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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult an exchange participant or other securities dealer licensed as a licensed person under the Securities and Futures Ordinance, bank manager, solicitor, certified public accountant or other professional adviser.

If you have sold or transferred all your securities in CNC Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, exchange participant or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CNC HOLDINGS LIMITED

中國新華電視控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8356)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF 100% INTEREST IN SHENZHEN CC PARK;

(2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE THE CONSIDERATION SHARES;

(3) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR; AND

(4) NOTICE OF EGM

**Independent Financial Adviser
to the Independent Board Committee and the Shareholders**



長江證券融資(香港)有限公司
CHANGJIANG CORPORATE FINANCE (HK) LIMITED

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

A letter from the Board is set out from pages 7 to 28 of this circular. A letter from the Independent Board Committee is set out on page 29 to 30 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders, is set out from pages 31 to 61 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 2708-2710, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Monday, 14 November 2016 at 11:00 a.m. is set out on pages 239 to 241 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon, and return the same to the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the extraordinary general meeting (or any adjournment of such meeting) should you so wish.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for seven days from the date of its publication and on the website of the Company at <http://www.cncv.hk>.

28 October 2016

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, the following expressions have the meanings as set out below unless the context requires otherwise:

“2016 Net Profit”	the audited consolidated net profits attributable to shareholders (excluding any income or loss generated by activities outside the ordinary and usual course of the business) of the Target Group for the year ending 31 December 2016
“2017 Net Profit”	the audited consolidated net profits attributable to shareholders (excluding any income or loss generated by activities outside the ordinary and usual course of the business) of the Target Group for the year ending 31 December 2017
“2018 Net Profit”	the audited consolidated net profits attributable to shareholders (excluding any income or loss generated by activities outside the ordinary and usual course of the business) of the Target Group for the year ending 31 December 2018
“2016 Net Profit Shortfall”	the difference between the 2016 Net Profit and RMB50,000,000, where the 2016 Net Profit is less than RMB50,000,000
“2017 Net Profit Shortfall”	the difference between the 2017 Net Profit and RMB50,000,000, where the 2017 Net Profit is less than RMB50,000,000
“2018 Net Profit Shortfall”	the difference between the 2018 Net Profit and RMB50,000,000, where the 2018 Net Profit is less than RMB50,000,000
“Acquisition”	the sale and purchase of the Target Shares contemplated under the Agreement
“Agreement”	the sale and purchase agreement dated 2 February 2016 entered into among the Vendors and the Purchaser in relation to the Acquisition, as amended, supplemented and restated from time to time

DEFINITIONS

“Articles”	the Articles of Association of the Company
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“China Xinhua News Network”	China Xinhua News Network Co. Limited, being an indirect wholly-owned subsidiary of Xinhua News Agency (新華社) and a substantial shareholder of the Company
“CNC China”	中國新華新聞電視網有限公司, a company incorporated in the PRC, which owns 100% of the equity interests in China Xinhua News Network, a wholly-owned subsidiary of Xinhua News Agency (新華社) and a substantial shareholder of the Company
“Completion”	completion of the Acquisition
“Completion Date”	the date of Completion which the second Business Day after the date on which the last of the applicable conditions precedent of the Agreement is satisfied or waived, as the case may be
“Company”	CNC Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the total consideration in the amount of HK\$600,000,000 (subject to adjustment, if any) in respect of the Acquisition pursuant to the Agreement
“Consideration Shares”	1,900,000,000 Shares (subject to adjustment, if any) to be issued by the Company to the Vendors at the issue price of HK\$0.20 per Share which will be issued and allotted to the Vendors upon Completion

DEFINITIONS

“Convertible Bonds”	the outstanding convertible bonds issued by the Company to China Xinhua News Network in the principal amount of HK\$257,030,210 which are convertible into new Shares at an issue price of HK\$0.196 per Share
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder, including the Acquisition and the grant of the Specific Mandate for the allotment and issue of Consideration Shares and the appointment of Mr. Li as a new executive Director
“Enlarged Group”	the Group as enlarged by the Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely, The Hon. Ip Kwok Him, <i>GBS, JP</i> , Mr. Wan Chi Keung, Aaron <i>BBS, JP</i> , Mr. Jin Hai Tao and Mr. Wong Chung Yip, Kenneth, which was established to advise the Shareholders in respect of, among others, the Acquisition
“Independent Financial Adviser” or “Changjiang”	Changjiang Corporate Finance (HK) Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity
“Independent Shareholders”	shareholders who are not required to abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder, including the Acquisition and the grant of the Specific Mandate for the allotment and issue of Consideration Shares and the appointment of Mr. Li as a new executive Director

DEFINITIONS

“Last Trading Date”	1 February 2016, being the last trading date of the Company prior to the publication of the announcement of the Company in respect of, among others, the Acquisition
“Latest Practicable Date”	24 October 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Mr. Li”	Mr. Li Yinfa, a natural person and the indirect owner of 90% equity interest in the Target Company as at the Latest Practicable Date
“Ms. Li”	Ms. Li Yanyun, a natural person and the indirect owner of 10% equity interest in the Target Company as at the Latest Practicable Date
“PRC”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Profit Guarantee Retained Consideration”	HK\$60,000,000 (subject to adjustment, if any) payable by the Purchaser to the Vendors after Completion and subject to the determination of the 2016 Net Profit pursuant to the terms of the Agreement
“Promissory Note”	the issue of an interest-free unsecured three-year term promissory note in the principal amount of HK\$160,000,000 by the Purchaser to the Vendors upon Completion
“Purchaser”	Succeed Capital Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended or otherwise modified from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen CC Park”	Shenzhen City Culture Creative Park* (深圳市文化創意園)
“Shenzhen Zishengfa”	Shenzhen Zishengfa Property Services Co., Ltd.* (深圳市梓盛發物業服務有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Target Company
“Specific Mandate”	specific mandate to allot and issue the Consideration Shares upon Completion to be sought from the Shareholders at the EGM
“sq.m.”	square metre
“Subleasing Right”	the right to sublease properties of the Shenzhen CC Park
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC
“Target Company”	Shenzhen City Century Culture Creative Limited* (深圳市世紀文化創意有限公司), a company established under the laws of the PRC with limited liability and is indirectly owned by Mr. Li and Ms. Li as to 90% and 10% respectively
“Target Group”	the Target Company and Shenzhen Zishengfa
“Target Shares”	an aggregate of 100% equity interest in the Target Company, which is indirectly owned by Mr. Li and Ms. Li as to as to 90% and 10% respectively

* For identification purposes only

DEFINITIONS

“Vendors”	Mr. Li and Ms. Li
“VSA Announcements”	the Company’s announcements dated 3 June 2016, 27 June 2016, 20 July 2016, 29 July 2016, 15 September 2016 and 20 October 2016 in relation to the Acquisition
“%”	per cent.

For the purposes of this circular, the exchange rate of HK\$1.00 = RMB0.86 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at the above rate or at any other rates or at all.

LETTER FROM THE BOARD



CNC HOLDINGS LIMITED

中國新華電視控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8356)

Executive Directors:

Mr. Zhang Hao
Mr. Zou Chen Dong
Mr. Kan Kwok Cheung
Mr. Chia Kar Hin, Eric John

Non-executive Director:

Dr. Li Yong Sheng

Independent Non-executive Directors:

The Hon. Ip Kwok Him, *GBS, JP*
Mr. Wan Chi Keung, Aaron, *BBS, JP*
Mr. Jin Hai Tao
Mr. Wong Chung Yip, Kenneth

Registered Office:

Cricket Square
Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head Office and Principal Place of

Business in Hong Kong:
Suites 2708-10, 27/F.,
Dah Sing Financial Centre,
108 Gloucester Road, Wanchai,
Hong Kong

28 October 2016

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED ACQUISITION OF 100% INTEREST
IN SHENZHEN CC PARK;**

**(2) PROPOSED GRANT OF SPECIFIC MANDATE
TO ISSUE THE CONSIDERATION SHARES;**

(3) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR; AND

(4) NOTICE OF EGM

INTRODUCTION

Reference is made to the VSA Announcements, in which the Board announced that on 2 February 2016, the Purchaser (being a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares for a total consideration of HK\$600,000,000. Upon Completion, the Purchaser will hold 100% of the equity interest in the Target Company and the Target Company will become a wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) pro forma financial information of the Enlarged Group; (v) letters in relation to the profit forecast under the valuation on the Target Group; (vi) a notice convening the EGM; and (vii) other disclosures required under the GEM Listing Rules.

THE ACQUISITION

Principal terms of the Agreement are set out as follows:

Date

2 February 2016 (as amended, supplemented and restated from time to time)

Parties

- (a) the Purchaser
- (b) the Vendors, namely, Mr. Li and Ms. Li

The Purchaser is a wholly-owned subsidiary of the Company and is an investment holding company.

The Company is an investment holding company and the shares of which are listed on GEM. The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertising business in PRC.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, as at the date of the Agreement:

- (i) the Target Company is a company established in the PRC with an initial registered capital of RMB6,000,000. As of the date of the Agreement, the Target Company had a registered capital of RMB40,800,000 and was indirectly held by the Vendors; and
- (ii) each of the Vendors is a an individual who is a third party independent of the Company and its connected persons.

LETTER FROM THE BOARD

Subject matter to be acquired

The Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares, representing 100% of the registered capital of the Target Company.

Further information regarding the Target Group is set out in the paragraph headed “Information on the Target Group” below.

Consideration

The Consideration is HK\$600,000,000, which is to be satisfied by the Purchaser and the Company at Completion in the following manner:

- (i) the issue of the Promissory Note in the principal amount of HK\$160,000,000 by the Purchaser to the Vendors upon Completion; and
- (ii) the issue and allotment of 1,900,000,000 Consideration Shares by the Company to the Vendors upon Completion.

The Profit Guarantee Retained Consideration in an amount of HK\$60,000,000 (subject to adjustment, if any) will be payable by the Purchaser to the Vendors after Completion and after subject to the determination of the 2016 Net Profit pursuant to the terms of the Agreement. Please see the paragraph below headed “Adjustments to the Consideration and Profit Guarantee” for further details in relation to the Profit Guarantee Retained Consideration.

Accordingly, the Consideration will be settled by a combination of the issuance of the Promissory Note, the issue and allotment of the Consideration Shares and, if any, the Profit Guarantee Retained Consideration, which will be funded by the Group’s internal resources.

Adjustments to the Consideration and Profit Guarantee

Pursuant to the Agreement, the Purchaser has an absolute discretion to adjust the portion of the Consideration Shares if, as a result of the issue and allotment of the Consideration Shares to the Vendors, (i) the Vendors and their concert parties may own 30% or more of the voting rights of the Company; (ii) a mandatory general offer under the Takeovers Code in respect of the Shares will be triggered on the part of the Vendors and their concert parties; or (iii) the transactions contemplated under the Agreement will be regarded as a reverse takeover of the Company under the GEM Listing Rules.

LETTER FROM THE BOARD

The Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000 (in each case, except for reason due to occurrence of force majeure events (such as natural disaster, war etc.), the acceptance of such exception to the sole discretion of the Purchaser), and agree to indemnify the Purchaser jointly and severally, on a dollar-for-dollar basis, of any 2016 Net Profit Shortfall, 2017 Net Profit Shortfall and 2018 Net Profit Shortfall. According to the Agreement, for the purpose of the profit guarantee under the 2016 Net Profit, the Profit Guarantee Retained Consideration (i.e. HK\$60,000,000 (subject to adjustment, if any)) will not be paid to the Vendors upon Completion pending determination of whether the 2016 Net Profit will be met. Upon the occurrence of a 2016 Net Profit Shortfall, the Purchaser may reduce the portion or the whole of the Profit Guarantee Retained Consideration.

