九號運通有限公司

Nine Express Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 00009

2016 Annual Report

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Corporate Information

Board of Directors

Executive Directors:

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

Independent Non-executive Directors:

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

Company Secretary

Mr. Chan Chun Fat

Solicitors

Fairbairn Catley Low & Kong
23/F Shui On Centre
6-8 Harbour Road
Hong Kong

Auditor

RSM Hong Kong
Certified Public Accountants
29/F, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
Dongguan Rural Commercial Bank Company Limited
Bank of China (Hong Kong) Limited

Audit Committee

Mr. Tang Ping Sum *(Chairman)*
Mr. Tsui Pui Hung
Mr. Chiu Sin Nang, Kenny
Mr. Gao Hong

Remuneration Committee

Mr. Chiu Sin Nang, Kenny *(Chairman)*
Mr. Tang Ping Sum
Mr. Tsui Pui Hung
Mr. Gao Hong

Nomination Committee

Mr. Tsui Pui Hung *(Chairman)*
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny
Mr. Gao Hong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 4101, 41/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors" each a "Director") of Nine Express Limited ("Nine Express" or the "Company"), I am pleased to present you with the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 ("FY 2016" or the "Year Under Review").

Due to continuing international political instability, a sluggish global recovery and China's new state of economy of the so called "new normal", we faced greater challenges from the global economy over the past year. Nevertheless, the Group believes in "with crisis comes opportunity" and has been actively seeking various operational changes over the past year by researching and exploring new business opportunities that offer high growth potential and are in line with the Group's overall objectives.

In order to better represent the Group's business diversification strategy, our name was officially changed from "Cheung Wo International Holdings Limited" to "Nine Express Limited" in May 2016. Our new name represents a clearer corporate positioning and image, highlighting the Group's determination to develop a more diversified business portfolio. Keyne Holdings Limited ("Keyne") and Full Dragon Group Limited ("Full Dragon") entered into a share purchase agreement on 22 November 2016, pursuant to which, Keyne purchased 26% interest in the Group and has become one of the substantial holder of the Company. This along with the appointment of two new Directors as a new management team reflects a strong commitment to making strategic changes to the Group's future development.

The Group's diversification strategy includes entering into the environmental energy-saving technology business. In March 2016, the Group successfully acquired 49% equity interest in Ever-Grand Development Limited ("Ever-Grand"), the first centralised heat supply company in Dongguan City, and made its debut into this sector, seizing on the huge market potential it offers. Faced with various environmental issues caused by the meteoric rise of China's economy and industrialisation such as global warming and smog alerts, energy-saving initiatives have been a primary focus when Chinese Government draws up policies addressing the environment. With this in mind, the municipal government of Dongguan City has launched a series of sustainable development policies such as phasing out high-polluting industrial boilers and advocating the implementation of centralised heat supply. The acquisition of Ever-Grand in order to develop the Group's environmental energy-saving technology business is in harmony with the developmental direction of the Chinese Government. Although the pace of development with this project was slower than expected during the year under review, the Group remains optimistic that this project will be able to contribute solid, sustainable returns in the future.

The Group will continue to explore other suitable sectors for investment or business development in order to stimulate growth. At the same time, we will implement strategies to maximise returns and improve our competitiveness amidst global economic cyclical adjustments.

On behalf of the Board, I would like to express my sincere gratitude to all staff members for their dedication and contributions to the Group during this critical period of change. In addition, I wish to thank all of our shareholders for their support and patience throughout this transitional recovery period.

Wan Peizhong
Chairman

Management Discussion and Analysis

Financial Highlights

For the year ended 31 December 2016, the Group recorded a turnover of approximately HK$23,047,000 (2015: HK$24,422,000), accounting for a decrease of approximately 5.6%. Loss attributable to the owners of the Company was approximately HK$328,714,000 (2015: HK$643,538,000).

For the year ended 31 December 2016, property rental income was stable and contributed approximately HK$19,303,000 (2015: HK$20,112,000) to the total turnover while film distribution and processing businesses accounted for approximately 16.2% (2015: 17.6%) of the total turnover, amounted to approximately HK$3,744,000 (2015: HK$4,310,000).

Loss attributable to shareholders was approximately HK$328,714,000 (2015: HK$643,538,000). Basic loss per share was approximately HK$14.54 cents (2015: HK42.34 cents). The Board does not recommend dividend payout for the year ended 31 December 2016 (2015: Nil). As at 31 December 2016, cash and cash equivalents were approximately HK$24,010,000 (2015: HK$57,175,000).

Business Review

During the Year under Review, the Group continued to focus on (i) property and hotel development (the "Xiangtan Project") in Xiangtan, Hunan Province, (ii) property rentals (the "Chengdu Project") in Chengdu, Sichuan Province, (iii) film distribution and processing business, and (iv) centralised heat supply business.

(i) Xiangtan Project

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

During the year ended 31 December 2016, the construction work on the five-star hotel has already been completed. However, given that the adjacent recreational facilities are still under construction and to avoid unnecessary spending and depreciation, the hotel decoration work has not started yet. Based on the construction progress of the nearby recreation facilities, we expect that the hotel will officially begin operations in the first half of 2019.

During the year ended 31 December 2016, the Group completed construction of low density residential units covering an area of over 20,000 sq. m. and obtained a pre-sale permit for 24,708 sq. m. As of 31 December 2016, the Group had pre-sold 53 villas with a total area of 11,495 sq. m., comprising 41 duplex villas, and 12 semi-detached villas. The average price per sq. m. of duplex villas and semi-detached villas were sold ranged from approximately RMB4,400 to RMB5,600 and approximately RMB7,800 to RMB10,700 respectively. The delivery of the properties to buyers will take place in 2017, therefore the total financial contributions will only be reflected in our 2017 financial results.

In 2017, the Group will start construction of detached villa units, and will obtain pre-sale permits accordingly, generating cash flow returns for the Group.

On 5 August 2016, Cheung Wo (Hunan) Property Limited ("Cheung Wo (Hunan)"), a wholly owned subsidiary of the Company engaged in the property and hotel development business, entered into a subscription agreement (the "Subscription Agreement") with Silver Ridge International Limited (the "Subscriber"), pursuant to which, Cheung Wo (Hunan) agreed to allot and issue the subscription shares at the subscription price of HK$200,000,000. Upon completion, the Subscriber would be interested in 63% of the enlarged issued share capital of Cheung Wo (Hunan); and the Company's interest in Cheung Wo (Hunan) would be diluted to 37%, representing a decrease of 63%.

The required conditions under the Subscription Agreement were not fulfilled or waived on or before the long stop date stated in the agreement, i.e. 31 December 2016 (the "Long Stop Date"), therefore, the Subscription Agreement was terminated.

(ii) Chengdu Project

For the year ended 31 December 2016, the Group's five-storey shopping centre located in Jinniu District, Chengdu, remained almost fully leased and occupied, becoming the main steady income driver for the Group. Revenues of approximately HK$19,303,000 from property rental, were similar to the total recorded for the year ended 31 December 2015.

(iii) Film Distribution and Processing Business

For the year ended 31 December 2016, film distribution and processing business recorded revenues of approximately HK$3,744,000, a decline of approximately 13.1% compared to last year. Because this sector will not serve as the core business driver of the Group in the future, less resources will be directed into its operations, and instead more focus will be placed on our new business sectors with a view to providing greater benefits for the Group and its shareholders. The loss before income tax narrowed from approximately HK$17,530,000 to approximately HK$16,150,000 in FY2016 as the Group restructured its existing film group for strategic planning purposes.

While maintaining its operations and development of this sector, we will continue to identify new viable opportunities to improve this sector's profitability. In the meantime, the Group will actively explore new potential business opportunities in order to diversify its business portfolio.

Management Discussion and Analysis

(iv) Centralised Heat Supply Business

The Group completed the acquisition of 49% equity interest in Ever-Grand in March 2016, at a consideration of HK$882,000,000, in which HK$60,000,000 was paid in cash and HK$822,000,000 was settled by issuing convertible notes. Ever-Grand holds 80% equity interest in Dongguan City Dejin Energy Technology Company Limited and Dongguan City Dejin Thermal Power Company Limited, which is the first and also the only centralised heat supply company in Dongguan City, mainly engaged in energy-saving environmental protection projects by providing steam and heat in Dongguan City to industrial customers in various areas of Humen Town and Changan Town of Dongguan City.

During the year ended 31 December 2016, the Group entered into steam supply contracts with 20 industrial customers and completed the construction of approximately 3.2km of steam transmission pipelines in Humen Town that have fully begun operations and generated revenues of approximately HK$15,327,000 for Ever-Grand. However, since we have yet to receive a financial loan during the year ended 31 December 2016, the construction of steam transmission pipelines has been delayed, which has affected relevant financial returns.

As at 31 December 2016, an independent valuation was carried out to determine the recoverable amount of 49% equity interest in Ever-Grand, for the purpose of assessment of asset impairment in complying with HKAS 36. The recoverable amount was determined at approximately HK$891,420,000, which was approximately 33.5% to the Group's total assets of approximately HK$2,662,260,000. The management of Ever-Grand has adopted discounted cash flow approach under income approach as the valuation methodology. The major inputs were used in the valuation process: (i) the approved budgeted future cash flows of Ever-Grand for the financial periods from 2017 to 2022; (ii) pre-tax discount rate of 19.4%; and (iii) terminal growth rate of 3%.

As a result of the delay of the pipeline deployment plan, the recoverable amount of approximately HK$891,420,000 falls below the carrying amount of the investment of approximately HK$1,040,094,000, therefore, the Directors considered to recognise an impairment loss of approximately HK$148,674,000 for such investment.

The total length of the steam transmission pipelines in Human Town and Changan Town provided by the project company is expected to reach approximately 42km and 60km respectively. The Group believes that the pipelines construction work will be rolled out in different phases in a few years following the fund-raising for the capital investment. Therefore, the Group is optimistic about the prospects for the centralised heat supply business.

Financing Activities

On 30 March 2016, the Company had completed the acquisition of 49% of the entire issued capital in Ever-Grand which is engaged in the centralised heat supply project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town and Changan Town of Dongguan City, Guangdong Province respectively.

On 31 March 2016, a Company's subsidiary extended the repayment period of a loan agreement with a PRC bank, extending the due date from 2018 to 2021, for an outstanding term loan of RMB189,000,000 which is interest bearing at the market rate. Under such loan agreement, the borrowing was secured by the land use right and the construction in progress of the hotel development project, situated in Xiangtan, Hunan (which were held for the hotel development project) and guaranteed by certain related parties of the Company.

On 13 July 2016, Upbest Securities Company Limited (the "Placing Agent") and the Company entered into the placing agreement (the "Placing Agreement") pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a best effort basis, up to 494,232,500 placing shares at the placing price of HK$0.323 per placing share and it was expected that the net proceeds from the placing would be approximately HK$153,900,000. On 3 August 2016, the Company and the Placing Agent agreed to terminate the Placing Agreement by entering into the deed of termination to terminate the Placing Agreement with immediate effect.

On 26 July 2016, a Company's subsidiary entered into a loan agreement with a PRC bank, for a period of 12 months, for the term loan of RMB250,000,000 which is interest bearing at the market rate. Under such loan agreement, the borrowing was secured by the land situated in Xiangtan, Hunan (which was acquired by the Group in October 2013 for the residential development project) and guaranteed by certain related parties of the Company.

On 5 August 2016, Cheung Wo (Hunan), a wholly owned subsidiary of the Company entered into the Subscription Agreement with the Subscriber, pursuant to which, the Subscriber agreed to subscribe and Cheung Wo (Hunan) agreed to allot and issue the subscription shares at the subscription price of HK$200,000,000. Upon completion, the Subscriber would be interested in 63% of the enlarged issued share capital of Cheung Wo (Hunan); and the Company's interest in Cheung Wo (Hunan) would be diluted to 37%, representing a decrease of 63%. Upon completion, Cheung Wo (Hunan) would cease to be a subsidiary of the Company. The financial results of Cheung Wo (Hunan) would be accounted for using equity method in the Group's financial statements. In view of the property market in Xiangtan and the stringent PRC banking policies in releasing loans to property companies, Cheung Wo (Hunan) was facing a slow return from its selling of properties and it was difficult to obtain financing with favourable terms from independent financial institutions to fund the current development of the property project. Further, debt financing would increase the gearing level of the Group and the interest expense incurred would impose additional financial burden to the Group's future cash flows, hence the Directors considered that the transaction under the Subscription Agreement represented a good opportunity to raise capital for the future development of Cheung Wo (Hunan). As certain conditions precedent had not been and were not expected to be satisfied or waived on or before the Long Stop Date, and Cheung Wo (Hunan) and the Subscriber had not agreed on any further extension of the Long Stop Date, the Subscription Agreement lapsed immediately after the Long Stop date (i.e. 31 December 2016) and no party would have any claim against the other party in respect of any matter or thing arising out of or in connection with the Subscription Agreement save in respect of antecedent of any obligation thereof. The Directors consider that the lapse of the Subscription Agreement will not have any material adverse impact on the existing business, operation and financial position of the Group.

