$68.8 million (for the six months ended 30 June 2017: HK\$32.6 million).

CE Dongli

With 19 years’ experience of being a services provider for enterprises in the PRC, CE Dongli has successfully established a corporate “Internet+” product operating system as well as an extensive business and localized service network, providing corporate digitalization and operation solutions. During the reporting period, CE Dongli continued to strengthen the management of its direct branch offices and further enhanced its localized service capacity through the establishment of customer care divisions in various branches across the PRC. In particular, the enhancement in service capacity of the “the last kilometer”, which is crucial to enterprises, would make such services closer to user needs. In addition to providing digitalization and operation solutions for SMEs, CE Dongli is also constantly exploring new market opportunities. During the reporting period, CE Dongli launched a high-end customized brand CE Ultimate (中企高呈), which is committed to providing high-end customers with a continuous “Internet +” digitalization and smart operation flagship service, shaping efficient Internet integrated marketing communications, with a view to creating brand-new business value. Since its inception, CE Ultimate has provided a full range of smart services of Internet information for more than a dozen Fortune Global 500 companies and approximately 100 Fortune 500 companies in China. In the meantime, in respect of research and development of new products and supported by the “middle structure of business (業務中台)”, more emphasis was put on the needs of different industries and clients under different stages so as to provide customized products and industry solutions to meet the needs of enterprises or certain specific industries.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Enterprise Cloud Services (Continued)

Business Review (Continued)

Xinnet

During the reporting period, Xinnet continued its cloud services such as IaaS, domain name hosting and synergistic communication for SMEs and micro-enterprises through internet online and distributor channels established across the PRC. In 2017, after Xinnet officially launched “Arrow Cloud (箭頭雲)”, its self-developed new generation cloud computing product, in respect of research and development, the Group continued to develop a cloud business platform and operation platform around Arrow Cloud products, effectively ensuring the strategic implementation of the new cloud computing business, and improving the operational efficiency while bringing better experience to customers. On this basis, Xinnet regards its own cloud products as its core and provides users with more extensive value-added products and a more comprehensive cloud service experience through the application and service market.

Prospects

The management of this segment considers that enterprises in the PRC will continue to increase its investment in digitalization and transformation, and business intelligence services based on big data will be developed. Although it still takes time for market ramp-up and promotion, cloud services for corporate digitalization and smart operation and industrial solutions will enjoy enormous room for development. Going forward, this segment will continue to improve its ground services capability by regarding users as its core, relying on the industry and making full use of Internet, which allows it to quickly respond to the needs of enterprises and provide timely solutions to issues. Meanwhile, this segment will enhance its overall operational capability and online services capability. In respect of product application, with an in-depth understanding of the industry’s business scenarios, the Group will quickly respond to the needs of business scenarios in different industries based on the cloud product model and the “middle structure of business (業務中台)”. Furthermore, this segment will also increase its capital investment in data centre, cloud computing technology, automatic operation and maintenance technology as well as big data technology, and enhance its overall technical core competence to further develop and optimize its products and services for the enterprise’s digital intelligent business scenario.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Internet Lifestyle Platform

Business Review

There are two business divisions under the Internet lifestyle platform, namely “HK01” and “Duowei Media”. During the reporting period, turnover of the Internet lifestyle platform was approximately HK\$20.9 million (for the six months ended 30 June 2017: HK\$5.3 million). Loss before income tax was approximately HK\$180.5 million (for the six months ended 30 June 2017: HK\$150.2 million).

Based in Hong Kong, “HK01” has more than 750 employees and is a pioneer of innovative media, aiming to create an Internet lifestyle platform for Hong Kong people. By hosting or participating in activities such as market, marathon, live concerts, etc., we will build a user link and launch a number of lifestyle platform services including payment, e-commerce, membership and social networking, etc. to build a better life in Hong Kong. During the reporting period, active users of webpages and mobile applications reached 900,000 at the peak, and active users of mobile applications increased by nearly 90% as compared with last year. In respect of views, webpages have doubled, while mobile applications have grown by 80%. With high-quality news reports, “HK01” has won many awards in the news media awards such as the the SOPA Award for Public Service Journalism.