Basis of Consideration

The Consideration was arrived at after arm's length negotiations between the parties and was determined with reference to, among other things, the financial performance and business development and prospects of the Target Group. The Consideration was determined with reference to the valuation of the Target Group at HK\$621 million as at 30 June 2016 by an independent valuer using the income approach. Such result of valuation on the Target Group has been confirmed in the valuation report issued by the independent valuer, the text of which is set out in Appendix V of this circular.

The following assumptions have been adopted in the valuation of the Target Group:

- all licenses issued by any authorised entity that will materially affect the operation of the Target Company have been obtained or can be obtained upon request;
- there will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where the Target Company operates;
- the market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- the core operation of the Target Company will not differ materially from those of present or expected;
- the information in respect of the Target Company have been prepared after due and careful consideration by the senior management of the Company;
- there will be no human disruptions or natural disasters that will materially affect the operation of the Target Company;
- the Target Company will be able to renew the lease agreements upon expiration that the new terms will be similar to the current agreements; and
- the financial guarantees provided by the Target Company will be discharged upon Completion.

LETTER FROM THE BOARD

Set out below is an extract of the valuation report dated 28 October 2016 issued by Stirling Appraisals Limited regarding the valuation of the Target Group as at 30 June 2016, which have been included in Appendix V of this circular:

“The Financial Forecast

Revenue

The projected revenue was prepared based on financial projections of the Target Company. Most of the revenue of the Target Company is the rental income. Having discussed with the senior management of the Company, it is forecasted that the competition of office rental market in Shenzhen will become intensive. The revenue growth was therefore expected to be decreased gradually in coming years. After five years, the revenue was projected to increase at a steady long-term growth rate of 3.00%, which was determined with reference to the 10-year historical average of inflation in the PRC. Having discussed with the senior management of the Company, it is considered that the adopted basis would be reasonably prudent. The table below presents the revenue.

Year	2016 (6 months)	2017	2018	2019	2020
Revenue (RMB'000)	74,151	156,332	161,011	165,842	170,817

Administrative and Other Operating Expenses

The administrative and other operating expenses comprise of the cost of subleasing business (including rental expense paid to the government, utility expense and sales tax), operating expenses (including repair and maintenance cost and staff cost associated with the property management business) and administrative expenses (including general office expense and administrative staff cost), it was determined with reference to the historical financial information of the Target Company and were projected to increase at a steady long-term growth rate after five years. The projected administrative and other operating expenses are presented in the following table:

Year	2016 (6 months)	2017	2018	2019	2020
Administrative and Other Operating Expenses (RMB'000)	40,074	75,222	77,479	79,803	82,197

LETTER FROM THE BOARD

Depreciation and Capital Expenditure

The fixed assets of the Target Company include leasehold improvement, plant and machinery, furniture, fixtures and equipment. The capital expenditure (CAPEX) was projected to maintain the fixed assets. The projected depreciation was calculated based on current fair value of net fixed asset and projected CAPEX. The table below presents the projected depreciation and CAPEX.

Year	2016 (6 months)	2017	2018	2019	2020
Depreciation (RMB'000)	5,154	10,996	11,730	12,513	13,348
CAPEX (RMB'000)	4,831	10,308	10,996	11,730	13,348

Net Working Capital

The net working capital (NWC) consists of receivables, payables and received and payments in advance. It was projected with reference to the historical financial information of the Target Company. The projected NWC and its change is presented as below table:

Year	2016 (6 months)	2017	2018	2019	2020
NWC (RMB'000)	(32,515)	(37,816)	(43,473)	(44,721)	(46,002)
Change of NWC (RMB'000)	(2,602)	(5,302)	(5,656)	(1,248)	(1,282)

Free Cash Flows

The projected free cash flows were as follows:

Year	2016 (6 months)	2017	2018	2019	2020
Free Cash Flow (RMB'000)	24,996	59,379	61,108	58,100	58,722"

As the valuation on the Target Group referred to above was prepared using the income approach, it is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules. A letter from HLB Hodgson Impey Cheng Limited, the reporting accountants of the Company, confirming that it has reviewed the accounting policies and calculations for the profit forecast, is set out in Appendix IV to this circular. A letter from the Board, confirming that it has made the profit forecast after due and careful enquiry, is also set out in Appendix IV to this circular.

LETTER FROM THE BOARD

Consideration Shares

The issue price of the Consideration Shares of HK\$0.20 per Share represents:

- (i) a discount of approximately 21.56% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 17.01% to the average closing price of approximately HK\$0.241 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 17.01% to the average closing price of approximately HK\$0.241 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 14.16% to the closing price of HK\$0.233 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The issue price of HK\$0.20 per Consideration Share was arrived at by the parties after arm's length negotiations taking into account, among other things, the historical trading prices of the Shares, the net asset value of the Company per Share as of 30 September 2015 (being HK\$0.004), the financial performance, business development and prospects of the Target Group, and the profit guarantee provided by the Vendors.

The Consideration Shares of 1,900,000,000 Shares represent (i) approximately 46.85% of the existing issued share capital of the Company; and (ii) approximately 28.06% of the enlarged issued share capital of the Company immediately upon Completion as more particularly described in the paragraph headed "Shareholding Structure of the Company" below.

As at the Latest Practicable Date, the Company has an authorised share capital of HK\$500,000,000 comprising 500,000,000,000 ordinary shares of HK\$0.001 each, of which 4,055,349,947 ordinary shares of HK\$0.001 each were in issue. The Consideration Shares, when issued, will rank *pari passu* in all respects with the existing Shares then in issue. The Company proposes to seek a special mandate from the Shareholders at the EGM for the issue and allotment of the Consideration Shares.

An application will be made to the Stock Exchange by the Company for the listing of, and permission to deal in, the Consideration Shares.

Lock-up Undertaking

Each of the Vendors undertakes to the Company and the Purchaser that it will not, amongst others, directly or indirectly dispose of, nor directly or indirectly enter into any agreement to dispose of, or announce its intention to do so, any of the Consideration Shares from the date of the Agreement up to the expiry of the 24-month period from the Completion Date.

LETTER FROM THE BOARD

Nomination of executive Director

Pursuant to the Agreement, the Vendors have the right to nominate a person as a new executive Director. The Vendors have indicated that they will nominate Mr. Li as the new executive Director and accordingly a resolution in this connection will be proposed to the Shareholders to consider at the EGM. The nomination committee of the Board has reviewed and considered the qualifications of Mr. Li and was of the view that leveraging on the experience and skills of Mr. Li, the Group would be better equipped for the development of the Group's business including the development of Shenzhen CC Park, therefore, agreed to nominate Mr. Li as a candidate for executive Director. So far as the Directors are aware, Mr. Li possesses wealth of experience in the PRC commercial sector and he has been taking a leading role in the business development of the Target Group, and also owns a number of other businesses in the PRC, including those in hospitality, tourism and property sectors. Although each of the Directors has expertise in distinct business segment which the Group operates, the Directors consider they have demonstrated ability to coherently manage different businesses within the Group. The Enlarged Group will be assisted by a team of senior management officers who will oversee the business operations of the Target Group (as part of Mr. Li's existing business group). The Directors believe that Mr. Li, together with the existing management members of the Group as a team, has sufficient expertise and experience to manage and operate the Shenzhen CC Park after Completion.

The biographical details of Mr. Li are set out as follows:

Mr. Li Yinfa (李吟發), aged 48, whose business address is situated at 5th Floor, Shenzhen City Culture Creative Park, Block B, 4001 Fu Qiang Road, Futian, Shenzhen (深圳市福田區福強路4001號深圳文化創意園B座5樓), is a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC)(廣東省政協委員) and a representative of the Heyuan Municipal People's Congress (河源市人民代表大會代表). In 1999, Mr. Li founded and is the chairman of Zi Sheng Fa Industrial Group Company Limited (梓盛發實業集團有限公司), a civilian-run conglomerate based in Shenzhen. Since 1999, Mr. Li has been elected to various membership positions in Guangdong's Chinese People's Political Consultative Conference and the People's Congress at the district, municipal, as well as provincial levels. Mr. Li obtained a bachelor's degree in economic management from the Southwest University of Political Science & Law (西南政法大學) in 2006. Mr. Li joined the Target Group since 1999 as chairman, and upon Completion, Mr. Li is expected to act as an executive Director and general manager of the Target Group.

As at the Latest Practicable Date, the Company had not entered into any service contract with Mr. Li in respect of his proposed role as an executive Director. Subject to the passing of relevant ordinary resolution at the EGM, his remuneration is subject to finalisation and agreement by the Board (or, as the case may be, the remuneration committee of the Company), having regard to (among other factors) his qualifications, experience, level of responsibilities to be undertaken and prevailing market conditions. The proposed appointment of Mr. Li as the executive Director will become effective after which ordinary resolution having been approved by the Shareholders at the EGM and upon Completion.

LETTER FROM THE BOARD

Save as disclosed above, Mr. Li confirmed that, as at the Latest Practicable Date, that he (i) did not hold any other positions with the Company or other members of the Group; (ii) did not have any relationships with any directors, senior management or substantial or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company; (iii) had not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; and (iv) did not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Save as disclosed above, Mr. Li confirmed that, as at the Latest Practicable Date, there was no other information to be disclosed pursuant to any of the requirements of Rule 17.50(2) of the GEM Listing Rules (particularly in relation to subparagraphs (h) to (v) therein) nor were there any other matters that need to be brought to the attention of the Shareholders relating to the appointment of Mr. Li.

Conditions to the Completion

The Completion is subject to the following conditions precedent:

- (a) due diligence investigation on, among other things, the value, business, operations, assets, liabilities, financial status and prospects of Target Group having been completed by the Purchaser and the results of such due diligence investigation being satisfactory to the Purchaser (including but not limited to any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group having been duly discharged to the satisfaction of the Purchaser);
- (b) the representations and warranties given by the Vendors remaining true and accurate in all respects and not misleading at Completion;
- (c) the Purchaser and the Company having obtained sufficient funding for the cash portion of the Consideration;
- (d) the consummation of the transactions contemplated under the Agreement does not (i) trigger a mandatory general offer obligation under the Takeovers Code on the part of the Vendors and their concert parties; (ii) constitute a reverse takeover of the Company under the GEM Listing Rules; or (iii) result in the Vendors (either individually or together) becoming the single largest Shareholder;

LETTER FROM THE BOARD

- (e) all consents, permits, authorisations, authorities and formal approvals (as the case may be) that each of the Purchaser and each of the Vendors considers reasonable pursuant to applicable laws, regulations or rules for the execution, implementation and Completion of the Agreement (including but not limited to the approval from the Shareholders as required under the GEM Listing Rules and the Stock Exchange's approval and clearance for (i) the allotment and issue of the New Consideration Shares and the listing thereof on the GEM, and (ii) the appointment of the person jointly nominated by the Vendors as an executive Director) having been obtained; and
- (f) all such consents, permits, authorisations, authorities and formal approvals as referred to above not having been revoked or withdrawn at any time up to Completion.

The Purchaser may waive all or any of the above conditions precedent (other than (a) (to the extent that any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group not having been discharged to the satisfaction of the Purchaser), (d), (e) and (f)) by notice to the Vendors on or before 31 December 2016. As at the Latest Practicable Date, the Purchaser had no intention to waive any of such conditions precedent. As at the Latest Practicable Date, none of the conditions precedent to Completion has been fulfilled.

If all of the conditions are not fulfilled or otherwise waived (as the case may be) on or before 31 December 2016, the Purchaser has the right to terminate the Agreement and all obligations of the parties under the Agreement shall end but all rights and liabilities of the parties which have accrued before termination shall continue to exist.

INFORMATION OF THE TARGET GROUP

The Target Company is a company established in the PRC with an initial registered capital of RMB6,000,000. As of the date of the Agreement, the Target Company had a registered capital of RMB40,800,000 and was indirectly held by the Vendors who are merchants in the PRC.