Management Discussion and Analysis

Disposal of Shares by the Controlling Shareholder

On 22 November 2016, Full Dragon, the Group's then controlling shareholder, sold 642,488,592 shares of the Company to Keyne, at a consideration of US$22,867,207, representing approximately 26.0% of the issued share capital of the Company. Immediately following the disposal, Full Dragon now holds 232,284,073 shares of the Company, representing approximately 9.4% of its issued share capital and ceases to be a substantial shareholder of the Company.

Prospects

Global economic growth remained soft in 2016, affected by uncertainties in the international macro economy and overall financial environment. Negative sentiment is expected to remain in 2017. In view of this, the Group will continue to execute a prudent business diversification strategy in the coming year in order to stabilise its advantages and profitability under this challenging economic environment.

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

In recent years, the film industry has been booming across the People's Republic of China (the "PRC") with favorable policies launched by both the PRC and Hong Kong Governments. For this reason, the Group still sees promising future developmental potential for the film business. Therefore, while maintaining its current operations, we will also explore new plans and opportunities that could potentially bring in even higher revenues for the Group.

In addition, due to the advantages of greater energy efficiency, centralised heat supply has become one of the main developmental directions being undertaken in China. As such, continuous support policies are being launched by the Central Government as well as municipal governments for centralised heat supply promotion. For instance, in February 2016, the Guangdong Provincial Government issued the "Guangdong Province Boiler Pollution Remediation Plan 2016 – 2018", clearly stating that the replacement of small, high polluting boilers with centralised heat supply should be completed by the end of 2017. In the coming year, the Group will continue with the construction of centralised heat supply pipelines in Humen Town and Changan Town in Dongguan City, with a view to expanding business operations to other towns and seizing opportunities brought about by new governmental green policies.

Apart from the abovementioned four core businesses, namely, property rental, property and hotel development, film distribution and processing, and centralised heat supply, the Group will actively explore other potential and feasible business opportunities to integrate and diversify its business portfolio in order to strengthen the overall income base and maximise the Group's value as well as the dividends to its shareholders.

Liquidity and Financial Resources

As at 31 December 2016, the Group's net current assets were approximately HK$522,095,000 (2015: HK$735,989,000), with current assets of approximately HK$1,114,974,000 (2015: HK$1,201,569,000) and current liabilities of approximately HK$592,879,000 (2015: HK$465,580,000), representing a current ratio of approximately 1.9 (2015: 2.6). As at 31 December 2016, the Group had cash and cash equivalents of approximately HK$24,010,000 (2015: HK$57,175,000).

Capital Structure

The Group's total equity amounted to approximately HK$1,446,837,000 as at 31 December 2016 (2015: HK$968,825,000).

Borrowing and Banking Facilities and Charge on Group Assets

As at 31 December 2016, the Group's outstanding borrowings and convertible notes were approximately of HK$834,513,000 (2015: HK$684,764,000). The Group's bank borrowing of approximately HK$192,372,000 (2015: HK$236,323,000) were secured by the Group's land use right and construction in progress with a net carrying amount of approximately HK$79,285,000 (2015: HK$92,435,000) and approximately HK$64,453,000 (2015: HK$56,023,000) respectively. The Group's bank borrowing of approximately HK$275,061,000 as at 31 December 2016 was secured by the Group's properties development in progress with a net carrying amount of approximately HK$441,466,000 and the Group's entrusted bank borrowings of approximately HK$295,404,000 as at 31 December 2015 was secured by the Group's properties development in progress with a net carrying amount of approximately HK$469,374,000. The Group's current bank borrowing of approximately HK$627,000 (2015: HK$839,000) and bank overdraft of approximately HK$2,981,000 as at 31 December 2016 were secured by the leasehold land and buildings, with a net carrying amount of approximately HK$672,000 (2015: HK$699,000) and obligations under finance leases of approximately HK$1,018,000 as at 31 December 2015 was secured by a motor vehicle with a net carrying amount of approximately HK$1,330,000 at the same date. The Group's bank borrowing of approximately HK$11,000 (2015: HK$118,000) was secured by the Group's bank deposits of approximately HK$17,000 (2015: HK$142,000). The Group's other borrowing of approximately HK$153,459,000 (2015: HK$152,080,000) was secured by the share charges over certain subsidiaries of the Group, inter-companies loans and a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a shareholder of the Company. The Group's loans from a shareholder of approximately of HK$15,828,000 and other loan of approximately HK$57,346,000 were unsecured. The gearing ratio based on borrowings, obligations under finance leases and convertible notes over total equity as at 31 December 2016 was approximately 0.577 (31 December 2015: 0.708).

Management Discussion and Analysis

Exposure to Foreign Exchange

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. Income and expenses derived from the operations in the PRC were mainly denominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, however, the Group will closely monitor the market and make appropriate adjustments and measures when necessary.

Contingent Liabilities

Save for those disclosed in Note 41 to the financial statements, there were no contingent liabilities that the Group is aware of.

Employees and Remuneration Policies

Staff costs for the year ended 31 December 2016 was approximately HK$24,158,000 (2015: HK$16,603,000), representing an increase of approximately 45.5%, mainly due to hiring of experienced management staff to accommodate for our new diversified businesses. The Group had a workforce of 100 (2015: 80). Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

Final Dividend

The Board has resolved not to declare any final dividend for the year ended 31 December 2016 (2015: Nil).

Corporate Governance Report

Corporate governance practices

The Group is committed to establish and maintain good corporate governance practices and procedures. For the year ended 31 December 2016, the Company complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save as disclosed below. This report describes the Company's corporate governance practices and explains its applications.

Pursuant to the code provision F.1.1 of the CG Code, the company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. The Company engages Mr. Chan Chun Fat ("Mr. Chan") as its company secretary. Mr. Chan is a practising solicitor and in performing his duties as the company secretary of the Company, he reports to the Board and maintains contacts with the chief executive officer of the Company.

Pursuant to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. Although only two regular board meetings were held during the Year under Review, the Board considered that sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors and senior management of the Company. In addition, senior management of the Company provided the information to the Board in respect of financial, operational and business development, amongst others, from time to time and, when required, ad hoc board meetings were held.

Directors' securities transactions

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules was adopted by the Company. Specific enquiry of all Directors who were in office during the Year under Review was made and they have confirmed compliance with the Model Code during the financial year.

Corporate Governance Report

Board of Directors

(I) Composition of the Board

The Board currently comprises 10 Directors, with 6 executive Directors and 4 independent non-executive Directors whose biographical details are set out in “Biographical Details of Directors” on pages 47 to 49. The Directors for the year and up to the date of this report were as follows:

Executive Directors
Mr. Wan Peizhong *(Chairman) (appointed on 12 August 2016)*
Mr. Xiang Junjie *(Chief Executive Officer) (appointed on 31 March 2016)*
Mr. Tai Yat Chung
Mr. Ji Jianguo *(appointed on 31 March 2016)*
Ms. Qian Ling Ling *(appointed on 13 December 2016)*
Mr. Zhang Li *(appointed on 13 December 2016)*
Ms. Law Kee, Alice *(resigned on 31 March 2016)*
Mr. Hui Wai Lee, Willy *(resigned on 12 August 2016)*
Mr. Deng Guohong *(appointed on 3 June 2016 and resigned on 18 August 2016)*
Mr. Wang Li *(appointed on 3 June 2016 and resigned on 18 August 2016)*
Mr. Zhong Yingchang *(resigned on 13 December 2016)*
Mr. Li Wenjun *(resigned on 13 December 2016)*

Independent Non-executive Directors
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny
Mr. Gao Hong *(appointed on 3 June 2016)*

The Board is comprised of experienced and high competence individuals and a balanced composition of executive and non-executive Directors.

Each Director has been appointed on the strength of his/her calibre, experience and stature, and his/her potential contribution to the growth and development of the Group and its businesses. The Directors had no financial, business, family or other material/relevant relationship with each other during the Year under Review.

(II) Operation of the Board

The Company is headed by the Board which takes decisions objectively in the interests of the Company. To provide effective supervision of and proper guidance to the management, the Board is required to consider and approve decisions in relation to the Group's long-term strategy, annual business plan and financial budget, major acquisition and disposal, dividend policy, appointment of Directors, remuneration policy, risk management and internal control. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions and telephone conference/physical meeting.

A clear division of responsibilities is evident between the Board and the management. Decisions on important matters, such as the Group's strategic policies, major investment, funding decisions and major commitments relating to the Group's operations, are specifically reserved to the Board while decisions on the Group's general day-to-day operations are delegated to the management.

(III) Directors' training and continuous professional development

Newly appointed Directors have received briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Directors are kept informed of the Group's affairs and development in a timely manner so as to enable them to make an informed decision and to discharge their duties and responsibilities as Directors effectively.

The Company continuously provides updates and presentations to the Directors on the latest developments relating to the Group's business and the legislative regulatory requirements to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

During the year, the Directors have also participated the following:

Directors	Attending seminar(s) and/or conference(s) on regulations and updates and/or reading materials relating to business and operation of the Company, and legal and regulatory updates
Mr. Wan Peizhong *(appointed on 12 August 2016)*	✓
Mr. Xiang Junjie *(appointed on 31 March 2016)*	✓
Mr. Tai Yat Chung	✓
Mr. Ji Jianguo *(appointed on 31 March 2016)*	✓
Ms. Qian Ling Ling *(appointed on 13 December 2016)*	✓
Mr. Zhang Li *(appointed on 13 December 2016)*	✓
Ms. Law Kee, Alice *(resigned on 31 March 2016)*	✓
Mr. Hui Wai Lee, Willy *(resigned on 12 August 2016)*	Nil
Mr. Deng Guohong *(appointed on 3 June 2016 and resigned on 18 August 2016)*	Nil
Mr. Wang Li *(appointed on 3 June 2016 and resigned on 18 August 2016)*	Nil
Mr. Zhong Yingchang *(resigned on 13 December 2016)*	Nil
Mr. Li Wenjun *(resigned on 13 December 2016)*	Nil
Mr. Tsui Pui Hung	✓
Mr. Tang Ping Sum	✓
Mr. Chiu Sin Nang, Kenny	✓
Mr. Gao Hong *(appointed on 3 June 2016)*	✓

Chairman and chief executive officer

In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Group, the role of the chairman is separate from that of the chief executive officer. The chairman, Mr. Wan Peizhong, focuses on the overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The chief executive officer, Mr. Xiang Junjie, is responsible for all day-to-day corporate management matters as well as assisting the chairman in planning and developing the Group's strategies. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

Non-executive Directors

All non-executive Directors are appointed for a specific term of one year from the dates of their appointments which will be renewed automatically unless early terminated by either party with at least one month prior written notice. However, they are appointed subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the provisions of the bye-laws of the Company (the "Bye-laws").

Remuneration committee

The remuneration committee (the "Remuneration Committee") consists of 4 independent non-executive Directors and Mr. Chiu Sin Nang, Kenny is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year. 4 meetings were held during FY2016, during which the remuneration policy in remunerating the Directors and senior management of the Group was reviewed. None of the Directors participated in the determination of his/her own remuneration. Attendance of the members of the Remuneration Committee is set out in "Attendance Records at Meetings" on page 17.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for establishing remuneration policy as well as reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The emolument payable to Directors depends on their respective terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 10 to the financial statements.

Details of the remuneration paid to members of senior management of the Group (including the Directors) by band for the year ended 31 December 2016 are set out below:

Remuneration band	**Number of senior management**
Below HK$1,000,000	13
HK$1,000,001 to HK$1,500,000	5

Details of the Directors' and chief executive's emoluments and five highest paid individuals are set out in note 10 to the consolidated financial statements.

Nomination committee

The Company has set up a nomination committee (the "Nomination Committee") on 20 March 2012 in compliance with the CG Code. The Nomination Committee consists of 4 independent non-executive Directors appointed by the Board and Mr. Tsui Pui Hung is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year. 3 meetings were held during FY2016. Attendance of the members of the Nomination Committee is set out in "Attendance Records at Meetings" on page 17.