“Duowei Media” adopts the dual-centre development strategy of news and operations to implement the concept of “data-driven operation, operation-driven content”. During the period, Duowei Media webpage views reached 120 million, representing a year-on-year increase of 60%, while users increased by about 20% as compared with last year. As of the end of June 2018, the number of members of “Duowei Media” has reached 58,000, representing an increase of more than 20% as compared with last year.

Prospects

In the future, we plan to integrate the businesses of “HK01” and “Duowei Media” with a view to enhancing synergies, actively develop innovative new products and fully explore user value.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Innovative Business

Business Review

During the reporting period, turnover of innovative business was approximately HK\$288.5 million (for the six months ended 30 June 2017: HK\$341.4 million) and loss before income tax was approximately HK\$363.5 million (for the six months ended 30 June 2017: HK\$192.2 million), of which one-off loss due to closure and provision for impairment was totaling HK\$95.3 million.

During the reporting period, Crabtree & Evelyn will continue to deepen its reforms, and a number of measures in sales strategy, product planning and new product development, investment in informatization, optimization of supply chain, etc. are steadily advancing.

In respect of sales strategies, Crabtree & Evelyn has secured its profitability through stable pricing policies and discount control measures. Retail gross margin has begun to increase steadily in certain countries. New product research and development progressed smoothly, and product safety and stability testing was carried out in an orderly manner. It is expected that in the 2019, there will be three series of 58 new products to meet the diverse needs of customers. Thanks to the continuous deepening of investment in informatization and optimization of supply chain, the central distribution centre of Crabtree & Evelyn in the Asia Pacific region has been put into use during the reporting period, bringing superior product distribution capabilities to the Asian market, and improving the flexibility of delivery to our distributors and subsidiaries.

Crabtree & Evelyn is committed to developing internet sales platform and third-party online shopping malls. As of 30 June 2018, online shopping platforms of Crabtree & Evelyn in the United Kingdom, Australia, Singapore and Malaysia have been launched, and internet sales platforms in other countries will gradually continue to be launched in the second half of 2018. In March 2018, Crabtree & Evelyn officially entered the PRC market through Tmall World and ranked among the top sales in the 618 Tmall hand cream category. With the development of the online sales platform, the Group reassessed and reviewed offline stores with poor operating and financial performance, and screening out certain stores for closure, which will have a positive impact on improving long-term profitability.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Innovative Business (Continued)

Prospects

In the future, Crabtree & Evelyn will provide customers with a comprehensive channel, online and offline integrated operation and consumption experience on a global scale, forming a user-centric and exclusive service system, and continue to optimize membership system.

Financial Resources and Liquidity

The Group continued to adopt prudent funding and treasury policies. As at 30 June 2018, net assets attributable to the owners of the Company amounted to approximately HK\$6,562.5 million (31 December 2017: HK\$6,143.2 million), including cash and bank balances of approximately HK\$12,839.6 million (31 December 2017: HK\$13,069.8 million) which were mainly denominated in Renminbi, Hong Kong dollars and US dollars. As at 30 June 2018, the Group's aggregate borrowings were approximately HK\$24,452.4 million (31 December 2017: HK\$24,156.0 million), of which approximately HK\$13,023.3 million (31 December 2017: HK\$12,705.3 million) were bearing interest at fixed rates while approximately HK\$11,429.1 million (31 December 2017: HK\$11,450.7 million) were at floating rates. The Group currently has not taken any interest rate hedge.

As at 30 June 2018, the gearing ratio of the Group, which is calculated as the net debt divided by the adjusted capital plus net debt was approximately 60.52% (31 December 2017: 60.64%).

As at 30 June 2018, the capital commitment of the Group was approximately HK\$1,747.7 million (31 December 2017: HK\$3,104.6 million), of which approximately HK\$44.6 million would be used for the renovation of the owned properties, approximately HK\$384.5 million would be used as capital expenditures for the expansion of its cinema business, approximately HK\$1,308.6 million would be used for property development, and approximately HK\$10.0 million would be used for other purposes.

As at 30 June 2018, the Group's contingent liabilities were approximately HK\$20.0 million (31 December 2017: HK\$19.5 million) in connection with the guarantees given to secure credit facilities and guaranteed returns.