LETTER FROM THE BOARD

The primary business of the Target Group is the operation and management of the Shenzhen CC Park, which is located at the junction of South Xinzhou Road and Fuqiang Road in the Futian District of Shenzhen. Shenzhen CC Park is the first project in the cultural creative industry of Shenzhen. It was created under the idea of “Implementing industrial replacement and adjusting industrial structure, to achieve industrial advancement”* (實施產業置換，調整產業結構，實現產業升級), which won key support from the Shenzhen Municipal People’s Government. According to the approved land-use plans of Shenzhen, the Shenzhen CC Park is planned for type 2 residential and ancillary functions and cultural facilities function. Shenzhen CC Park covers a total site area of approximately 60,000 sq.m. with a gross floor area of nearly 180,000 sq.m., and is the largest integrated cultural industry cluster in the central area of Shenzhen. The park comprises two phases, being Phase I and Phase II of an aggregate floor area of 98,000 sq.m. and 74,000 sq.m. (including underground car park areas), respectively.

The Target Group operates and manages this park for rental income including management fee. As advised by the Vendors and the Target Group, the Target Group:

- provides value-added services to its clients, including sales and marketing, support on daily operation and management and customer services;
- organises promotional activities to stimulate consumption in the park from time to time;
- provides designated show rooms and exhibition areas for its clients to present their companies, cultural concept and products;
- provides supports in relation to intellectual property issues to its clients; and
- where appropriate and required, assists to introduce capital investment institutions to its clients via company presentation, management discussions and site visits.

According to the Target Company, it has applied and successfully enrolled the Shenzhen CC Park as one of the venues designated for the China (Shenzhen) International Cultural Industries Fair (ICIF). The Company understands from the Vendors and the Target Company that ICIF is the only international and comprehensive cultural industry fair at the national level and is jointly organised by the People’s Republic of China Ministry of Culture, People’s Republic of China Ministry of Commerce, the National Film and Television broadcast, People’s Republic of China Press and Publication Administration, China Council for the Promotion of International Trade, Guangdong Provincial People’s Government and the Shenzhen Municipal People’s Government, and that it is the only comprehensive cultural industry fair in China which has obtained UFI (Union of International Fairs) certification, and was included in the nation’s Cultural Development Plan during the “Eleventh Five-Year” as one of the key fairs to support.

* for identification purpose only

LETTER FROM THE BOARD

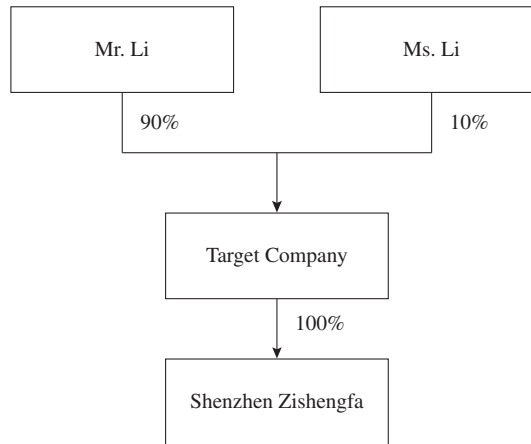
The land on which this park is located has been leased to the Target Group by the Government Property Management Centre of Futian District, Shenzhen City (深圳市福田区政府物業管理中心) for a term of up to 18 years. The terms for the lease agreements are up to 31 December 2022 for Phase I, and 23 February 2026 for Phase II, respectively. Pursuant to the lease agreements, the aggregate rent per month for Phase I and Phase II is approximately RMB2,215,000 and RMB1,438,000, respectively.

While the Target Group does not own the long term title certificate of the land of Shenzhen CC Park, it was granted the right to use such land for a total of 18 years pursuant to a lease agreement with a state-owned enterprise. The relevant lease agreements will terminate in case of government requisition, acquisition, recovery or removal. It is the Company's plan to renew such lease upon expiration. Furthermore, the Company believes that its substantial and single largest Shareholder, China Xinhua News Network, could provide assistance, where appropriate, in facilitating the communications and negotiations with the relevant parties for the proposed lease renewal on similar terms upon its expiration.

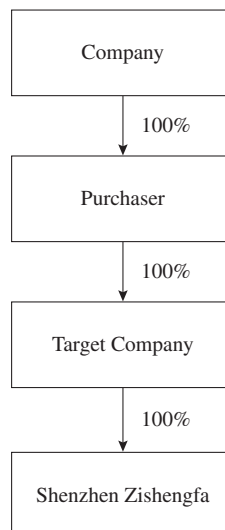
The principal business of the Target Group is to operate and manage the Shenzhen CC Park as venue for its tenants who are engaged in a variety of cultural-related industries to operate, manage and develop their business in the park. The Directors believe that the business model of the Target Group is key to the Acquisition, and in the event of an early termination of the Lease, the Company intends to utilise the management experience of Mr. Li and its senior management team and further explore opportunities to deploy similar business model at another location. The Company currently has no plan to acquire the long-term underlying land use right for the land where Shenzhen CC Park is located as this would require significant financial commitment. The Company believes that the existing business model of the Target Group provides the Group with flexibility in the working capital needs.

LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors, the following diagram sets out the simplified shareholding structure of the Target Group as at the Latest Practicable Date:



To the best of the knowledge, information and belief of the Directors, the following diagram sets out the expected simplified shareholding structure of the Target Group after Completion:



LETTER FROM THE BOARD

Set out below is the financial information of the Target Group based on the audited financial statements for the year ended 31 December 2014 and 31 December 2015 and six months ended 30 June 2016 extracted from Appendix II to this circular.

	For the year ended 31 December		For the six months ended
	2014	2015	30 June 2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	127,582	137,552	74,151
Profit before taxation	34,247	75,836	46,640
Net profit after taxation	23,728	58,352	37,894

	As at 31 December		As at
	2014	2015	30 June 2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total assets	770,979	655,625	608,446
Total liabilities	777,075	603,369	518,296
Net (liabilities)/assets	(6,096)	52,256	90,150

REASONS AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertising business in PRC. The Company endeavours to enhance the competitiveness of the Group's existing business and at the same time, explore new business opportunities to broaden its source of income and expand the business operations in order to maximise profit and return for the Company and the Shareholders. The Company intends to promote Shenzhen, after Completion, as a cultural creative city, and the Group may make urban renewal proposals to the Shenzhen Municipal People's Government. The Board believes that the Acquisition represents a valuable business opportunity for the Group to invest in the cultural-related industry and will broaden the Group's income and asset base. In particular, the Board believes that the existing TV business of the Group and the cultural-related business of the Target Group will complement with each other and there will be synergies between them.

The Board considers that the Agreement is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Upon completion of the Acquisition, the Enlarged Group will be principally engaged in (i) the television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue; (ii) large outdoor display screen advertisement business in the PRC; (iii) cultural-related business; and (iv) provision of waterworks engineering services for the public sector in Hong Kong.

During the year ended 31 March 2016, revenue derived from provision of waterworks engineering services remained the main contributor of revenue of the Group while the Group devoted efforts to develop its other core businesses. As disclosed in the first quarterly report of the Company for the three months ended 30 June 2016, the Group remains optimistic to maintain steady growth in net profit and scale of operations in its segment of provision of waterworks engineering services, due to its long established reputation and proven ability. As at the Latest Practicable Date, the Company had no intention to downsize its existing business in the provision of waterworks engineering services. Despite the fierce competition in the construction industry in Hong Kong, the Group possesses its business strengths and competitive advantage, including proven track record in construction industry, good reputation and well-established presence in foundation, established operating history and numerous licences, permits and qualifications, which enable the Group to grow and enhance the profitability of the Group. In addition, in light of the difficult operating environment, the Group continues to step up its collaboration with strategic partners to complement each other's advantages and achieve win-win situations. The Group plans to invest in the television e-commerce business which is a new and emerging mode of development of television broadcasting business. Also, the Group will develop marketing strategies to increase its market presence through different channels such as social media network and mobile apps. Such moves may not only contribute profit to the Group in the long run, but also, through advanced technology, enhance the Group's overall business strategy and create an all-win scenario. As part of the marketing strategies, the Group held the 2016 "Bauhinia Award" Hospitable Hong Kong • Remarkable Business Contribution presentation ceremony, which attracted great attention from various media and the society and thus further enhanced the brand recognition and influence of the Group in the television media industry. The Group will continue to seek to develop other projects, and strive to become a leading position in Hong Kong and will progress in a sustainable manner.

Shenzhen CC Park is the first project in the cultural creative industry of Shenzhen, and according to the approved land-use plans of Shenzhen, the Shenzhen CC Park is planned for type 2 residential and ancillary functions and cultural facilities function, which allows room for expansion and making proposals for further expansion since the idea of "實施產業置換，調整產業結構，實現產業升級" won key support from the Shenzhen Municipal People's Government and the Shenzhen Municipal Planning and Land Resources Commission* (深圳市規劃和國土資源委員會) indicated its intention to support the Target Group's aim in developing a creative culture

LETTER FROM THE BOARD

city in Shenzhen. Accordingly, the Directors believe that the Enlarged Group is well-positioned and the Enlarged Group may make urban renewal proposals to the Shenzhen Municipal People's Government as and when appropriate.

According to the information provided by the Target Group, the Target Group operates and manages the Shenzhen CC Park as venue for its tenants who are engaged in a variety of cultural-related industries to operate, manage and develop their business in the park, whereby it derives revenue principally from rental income and management fees. The existing tenants are engaged in a variety of cultural-related industries, ranging from, among other things, Chinese tea, paintings, antiques, porcelain and china, animation, entertainment, to cultural exchange. The Company currently expects, with the support from its substantial and single largest Shareholder, China Xinhua News Network (being wholly-owned by PRC state-owned enterprise Xinhua News Agency), the Company will eventually re-model the Shenzhen City Culture Creative Park towards a venue with the theme of “world cultural heritage 世界文化遺產”.

Furthermore, according to the information provided by the Target Group, the Target Group provides value-added services to its clients, including sales and marketing, and supports on daily operation and management and customer services, and organises promotional activities to stimulate consumption in the park from time to time. Leveraging the background and media reach of the Company's substantial and single largest Shareholder, China Xinhua News Network, the Company will be able to utilise its television broadcasting capability in providing, among other things, promotional and advertising services to clients of the Shenzhen CC Park, which may include traditional television advertisements and the deployment of embedded marketing strategies for such advertising clients. The Company also plans to use the existing broadcasting platform of the Group to promote the Shenzhen CC Park venue, or co-organise events and campaigns. On the other hand, the Company believes that the cultural-related business complements the Group's television broadcasting business by introducing Chinese cultural themes brought along by the tenants of the Shenzhen CC Park, and thereby such elements of culture create possibilities for the Group to produce television programmes featuring various cultural themes.

Based on the above, the Group believes that it will be able to diversify its income stream, position itself to adopt different marketing and business strategies and seize suitable opportunities to enlarge the market share and expand its market coverage.

In view of the above, the Directors expect that the business and revenue of the Enlarged Group will continue to grow steadily in the foreseeable future. The Enlarged Group will continue to use its endeavour to capture favourable investment opportunities in the market, aiming at business development and transformation, and on the other hand will from time to time evaluate and streamline its business operation so as to enhance the Group's return to the Shareholders.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements. The unaudited pro forma financial information of the Enlarged Group illustrating the financial impact of the Acquisition on the results, assets and liabilities of the Group is set out in Appendix III to this circular.