The major duties and functions of the Nomination Committee, inter alias, include reviewing the structure, size and composition of the Board at least annually and make recommendations to the Board on the nomination and appointment of Directors and the succession planning of the Directors.

The Board has adopted a "Board Diversity Policy" in relation to the nomination and appointment of new directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industrial experience and professional experience.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

The terms of reference of the Nomination Committee (as revised on 30 August 2013) are available on the websites of the Stock Exchange and the Company.

Audit committee

The Company has set up an audit committee (the "Audit Committee") consisting of 4 independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. Mr. Tang Ping Sum is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company. 4 Audit Committee meetings were held during FY2016. Attendance of the members is set out in "Attendance Records at Meetings" on page 17.

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alias, are to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on risk management and internal control system. The terms of reference of the Audit Committee (as revised on 1 January 2016) are available on the websites of the Stock Exchange and the Company.

Attendance records at meetings

The attendance records of each Director at various meetings of the Company during FY2016 are set out as follows:

	Attended					
	Annual general meeting	Special general meetings	Board meetings	Remuneration committee meetings	Nomination committee meetings	Audit committee meetings
Number of meetings	1	3	29	4	3	4
Executive Directors						
Mr. Wan Peizhong *(Chairman) (appointed on 12 August 2016)*	N/A	1/1	8/8	N/A	N/A	1/1
Mr. Xiang Junjie *(Chief Executive Officer) (appointed on 31 March 2016)*	1/1	1/1	22/22	N/A	N/A	1/1
Mr. Tai Yat Chung	1/1	3/3	29/29	N/A	N/A	1/1
Mr. Ji Jianguo *(appointed on 31 March 2016)*	1/1	1/1	22/22	N/A	N/A	1/1
Ms. Qian Ling Ling *(appointed on 13 December 2016)*	N/A	N/A	1/1	N/A	N/A	N/A
Mr. Zhang Li *(appointed on 13 December 2016)*	N/A	N/A	1/1	N/A	N/A	N/A
Ms. Law Kee, Alice *(resigned on 31 March 2016)*	N/A	2/2	10/10	N/A	N/A	N/A
Mr. Hui Wai Lee, Willy *(resigned on 12 August 2016)*	1/1	1/2	21/21	N/A	N/A	N/A
Mr. Deng Guohong *(appointed on 3 June 2016 and resigned on 18 August 2016)*	1/1	N/A	6/7	N/A	N/A	N/A
Mr. Wang Li *(appointed on 3 June 2016 and resigned on 18 August 2016)*	1/1	N/A	6/7	N/A	N/A	N/A
Mr. Zhong Yingchang *(resigned on 13 December 2016)*	1/1	3/3	28/28	N/A	N/A	2/2
Mr. Li Wenjun *(resigned on 13 December 2016)*	1/1	3/3	28/28	N/A	N/A	1/1
Independent Non-Executive Directors						
Mr. Tang Ping Sum	1/1	3/3	29/29	4/4	3/3	4/4
Mr. Tsui Pui Hung	1/1	3/3	29/29	4/4	3/3	4/4
Mr. Chiu Sin Nang, Kenny	1/1	3/3	29/29	4/4	3/3	4/4
Mr. Gao Hong *(appointed on 3 June 2016)*	1/1	1/1	14/14	3/3	2/3	3/3

Auditors' remuneration

The fee in relation to the audit services FY2016 provided by RSM Hong Kong, the external auditor of the Company, amounted to HK$1,800,000.

Directors' responsibilities for the financial statements

The Directors understand and acknowledge their responsibility for overseeing the preparation of financial statements for FY2016. As at 31 December 2016, the Group had total current liabilities of approximately HK$592,879,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$24,010,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK$328,714,000 and had cash outflow from operating activities of approximately HK$617,000 for the year ended 31 December 2016. The Group's other loan with carrying amount of approximately HK$153,459,000 will mature in January 2018. These events or conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

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

The financial statement give a true and fair view of the affairs, profitability and cash flow of the Group in compliance with the requirements of the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for FY2016:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgments and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

Company secretary

Under the code provision F.1.1 of the CG Code, the Company engages Mr. Chan as its company secretary. Mr. Chan is a practicing solicitor and in performing his duties as the company secretary of the Company, he reports to the Board and maintains contacts with the chief executive officer of the Company.

Mr. Chan has confirmed that he had received no less than 15 hours of relevant professional training for the year ended 31 December 2016.

Risk management and internal control

Goals and Objectives

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. The Board acknowledged that the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Main features of the risk management and internal control systems

The Group's risk governance structure and the main responsibilities are summarised below:

Board

- evaluates and determines the nature and extent of significant risks it is willing to take in achieving the Group's strategic objectives;

- ensures the implementation of an effective risk management and internal control systems;

- ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and

- oversees the management in the design, implementation and monitoring of the risk management and internal control systems.

Management

- assists the Board to perform its responsibilities of risk management and internal control systems and ensure such review cover all material controls, including financial, operational and compliance controls;

- develops the internal control audit plan and effective control activities to mitigate risks;

- identifies major and significant risks which threaten the achievement of the strategic objectives; and

- summarizes the results of such risk assessment, evaluation and mitigation of the major subsidiaries and associates in risk register.

Process used to identify, evaluate and manage significant risks

The Board and the senior management led by the chief executive officer of the Company (the "Responsible Management"), with the assistance of the external consultants, are responsible for designing, implementing and monitoring of the risk management and internal control systems.

The processes used to identify, evaluate and manage significant risks by the Group are summarized as follows:

Risk identification

- identifies significant risks through interviewing with the management and directors of major subsidiaries and associates. "CG Code Compliance and CG Report Disclosure Questionnaire" and "Risk Identification and Management Questionnaire" are used to document the risk identified by the management and directors of major subsidiaries and associates.

Risk assessment

- performs risk assessment on the key audit matters identified by the external auditor;

- assesses and evaluates significant risks identified by the subsidiaries and associates; and

- considers the range of potential consequences and how likely those consequences are to occur.

Risk response

- evaluates and prioritizes the risk identified by the major subsidiaries and associates from the perspective of the Group level as a whole; and

- updates the risk register by the Responsible Management.

Risk monitoring and reporting

- performs ongoing communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;

- presents the risk questionnaires completed by the management of selected subsidiaries and associates, risk register and Internal Control Audit Plan to the Board; and

- delivers the fact-findings report with recommendations on the review and testing of internal controls on certain operating cycles and areas performed by external consultant to the Audit Committee and the Board.

Internal audit function

The Group's risk management and internal control framework is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework. The Group's internal audit function is performed by the Responsible Management who reports to the Audit Committee and the Board on a regular basis. The Group has engaged an external consultant to assist the Responsible Management to perform risk assessment process, review the Group's internal audit function and execute the internal audit plan, including performing testing of control on selected cycles in accordance with agreed upon procedures determined by the Responsible Management, for the year.

Based on the information submitted by the Responsible Management, the Board conducted an annual review on the effectiveness of the Group's risk management and internal controls systems for the year ended 31 December 2016. The Board concluded that the risk management and internal control systems of the Group were adequate and effective during the Year under Review.

Inside information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is fully aware of its obligations under the new Part XIVA of the Securities and Futures Ordinance, Chapter 571 and the Listing Rules. The Board has adopted a policy which contains the guidelines to the Directors, officers and relevant employees of the Company to ensure that the inside information of the Company is to be disseminated to public in an equal and timely manner in accordance with the applicable laws and regulations.

Constitutional documents

There is no change in the Company's constitutional documents during the year ended 31 December 2016.

Communication with shareholders

The Company recognises the importance in engaging in regular, effective and fair communication with its shareholders and is committed to conveying important and relevant information to the shareholders on a timely basis.

The Company strives to ensure that information is made publicly available in a prompt and timely disseminated manner. Disclosure of information is made through announcements on the Stock Exchange, the Company's annual and interim reports, press releases, as well as the Company website (http://www.nine-express.com.hk).

Shareholders' rights

(i) Convening a special general meeting by shareholders

Pursuant to Bye-law 58, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of section 74 (3) of the Companies Act of Bermuda.

(ii) Putting forward proposals at general meetings

A shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying his/her/its shareholding information, his/her/its contact details and the proposal he/she/it intends to put forward at the general meeting regarding any specified transaction/business with supporting documents.

(iii) Putting forward enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

Environmental, Social and Governance Report

Scope and reporting period

This is the first environmental, social, and governance (the "ESG") report by the Group, highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 to the Listing Rules and Guidance set out by the Stock Exchange.

The principal activities of the Group include film distribution and licensing, film processing, rental of property, property and hotel development, and investment in centralised heat supply. This ESG report covers the Group's overall performance in two subject areas, namely, environmental and social aspects of the business operations in the headquarters office in Causeway Bay, Hong Kong; film processing operation in Kwun Tong, Hong Kong; property development in Hunan, Mainland China; and the centralised heat supply project in Dongguan, Mainland China from 1 January 2016 to 31 December 2016, unless otherwise stated.

Stakeholder engagement and materiality

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including investors, shareholders and employees have been involved in regular engagement sessions as shown in the table below to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

Stakeholders	Engagement Channels
Shareholders	• Annual general meetings • Special general meetings • Email, telephone communication and corporate's website • Publication of notices, circulars, interim and annual reports
Potential Investors	• Regular meetings • Telephone conference • Email and telephone communication
Employees	• Regular meetings • Employees' survey • Staff activities
Suppliers	• Management meetings • Regular communications

Environmental, Social and Governance Report

Stakeholders' feedback

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at ir@nine-express.com.hk.

Sustainability mission and vision

Mission

To diversify the Group's business portfolio, create sustainable wealth and well-being to stakeholders:

- to develop centralised heat supply project, providing green energy and substantial benefits for environment, climate and health; and

- to develop property and hotel development project, establishing environmental friendly and lively society and enhance the quality of life.

Vision on environment, social, and governance

Higher standards for environmental, social and governance have been an increasing demand alongside our living standards. Not only does the Group concern meeting the needs of our generation but also the needs of our future generations, as well as sustainable development, stability and prosperity of our society. As an environmental enterprise, the Group recognizes its imperative social responsibility to take lead to protect the environment and will pursue higher priority on minimizing impacts on climate changes and reducing greenhouse gases emissions, especially through the centralised heat supply project.

A. Environmental

Types of emission the Group involved in the reporting period were mainly petrol, electricity, water, paper and business air travel. The business does not involve in consumption of packaging materials, production-related air, water, and land pollutions which are regulated under national laws and regulations. The Group recognizes its operation that contributes to considerable amount of greenhouse gases emission and therefore strives to reduce its emission through implementing initiatives on saving natural resources.

In this ESG report, the total floor area of the office premises for the Group was 4,272 m^2.

1. *Greenhouse gas emission*

Scope of Greenhouse Gas Emissions	Emission Sources	Emission[1] (in tonnes of CO_2-e)	Total Emission (in percentage)
Scope 1			
Direct Emission	Unleaded petrol consumed by Company owned fleet	49.81	19.19%
Scope 2			
Indirect Emission	Purchased electricity[2]	191.15	73.64%
Scope 3			
Other Indirect Emission	Paper consumption	2.38	0.92%
	Freshwater consumption	0.13	0.05%
	Business air travel	16.08	6.20%
Total		259.55	

Notes:

1. Emission factors were made reference to Appendix 27 to the Listing Rules and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

2. Combined margin emission factor (average) of 0.88 tonnes of CO_2-e/MWh was used for purchased electricity in Mainland China.

There were 259.55 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation in the reporting period. The annual emission intensity was 0.06 tonnes of CO_2-e/m^3.

2. *Direct emission*

A total of 19,064 litres of petrol was used for Group-owned vehicles in the reporting period, contributing to 49.81 tonnes of carbon dioxide equivalent and a total of 0.28 kg of sulphur oxides emission. Nitrogen oxides and particulate matter emissions are not reported due to lack of data, they will be included in the next reporting period.

3. *Electricity*

The electricity consumption by the Group was 246,128 kWh, with an energy intensity of 57.61 kWh/m^2. It contributes to a total of 191.15 tonnes of carbon dioxide equivalent emission. The Group saves energy by:

- installing thermostat in air conditioners to allow flexible adjustment to temperature according to needs;
- keeping room temperature at 24-26 ºC;
- turning off lightings when leaving office;
- switching off computers and other electronic devices when leaving office; and
- setting printers into energy-saving mode.