As at 30 June 2018, certain buildings, other property, plant and equipment, properties under development and completed properties held for sale, investment properties and bank deposits with a total net carrying value of approximately HK\$12,073.2 million (31 December 2017: HK\$12,025.6 million) were pledged to secure the credit facilities granted to the Group. In addition, trading securities with a carrying value of approximately HK\$300,000 (31 December 2017: HK\$300,000) and certain shares of several subsidiaries were pledged and bank accounts were charged for securing the Group's credit facilities.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Exposure to Fluctuation in Exchange Rates

The majority of the Group's borrowings and transactions were primarily denominated in US dollars, Renminbi and Hong Kong dollars. Both the operating expenses and revenue were primarily denominated in Renminbi and Hong Kong dollars. Uncertainties in global economic development are expected to warrant a fluctuation in Renminbi. The Group's reported assets, liabilities and results may be affected by the Renminbi exchange rates. During the reporting period, fluctuation in Renminbi exchange rates affected the assets and liabilities translation from Renminbi to Hong Kong dollar in financial reporting of the Group, and the Group will keep reviewing and monitoring the fluctuation in exchange rate between Renminbi and Hong Kong dollar. For the funding in US dollar, as Hong Kong dollar are adopted as the reporting currency of the Group, the Group has only a rather slight risk of exchange rate fluctuations owing to the linked exchange rate system that pegs Hong Kong dollar to US dollar. The Group has partially managed this risk through cross currency swap. The Group proactively seeks management measures to minimize the impact arising from risks and uncertainties as far as practicable, and considers using foreign exchange hedging instruments (if appropriate) from time to time, to minimize the risk exposure arising from changes in Renminbi exchange rates, and under practicable circumstances, actively chooses the type of currency for assets and liabilities according to the Group's prejudgment of currency trend.

Employees and Remuneration Policy

The Company employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave, etc. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board of the Company. In general, salary review is conducted annually. As at 30 June 2018, the Group had approximately 22,496 employees (30 June 2017: 18,944 employees). The total salaries of and allowances for employees for the six months ended 30 June 2018 were approximately HK\$1,216.5 million (for the six months ended 30 June 2017: HK\$864.7 million).

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

Events Subsequent to Reporting Period

Save as disclosed in note 14 of this announcement, there was no other significant event after the reporting period up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 17 May 2018, Top Yield Ventures Limited (a wholly-owned subsidiary of the Company) issued the US\$120,000,000 guaranteed senior notes with an interest rate of 9.75% due 2019. The notes are listed on the Hong Kong Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2018.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, except for the deviation mentioned below:

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

Since 12 February 2018, the Company has rectified the previous deviation concerning CG Code Provision A.2.1 by the appointment of Ms. Liu Rong as the CEO with effect from 12 February 2018. Prior to 12 February 2018, the role of CEO was also performed by Mr. Yu Pun Hoi, the chairman of the Company. The Board believed that vesting the roles of both chairman and CEO in the same person provided the Company with strong and consistent leadership, and allowed for effective and efficient planning and implementation of business decisions and strategies. By appointing Ms. Liu Rong as the CEO with effect from 12 February 2018, the Company complied with the requirements under CG Code Provision A.2.1 since 12 February 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code as set out in Appendix 10 to the Listing Rules throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises all the independent non-executive directors of the Company, namely Mr. Lau Yip Leung, Mr. Xiao Sui Ning and Mr. Ho Yeung Nang. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, the unaudited interim results for the six months ended 30 June 2018, and discussed the financial control, internal control and risk management systems.

SCOPE OF WORK PERFORMED BY AUDITOR

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 have not been audited but have been reviewed by the Company's auditor, BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

This results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.nanhaicorp.com). The 2018 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

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

Hong Kong, 29 August 2018

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

Executive directors:

Mr. Yu Pun Hoi

Ms. Liu Rong

Non-executive directors:

Mr. Lam Bing Kwan

Mr. Lung King Cheong

Independent non-executive directors:

Mr. Lau Yip Leung

Mr. Xiao Sui Ning

Mr. Ho Yeung Nang