The loss attributable to owners of the Company amounted to approximately HK\$46.4 million for the year ended 31 March 2016. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming Completion took place on 1 April 2015 and the intangible assets (i.e. the Subleasing Right) was acquired on 1 April 2015, the Enlarged Group's loss attributable to owners of the Company would have been amounted to approximately HK\$18.3 million for the year ended 31 March 2016. The decrease in net loss was mainly due to (i) the consolidation of financial result of the Target Group and (ii) reduction in finance costs on the Convertible Bonds of approximately HK\$19.8 million resulted from exercise of conversion right by China Xinhua News Network out-weighted by (i) the amortisation charges on the Subleasing Right of approximately HK\$35.4 million and (ii) incurrence of finance costs on the Promissory Note of approximately HK\$22.2 million.

In preparation of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of this circular, the intangible assets (i.e. the Subleasing Right) is subject to amortisation charges over its estimated remaining useful life of Subleasing Right granted to the Enlarged Group. The finance costs on the Promissory Note are estimated based on the effective interest rate of 31.374%. The reduction of finance costs on the Convertible Bonds which resulted from exercise of conversion right by China Xinhua News Network is estimated based on the effective interest rate of 15.98%. The annual expenses for (i) the amortisation charges on the Subleasing Right of approximately HK\$35.4 million, (ii) finance costs on the Promissory Note of approximately HK\$22.2 million and (iii) reduction of finance costs on the Convertible Bonds are recurring in nature and are expected to have continuing effect on the consolidated statement of profit or loss and other comprehensive income of the Enlarged Group up to respective expiry dates of Subleasing Right, the Promissory Note and the Convertible Bonds.

Upon Completion, the respective fair value of the Subleasing Right and the Promissory Note will be re-assessed and thus the amortisation charges on the Subleasing Right and finance costs on the Promissory Note in the future may be different from those estimated amounts stated in the unaudited pro forma financial information of the Enlarged Group. The accounting treatment and the exact amounts to be accounted for the Enlarged Group's results are subject to be reviewed by the Enlarged Group's auditor upon Completion.

LETTER FROM THE BOARD

As at 31 March 2016, the audited consolidated total assets and total liabilities of the Group amounted to approximately HK\$418.9 million and HK\$414.2 million, respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming Completion had taken place on 31 March 2016, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would be increased to approximately HK\$1,295.1 million and HK\$672.4 million, respectively. The increase in total assets was mainly due to (i) consolidation of assets of the Target Group; (ii) goodwill generated from the Acquisition and (iii) intangible assets (i.e. the Subleasing Right) recognised from the Acquisition upon Completion. The increase in total liabilities was mainly due to (i) consolidation of liabilities of the Target Group; (ii) Consideration payable, in form of Promissory Note and Profit Guarantee Retained Consideration; and (iii) deferred tax liabilities arising from recognition of intangible asset, out-weighted by reduction in amortised cost of Convertible Bonds and interest payable upon exercise of conversion right of Convertible Bonds by China Xinhua News Network upon Completion and discharge of financial guarantee liabilities upon Completion.

As at 30 June 2016, the Target Group has net current liabilities of approximately HK\$0.2 million. According to the Agreement, it is a condition precedent to Completion that any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group shall be discharged. It is expected that fair value of financial guarantee contracts of approximately HK\$29.7 million (equivalent to approximately RMB24.7 million) will be released and both net current assets and net assets will be increased by the same amount upon Completion. Furthermore, the borrowings of the Target Group of approximately HK\$349.9 million (equivalent to approximately RMB291.0 million) would be settled by netting-off the amounts due from/(to) the ultimate holding company and fellow subsidiaries of the Target Group. Based on the above, the Board considers that the Target Group is able to continue its business as a going concern.

As at 31 March 2016, the audited consolidated net current assets and net assets of the Group amounted to HK\$148.0 million and HK\$4.6 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the net current assets and net assets of the Enlarged Group would be decreased to approximately HK\$115.4 million and increased to approximately HK\$622.7 million. The decrease in the net current assets was mainly due to the consideration payable in form of Profit Guarantee Retained Consideration out-weighted by the impact of discharge of financial guarantee liabilities upon Completion. In addition, the Vendors irrevocably guarantee that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50 million. The Board considers that Target Group's ability to continue as a going concern will not have material unfavorable impact on the Enlarged Group.

LETTER FROM THE BOARD

Since the values of the assets and liabilities of the Target Group may be different at the Completion Date from the values used in the preparation of the unaudited pro forma financial information of the Enlarged Group, the actual amounts of the assets and liabilities of the Target Group to be recorded in the financial statements of the Group may be different from the estimated amounts shown in the unaudited pro forma financial information of the Enlarged Group.

SPECIFIC MANDATE

Pursuant to the Agreement, the Company shall issue the Consideration Shares to the Vendors (or their nominee) as a part of the Consideration at Completion. The Consideration Shares shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of a specific mandate from the Shareholders at the EGM for the allotment and issue of the Consideration Shares.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

SHAREHOLDING STRUCTURE OF THE COMPANY

Based on the information available to the Directors as at the Latest Practicable Date and assuming there will be no adjustment to the number of Consideration Shares and no other factors affecting the shareholding structure of the Company and that the Conversion Price shall be HK\$0.20, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date, and (ii) immediately upon Completion:

	As at the Latest Practicable Date		Upon Completion (Note)	
	Number of Shares	%	Number of Shares	%
China Xinhua News Network	1,188,621,377	29.31%	2,004,947,907	29.61%
Mr. Chia Kar Hin, Eric John (an executive Director)	14,600,000	0.36%	14,600,000	0.21%
Mr. Kan Kwok Cheung (an executive Director)	69,000,000	1.70%	69,000,000	1.02%
Public	2,783,128,570	68.63%	2,783,128,570	41.10%
Vendors	<u>–</u>	<u>–</u>	<u>1,900,000,000</u>	<u>28.06%</u>
Total	<u>4,055,349,947</u>	<u>100.00%</u>	<u>6,771,676,477</u>	<u>100.00%</u>

Note: This is on the basis that part of the outstanding Convertible Bonds held by China Xinhua News Network will be converted into a total of 816,326,530 new Shares simultaneously upon Completion. China Xinhua News Network has notified the Company of its intention to convert part of its outstanding Convertible Bonds into a total of 816,326,530 new Shares simultaneously upon Completion, so that China Xinhua News Network will remain as the single largest Shareholder immediately upon issue and allotment of the Consideration Shares at Completion.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE LAST 12 MONTHS

The Company has not conducted any equity capital raising activity for the 12 months immediately before the Latest Practicable Date.

LISTING RULES IMPLICATIONS

As one or more of the relevant percentage ratios calculated pursuant to Chapter 19 of the GEM Listing Rules exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company. Further, as Mr. Li, a substantial shareholder of the Target Company, will be nominated as an executive Director and accordingly may become a controller of the Company as a result of the Acquisition (subject to the Shareholders' approval at the EGM), the Acquisition constitutes a connected transaction of the Company pursuant to Rule 20.26 of the GEM Listing Rules. Accordingly, the Acquisition will be subject to the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder, including the Acquisition and the grant of the Specific Mandate for the allotment and issue of Consideration Shares and the appointment of Mr. Li as a new executive Director.

China Xinhua News Network is the single largest shareholder of the Company which holds 29.31% of the total issued share capital of the Company. China Xinhua News Network is also the holder of the outstanding Convertible Bonds issued by the Company in the principal amount of HK\$257,030,210 which are convertible into new Shares at an issue price of HK\$0.196 per Share. China Xinhua News Network and the Vendors will be presumed to be parties acting in concert if they proceed with the Acquisition unless rebutted. In the event that the presumption is not rebutted, a mandatory general offer obligation will be triggered under the Takeovers Code on the part of the Vendors and their concert parties pursuant to Rule 26.1 of the Takeovers Code upon completion of the Acquisition and hence the Acquisition will result in a reverse takeover of the Company under Chapter 19 of the GEM Listing Rules. In the event of such circumstances, the relevant condition precedent to the Completion will not be fulfilled and the Purchaser will not proceed with the Acquisition. As disclosed in the Company's announcement dated 27 June 2016, according to a ruling from the executive of the SFC on 23 June 2016, the SFC indicated that, having regard to particular circumstances, the presumed concert party relationship between China Xinhua News Network and the Vendors under class (1) of the definition of "acting in concert" arising as a result of the Completion was rebutted.

An independent board committee of the Company comprising all the independent non-executive Directors has been formed to advise the Shareholders in relation to the Agreement and the transactions contemplated thereunder (including the issue of Consideration Shares pursuant to the Agreement) and an independent financial adviser has been appointed to advise the independent board committee and the Shareholders in these respects.

LETTER FROM THE BOARD

THE EGM

The Company will convene the EGM at 2708-2710, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Monday, 14 November 2016 at 11:00 a.m, for the purpose of, among other matters, considering and (if thought fit) seeking the approval of Shareholders in relation to (1) the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares); (2) the proposed grant of Specific Mandate to issue the consideration shares; and (3) the proposed appointment of Mr. Li as an executive Director. A notice of the EGM is set out on pages 239 to 241 of this circular.

To the best knowledge of the Company after having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholders have any material interest in the transactions contemplated under the Agreement and therefore no Shareholder is required to abstain from voting in respect of the ordinary resolutions to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares and the appointment of Mr. Li as an executive Director).

A form of proxy for use at the EGM is also enclosed. If you are unable to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event no later than 48 hours before the time for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VOTING AT THE EGM AND THE BOARD MEETING

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll, except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, voting of the resolutions to be proposed at the EGM will be taken by poll. After conclusion of the EGM, the poll results will be issued at the respective websites of the Company and the Stock Exchange.

None of the Directors was considered to have a material interest in the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares), the Specific Mandate and the appointment of Mr. Li as executive Director under the Articles or the GEM Listing Rules, therefore no Director was required to abstain from voting on the resolutions proposed in the meetings of the Board approving the Agreement and the transactions contemplated thereunder, the Specific Mandate and the appointment of Mr. Li as executive Director.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 29 of this circular. Your attention is also drawn to the letter of advice from Changjiang to the Independent Board Committee and the Shareholders in respect of the same matters, which is set out on pages 31 to 61 of this circular.

Having taken into account, among other things, the letter of advice from Changjiang to the Independent Board Committee, the Directors (including the independent non-executive Directors) consider that terms and transactions contemplated under the Agreement (including the issue of the Consideration Shares and the appointment of Mr. Li as an executive Director) are on normal commercial terms, fair and reasonable, and are in the interest of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

MISCELLANEOUS

In case of inconsistency, the English text of this circular and the enclosed form of proxy shall prevail over their respective Chinese text.

Yours faithfully,
For and on behalf of the Board of
CNC Holdings Limited
Li Yuet Tai
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CNC HOLDINGS LIMITED
中國新華電視控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8356)

28 October 2016

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED ACQUISITION OF 100% INTEREST
IN SHENZHEN CC PARK;**

**(2) PROPOSED GRANT OF SPECIFIC MANDATE
TO ISSUE THE CONSIDERATION SHARES;**

(3) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR; AND

(4) NOTICE OF EGM

We refer to the circular of the Company to the Shareholders dated 28 October 2016 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings given to them in the section headed “Definitions” of the Circular.

Under the GEM Listing Rules, the transactions contemplated under the Agreement constitute a very substantial acquisition and connected transaction (as defined under the GEM Listing Rules) for the Company and are subject to the approval of the Shareholders.

We have been authorised by the Board to form the Independent Board Committee to advise the Shareholders on whether the terms of the Agreement and the transactions contemplated under the Agreement (including the issue of the Consideration Shares) are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter of advice from Changjiang, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Shareholders in relation to the transactions contemplated under the Agreement (including the issue of the Consideration Shares), as set out on pages 31 to 61 of the Circular and the letter from the Board set out on pages 7 to 28 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of, Changjiang as stated in its letter of advice, we consider that the terms and transactions contemplated under the Agreement (including the issue of the Consideration Shares and the appointment of Mr. Li as an executive Director) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We accordingly recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee of
CNC Holdings Limited
The Hon. Ip Kwok Him
Mr. Wan Chi Keung, Aaron
Mr. Jin Hai Tao
Mr. Wong Chung Yip, Kenneth
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Changjiang Corporate Finance (HK) Limited to the Independent Board Committee and the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder respectively which has been prepared for the purposed of incorporation in this circular.