4. *Water*

The offices for film processing and the centralised heat supply project in Dongguan consumed 313 m^3 of freshwater in the reporting period, contributing to 0.13 tonnes of carbon dioxide equivalent greenhouse gases, with a water intensity of 0.07 m^3/m^2. The operation in Hunan consumes groundwater, therefore no freshwater consumption is involved, while water consumption of its headquarters office is managed by the office building's Management Office, respective data is not available for calculation. However, it is noteworthy that freshwater consumption of the headquarters office is insignificant.

5. *Non-hazardous waste*

The Group generates no hazardous waste in its operation. Non-hazardous waste from the Group's operation are mainly office paper.

(i) Office paper

The Group practices paper saving initiatives, such as promoting e-filing, pre-setting printer to double-sided printing, posting reminders on printers to encourage double-sided printing, and allocating collection area for used paper and envelopes so that they can be reused whenever possible. Recycling bins for wastepaper are also provided to facilitate paper recycling.

A total of 496 tonnes of paper has been used for daily office operations such as documents printing and deliverables packaging, contributing to 2.38 tonnes of carbon dioxide equivalent greenhouse gases.

(ii) Waste reduction initiatives

Apart from the above initiatives to reduce paper waste, the Group also looks for opportunities to utilize resources and reduce waste. For example, the Group centralizes stationary supply in an allocated area so that resources can be utilized effectively and reused when possible. In addition, office pantries are provided with durable and reusable dishes and tableware. Employees are encouraged to use reusable tableware and avoid disposable tableware when having meals.

6. *Business air travel*

During the reporting period, employees travelled by air for meeting potential investors and suppliers for business projects, and attending seminars, resulting in a relative total amount of 16.08 tonnes of CO_2 emitted. The Group encourages video conference and tele-conference in office to reduce carbon emissions.

B. Social

1. *Employment and labour practices*

(i) Employment

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains talents. The Group possesses a Remuneration Committee, which is responsible for Director's remuneration review. For general staff and the management, salary is reviewed on a yearly basis taking reference to the market trend, employee's qualification, experience and performance. In this ESG report, the Group had a total number of 109 employees as of 31 December 2016, in which 100% was working as full time staff. All employees are from Hong Kong and different provinces in Mainland China.

Employee's Age Distribution	18-25	26-35	36-45	46-55	56 and above
2016	10%	26%	27%	22%	15%

Employee's Gender Distribution	Male	Female
2016	58%	42%

The Group complies with all applicable employment and labour laws of the People's Republic of China (PRC) and Hong Kong. Employees are entitled to double pay bonus, mandatory provident fund, pension, medical insurance, life insurance, dental insurance, unemployment insurance, work-related injury insurance and maternity insurance. Various types of paid leave are also offered including annual leave, sick leave, maternity leave, paternity leave, and compassionate leave. The employment contract also set up mediation and arbitration procedures to settle any disputes.

The annual turnover rates (categorized by different age groups) in the reporting period are as follows.

Annual Turnover Rate (By Age Group)	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2016	64%	36%	33%	8%	25%

Annual Turnover Rate (By Gender)	**Male**	**Female**
2016	35%	24%

The Group commits to ensuring a safe and healthy working environment for employees and to inspire and strengthens workforce regardless of their age, gender and ethnic backgrounds. It will continue to provide a well-structured and caring environment to employees to raise their sense of belonging and work efficiency in the Group.

(ii) Employee health and safety

The Group abides by all national regulations on labor protection, including provisions on the prevention and control of occupational diseases and the special provisions on female labor protection. Occupational health and safety guidelines established by the Group highlighted potential hazards in office and provided precautionary measures to avoid them. Regular briefing, reminders, inspection and maintenance refresh employees of the safety measures and avoid injury caused by equipment. Employees regularly participate in fire safety seminars and fire evacuation drills organized by the management office. There was no work-related fatality and lost days due to work injury in the reporting period.

Employees, who handle special equipment in the centralised heat supply project, are required to obtain safety management certificates issued by the Bureau of Quality and Technology Supervision of Dongguan City through examinations. In film-processing-related operations, the Group issues guidelines about safety of chemicals to ensure employees have ample knowledge of chemicals handling and necessary cleanup. The Waste Disposal Ordinance, Factories and Industrial Undertakings (Dangerous Substances) Regulations and Dangerous Goods Ordinance are conformed when handling chemicals.

Occupational Health and Safety Data	2016
Work-related fatality	0
Work injury cases >3 days	0
Work injury cases <3 days	0
Lost days due to work injury	0

(iii) Development and training

The Group provided emergency management training and etiquette training for employees from centralised heat supply operation and property development operation respectively. The emergency management training trained employees of proper attitudes and procedures when encountering accidents in centralised heat supply operations through seminars, drills and examinations, while the etiquette training improves employees' customer service quality. A total of 107 hours of training courses was conducted in the reporting period. 23% of the employees was trained with an average training hours of 4 hours per employee.

(iv) Employment communication

Performance appraisal is an essential platform for the management and frontline staff to evaluate their performances and voice their expectations to the Group's future development. Workload of employees is also reviewed and adjusted during appraisals to avoid overloading employees.

To raise employees' sense of belonging, the Group organizes celebratory activities during festivals such as Chinese New Year, Mid-Autumn Festival and Christmas. Regular lunch gatherings also allow interactive communication and create harmonious relationships among employees. The Group will continue to organize various recreational activities to strengthen bonds among employees.

(v) Labour standard

No child nor forced labour in the Group's operations in the reporting period. The Group is in compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management, while Mainland China's operation is in compliance with the Labour Law of the PRC.

All resume, original identification card and original certificate are checked by the Human Resources (HR) Department during interview, to avoid hiring child or forced labour.

(vi) Equal opportunity

The Group puts effort in ensuring equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws in the PRC and Hong Kong. To eliminate workspace discrimination, if employees are treated unfairly or feel discriminated against by action or speech, employees can report directly to the management. The management will investigate the reported case and take corresponding stringent disciplinary actions after verification. Employees can also report directly to the Equal Opportunities Commission.

2. *Operating practices*

(i) Supply chain management

The Group possesses a just and structured procurement procedure. Suppliers are screened by email, telephone communication, and meetings. Management meeting is conducted to review and select qualified suppliers based on the product price, quality and supplier's reliability. Supplier performance is regularly evaluated to ensure supply chain quality. Whistleblowing policy and system established by the Audit Committee, allowing employees, customers or suppliers to raise concerns on any improprieties related to the Group.

(ii) Product responsibility

Product and service complaints
The Group strives to provide high quality product and service to the public, it received no complaints in the reporting period.

Intellectual property rights and confidentiality
Employees are responsible to protect the Group's intellectual property including trademarks, patents, copyrights, industrial designs and inventions, and trade secrets, as agreed in the their employment contract with the Group.

Confidentiality
Confidential information includes all knowledge of the Group affairs, secrets or information of the Group. This includes but not limited to affairs, secrets and information relating to the scope of business, personnel, operation, policies, strategies, clientele, contracts and financial position. All employees acknowledge and warrant not to disclose the above information, within and after the period of employment, by signing the employment contract. Employees violating the confidentiality-related regulations can be dismissed. Guidelines for safety use of information and confidentiality are also included in the staff handbook.

(iii) Anti-corruption

The Group commits to managing all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All Directors and employees are required to strictly follow all applicable laws on prohibiting corruption and bribery of the PRC and Hong Kong and the Group's policy to prevent potential bribery, extortion, fraud and money laundering. Gifts or entertainment from persons dealing with the Group are not allowed unless it is in the normal course of company business or approved by the Board. All conflict of interest shall be avoided and declared to the management or Director when it exists. The Group has whistleblowing policy concerning faults in financial reporting, misconduct and corruption. When confident suspicious case is received, the Group undergoes independent investigation on the case.

C. Community

1. Community investment

The Group focuses on contributing in environmental protection, and encourages staff to participate in voluntary and community services. Its employees actively engage in programmes organised by the property management office:

(i) Rechargeable Battery Recycling Programme 2016

The Rechargeable Battery Recycling Programme encourages staff to recycle rechargeable batteries from digital and video cameras, power tools, MP3/MD players, shavers and electronic dictionaries.

(ii) Red Packets Recycling Programme 2016

The Red Packets Recycling Programme promotes environmental protection while celebrating the Chinese New Year. Staff is encouraged to recycle the large quantity of used or unused red packets.

Future directions from the Group

The Group will continue to hold its high standards and values, and have planned to:

- enhance energy-saving initiatives in order to reduce greenhouse gas emissions;
- provide a sound workplace for employees to build harmonious relationships; and
- increase community investment and staff voluntary services.

Report of the Directors

The Directors have pleasure in presenting to the shareholders the Company's annual report together with the audited financial statements for FY2016.

Change of Company name and stock short name

Pursuant to a special resolution passed on 18 March 2016, the name of the Company was changed from Cheung Wo International Holdings Limited to Nine Express Limited, and the adoption of 九號運通有限公司 as its Chinese name in replacement of the Chinese name 長和國際實業集團有限公司 (which was previously adopted for identification purpose only) was approved.

The certificate of incorporation on change of name and the certificate of secondary name were issued by the Registrar of Companies in Bermuda on 20 April 2016 certifying the change of English name of the Company from Cheung Wo International Holdings Limited to Nine Express Limited and the adoption and registration of the Chinese name 九號運通有限公司 as the secondary name of the Company. The change of company name took effect on 7 April 2016. The certificate of registration of alteration of name of registered non-Hong Kong company was issued by the Registrar of Companies in Hong Kong on 11 May 2016 confirming the registration of the new name Nine Express Limited 九號運通有限公司 of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The shares of the Company have been traded on the Stock Exchange under the new English stock short name of "CHEUNG WO IHL" to "NINE EXPRESS" in English and from "長和國際實業" to "九號運通" in Chinese with effect from 19 May 2016. The stock code of the Company remains unchanged as "00009".

Principal activities and business review

The Company is an investment holding company. The Group is principally engaged in property rental and property and hotel development in the PRC, film production and related businesses, and centralised heat supply.

Segment analysis of the Group for FY2016 is set out in Notes 6 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places and date of incorporation, types of legal entity, principal activities and particulars of their issued shares/registered share capital, is set out in Note 17 to the consolidated financial statements.

A review of business of the Group during the year and its future development, and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance are set out in the "Chairman's Statement" on page 3 and the "Management Discussion and Analysis" on pages 4 to 10 of this annual report which constitute part of this report of the Directors.

Environmental policies and performance

Details of Environmental Policies and performance are set out in the "Environmental, Social and Governance Report" on pages 23 to 31 in this annual report.

Key risk factors

There are strategic risks, operation risks, financial risks, legal risks, compliance risks and market risks in the development process of the Company identified and assessed on an on-going basis, of which:

(1) Strategic risks are mainly attributable to the domestic and overseas macro-economies, overall trend of industrial structures and the scientific and sustainable standards of comparable strategies of the Company;

(2) Operational risks are mainly attributable to the supervision and control procedures of each business segments involved in the daily operation and management process of the Company;

(3) Financial risks are mainly attributable to the supervision and control procedures of financial system including overall fund raising activities of the Company, investment management and revenue audit;

(4) Legal risks are mainly attributable to the domestic and overseas policies and the changing regulations and the internal contract management capability of the Company and related legal litigations;

(5) Compliance risks are mainly attributable to failure of the Company to act in accordance with the applicable laws and regulations, which causes legal and financial impact on the Company; and

(6) Market risks are mainly attributable to the business workflow including marketing management of the Company, market demand and supply and business partnership.

Results

The results of the Group for FY2016 are set out in the consolidated statement of profit or loss on page 60 of the financial statements.

The Directors do not recommend the payment of a dividend for the year.

Property, plant and equipment, and investment property

Details of the movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

Report of the Directors

Warrants and convertible notes

Details of movements in the Company's warrants and convertible notes during the year are set out in notes 34 and 31 to the financial statements, respectively.

Purchase, redemption or sale of listed securities of the Company

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Charitable contributions

During the year, the Company made charitable contributions amounted to HK$Nil (2015: HK$1,200,000).

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves of the Company

As at 31 December 2016, the reserve of the Company available for distribution to the shareholders amounted to HK$Nil. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors and directors' service contracts

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

Executive Directors:

Mr. Wan Peizhong *(Chairman) (appointed on 12 August 2016)*
Mr. Xiang Junjie *(Chief Executive Officer) (appointed on 31 March 2016)*
Mr. Tai Yat Chung
Mr. Ji Jianguo *(appointed on 31 March 2016)*
Ms. Qian Ling Ling *(appointed on 13 December 2016)*
Mr. Zhang Li *(appointed on 13 December 2016)*
Ms. Law Kee, Alice *(resigned on 31 March 2016)*
Mr. Hui Wai Lee, Willy *(resigned on 12 August 2016)*
Mr. Deng Guohong *(appointed on 3 June 2016 and resigned on 18 August 2016)*
Mr. Wang Li *(appointed on 3 June 2016 and resigned on 18 August 2016)*
Mr. Zhong Yingchang *(resigned on 13 December 2016)*
Mr. Li Wenjun *(resigned on 13 December 2016)*

Independent non-executive Directors:

Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny
Mr. Gao Hong *(appointed on 3 June 2016)*

In accordance with Bye-laws 86(2), Mr. Wan Peizhong, Ms. Qian Ling Ling, Mr. Zhang Li shall retire from office at the forthcoming annual general meeting; whereas in accordance with Bye-laws 87(1) and 87(2), Mr. Tsui Pui Hung and Mr. Tang Ping Sum shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election as independent non-executive Directors.

In accordance with the code provision A.4.3 of the CG Code, Mr. Tsui Pui Hung has served as an independent non-executive Director for over 9 years, his further appointment is subject to a separate resolution to be approved by shareholders at the AGM in each year.

The term of office of each of the independent non-executive Directors is for an initial term of one year and renewable automatically for successive terms of one year. Either the independent non-executive Director or the Company may terminate the appointment by giving to the other party at least one month's prior notice in writing. All of the independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

Each of the executive Directors has entered into a service contract with the Company for an initial term of one year and all of which shall continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

Executive Director	Date of commencement of service contract
Mr. Wan Peizhong	12 August 2016
Mr. Xiang Junjie	31 March 2016
Mr. Tai Yat Chung	15 September 2015
Mr. Ji Jianguo	31 March 2016
Ms. Qian Ling Ling	13 December 2016
Mr. Zhang Li	13 December 2016

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and chief executive's interests in shares of the Company

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and the Stock Exchange were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Number of ordinary share held	Approximate percentage of the issued share capital of the Company
Mr. Wan Peizhong	Beneficial owner	123,000 (L)	0.01%(L)

Note: The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company have any interests or short positions in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register maintained by the Company or which are required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Share options

The Company adopted a share option scheme (the "Scheme") on 2 September 2013. The major terms of the Scheme are as follows:

1. The purpose of the Scheme is to attract and retain talented personnel for future development of the Group; to provide incentive to encourage Participants (as defined below) to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Group attained through their efforts and contributions.

2. The eligible grantees of the Scheme are (i) any employee or officer (whether full time or part time, and including any executive director) of any member of the Group; (ii) or any non-executive director (including independent non-executive director) of any member of the Group; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of any member of the Group; (v) any holder of any securities or securities convertible into any securities issued by any member of the Group; (vi) any person or entity that provides advisory, consultancy or professional services to any member of the Group or any director or employee of any such entity; and (vii) any other group or classes of participants from time to time determined by the Directors as having contributed to the development and growth of the Group.

3. The subscription price determined by the Board will be at least the highest of (i) the closing price of the Company's share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

4. The maximum number of shares which may be granted under the Scheme must not exceed 10% of the total number of Company's shares in issue as at the date of approval of the Scheme unless approved from its shareholders and which must not in aggregate exceed 30% of the total number of the share issued from time to time.

5. The total number of shares issued and to be issued upon exercise of the share options (the "Options") granted (including exercised, cancelled and outstanding Options) to each Participant, within the 12-month period immediately preceding the proposed date of grant, shall not exceed 1% of the total number of Company's share in issue. Any further grant shall be subject to the shareholders' approval of the Company with such Participant and his/her associates abstaining from voting.

6. The offer of a grant of the Options may be accepted within 28 days from the date of offer, HK$1 is payable by each of the Participants to the Company on acceptance of the Options as consideration for the grant.

7. There is no minimum period for which the Options must be held before the Options can be exercised unless otherwise determined by the Board.

8. The exercise period of the Options must be less than ten years from the date of grant.

9. The Scheme shall be valid and effective until 2 September 2023.

On 5 November 2013, the Company granted the Options to the Directors and certain employees of the Company to subscribe for a total of 77,812,266 ordinary shares.

Details of the Options granted under the Scheme to certain Directors of the Company to subscribe for the shares in the Company are as follows:

				Number of share options					
Name of Director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31.12.2016	Approximate percentage to the issued share capital %
Ms. Law Kee, Alice (Ms. Law)	5.11.2013	5.11.2013 to 4.11.2023	0.94	11,116,038	–	–	–	11,116,038	0.45
				11,116,038	–	–	–	11,116,038	0.45

Details of the Options granted under the Scheme to certain employees of the Company to subscribe for the shares in the Company are as follows:

Employees	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding as at 1.1.2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31.12.2016	Approximate percentage to the issued share capital %
In aggregate (Note)	5.11.2013	5.11.2013 to 4.11.2023	0.94	55,580,190	–	–	–	55,580,190	2.25
				55,580,190	–	–	–	55,580,190	2.25

Note:

Ms. Law resigned as an executive Director and the chief executive officer of the Company with effect from 31 March 2016. After her resignation, she has remained as an employee of the Company. For the purpose of this report, the total number of Options in respect of employees of the Group excludes 11,116,038 share options held by Ms. Law.

The closing price of the Company's share immediately before 5 November 2013, the date of grant of the options was HK$0.94.

Pursuant to an ordinary resolution passed on 25 August 2016, the maximum number of Shares which may be issued upon the exercise of all the Options to be granted under the Scheme Mandate Limit as refreshed is 247,116,250 Shares, representing approximately 10% of the number of the issued share capital of the Company as at 31 December 2016. Terms used herein have the same meaning as those defined in the circular made by the Company dated 3 August 2016.

As at 31 December 2016, the number of issued shares of the Company is 2,471,162,504 and the total number of Shares available for issue under the Scheme was 247,116,250 (2015: 33,348,115) which represented approximately 10% (2015: 1.98%) of the issued share capital of the Company.

Details of movements in the Company's Options during the year are set out in note 37 to the financial statements.

Equity-Linked agreements

Other than the share option scheme of the Company as disclosed above and the warrants and convertible notes as disclosed in notes 34 and 31 of the consolidated financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the year ended 31 December 2016.

Arrangement to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Substantial shareholders

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of Shares held/ Number of underlying Shares held under equity interest	Approximate percentage of the issued share capital of the Company
Zhu Boheng *(Note 1)*	Interest of controlled corporation	642,488,592(L)	26.00%(L)
Keyne Holdings Limited (“Keyne”) *(Note 1)*	Beneficial owner	642,488,592(L)	26.00%(L)
Cheng Ngok Fai *(Note 2)*	Interest of controlled corporation	594,050,000(L)	24.04%(L)
Connected-World Group Limited *(Notes 2 and 4)*	Interest of controlled corporation	238,875,000(L)	9.67%(L)
	Beneficial owner	355,175,000(L)	14.37%(L)
Li Ruiguang *(Note 3)*	Interest of controlled corporation	411,747,000(L)	16.66%(L)
	Beneficial owner	54,340,000(L)	2.20%(L)
Eternal Galaxy Group Limited *(Notes 3 and 4)*	Interest of controlled corporation	238,875,000(L)	9.67%(L)
	Beneficial owner	172,872,000(L)	7.00%(L)
Sky-Linked International Limited *(Note 4)*	Beneficial owner	238,875,000(L)	9.67%(L)
Central Huijin Investment Limited *(Note 5)*	Interest of controlled corporation	532,090,411(L)	21.53%(L)
China Construction Bank Corporation *(Note 5)*	Interest of controlled corporation	532,090,411(L)	21.53%(L)
Cheng Keung Fai *(Note 6)*	Interest of controlled corporation	232,284,073(L)	9.40%(L)
		149,809,676(S)	6.06%(S)
Full Dragon Group Limited (“Full Dragon”) *(Note 6)*	Beneficial owner	232,284,073(L)	9.40%(L)
		149,809,676(S)	6.06%(S)

Notes:

1. The entire issued share capital of Keyne is owned by Mr. Zhu Boheng.

2. The entire issued share capital of Connected-World Group Limited is owned by Mr. Cheng Ngok Fai.

3. The entire issued share capital of Eternal Galaxy Group Limited is owned by Mr. Li Ruiguang.

4. The entire issued share capital of Sky-Linked International Limited is owned as to 60% by Connected-World Group Limited and 40% by Eternal Galaxy Group Limited. Sky-Linked International Limited was deemed to be interested in 1,027,500,000 Shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the Convertible Notes (assuming full conversion of the Conversion Notes).

5. Approximately 57.31% of the entire issued share capital of China Construction Bank Corporation is owned by Central Huijin Investment Limited. The interests in such Shares are held by Sea Venture Investments Limited which is an indirect wholly-owned subsidiary of China Construction Bank Corporation.

6. The entire issued share capital of Full Dragon is owned by Mr. Cheng Keung Fai. Full Dragon has granted (i) a security interest over 58.39% of the total issued share capital of the Company as at the date of the grant and (ii) a call option to acquire 149,809,676 Shares of the total issued share capital of the Company, to a subsidiary of Central Huijin Investment Limited, details of which were disclosed in the announcement of the Company dated 4 May 2015.

7. The letter "L" denotes the person's long position in such Shares and the underlying Shares.

8. The letter "S" denotes the person's short position in such Shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2016.

Directors' interest in contracts and connected transactions

Connected transactions

During FY2016, the Group had entered into transactions which constituted connected transactions under the Listing Rules. Details are set out below:

(a) On 16 November 2015, the Company, Sky-Linked International Limited (聯天國際有限公司) as the vendor (the "Vendor") and Mr. Cheng Ngok Fai and Mr. Li Ruiguang as the guarantors (collectively as the "Guarantors") entered into the formal sale and purchase agreement (the "Formal SP Agreement"), pursuant to which, the Vendor conditionally agreed to sell and the Company conditionally agreed to acquire 49% of the entire issued share capital of Ever-Grand Development Limited (the "Target Company", together with its subsidiaries, the "Target Group"), a company incorporated in the BVI with limited liability, at an aggregate consideration of HK$882,000,000 (the "Consideration"). The Consideration would be satisfied as to (i) HK$60,000,000 in cash; and (ii) HK$822,000,000 by the issue of convertible notes (the "Convertible Notes") in the same principal amount, details of which are set out in note 18(c) to the financial statements. On 17 February 2016 (after trading hours), the Company, the Vendor and the Guarantors entered into a supplemental agreement (the "Supplemental Agreement"), pursuant to which the Vendor and the Company agreed, among other things, to extend the long stop date from 17 February 2016 to 31 March 2016 (or such other date as may be agreed by the Vendor and the Company in writing) and to amend the payment terms of the Consideration, pursuant to which, the HK$60,000,000 cash payment would be made within six months after the Completion Date (as defined in the circular of the Company dated 3 March 2016 (the "Circular")) by single or multiple payment(s), instead of on the date of completion of the Formal SP Agreement.

After all the conditions precedent for the transactions contemplated under the Formal SP Agreement (as supplemented by the Supplemental Agreement) had been fulfilled, completion took place on 30 March 2016 and the Convertible Notes in the principal amount of HK$822,000,000 at the initial conversion price of HK$0.80 per conversion share had been created and issued to the Vendor and its nominees by the Company in accordance with the terms of the Formal SP Agreement. The Company has nominated Vast Build Limited ("Vast Build"), which was incorporated in the BVI with limited liability and is a wholly-owned subsidiary of the Company, to be the holder of the sale shares. Upon completion of the acquisition, the Company indirectly holds 49% of the issued share capital of the Target Company (through Vast Build) which becomes associate of the Company.

The entire issued share capital of the Vendor is beneficially owned as to 60% by Mr. Cheng Ngok Fai, the brother of Mr. Cheng, the substantial shareholder of the Company. Accordingly, the Vendor and Mr. Cheng Ngok Fai are associates of Mr. Cheng and connected persons of the Company under Chapter 14A of the Listing Rules.

Profit Guarantee

As disclosed in the announcement of the Company dated 16 November 2015 (the "Announcement") and the Circular, the Vendor and the Guarantors, jointly and severally, unconditionally and irrevocably guarantee to the Company that the net profit of the Target Group for the relevant year shall not be less than the following amounts (each, the "Guaranteed Amount"):

Relevant year	Guaranteed Amount
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

According to the consolidated audited account of the Target Group for FY2016 received by the Company, the Target Net Profit for FY2016 is HK$269,000, which falls below the Guaranteed Amount for FY2016. The shortfall between the Guaranteed Amount for FY2016 and the Target Net Profit for FY2016 is HK$24,231,000 (the "Amount in Difference").