Suite 1908, 19/F
Cosco Tower
183 Queen's Road Central
Hong Kong

28 October 2016

*To: The Independent Board Committee and the independent Shareholders of
CNC Holdings Limited*

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF 100% INTEREST IN SHENZHEN CC PARK

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder respectively, details of the Acquisition are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 October 2016 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalized terms used herein have the same meanings as those defined in the Circular unless the context requires otherwise.

The Proposed Acquisition

On 2 February 2016, the Purchaser (being a wholly-owned subsidiary of the Company) entered into the Agreement with Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares for a total consideration of HK\$600,000,000. Upon Completion, the Purchaser will hold 100% of the equity interest in the Target Company and the Target Company will become a wholly-owned subsidiary of the Company. The consideration for Acquisition will be settled by a combination of the Cash Consideration and the Consideration Shares.

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On 19 July 2016, the Purchaser and the Vendors entered into a further amended and restated share purchase agreement (“**Further Restated SPA**”) to amend and restate the Agreement, pursuant to which the terms be changed as follows:

The Consideration remains at HK\$600,000,000 but it will be settled in the following manner:

- (i) the issue of Promissory Note in the principal amount of HK\$160,000,000 by the Purchaser to the Vendors upon Completion;
- (ii) the issue and allotment of 1,900,000,000 Consideration Shares by the Company to the Vendors upon Completion; and
- (iii) HK\$60,000,000 (subject to adjustment, if any) (“**Profit Guarantee Retained Consideration**”) will be payable by the Purchaser to the Vendors after Completion and after and subject to the determination of the 2016 Net Profit pursuant to the terms of the Further Restated SPA.

Adjustments to the Consideration and Profit Guarantee

Pursuant to the Agreement, the Purchaser has an absolute discretion to adjust the portion of the Consideration Shares if, as a result of the issue and allotment of the Consideration Shares to the Vendors, (i) the Vendors and their concert parties may own 30% or more of the voting rights of the Company; (ii) a mandatory general offer under the Takeovers Code in respect of the Shares will be triggered on the part of the Vendors and their concert parties; or (iii) the transactions contemplated under the Agreement will be regarded as a reverse takeover of the Company under the GEM Listing Rules.

The Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000 (in each case, except for reason due to occurrence of force majeure events (such as natural disaster, war etc.), the acceptance of such exception to the sole discretion of the Purchaser), and agree to indemnify the Purchaser jointly and severally of any 2016 Net Profit Shortfall, 2017 Net Profit Shortfall and 2018 Net Profit Shortfall. According to the Agreement, for the purpose of the profit guarantee under the 2016 Net Profit, the Profit Guarantee Retained Consideration (i.e. HK\$60,000,000 (subject to adjustment, if any)) will not be paid to the Vendors upon Completion pending determination of whether the 2016 Net Profit will be met. Upon the occurrence of a 2016 Net Profit Shortfall, the Purchaser may reduce the portion or the whole of the Profit Guarantee Retained Consideration.

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Specific Mandate

Pursuant to the Agreement, the Company shall issue the Consideration Shares to the Vendor (or its nominee) as a part of the Consideration at Completion. The Consideration Shares shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of a specific mandate from the Shareholders at the EGM for the allotment and issue of the Consideration Shares.

As one or more of the relevant percentage ratios calculated pursuant to Chapter 19 of the GEM Listing Rules exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company.

As at the date of this announcement, China Xinhua News Network is the single largest shareholder of the Company which holds 29.31% of the total issued share capital of the Company. China Xinhua News Network is also the holder of the outstanding convertible bonds issued by the Company in the principal amount of HK\$257,030,210 which are convertible into new Shares at an issue price of HK\$0.196 per Share. China Xinhua News Network and the Vendors will be presumed to be parties acting in concert if they proceed with the Acquisition unless rebutted. In the event that the presumption is not rebutted, a mandatory general offer obligation will be triggered under the Takeovers Code on the part of the Vendors and their concert parties pursuant to Rule 26.1 of the Takeovers Code upon completion of the Acquisition and hence the Acquisition will result in a reverse takeover of the Company under Chapter 19 of the GEM Listing Rules. In the event of such circumstances, the relevant condition precedent to the Completion will not be fulfilled and the Purchaser will not proceed with the Acquisition. Further announcement(s) will be made by the Company as and when appropriate.

The Independent Board Committee has been established comprising all the independent nonexecutive Directors to advise the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder respectively.

We, Changjiang Corporate Finance (HK) Limited, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the Agreement and the transactions contemplated thereunder respectively are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Our Independence

As at the Latest Practicable Date, we were not aware of any relationships or interest between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder respectively. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations on the terms of the Agreement and the transactions contemplated thereunder respectively.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR ADVICE

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things, (i) the announcement of the Company dated 3 June 2016, 27 June 2016 and 20 July 2016; (ii) the Circular; (iii) the Acquisition Agreements; (iv) the valuation report dated 28 October 2016 prepared by Stirling Appraisals Limited, the independent valuer to the Group commissioned by the Company; (v) the annual report of the Company for years ended 31 March 2015 and 2016; and (vi) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of the Circular; and (vii) letter/report in relation to the profit forecast as set out in Appendix IV of the Circular. At the same time, we have made reference to the accountant's report of the Target Group as set out in Appendix II of the Circular.

We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors and the management of the Company that having made all reasonable enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. In addition, we have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so as at the date of despatch of the Circular.

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We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Acquisition to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and its respective associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the transaction herein.

In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be constructed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS CONSIDERED

In giving our recommendation to the Independent Board Committee and the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Financial information of the Group

The Company is an investment holding company and the Shares of which are listed on GEM of the Stock Exchange. The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertising business in PRC.

For the year ended 31 March 2016

As set out in the annual report of the Company for the year ended 31 March 2016 (the “**AR 2016**”), the Group recorded a revenue of approximately HK\$370.9 million for the year ended 31 March 2016, representing an increase of approximately 0.4% as compared with a revenue of approximately HK\$369.6 million for the year ended 31 March 2015. As stated in the AR 2015, the increment was mainly due to the increase in revenue was mainly due to large portion of revenue derived from and recognised at the early stage of certain waterworks engineering projects in the current year.

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The loss attributable to owners of the Company for the year ended 31 March 2016 was approximately HK\$46.44 million, as compared to a loss attributable to owners of the Company of approximately HK\$41.72 million. The increase in net loss was mainly resulted from net effect of increase in gross profit against recognition of impairment loss in respect of intangible assets, decrease in other income and other gains and losses for the year ended 31 March 2016.

For the year ended 31 March 2015

As set out in the annual report of the Company for the year ended 31 March 2015 (the “AR 2015”), the Group recorded a revenue of approximately HK\$369.6 million for the year ended 31 March 2015, representing an increase of approximately 14.0% as compared with a revenue of approximately HK\$ 324.3 million for the year ended 31 March 2014. As stated in the AR 2015, the increment was mainly due to the increase in works from the replacement and rehabilitation of water mains stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories.

The loss attributable to owners of the Company for the year ended 31 March 2015 was approximately HK\$41.72 million, as compared to a loss attributable to owners of the Company of approximately HK\$431.29 million. The decrease in net loss was mainly resulted from the recognition of one-off item, i.e., the impairment loss in respect of goodwill and intangible assets and provision for doubtful debt, made in the year of 2015.

2. Information of the Target Company

As stated in the Board Letter, the Target Company is a company established in the PRC with an initial registered capital of RMB6,000,000. As of the date of the Agreement, the Target Company had a registered capital of RMB40,800,000 and was indirectly held by the Vendors who are merchants in the PRC.

The primary business of the Target Group is the operation and management of the Shenzhen CC Park, which is located at the junction of South Xinzhou Road and Fuqiang Road in the Futian District of Shenzhen. Shenzhen CC Park is the first project in the cultural creative industry of Shenzhen, and created for the idea of “Implementing industrial replacement and adjusting industrial structure, to achieve industrial advancement”* (“實施產業置換，調整產業結構，實現產業升級”), which won key support from the Shenzhen Municipal People’s Government. According to the approved land-use plans of Shenzhen, the Shenzhen CC Park is planned for type 2 residential and ancillary functions and cultural facilities function. Shenzhen CC Park covers a total site area of approximately 60,000 sqm with a gross floor area of nearly 180,000 sqm, and is the largest integrated cultural industry cluster in the central area of Shenzhen. The park comprises two phases, being Phase I and Phase II of an aggregate floor area of 98,000 square metres and 74,000 square metres (including underground car park areas), respectively.

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The Target Group operates and manages of this park for rental income including management fee. As advised by the Vendors and the Target Group, the Target Group:

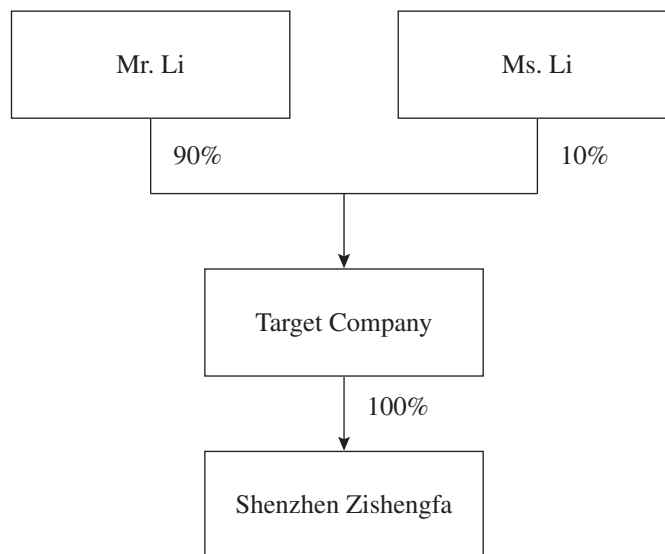
- provides value-added services to its clients, including sales and marketing, support on daily operation and management and customer services;
- organises promotional activities to stimulate consumption in the park from time to time;
- provides designated show rooms and exhibition areas for its clients to present their companies, cultural concept and products;
- provides supports in relation to intellectual property issues to its clients; and
- where appropriate and required, assists to introduce capital investment institutions to its clients via company presentation, management discussions and site visits.

According to the Target Company, it has applied and successfully enrolled the Shenzhen CC Park as one of the venues designated for the China (Shenzhen) International Cultural Industries Fair (ICIF). The Company understands from the Vendors and the Target Company that ICIF is the only international and comprehensive cultural industry fair at the national level and is jointly organised by the People's Republic of China Ministry of Culture, People's Republic of China Ministry of Commerce, the National Film and Television broadcast, People's Republic of China Press and Publication Administration, China Council for the Promotion of International Trade, Guangdong Provincial People's Government and the Shenzhen Municipal People's Government, and that it is the only comprehensive cultural industry fair in China which has obtained UFI (Union of International Fairs) certification, and was included in the nation's Cultural Development Plan during the "Eleventh Five-Year" as one of the key fairs to support.