Pursuant to the Formal SP Agreement, in respect of the non-fulfillment of the profit guarantee for FY2016, the Vendor shall on 31 May 2017 pay to the Company an amount equal to the Amount in Difference. If the Vendor fails to pay to the Company the Amount in Difference on or before 31 May 2017, the Company shall be entitled to set-off the Amount in Difference by cancelling the same principal amount of Convertible Notes from those held in escrow for FY2016. The Company shall return to the Vendor the remaining Convertible Notes held in escrow for FY2016 within 5 business days after such cancellation. The Group will follow the Formal SP Agreement to deal with the non-fulfillment of the profit guarantee for FY2016 (the "Decision"), because the Guaranteed Amounts and the related compensation mechanism were arrived at after arm's length negotiations between the parties of the acquisition, which shall be reflected in the Consideration paid by the Group in relation to the acquisition. The Directors (including independent non-executive Directors) are of the opinion that the Decision is fair and reasonable and in the interests of the shareholders as a whole.

As at the date of this report, the Company is holding in escrow part of the Convertible Notes, amounting to a principal amount of HK$191,100,000, HK$24,500,000 of which may be cancelled in setting off the Amount in Difference if the Vendor fails to pay the Company the Amount in Difference on or before 31 May, 2017.

As the principal amount of Convertible Notes deposited by the Vendor with the Company is sufficient for the set-off of the Amount in Difference, the Directors (including independent non-executive Directors) are of the opinion that the Company is in a position to enforce the obligations of the Vendor and the Guarantors in relation to the non-fulfillment of the profit guarantee for FY2016.

(b) On 12 October 2016, the Company and the Vendor mutually agreed in writing to extend the settlement period for the remaining Consideration in the sum of HK$60,000,000 under the Formal SP Agreement to within 12 months after the Completion Date by one single payment or multiple payments.

Save as disclosed above, none of the related party transactions set out in note 40 to the financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

Other than disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Changes in Directors' information

In accordance with Rule 13.51B of the Listing Rules, changes of the information of Directors required to be disclosed are set out below:

In light of a proposal put forward by Mr. Wan Peizhong ("Mr. Wan"), an executive Director and the chairman of the Company, for the adjustment of his Director's basic remuneration from HK$105,000 per month to HK$1 per month, the Company and Mr. Wan entered into a side letter supplemental to the service agreement (the "Side Letter") on 1 December 2016, pursuant to which both parties mutually agreed to adjust the Director's basic remuneration of Mr. Wan from HK$105,000 per month to HK$1 per month for a period of 12 months, commencing from 1 December 2016. The Remuneration Committee considered that it was in the interest of the Company and the Group as a whole.

Emolument policy

The Group remunerates its employees including the Directors, based on their performances, experiences and the prevailing market rate. Other employee benefits include insurance, medical cover and subsidised training programme. Emoluments of the Directors are determined after taking into consideration of their expertise and job specifications.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Directors' interests in competing business

None of the Directors has an interest in any business constituting a competing business to the Group.

Permitted indemnity provision

The Bye-laws provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

The Company has maintained Directors' and officers' liabilities in respect of legal actions against its Directors, directors of subsidiaries and senior management arising out of corporate activities throughout the Year under review. The level of the coverage is reviewed annually.

Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 56.9% and 86.3%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 38.5% and 89.8%, respectively, of the Group's total purchases for the year.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the Year under Review.

Continuing obligations under Chapter 13 of the Listing Rules

As disclosed in the announcements made by the Company on 10 December 2014 and 27 January 2015, the Company has completed the issue of notes (the "Notes") to Krystal Light Investment Limited ("Krystal Light") in a principal amount of USD20,000,000 (equivalent to approximately HK155,000,000) to be matured on 27 January 2018. The Notes bear interest from and including 27 January 2015 at a rate of 20% per annum, payable semi-annually in cash. Pursuant to the conditions of the Notes, Mr. Cheng being the substantial shareholder of the Company and the guarantor to the Notes, is required to maintain a specified minimum shareholding in the Company, failing which, the Company will, at the option of any noteholder(s), redeem such Notes at the early redemption amount.

As disclosed in the announcement made by the Company on 22 November 2016, Full Dragon Group Limited ("Full Dragon"), a company the shares of which are owned by Mr. Cheng, has entered into an agreement with Keyne Holdings Limited ("Keyne"), pursuant to which Full Dragon agreed to sell and Keyne agreed to purchase 642,488,592 Shares, representing approximately 26.00% of the then issued share capital of the Company (the "Disposal"). The Disposal was completed on 24 November 2016, which would lead to the failure of maintaining the prescribed minimum shareholding in the Company as required under the conditions of the Notes. The Company has obtained the written confirmation from Krystal Light, pursuant to which Krystal Light has confirmed its acknowledgement of the Disposal and agreed not to exercise the option for the early redemption of the Notes by the Company.

Auditor

RSM Hong Kong, the Company's auditor, will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong as the Company's auditor for the ensuring year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xiang Junjie
Director

Hong Kong, 29 March 2017

Biographical Details of Directors

Executive Directors

Mr. Wan Peizhong, aged 51, is an executive Director and chairman of the Company. He has extensive experience in business administration and management in the PRC. Mr. Wan graduated with a bachelor degree in Library Studies from Wuhan University in Wuhan, Hubei Province, the PRC in July 1989. Prior to joining the Company, Mr. Wan was the general manager of Hubei Shengshi Investment Company Limited* (湖北勝世投資有限公司), which mainly engaged in general investment activities, from 2003 to 2004. He was the chairman of the board of directors of Hainan Runxiang Industrial Co., Ltd. (海南潤祥實業有限公司), which mainly engaged in property investment in Hainan Province, from March 2006 to January 2008. From August 2008 to December 2010, Mr. Wan was a director of Guangzhou Oriental Baolong Automobile Co., Ltd.* (廣州東方寶龍汽車股份有限公司), a company listed on the Shanghai Stock Exchange (Stock code: 600988) and now known as Chifeng Jilong Gold Mining Co., Ltd. (赤峰吉隆黃金礦業股份有限公司), which mainly engaged in the manufacturing of automobiles at the time when Mr. Wan was a director, during which Mr. Wan was also the chairman of the board of directors from August 2008 to September 2009. Since June 2014, Mr. Wan has been the chairman of the board of directors of Wan Home Pty. Ltd., a company incorporated in Australia mainly engages in property investment.

Mr. XIANG Junjie, aged 33, has over 8 years of experience in enterprise management in the PRC. Mr. Xiang graduated with a Bachelor's Degree in Electronic Commerce from the Department of Electronic Commerce at South China University of Technology, the PRC in July 2008. Prior to joining the Company, Mr. Xiang had been the chief executive officer of Dongguan Dejin Energy Technology Limited* (東莞市德晉能源科技有限公司) since 1 January 2015.

Mr. TAI Yat Chung, aged 35, has over 10 years of experience in accounting, audit and business advisory services. Mr. Tai joined the Group as an executive Director in September 2015.

Mr. Tai is a practising member of the Hong Kong Institute of Certified Public Accountants. He received a Bachelor of Business Administration (Accountancy) degree from the City University of Hong Kong in 2005.

Mr. JI Jianguo, aged 61, has over 13 years of experience in planning, construction and management of the construction projects in the PRC. Mr. Ji also participated in the research and development of the patent relating to the design of the overlength centralised heat supply pipeline system and its implementation. Mr. Ji was the vice manager of both Zhangjiagang Hengdong Cogeneration Co. Ltd (張家港恒東熱電有限公司) and Zhangjiagang Yongxing Cogeneration Co. Ltd* (張家港永興熱電有限公司) from May 2008 to May 2011 and was appointed as their manager from May 2011 to May 2014. Prior to joining the Company, Mr. Ji had been appointed as the chief engineer of both Dongguan City Dejin Energy Technology Company Limited* (東莞市德晉能源科技有限公司) and Dongguan City Dejin Thermal Power Company Limited* (東莞市德晉熱力有限公司) since September 2015.

Biographical Details of Directors

Ms. Qian Ling Ling, aged 52, has over 9 years of experience in hotel and commercial real estate management in the PRC. Ms. Qian completed a three-year part-time course at Jiangsu Provincial Cadres College* (江蘇省省級機關幹部業餘大學) (now known as Jiangsu Provincial Management Cadres College* (江蘇省省級機關管理幹部學院)), the PRC, majoring in secretarial matters in December 1988. Prior to joining the Company, Ms. Qian has been a supervisor of Jiangsu Goldenland Real Estate Development Company Limited* (江蘇金大地房地產開發有限責任公司) since October 2007 and is responsible for the management of hotel and commercial real estate.

Ms. Qian is currently the deputy chairman of Shanghai Yuxing Charity Foundation* (上海宇興愛心慈善基金會), the vice president of Nanjing Jianye Hexi CBD Chamber of Commerce* (南京建鄴河西CBD商會) and the vice president of Jiangsu Chinese Overseas Friendship Association* (江蘇海外聯誼會).

Mr. Zhang Li, aged 28, has over 3 years of experience in financial management in the PRC. Mr. Zhang graduated from Hunan University of Commerce (湖南商學院), the PRC, with a bachelor's degree in finance in June 2010. He obtained a master's degree in science, specialising in quantitative finance, from DePaul University, the USA in March 2013. Mr. Zhang has passed the fund practitioner qualification examination* (基金從業人員資格考試) of the Asset Management Association of China (中國證券投資基金業協會). Prior to joining the Company, Mr. Zhang had worked as an investment manager in BOC Expresspay Company Limited (中銀通支付商務有限公司) and was responsible for equity investment and project analysis between July 2013 and September 2015. From March 2016, Mr. Zhang has been a senior investment manager in the securities investment department of Shanghai Huahu Golden Equity Investment Fund Management Company Limited* (上海華滬金瑞股權投資基金管理有限公司).

Independent non-executive Directors

Mr. TSUI Pui Hung, **Walter**, aged 42, is a practicing solicitor of the High Court of Hong Kong. Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong, a Postgraduate Certificate in Laws from University of Hong Kong and a Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company. He was an independent non-executive director of Unlimited Creativity Holdings Limited (Stock Code: 8079) from 12 June 2007 to 30 June 2014.

Mr. TANG Ping Sum, aged 60, obtained a bachelor degree of commerce from University of Western Australia in December 1981 and a master degree of applied finance from Macquarie University, Australia in April 1992. He is a certified practicing accountant of Australia and was a fellow member of the Hong Kong Institute of Certified Public Accountants until 2007. Mr. Tang has over 16 years' experiences in the securities industry in Hong Kong.

From March 2003 to December 2006, Mr. Tang was an independent non-executive director of Cosmopolitan International Holdings Limited (stock code: 120), a company listed on the Stock Exchange. He was an independent non-executive director of Sino Resources Group Limited (stock code: 223), a company listed on the Stock Exchange, from 30 April 2009 to 31 December 2010; and a non-executive director of Univision Engineering Limited (AIM code: UVEL), a company listed on the Alternative Investment Market of the London Stock Exchange, from December 2005 to December 2011. He was an independent non-executive director of China Investment Development Limited (stock code: 204), a company listed on the Stock Exchange, from 6 April 2011 to 1 February 2014.

Mr. CHIU Sin Nang, Kenny, aged 55, has over 20 years of experience in accounting. He has held various senior accounting and finance positions in sectors of property investment and development, information technology development business.

Mr. Chiu is a fellow member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. He received a Master of Accountancy degree from The Chinese University of Hong Kong in December, 2006, a Bachelor of Laws degree from the Peking University, the PRC in July, 1998, a degree of Master of Commerce in Accounting from The University of New South Wales, Australia in May, 1989, a Bachelor of Administrative Studies degree and a Bachelor of Arts (Economics) degree from the York University, Canada in June, 1986 and June, 1985 respectively.

Mr. Gao Hong, aged 39, has extensive experience in corporate finance. Mr. Gao graduated from HEC Lausanne, Switzerland in 2000 with a bachelor's degree in Finance and obtained a master degree in Finance from the same university in 2002.

Mr. Gao joined Delta International CDS, Switzerland in 2003 and is currently one of its directors/ partners. He has been the chief representative of Delta International CDS SA Beijing Representative Office since July 2006, fully in charge of the investment business in Asia Pacific area.

Mr. Gao was appointed as an executive director of Harmonic Strait Financial Holdings Limited (Stock code: 33) ("Harmonic Strait") on 9 October 2014. He was subsequently removed as an executive director by the board of directors of Harmonic Strait pursuant to its articles of association with effect from 23 November 2014.

Mr. Gao was awarded the "China Venture Capital 10 year cutting-edge Investor" prize jointly issued by Financial Research Institute under the State Council Development Research Centre, Beijing Equity Exchange, the International Research Centre for equity investment and the International Financiers Association in 2008.

Independent Auditor's Report

TO THE SHAREHOLDERS OF NINE EXPRESS LIMITED
(FORMERLY KNOWN AS "CHEUNG WO INTERNATIONAL HOLDINGS LIMITED")
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

Opinion

We have audited the consolidated financial statements of Nine Express Limited (formerly known as "Cheung Wo International Holdings Limited") and its subsidiaries (the "Group") set out on pages 60 to 151, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements, which indicates that, as at 31 December 2016, the Group had total current liabilities of approximately HK$592,879,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$24,010,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK$328,714,000 and had cash outflow from operating activities of approximately HK$617,000 for the year ended 31 December 2016. The Group's other loan with carrying amount of approximately HK$153,459,000 will mature in January 2018. These events or conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

1. Impairment assessment of investment in an associate – Ever-Grand Development Limited;

2. Impairment assessment of available-for-sale financial asset stated at cost – Broad World Holdings Limited;

3. Provisions and contingent liabilities related to the withholding tax obligation;

4. Impairment of property, plant and equipment, land use rights and prepayments to constructors attributable to the Hotel CGU; and

5. Net realisable value of property developments in progress.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of investment in an associate – Ever-Grand Development Limited ("Ever-Grand") Refer to Note 18 to the consolidated financial statements As at the end of the reporting period, the Group had 49% equity interest in Ever-Grand and its subsidiaries (collectively the "Ever-Grand Group"), which are principally engaged in the construction and operation of a steam heat distribution system. Due to delay in pipeline construction, the Group's management performed an impairment assessment based on revised projected cash flows and an impairment loss of HK$148,674,000 on the investment in the associate was made for the year ended 31 December 2016. The impairment assessment is based on a value in use model which is dependent on certain key assumptions that require significant management judgement and estimation.	Our procedures in relation to management's impairment assessment included: – Evaluation of the independent external valuers' competence, capabilities and objectivity; – Assessing the integrity of the valuation model; – Challenging the reasonableness of key assumptions based on our knowledge of the business and industry, the feasibility study for the project and the steam supply contract terms; – Checking input data to supporting evidence, including the feasibility study and approved business plans and considering the historical accuracy of management's business plans; and – Assessing the appropriateness of the discount rate used with the assistance of our internal valuation specialists.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Impairment assessment of available-for-sale financial asset stated at cost – Broad World Holdings Limited ("Broad World") Refer to Note 19 to the consolidated financial statements As at the end of the reporting period, the Group had 19% equity interest in Broad World stated at cost of HK$82,680,000 before impairment. Broad World is engaged in provision of advisory and marketing services to real estate developers in the People's Republic of China (the "PRC"). The sluggish property market of the PRC has increased the risk that the carrying value of Broad World may be impaired. Management determined that there was an impairment loss of HK$20,008,000 in respect of the investment in Broad World as at 31 December 2016. This determination was based on management's assessment of the present value of the investment's estimated future cash flows discounted at the current market rate of return for a similar financial asset. This assessment required significant management judgement and estimation.	Our procedures in relation to management's impairment assessment included: – Evaluation of the independent external valuers' competence, capabilities and objectivity; – Assessing the integrity of the valuation model; – Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; – Checking input data to supporting evidence, including approved business plans and considering the historical accuracy of management's business plans; and – Assessing the appropriateness of the discount rate used with the assistance of our internal valuation specialists.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Provisions and contingent liabilities related to the withholding tax obligation Refer to Notes 5(b), 18 and 41 to the consolidated financial statements The Group completed the acquisition of 49% equity interest in Ever-Grand Group on 30 March 2016. The directors have assessed the financial impacts of the Group's non-compliance with the PRC tax laws and regulations relevant to the transaction as fully described in Note 41 based on a legal opinion obtained from an independent PRC legal counsel. Significant management judgment is required in determining any provisions for withholding taxes and whether contingent liability disclosures are required for potential penalties related to non-compliance with relevant PRC tax laws and regulations.	Our procedures in relation to the provisions and contingent liabilities related to the withholding tax obligation included: – Evaluation of the independent legal counsel's competence, capabilities and objectivity; – Reviewing the legal opinion obtained by the Group in relation to the Group's non-compliance with the PRC tax laws and regulations relevant to the transaction; – Assessing the provision for withholding tax and comparing our assessment with the provision recorded by the Group; – Assessing whether it is appropriate that any penalties related to the non-compliance should be disclosed as a contingent liability in accordance with applicable accounting standards; and – Assessing the adequacy of the disclosures of the contingent liabilities arising from the potential penalties for the non-compliance.

Key Audit Matter	How our audit addressed the Key Audit Matter
4. Impairment of property, plant and equipment, land use rights and prepayments to constructors attributable to the Hotel CGU Refer to Notes 14, 15, 22 and 23 to the consolidated financial statements The Group has a hotel CGU containing a hotel under construction of HK$64,453,000, land use rights of HK$79,285,000 and prepayments to constructors of HK$15,004,000 as at 31 December 2016. Due to delay in hotel construction, management performed an impairment test based on revised cash flow projections and no impairment was made for the year ended 31 December 2016. The impairment assessment is based on a value in use model which is dependent on certain key assumptions that require significant management judgement and estimation.	Our procedures in relation to management's impairment assessment included: – Evaluating the independent external valuers' competence, capabilities and objectivity; – Assessing the integrity of the valuation model; – Challenging the reasonableness of key assumptions based on our knowledge of the business and industry, and our consideration of market data; – Reconciling input data to supporting evidence including approved budgets and considering the historical accuracy of management's budgets; – Site inspection of the hotel under construction to confirm existence and evaluate the progress of construction; – Reviewing survey reports of the construction in progress; and – Assessing the appropriateness of the discount rate used with the assistance of our internal valuation specialists.

Key Audit Matter	How our audit addressed the Key Audit Matter
5. Net realisable value of property developments in progress Refer to Note 20 to the consolidated financial statements The Group had property developments in progress with a carrying value of HK$1,035,652,000 as at 31 December 2016 after net realizable value write-downs. Due to the sluggish recovery of the residential properties market in the PRC, the Group's management has reassessed the net realisable value of its property developments in progress. A write down of HK$46,953,000 has been recorded to reduce the carrying value of property developments in progress to its net realisable value. The determination of net realisable value is dependent on certain key assumptions that require significant management judgement and estimation, including costs of completion and selling price per residential unit.	Our procedures in relation to management's assessment of the net realisable value of property developments in progress included: – Evaluating the independent external valuers' competence, capabilities and objectivity; – Challenging the reasonableness of key assumptions based on our knowledge of the business and industry, including recent sale price of similar properties; – Checking input data to supporting evidence including approved development plan and sales plan and considering the historical accuracy of management's plans and budgets; and – Physically visiting the construction sites to confirm the existence and evaluate the progress of construction.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all the information in Nine Express Limited's 2016 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chris Wong Wo Cheung.

RSM Hong Kong
Certified Public Accountants
Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

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

Details of dividend are disclosed in note 12 to the consolidated financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2016

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

Consolidated Statement of Financial Position

As at 31 December 2016

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

Consolidated Statement of Financial Position

As at 31 December 2016

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

Approved by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Xiang Junjie
Director

Zhang Li
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

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

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

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

2. BASIS OF PREPARATION *(Continued)*

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

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

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

(a) Application of new and revised HKFRSs

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

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

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

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

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

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

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

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

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

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

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

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

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

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

HKFRS 9 Financial Instruments

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

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

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

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

HKFRS 9 Financial Instruments (Continued)

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

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

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

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

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

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

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

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

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

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

HKFRS 16 Leases

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

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

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

HKFRS 16 Leases (Continued)

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation

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

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

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

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

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

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

(b) Business combination and goodwill

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(c) Associates

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

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

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

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

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

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

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

(e) Property, plant and equipment

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

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

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

Leasehold land and buildings	Shorter of remaining lease term or useful life
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms or 20%
Motor vehicles	10% – 25%
Plant, machinery and equipment	20% – $33^1/_3$%

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

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

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

(f) Investment properties

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Film rights

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

(h) Leases

The Group as lessee

(i) Operating leases

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

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

(ii) Finance leases

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

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

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

The Group as lessor

Operating leases

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

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

(j) Properties development in progress

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

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

(k) Recognition and derecognition of financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Financial assets

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

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

(o) Financial liabilities and equity instruments

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

(p) Borrowings

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

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

(q) Convertible notes

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible notes *(Continued)*

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

(r) Trade and other payables

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

(s) Equity instruments

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

(t) Revenue recognition

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

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

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

(u) Employee benefits

(i) Employee leave entitlements

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

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(v) Share-based payments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Borrowing costs

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

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

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

(x) Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Taxation *(Continued)*

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

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

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

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

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

(y) PRC land appreciation tax ("LAT")

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Impairment of non-financial assets

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

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

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

(aa) Impairment of financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(bb) Provisions and contingent liabilities

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

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

(cc) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

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

Critical judgements in applying accounting policies *(Continued)*

(a) Classification of investment

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

(b) Contingent liabilities

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

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

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

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

Key source of estimation uncertainty

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

(a) *Estimation of fair value of investment properties*

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

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

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

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

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

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

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

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

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

Key source of estimation uncertainty *(Continued)*

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

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

(d) *Net realisable value of properties development in progress*

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

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

(e) *Impairment of trade and rental receivables and prepayments*

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

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

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

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

Key source of estimation uncertainty *(Continued)*

(f) Impairment of investments in associates

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

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

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

(g) Income taxes (including VAT)

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

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

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

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

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

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

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

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

Key source of estimation uncertainty *(Continued)*

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

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

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

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

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

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

6. SEGMENT INFORMATION

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

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

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

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

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

6. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

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

As at 31 December 2016

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

6. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

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

As at 31 December 2015

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

6. SEGMENT INFORMATION *(Continued)*

(a) Geographical information

2016

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

2015

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

(b) Information about major customers

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

7. REVENUE, OTHER INCOME AND GAINS

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

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

8. FINANCE COSTS – NET

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

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

9. EXPENSES BY NATURE

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

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

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

(a) Directors' and chief executive's emoluments

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

2016

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

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

(a) Directors' and chief executive's emoluments *(Continued)*

Note:

(i) Appointed on 31 March 2016

(ii) Appointed on 3 June 2016 and resigned on 18 August 2016

(iii) Appointed on 12 August 2016

(iv) Appointed on 13 December 2016

(v) Resigned on 31 March 2016

(vi) Resigned on 12 August 2016

(vii) Resigned on 13 December 2016

(viii) Appointed on 3 June 2016

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

(a) Directors' and chief executive's emoluments *(Continued)*

2015

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

Note:

(i) Resigned on 21 September 2015

(ii) Appointed on 15 September 2015

(iii) Appointed on 16 October 2015

(iv) Resigned on 22 June 2015

(v) Appointed on 23 June 2015

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

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

(b) Emoluments of five-highest paid individuals

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

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

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

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

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

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

11. INCOME TAX CREDIT

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

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

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

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

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

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

12. DIVIDEND

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

13. LOSS PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

15. LAND USE RIGHTS

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

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

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

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

16. INVESTMENT PROPERTIES

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

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

17. INVESTMENTS IN SUBSIDIARIES

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

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

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

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

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

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

18. INVESTMENTS IN ASSOCIATES

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

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

18. INVESTMENTS IN ASSOCIATES *(Continued)*

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

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

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

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

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

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

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information on the associates

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

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

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised statement of profit or loss and other comprehensive income

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

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

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

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes:

(a) In accordance with the shareholders agreement dated 21 June 2010 entered into between the Group and Filmko, the Group's profit sharing ratio to Talent Films' profit is 35%.

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

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

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

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

On 30 March 2016, the acquisition was completed.

(d) As at 31 December 2015, other assets of Broad World include HK$80,000,000 advance to an external PRC property developer and HK$69,000,000 advance to two related companies. Further details on advance to two related parties are set out in note 40(i)(b).

(e) For impairment assessment, the Group had estimated the value in use of Ever-Grand, based on the share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operation of the associate and the proceeds from the ultimate disposal of the investment. For the year ended 31 December 2016, due to delay in pipeline construction, an impairment loss of HK$148,674,000 was recognised in profit or loss. The pre-tax discount rate used was 19.4%.