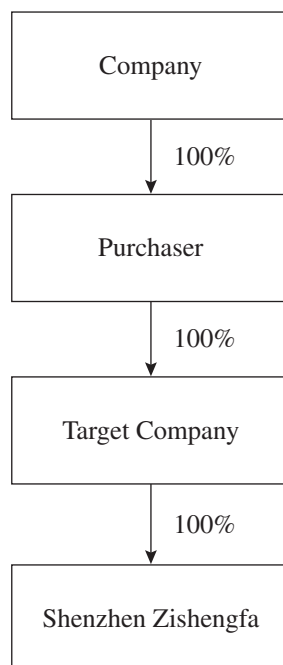
The land upon which this park is located has been leased to the Target Group for a term of up to 18 years. The terms for the lease agreements are up to 31 December 2022 for Phase I, and 23 February 2026 for Phase II, respectively. Pursuant to the lease agreements, the aggregate rent per month for Phase I and Phase II is approximately RMB2,215,000 and RMB1,438,000, respectively.

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As stated from the Board Letter, the following chart sets out the simplified shareholding structure of the Target Group as at the Latest Practicable Date:



As stated from the Board Letter, the following chart sets out the simplified shareholding structure of the Target Group after Completion:



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Set out below is the financial information of the Target Group based on the audited financial statements for the year ended 31 December 2014 and 31 December 2015 and six months ended 30 June 2016 extracted from Appendix II to this circular.

	For the year ended		For the six
	31 December		months ended
	2014	2015	30 June 2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Turnover	127,582	137,552	74,151
Profit before taxation	34,247	75,836	46,640
Net profit after taxation	23,728	58,352	37,894

	As at 31 December		As at
	2014	2015	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total assets	770,979	655,625	608,446
Total liabilities	777,075	603,369	518,296
Net assets	(6,096)	52,256	90,150

As shown in the above table, for the six months ended 30 June 2016, the Target Group recorded revenue of approximately RMB74.2 million, which comprised of gross rental income of approximately RMB62.7 million and property management fee income of approximately RMB11.5 million, representing an increase of 23.1% as compared with that for same period of the preceding year. The increase in revenue was mainly due to the increase in rent-out rating and increase of rental price per square meter due to inflation rate in the PRC.

As shown in the above table, for the year ended 31 December 2015, the Target Company recorded turnover of approximately RMB137.6 million, represents an increase of approximately 7.84% as compared to the turnover of approximately RMB127.6 million for the year ended 31 December 2014. The increase in revenue was mainly due to the increase in rent-out rating and increase of rental price per square meter due to inflation rate in the PRC.

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Besides, for the year ended 31 December 2015, the Target Company recorded a net profit after tax of approximately RMB58.4 million, represents an increase of approximately 145.38% as compared to a net profit after tax of approximately RMB23.8 million. The increase was mainly due to increase in revenue and other income.

The auditor of the Company, HLB Hodgson Impey Cheng Limited, has expressed an emphasis of matter on their report in respect of the Target Group as below.

Without qualifying our opinion, we draw attention in note 3(c) of Appendix II of the Financial Information, which indicates that the Target Group had net current liabilities of approximately RMB187,276,000, RMB117,751,000, RMB45,668,000 and RMB181,000 as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively, and net liabilities of approximately RMB57,624,000 and RMB6,096,000 as at 31 December 2013 and 2014 respectively. These conditions, along with other matters as set forth in note 3(c) of Appendix II of the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

3. Background and reasons for the Acquisition

As stated in the Board Letter, the Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertising business in PRC. The Company endeavours to enhance the competitiveness of the Group's existing business and at the same time, explore new business opportunities to broaden its source of income and expand the business operations in order to maximize profit and return for the Company and the Shareholders. After Completion, the Group intends to promote Shenzhen as a cultural creative city, and the Group may make urban renewal proposals to the Shenzhen Municipal People's Government. The Board believes that the Acquisition represents a valuable business opportunity for the Group to invest in the cultural-related industry and will broaden the Group's income and asset base. In particular, the Board believes that the existing TV business of the Group and the cultural-related business of the Target Group will complement with each other and there will be synergies between them.

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4. Prospect of the Enlarged Company

As stated in the Board Letter, upon completion of the Acquisition, the Enlarged Group will be principally engaged in (i) the television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue; (ii) large outdoor display screen advertisement business in the PRC; (iii) cultural-related business; and (iv) provision of waterworks engineering services for the public sector in Hong Kong.

During the year ended 31 March 2016, revenue derived from provision of waterworks engineering services remained the main contributor of revenue of the Group while the Group devoted efforts to develop its other core businesses. Despite the fierce competition in the construction industry in Hong Kong, the Group possesses its business strengths and competitive advantage, including proven track record in construction industry, good reputation and well established presence in foundation, established operating history and numerous licences, permits and qualifications, which enable the Group to grow and enhance the profitability of the Group.

In addition, in face of the difficult operating environment, the Group continues to step up its collaboration efforts with strategic partners to complement each other's advantages and achieve win-win situations. As part of the marketing strategies, the Group held the 2016 "Bauhinia Award" Hospitable Hong Kong • Remarkable Business Contribution presentation ceremony, which had attracted great attention from various media and the society and thus further enhanced the brand recognition and influence of the Group in the television media industry. The Group will continue to seek to develop other projects in due time, and strive to become a leading position in Hong Kong and will progress forward in a sustainable manner.

In view of the above, the Board expected that the business and revenue of the Group will continue to grow steadily in the foreseeable future.

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5. Principal terms of the Proposed Acquisition

5.1 The Agreement

On 2 February 2016, the Purchaser (being a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares for a total consideration of HK\$600,000,000. Upon Completion, the Purchaser will hold 100% of the equity interest in the Target Company and the Target Company will become a wholly-owned subsidiary of the Company.

Date

2 February 2016

Parties

- (a) the Purchaser (being a wholly-owned subsidiary of the Company)
- (b) the Vendors

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, as at the date of the Agreement, each of the Vendors is an individual who is a third party independent of the Company and its connected persons.

Assets to be acquired

The Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares, representing 100% of the registered capital of the Target Company. Further information regarding the Target Group is set out in the paragraph headed “Information on the Target Group” below.

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Consideration

The Consideration is HK\$600,000,000 which will be partly settled on Completion by (i) the payment of the Cash Consideration of \$160,000,000; and (ii) the issue and allotment of 1,900,000,000 Consideration Shares by the Company, subject to adjustment, if any. The remaining 300,000,000 Consideration Shares (subject to adjustment, if any) will be issued and allotted by the Company to the Vendors after Completion and after determination of the 2016 Net Profit pursuant to the terms of the Agreement. Please see the paragraph below headed “Adjustments to the Consideration and Profit Guarantee”.

Subject to market conditions, the Company currently expects to finance the Cash Consideration by way of a placement of approximately 800,000,000 new Shares to independent third parties.

Basis of Consideration

The Consideration was arrived at after arm’s length negotiations between the parties and was determined with reference to, among other things, the financial performance and business development and prospects of the Target Group.

Adjustments to the Consideration and Profit Guarantee

Pursuant to the Agreement, the Purchaser has an absolute discretion to adjust the portion of the Cash Consideration and Consideration Shares if, as a result of the issue and allotment of the Consideration Shares to the Vendors, (i) the Vendors and their concert parties may own 30% or more of the voting rights of the Company; (ii) a mandatory general offer under the Takeovers Code in respect of the Shares will be triggered on the part of the Vendors and their concert parties; or (iii) the transactions contemplated under the Agreement will be regarded as a reverse takeover of the Company under the GEM Listing Rules.

Pursuant to the Agreement, the Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000 (in each case, except for reason due to occurrence of force majeure events (such as natural disaster, war etc.), the acceptance of such exception to the sole discretion of the Purchaser), and agree to indemnify the Purchaser jointly and severally of any 2016 Net Profit Shortfall,

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2017 Net Profit Shortfall and 2018 Net Profit Shortfall. Accordingly, out of the Consideration Shares, 300,000,000 Consideration Shares (subject to adjustment, if any) of which will not be issued and allotted pending determination of whether the 2016 Net Profit will be met. Upon the occurrence of a 2016 Net Profit Shortfall, the Purchaser may reduce the number of Consideration Shares from the said 300,000,000 Consideration Shares, calculated based on the following formula:

$A = 2016 \text{ Net Profit Shortfall} / \text{HK\$}0.20$, being the issue price per share of the Consideration Shares

Where “A” is the number of Consideration Shares to be reduced from the 300,000,000 Consideration Shares (subject to adjustment, if any) which have not yet been issued by the Company upon Completion.

Upon the occurrence of a 2017 Net Profit Shortfall or 2018 Net Profit Shortfall, the Vendors will be required to pay to the Purchaser such amount of shortfall in cash.

Consideration Shares

The issue price of the Consideration Shares of HK\$0.20 per Share represents:

- (a) a discount of approximately 21.56% over the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 17.01% over the average closing price of approximately HK\$0.241 per Share for the last five consecutive trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 17.01% over the average closing price of approximately HK\$0.241 per Share for the last ten consecutive trading days up to and including the Last Trading Day.

The issue price of HK\$0.20 per Consideration Share was arrived at by the parties after arm's length negotiations taking into account, among other things, the historical trading prices of the Shares, the net asset value of the Company per Share as of 30 September 2015 (being HK\$0.004), the financial performance, business development and prospects of the Target Group, and the profit guarantee provided by the Vendors.

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The Consideration Shares of 2,200,000,000 Shares represent (i) approximately 54.25% of the existing issued share capital of the Company; and (ii) approximately 26.29% of the enlarged issued share capital of the Company immediately upon completion of both of (a) the Company's proposed placing for the purpose of financing the Cash Consideration, and (b) conversion of the outstanding Convertible Bonds as more particularly described in the paragraph headed "Shareholding Structure of the Company" below. The Consideration Shares, when issued, will rank *pari passu* in all respects with the existing Shares then in issue. The Company proposes to seek a special mandate from the Shareholders at the EGM for the issue and allotment of the Consideration Shares.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Vendors jointly and severally undertake to the Purchaser and the Company that the Vendors shall not directly or indirectly, among other things, offer to sell, lend, charge or otherwise dispose of or transfer any of the Consideration Shares (or any interest therein) from the date of the Agreement up to the expiry of the 24-month period after the Completion Date.

Conditions Precedent to Completion

The Completion is subject to the following conditions:

- (a) due diligence investigation on, among other things, the value, business, operations, assets, liabilities, financial status and prospects of Target Group having been completed by the Purchaser and the results of such due diligence investigation being satisfactory to the Purchaser (including but not limited to any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group having been duly discharged to the satisfaction of the Purchaser);
- (b) the representations and warranties given by the Vendors remaining true and accurate in all respects and not misleading at Completion;
- (c) the Purchaser and the Company having obtained sufficient funding for the Cash Consideration (including but not limited to the completion of any placing of Shares by the Company for this purpose);

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- (d) the consummation of the transactions contemplated under the Agreement does not (i) trigger a mandatory general offer obligation under the Takeovers Code on the part of the Vendors and their concert parties; (ii) constitute a reverse takeover of the Company under the GEM Listing Rules; or (iii) result in the Vendors (either individually or together) becoming the single largest Shareholder;
- (e) all consents, permits, authorisations, authorities and formal approvals (as the case may be) that each of the Purchaser and each of the Vendors considers reasonable pursuant to applicable laws, regulations or rules for the execution, implementation and Completion of the Agreement (including but not limited to the approval from the Shareholders as required under the GEM Listing Rules and the Stock Exchange's approval and clearance for (i) the allotment and issue of the Consideration Shares and the listing thereof on the GEM, and (ii) the appointment of the person jointly nominated by the Vendors as an executive Director) having been obtained;
- (f) all such consents, permits, authorisations, authorities and formal approvals as referred to above not having been revoked or withdrawn at any time up to Completion; and
- (g) the completion of the placing by the Company of approximately 800,000,000 new Shares or such appropriate number of new Shares to independent third party(ies) to the effect that the Vendors' total interest in the voting rights of the Company immediately upon Completion would not reach or exceed 30%.