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Notes:

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

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

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

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

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

20. PROPERTIES DEVELOPMENT IN PROGRESS

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

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

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

21. TRADE AND RENTAL RECEIVABLES

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

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

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

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

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

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

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

21. TRADE AND RENTAL RECEIVABLES *(Continued)*

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

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

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

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

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

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

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

22. PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

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

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

23. IMPAIRMENT LOSS ON HOTEL DEVELOPMENT

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

As at 31 December 2015, the Group carried out review of recoverable amount of its hotel development operation having regard to the latest market conditions. In particular the deterioration of hotel occupancy rates in Changsha region and Hunan province in the fourth quarter of 2015 which indicated that hotel room oversupply coupled with economic headwind would endure longer than expected. The hotel development operation is a cash-generating unit ("CGU") within property and hotel development segment. The review led to the recognition of impairment losses of HK319,084,000, HK$194,235,000 and HK$90,854,000 for construction in progress (note 14), land use rights (note 15) and prepayment for construction costs (note 22), respectively. These impairment losses have been recognised in profit or loss. The recoverable amount of HK$164,410,000 for the relevant CGU has been determined on the basis of its value-in-use using discounted cash flow method. The pre-tax discount rate used was 14.27%.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

25. RESTRICTED BANK DEPOSITS

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

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

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

26. CASH AND CASH EQUIVALENTS

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

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

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

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

26. CASH AND CASH EQUIVALENTS *(Continued)*

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

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

27. TRADE PAYABLES

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

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

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

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

28. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

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

29. BORROWINGS

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

29. BORROWINGS *(Continued)*

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

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

(i) At 31 December 2016, the Group's bank borrowing of HK$627,000 (2015: HK$839,000) was secured by the leasehold land and buildings with a net carrying amount of HK$672,000 (2015: HK$699,000) and was interest-bearing at prime rate minus 1.5% per annum (2015: same).

(ii) At 31 December 2016, the Group's bank borrowing of HK$192,372,000 (2015: HK$236,323,000) was secured by the Group's land use right and construction in progress with a net carrying amount of HK$79,285,000 (2015: HK$92,435,000) and HK$64,453,000 (2015: HK$56,023,000) respectively. According to the repayment terms, the bank borrowing will be repayable from 2016 to 2021. The bank borrowing was interest-bearing per annum at the benchmark interest rate determined by the People's Bank of China for loans over 5 years granted by financial institutions (2015: same).

(iii) At 31 December 2015, the Group's bank borrowing of HK$295,404,000 was secured by the Group's properties development in progress with a net carrying amount of HK$469,374,000. The bank borrowing was repaid in August 2016. The bank borrowing was interest-bearing at 7.6% per annum.

(iv) At 31 December 2016, the Group's bank borrowing of HK$275,061,000 was secured by the Group's properties development in progress with a net carrying amount of HK$441,466,000. According to the repayment terms, the bank borrowing will be repayable in August 2017. The bank borrowing was interest-bearing at 9% per annum.

(v) At 31 December 2016, the Group's bank borrowing of HK$11,000 (2015: HK$118,000) was secured by the Group's bank deposits of HK$17,000 (2015: HK$142,000). The bank borrowing was interest-bearing at 4.40% per annum.

29. BORROWINGS *(Continued)*

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

The other borrowing was secured and guaranteed by:

(a) share charges over certain subsidiaries of the Group, namely Cheung Wo (Hunan), Brilliant Field, Sino Step, Profit Source and Chengdu Zhongfa. At 31 December 2016, the aforementioned subsidiaries held properties, plant and equipment, land use rights, investment properties, prepayment and other receivables, properties development in progress, rental receivables, restricted bank deposits and cash and cash equivalents, amounting to HK$67,597,000, HK$79,285,000, HK$256,868,000, HK$25,591,000, HK$1,035,652,000, HK$10,197,000, HK$8,692,000 and HK$21,798,000 respectively;

(b) inter-companies loans, amounting to HK$3,341,095,000;

(c) a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a shareholder of the Company.

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

(vii) At 31 December 2016, the Group's bank overdraft of HK$2,981,000 was secured by the leasehold land and buildings with a net carrying amount of HK$672,000 and carried floating-rate interest based on the Prime Rate minus 1% per annum.

(viii) At 31 December 2016, the Group's loans from a shareholder were unsecured and non-interest bearing. Subsequent to the reporting period, the maturity dates of the loans were extended from January and February 2017 to April and May 2017 respectively.

(ix) At 31 December 2016, the Group's other loan was interest-free, unsecured and repayment on demand.

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

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

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

30. FINANCE LEASE PAYABLES

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

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

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

31. CONVERTIBLE NOTES

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

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

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

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

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

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

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

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

32. DEFERRED TAX

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

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

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

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

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

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

32. DEFERRED TAX *(Continued)*

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

Deferred tax liabilities

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

Deferred tax assets

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

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

33. SHARE CAPITAL

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

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

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

(a) On 25 November 2015, the Company completed a share placement by issuing 175,500,000 ordinary shares of HK$0.01 each at a placing price of HK$1.14 per placing share.

(b) During the year ended 31 December 2015, some of the warrant holders have exercised their subscription rights to subscribe for 7,141,000 and 1,800,000 ordinary shares of HK$0.01 each at a subscription price of HK$0.70 and HK$0.68 per share respectively.

(c) On 7 and 11 April 2016, convertible notes with principal amount of HK$378,540,000 and HK$252,360,000 were converted into 473,175,000 and 315,450,000 ordinary shares of HK$0.01 each at a conversion price of HK$0.80 each per conversion share.

34. WARRANTS

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

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

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

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

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

34. WARRANTS *(Continued)*

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

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

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

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

(a) Statement of financial position of the Company

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

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

(a) Statement of financial position of the Company *(Continued)*

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

Approved by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Xiang Junjie
Director

Zhang Li
Director

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

(b) Reserve movement of the Company

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

36. RESERVES

(a) Group

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

36. RESERVES *(Continued)*

(b) Nature and purpose of reserves

(i) Share premium reserve

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

(ii) Contributed surplus reserve

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

(iii) Exchange reserve

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

(iv) Special reserve

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

(v) Equity component of the convertible notes

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

(vi) Share options reserve

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

36. RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(vii) Warrants reserve

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

(viii) Other reserve

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

37. SHARE-BASED PAYMENTS

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

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

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

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

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

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

38. OPERATING LEASE COMMITMENTS

(a) As lessor

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

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

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

(b) As lessee

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

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

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

39. CAPITAL COMMITMENTS

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

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

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

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

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

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

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

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

40. RELATED PARTY DISCLOSURES *(Continued)*

(i) Related party transactions *(Continued)*

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

(ii) Compensation of key management personnel

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

41. CONTINGENT LIABILITIES

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

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

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

41. CONTINGENT LIABILITIES *(Continued)*

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

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

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Available-for-sale financial assets	167,722	105,050
Trade and rental receivables	10,642	10,726
Other receivables	8,166	11,906
Financial assets at fair value through profit or loss (contingent consideration receivable)	87,631	–
Restricted bank deposits	8,692	2,561
Cash and cash equivalents	24,010	57,175
	306,863	187,418

	2016 HK$'000	2015 HK$'000
Financial liabilities		
Trade payables	18,146	28,031
Other payables	116,451	10,371
Accruals	7,042	5,474
Accrued interest expense	21,508	21,929
Borrowings	697,685	684,764
Finance lease payables	–	1,018
Convertible notes	136,828	–
	997,660	751,587

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

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

(b) Foreign currency risk

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk

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

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

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

(d) Liquidity risk

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

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

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

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

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

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

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital management

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

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

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

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

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

(f) Fair value estimation

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Fair value estimation *(Continued)*

The carrying value less impairment provision of trade, rental and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Disclosures of the investment properties and financial assets at fair value through profit or loss that are measured at fair value at 31 December 2016 are set out in note 16 and note 24 respectively.

(g) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements for years ended 31 December 2016 and 2015.

44. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset and liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

44. FAIR VALUE MEASUREMENTS *(Continued)*

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2016 HK$'000
Recurring fair value measurements:				
Financial assets				
Financial asset at fair value through profit or loss:				
Contingent consideration receivable	–	–	87,631	87,631
Investment properties				
Shopping mall – the PRC	–	–	241,165	241,165
Villas – the PRC	–	–	15,703	15,703
	–	–	256,868	256,868
Total	–	–	344,499	344,499

Description	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2015 HK$'000
Recurring fair value measurements:				
Investment properties				
Shopping mall – the PRC	–	–	272,953	272,953
Total	–	–	272,953	272,953

44. FAIR VALUE MEASUREMENTS *(Continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment properties– Shopping mall HK$'000	Investment properties– Villas HK$'000	Contingent consideration receivable HK$'000	Total 2016 HK$'000
At beginning of year	272,953	–	–	272,953
Additions	–	21,920	–	21,920
Total gains or losses recognised in profit or loss [#]	(16,298)	(5,147)	87,631	66,186
Exchange realignment	(15,490)	(1,070)	–	(16,560)
At end of year	241,165	15,703	87,631	344,499
[#] Include gains or losses for assets held at end of reporting period	(16,298)	(5,147)	87,631	66,186

	Investment properties– Shopping mall HK$'000	Total 2015 HK$'000
At beginning of year	338,074	338,074
Additions	–	–
Total losses recognised in profit or loss [#]	(48,780)	(48,780)
Exchange realignment	(16,341)	(16,341)
At end of year	272,953	272,953
[#] Include losses for assets held at end of reporting period	(48,780)	(48,780)

All the gains or losses recognised in profit or loss for the year arise from the fair value loss on investment properties and the fair value gain on contingent consideration receivable held at the end of reporting period.

44. FAIR VALUE MEASUREMENTS *(Continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value	
					2016 HK$'000	2015 HK$'000
Shopping mall – the PRC	Income approach (term and reversionary method)	Term yield	2% – 4% (2015: ditto)	Decrease	241,165	272,953
		Reversionary yield	7% (2015: ditto)	Decrease		
		Market unit rent	RMB131-218 per sq. m. (2015: RMB126-210 per sq. m.)	Increase		
Villas – the PRC	Direct comparison approach	Asking discount	-10% (2015: N/A)	Decrease	15,703	N/A
		Condition discount	-10% – 0% (2015: N/A)	Decrease		
		Size discount	-2% – 0.2% (2015: N/A)	Decrease		
Contingent consideration receivable	Discounted cash flow approach	Discount rate	11.13% (2015: N/A)	Decrease	87,631	N/A
		Expected profit after tax attributable to the Group from the new business acquired	2017: HK$2,993,000 2018: HK$90,302,000 (2015: N/A)	Decrease		

44. FAIR VALUE MEASUREMENTS *(Continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: ***(Continued)***

Level 3 fair value measurements (Continued)

For the shopping mall in the PRC, the valuation was based on income capitalisation approach (term and reversionary method) which largely involves unobservable inputs (e.g. market rent, yield, etc) and taking into account the significant adjustment on yields to accounts for the security of the existing tenancies, and the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

For the villas in the PRC, the valuation was based on direct comparison approach which largely involves recent selling prices and taking into account of several unobservable inputs (e.g. asking discount, condition discount, size discount, etc).

For contingent consideration receivable, the valuation was based on discounted cash flow approach which largely involves unobservable inputs (e.g. discount rate, the expected profit after tax derived attributable to the Group from the new business acquired, etc) and taking into account profitability on best, normal and worst scenario.

During the two years, there were no changes in the valuation techniques used.

Five Year Financial Summary

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Continuing operations revenue	**23,047**	24,422	27,127	26,801	34,813
Loss before income tax from continuing operations	**(332,830)**	(708,579)	(172,390)	(80,065)	(30,933)
Income tax credit (expense)	**4,116**	65,041	(5,642)	14,489	13,590
Loss for the year	**(328,714)**	(643,538)	(178,032)	(65,576)	(17,343)
Attributable to:					
Owners of the Company	**(328,714)**	(643,538)	(178,032)	(65,576)	(17,422)
Non-controlling interests	**–**	–	–	–	79
	(328,714)	(643,538)	(178,032)	(65,576)	(17,343)

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Total assets	**2,662,260**	1,904,499	2,675,179	2,502,628	1,749,630
Total liabilities	**(1,215,423)**	(935,674)	(1,220,724)	(996,488)	(521,110)
	1,446,837	968,825	1,454,455	1,506,140	1,228,520
Attributable to:					
Owners of the Company	**1,446,837**	968,825	1,454,455	1,506,140	1,228,520
Non-controlling interests	**–**	–	–	–	–
	1,446,837	968,825	1,454,455	1,506,140	1,228,520