The Purchaser may waive all or any of the above conditions precedent (other than (a)(to the extent that any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group not having been discharged to the satisfaction of the Purchaser), (d), (e), (f) and (g)) by notice to the Vendors on or before 31 December 2016. As at the date of this announcement, the Purchaser has no intention to waive any of such conditions precedent. As at the date of this announcement, none of the conditions precedent to Completion has been fulfilled.

If all of the conditions are not fulfilled or otherwise waived (as the case may be) on or before 31 December 2016, the Purchaser has the right to terminate the Agreement and all obligations of the parties under the Agreement shall end but all rights and liabilities of the parties which have accrued before termination shall continue to exist.

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5.2 The supplemental agreement

On 19 July 2016, the Purchaser and the Vendors entered into a further amended and restated share purchase agreement (“**Further Restated SPA**”) to amend and restate the Agreement, pursuant to which the terms be changed as follows:

A. Consideration

The Consideration remains at HK\$600,000,000 but it will be settled in the following manner:

- (a) the issue of an interest-free unsecured three-year term promissory note in the principal amount of HK\$160,000,000 (“**Promissory Note**”) by the Purchaser to the Vendors upon Completion;
- (b) the issue and allotment of 1,900,000,000 Consideration Shares (“**New Consideration Shares**”) by the Company to the Vendors upon Completion; and
- (c) HK\$60,000,000 (subject to adjustment, if any) (“**Profit Guarantee Retained Consideration**”) will be payable by the Purchaser to the Vendors after Completion and after and subject to the determination of the 2016 Net Profit pursuant to the terms of the Further Restated SPA. Please see the paragraph below headed “Adjustments to the Consideration and Profit Guarantee” for further details in relation to the Profit Guarantee Retained Consideration.

Adjustments to the Consideration and Profit Guarantee

Pursuant to the Further Restated SPA, the Purchaser has an absolute discretion to adjust the portion of the New Consideration Shares if, as a result of the issue and allotment of the New Consideration Shares to the Vendors, (i) the Vendors and their concert parties may own 30% or more of the voting rights of the Company; (ii) a mandatory general offer under the Takeovers Code in respect of the Shares will be triggered on the part of the Vendors and their concert parties; or (iii) the transactions contemplated under the Further Restated SPA will be regarded as a reverse takeover of the Company under the GEM Listing Rules.

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The Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000 (in each case, except for reason due to occurrence of force majeure events (such as natural disaster, war etc.), the acceptance of such exception to the sole discretion of the Purchaser), and agree to indemnify the Purchaser jointly and severally, on a dollar-for-dollar basis, of any 2016 Net Profit Shortfall, 2017 Net Profit Shortfall and 2018 Net Profit Shortfall. According to the Further Restated SPA, for the purpose of the profit guarantee under the 2016 Net Profit, the Profit Guarantee Retained Consideration (i.e. HK\$60,000,000 (subject to adjustment, if any)) will not be paid to the Vendors upon Completion pending determination of whether the 2016 Net Profit will be met. Upon the occurrence of a 2016 Net Profit Shortfall, the Purchaser may reduce the portion or the whole of the Profit Guarantee Retained Consideration.

Given that the Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000, we are of the view that the Company's interest shall be safeguard against of the potential risk of unsatisfactory financial performance of the Target Group during the guaranteed period.

B. Conditions precedent to Completion

Pursuant to the Further Restated SPA, the Completion is subject to the following conditions:

- (a) due diligence investigation on, among other things, the value, business, operations, assets, liabilities, financial status and prospects of Target Group having been completed by the Purchaser and the results of such due diligence investigation being satisfactory to the Purchaser (including but not limited to any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group having been duly discharged to the satisfaction of the Purchaser);
- (b) the representations and warranties given by the Vendors remaining true and accurate in all respects and not misleading at Completion;
- (c) the Purchaser and the Company having obtained sufficient funding for the cash portion of the Consideration;

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- (d) the consummation of the transactions contemplated under the Further Restated SPA does not (i) trigger a mandatory general offer obligation under the Takeovers Code on the part of the Vendors and their concert parties; (ii) constitute a reverse takeover of the Company under the GEM Listing Rules; or (iii) result in the Vendors (either individually or together) becoming the single largest Shareholder;
- (e) all consents, permits, authorisations, authorities and formal approvals (as the case may be) that each of the Purchaser and each of the Vendors considers reasonable pursuant to applicable laws, regulations or rules for the execution, implementation and Completion of the Further Restated SPA (including but not limited to the approval from the Shareholders as required under the GEM Listing Rules and the Stock Exchange's approval and clearance for (i) the allotment and issue of the New Consideration Shares and the listing thereof on the GEM, and (ii) the appointment of the person jointly nominated by the Vendors as an executive Director) having been obtained; and
- (f) all such consents, permits, authorisations, authorities and formal approvals as referred to above not having been revoked or withdrawn at any time up to Completion.

The Purchaser may waive all or any of the above conditions precedent (other than (a) (to the extent that any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group not having been discharged to the satisfaction of the Purchaser), (d), (e) and (f)) by notice to the Vendors on or before 31 December 2016. As at the date of this announcement, the Purchaser has no intention to waive any of such conditions precedent. As at the date of this announcement, none of the conditions precedent to Completion has been fulfilled.

If all of the conditions are not fulfilled or otherwise waived (as the case may be) on or before 31 December 2016, the Purchaser has the right to terminate the Further Restated SPA and all obligations of the parties under the Further Restated SPA shall end but all rights and liabilities of the parties which have accrued before termination shall continue to exist.

Save for the above revisions, all the terms and conditions under the Agreement remain unchanged.

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5.3 Evaluation of the Consideration

Valuation

We draw the attention of the Independent Shareholders to full text of the valuation report set out in Appendix V to the Circular. In assessing the fairness and reasonableness of the valuation, we have reviewed the valuation report prepared by the independent valuer. For our due diligence purpose, we have performed the steps, including (i) reviewing the terms of engagement of the independent valuer; (ii) obtaining from the independent valuer the name, qualification and experience of the director in charge of this engagement, he has extensive experience in valuing similar assets or companies as that of the Target Company worldwide; and (iii) the independent valuer confirmed that, save for acting as valuer, there is no prior or current relationship between the independent valuer and the Company, the Vendor and their respective connected persons. Further details of the qualification and experiences of the executive who signed the valuation report are disclosed in the valuation report set out in the Appendix V to the Circular.

We have reviewed and discussed with the independent valuer the methodology of, and the bases and assumptions adopted for, the valuation of the Target Company, which are summarized in the valuation report as set out in Appendix V to the Circular. We understand from the independent valuer that the independent valuer has considered three different generally accepted approaches, namely market approach, cost approach and income approach in arriving at the market value of the entire equity interest in the Target Company.

The independent valuer advised that the income approach was considered to be the most appropriate valuation approach as it can accurately reflect the business model the Target Company. Given the characteristics of the Target Company, there was a lack of explicitly industry comparables or market transactions available as at the date of valuation to derive an indicative value of the Target Company with sufficient level of accuracy. Thus, the market approach was not adopted. Also, the cost approach was considered to be inappropriate as the replication cost of the Target Company may not represent the value of the Target Company.

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A form of the income approach known as discounted cash flow method was used to value the Target Company. We understand from the independent valuer that in applying discounted cash flow, expected cash flows to be generated from the Target Company in the future were first estimated. These cash flows were then discounted using a discount rate to determining the present value of the expected cash flows. We have discussed with the independent valuer the principal assumptions used in the calculation of the expected cash flows in relation to, among others, expected daily rental income, expected administrative and other operating expenses, as well as the basis in determining the discount rate adopted for the valuation.

Based on our review and discussion with the independent valuer, we concur with the view of that (i) the valuation methodology adopted by the independent valuer are fair and reasonable to establish the appraised value of the Target Company; and (ii) the bases and assumptions for the valuation are fair and reasonable.

Comparison with other acquisitions

In order to assess the fairness and reasonableness of the Acquisition, we have conducted on a search, on our best effort basis, that are comparable to the Acquisition based on the criteria that (i) the transactions were related to the acquisitions of property development and rental related assets in the PRC; (ii) the considerations of the transactions were determined with reference to the valuation of income approach with discounted cash flow modeling; and (iii) the transactions were conducted by companies listed on the Main Board of Stock Exchange which announced their respective acquisitions during the period from 19 May 2014 to 3 June 2016. However, it is hard to identify the same kind of acquisitions under abovementioned criteria. Hence, we extend the research by covering all other acquisitions of different types of asset together with criteria (i), (ii) and (iii). Based on our research of the public information, 9 comparables transactions could meet such revised criteria for comparison purpose.

With the period from 19 May 2014 to 3 June 2016, we have noticed that (i) none of the comparables has participated in the acquisition transaction in identical nature with the Acquisition and (ii) none of the comparables have participated in acquisition transaction in similar nature with the Acquisition. Based on such criteria, we are of the view that the comparables represent an exhaustive list of all suitable comparable companies meeting the aforementioned criteria as identified by us based on our best information, knowledge and belief. We note that the Target Company is principally engaged in the operation and management of the Shenzhen CC Park, which is the first project in the cultural creative industry of Shenzhen and created for the idea of “Implementing

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industrial replacement and adjusting industrial structure, to achieve industrial advancement”, which are not exactly the same as the business operated by the Comparables but we consider that they are similar for the purpose of our analysis.

Independent Shareholders should note that (i) the business, operation and prospects of the Company are not the same as the comparable acquisition and we have not conducted any in-depth investigation into the business and operations of the comparable acquisition; (ii) the principal terms of the acquisitions (i.e. assets to be acquired, premium/discount of consideration over/to valuation, settlement method, and type of transaction) should be considered in whole rather than in isolation; and (iii) the acquired assets of comparable acquisitions may not be the same in terms of their principal activities and should only be considered as a reference of the prevailing market conditions.

We have conducted an analysis on the Consideration/(NAV/appraised value) ratio of the comparables and the analysis is set out below.

Table 1: Information on Comparable Acquisition

	Name of Company (stock code)	Date of announcement	Nature of transaction	Principal Activities	Consideration '000	NAV/ appraised value '000	Consideration/ (NAV/appraised value) times
1	Beijing Capital Land Limited (2868.HK)	3-Jun-16	Major and connected transaction in relation to acquisition of equity interest transfer in a target company from the controlling shareholder of the company and its subsidiaries.	(1) Principal activities of the list company: Real estate development and investment, commercial real estate operation, hotel operation, property consulting services and investment holding. (2) The approved scope of business of the target company Donghuan Xinrong mainly includes real estate development and sales, property rental, property services and management.	RMB2,149,702	RMB2,079,801	1.03
2	Yuzhou Properties Company Limited (1628.HK)	21-Dec-15	Disclosable and connected transaction in relation to acquisition of equity interest in a target company from an associate of a state-owned enterprise in the PRC.	(1) Principal activities of the list company: Property development, property investment, the provision of management services and hotel operation. (2) Target company-property development.	RMB608,290	RMB522,750	1.16
3	China COSCO Holdings Company Limited (1919.HK)	11-Dec-15	Major and connected transactions in relation to acquisition of equity interests in target companies from an associate of a state-owned enterprise in the PRC.	Providing container shipping, dry bulk shipping, managing and operating container terminals and container leasing businesses.	RMB230,998	RMB230,998	1
4	New Century Real Estate Investment Trust (1275.HK)	29-Jun-15	Major acquisition and connected transaction in relation to the sale and purchase agreement to acquire a hotel in the PRC.	Real Estate Investment Trust.	RMB380,000	RMB420,000	0.9
5	Hanny Holdings Limited (275.HK)	29-May-15	Major and connected transaction in relation to acquisition of the entire issued share capital of a company incorporated in the BVI.	(1) Principal activities of the list company: Trading of securities, industrial water supply business, property development and trading and other strategic investments. (2) Target company is holding a hotel.	RMB165,000	RMB180,620	0.91

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	Name of Company (stock code)	Date of announcement	Nature of transaction	Principal Activities	Consideration '000	NAV/ appraised value '000	Consideration/ (NAV/appraised value) times
6	Sunlight Real Estate Investment Trust (435.HK)	20-Jun-14	Major acquisition and connected party transactions in relation to the acquisition of property in HK.	(1) Principal activities of the list company: Real Estate Investment Trust (2) Target company hold the interest of AIA Financial Centre	HK\$1,960,000	HK\$2,000,000	0.98
7	COFCO Land Holdings Limited (207.HK)	12-Sep-14	Very substantial acquisition and connected transaction in relation to the acquisition of property project in the PRC.	(1) Principal activities of the list company: Investment holding, property investment and development, property management and hotel operations. (2) Target company is primarily engaged in the development, operation, sale, leasing and management of mixed-use complexes under the flagship brand "Joy City (大悦城)", which has a portfolio of six mixed-use complex property projects located in Beijing, Shenyang, Shanghai, Tianjin and Yantai in the PRC.	HK\$12,459,785	HK\$20,001,000	0.62
8	Wanda Commercial Properties (Group) Co., Limited (169.HK)	4-Jun-14	Connected and Major Transaction in relation to formation of joint venture for real property projects in continental Europe.	(1) Principal activities of the list company: Property development, property letting, property management and investment holding activities. (2) The acquisition of real property in Spain and formation of joint venture.	HK\$2,816,950	HK\$2,221,910	1.27
9	Logan Property Holdings Company Limited (3380.HK)	19-May-14	Disclosable and connected transaction in relation to the acquisition of the entire equity interest in target company established under the laws of the PRC.	(1) Principal activities of the list company: Property development, property investment and construction in the PRC. (2) Target company is principally engaged in the development and operation of the property development in Guangxi province of PRC.	RMB384,000	RMB399,000	0.96

As stated from the Board Letter, the Consideration was arrived at after arm's length negotiations between the parties and was determined with reference to, among other things, the financial performance and business development and prospects of the Target Group. The Consideration was determined with reference to the valuation of the Target Group at HK\$621 million as at 30 June 2016 by an independent valuer using the income approach. As illustrated from the above the table 1, we note that the ratio of the Acquisition comparables range from a low of approximately 0.62 times to a high of approximately 1.16 times with the average figure being approximately 0.87 times. The ratio of the Target Company of approximately 0.97 times respectively are therefore within the range of the Acquisition comparables' ratio but above the average thereof.

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It is noted that those acquired assets of comparables acquisition (i) have different principal terms of their acquisition agreements; (ii) have different types of risks; and (iii) related to different types of assets. However, having considered that (i) none of the comparables acquisition have participated in acquisition transaction in identical nature with the Acquisition; (ii) none of the comparables acquisition have participated in acquisition transaction in similar nature with the Acquisition, we are of the view that the evaluation of the acquired asset prices are believed to be rational and reasonable.

Based on the above, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Issue of the Promissory Note

As part of the Consideration payable for the Acquisition, the Purchaser will issue an unsecured three-year term promissory note in the principal amount of HK\$160,000,000 to the Vendor upon Completion.

Comparison with other promissory note issues

In order to further assess the fairness and reasonableness of the Promissory Note with respect to maturity and interest rate, we have conducted a search, on a best effort basis, on all issues of promissory notes in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of promissory note as all or part of the consideration; (ii) issuance of promissory note by listed issuer on the Main Board of the Stock Exchange in the past period from 22 January 2015 to 18 March 2016, being the date of the Acquisition Agreement (the “**PN Comparables**”). The purpose of the PN Comparables is to provide reference on the recent market practice in determining the interest rate of the promissory note.

Shareholders should note that (i) the business, operation and prospects of the Company are not the same as the issuers of the PN Comparables and we have not conducted any in-depth investigation into the business and operations of the issuers of the PN Comparables, and (ii) the principal terms of the promissory note issuance (i.e., principal amount, term to maturity and annual interest rate) should be considered in whole rather than in isolation. To the best of our knowledge, effort and endeavor and based on our search conducted according to the abovementioned criteria, we consider that the list of PN Comparables is an exhaustive list of those fair and representative comparables for comparison purpose. Key findings on the principal terms of the PN Comparable are summarized in table below.

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Table 2: Information on PN Comparables

	Date of announcement	Company (stock code)	Sector	Market capitalization as at the Last Trading Day (HK\$ million)	Principal amount (HK\$ million)	Maturity (years)	Annual interest rate (%)
1	18-Mar-16	China Zenith Chemical Group Limited (362.HK)	Materials	276	35	1	0%
2	9-Mar-16	Megalagic Technology Holdings Limited (8242.HK)	Information Technology	657	18	3	6%
3	4-Mar-16	Central Wealth Financial Group Limited (572.HK)	Industrial goods	1,316	29	2	2%
4	21-Dec-15	ShenZhen Investment Limited (604.HK)	Properties & Construction	27,865	1,132	0.25	0%
5	19-Aug-15	Sun International Resources Limited (8029.HK)	Information Technology	1,294	147	3	2%
6	13-Aug-15	Get Holdings Limited (8100.HK)	Information Technology	138	180	1	4%
7	22-Jan-15	Perfect Optronics Limited (8311.HK)	Information Technology	1,439	20	2	0%

Sources: HKEx website

As illustrated in Table above, during the past period from 22 January 2015 to 18 March 2016, being the date of the Acquisition, the PN Comparable includes 7 listed companies on the Main Board of the Stock Exchange with 7 promissory notes issued.

Term to maturity and annual interest rates

The PN Comparables have a term to maturity ranging from about 2.5 months to 3 years with the principal amount issued ranging from HK\$18 million to HK\$1,132 million and have an annual interest rate of 0% to 6% per annum. The average annual interest rate of PN Comparables is 1.892%. The interest rate of 0% per annum for the Promissory Note is within the range of relevant interest rate of the promissory notes listed in Table 2. The interest rate of the Promissory Note is hence within the said market range.

We have also considered interest rates of other debts or cost of financing. The annual yield of Exchange Fund Bills and Notes with a maturity of 2 years published by the Hong Kong Monetary Authority dated 17 August 2016 is about 0.50%. Any corporate raising two-year financing will have to pay a premium over the annual yield offered by Exchange Fund Bills and Notes with a two-year remaining maturity.

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Shareholders should note that the issuers of promissory notes in the above table are from different industries with market capitalization varying from HK\$138 million to HK\$27,865 million, and operate with different business models and dynamics, hence differs in company specific risks, which in turn affect the terms of the promissory notes acceptable to holders of the promissory notes. As such, they may not be directly comparable to the Company, but in our view still offer a good reference.

Having considered all of the above factors, in particular, (i) the interest rate accruing to the Promissory Note is within the range of the market comparables in the past review period and (ii) the annual yield of Exchange Fund Bill and Notes within 2 years maturity of about 0.50%, we consider the interest rate of the Promissory Note fair and reasonable.

Issue of Consideration Shares

Consideration Shares

According to the Board Letter, the Consideration Shares of 1,900,000,000 Shares represent (i) approximately 46.85% of the existing issued share capital of the Company; and (ii) approximately 28.06% of the enlarged issued share capital of the Company immediately upon Completion. The Consideration Shares, when issued, will rank *pari passu* in all respects with the existing Shares then in issue. The Company proposes to seek a special mandate from the Shareholders at the EGM for the issue and allotment of the Consideration Shares.

The issue price of the Consideration Shares of HK\$0.20 per Share represents:

- (a) a discount of approximately 21.56% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a discount of approximately 17.01% to the average closing price of approximately HK\$0.241 per Share for the last five consecutive trading days up to and including the Last Trading Date;
- (c) a discount of approximately 17.01% to the average closing price of approximately HK\$0.241 per Share for the last ten consecutive trading days up to and including the Last Trading Date; and
- (d) a discount of approximately 14.16% to the closing price of HK\$0.233 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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Based on the above, we note that the Issue Price, which represents a slight discount to the prevailing closing price of Shares prior to the Last Trading Day, a slight premium over the closing price of Shares as at the Latest Practicable Date and a substantial premium over the equity per Share.

As stated from the Board Letter, the issue price of HK\$0.20 per Consideration Share was arrived at by the parties after arm's length negotiations taking into account, among other things, the historical trading prices of the Shares, the net asset value of the Company per Share as of 30 September 2015 (being HK\$0.004), the financial performance, business development and prospects of the Target Group, and the profit guarantee provided by the Vendors.

Comparable Companies

The Target Group is engaged in operating and managing of Shenzhen CC Park for rental income including management fee and provides value-added services to its clients in different ways, where appropriate and required, assists to introduce capital investment institutions to its clients via company presentation, management discussions and site visits. To assess the fairness and reasonableness of the consideration for the Acquisition, we have searched for companies listed on the Stock Exchange. To the best of our knowledge and as far as we are aware of, there are 15 comparable companies which form an exhaustive list. Since no directly comparable company exists, such comparable companies are selected to be most comparable in terms of the business nature, asset structure and geographical region, and we consider such comparable companies are fair and representative samples.

We have also considered limiting the sample of comparable to companies that are engaged in similar business as the Target Group. But having considered that (i) the issue price per share of consideration shares are generally determined with reference to a discount or premium to recent market price of the shares and (ii) the magnitude of the discount or premium do not appear to have a strong correlation with the industry sector and there is no established "industry norm" for a particular industry sector, we are of the view that limiting the sample of comparable using the aforementioned approach would not be meaningful within the scope of our analysis. As the price of Consideration Shares Comparables reflects the recent consideration shares price in the market since 14 November 2014 to 7 October 2016, we are of the view that the Comparables are collectively a fair and representative sample.

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Table 3: Information on Consideration Shares Comparables

	Company Name	Date of announcement	Premium/(Discount) of the issue price over/(to) the closing price per share on last trading days prior to/on date of the announcement/agreement in relation to the respective issue of consideration share %
1	China Gas Holding Limited (0384.HK)	26-Nov-14	22.35
2	Huajun Holdings Limited (0377.HK)	17-Jun-15	30.84
3	Citic Telecom International Holdings Limited (1883.HK)	24-Aug-15	(7.14)
4	AviChina Industry & Technology Company Limited (2357.HK)	30-Sep-15	0.00
5	ZH International Holdings Limited (0185.HK)	2-Oct-15	9.10
6	Fullshare Holdings Limited (0607.HK)	13-Oct-15	(19.42)
7	Capital Environment Holdings Limited (3989.HK)	26-Nov-15	(9.09)
8	Hong Wei (ASIA) Holdings Company Limited (8191.HK)	12-Jan-16	4.88
9	China Zenith Chemical Group Limited (0362.HK)	18-Mar-16	7.02
10	Digital Domain Holdings Limited (0547.HK)	27-Apr-16	(5.40)
11	O Luxe Holdings Limited (0860.HK)	25-May-16	(0.49)
12	Hoifu Energy Group Limited (0007.HK)	13-Jun-16	(1.96)
13	ELL Environmental Holdings Limited (1395.HK)	16-Jun-16	9.89
14	List Group (Holdings) Limited (0526.HK)	30-Sep-16	(43.76)
15	Phoenix Healthcare Group Co. Ltd. (01515.HK)	07-Oct-16	(11.6)

Sources: HKEx website

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As illustrated above, the range of the premium/(discount) of the issue price over/(to) the closing price per share on last trading days prior to/on date of the announcement/agreement in relation to the respective issue of consideration share of the comparable companies have a range of approximately from 43.76 discount to 30.846 premium. The 21.56 discount of the issue price to the closing price per share on Last Trading Date prior on date of the announcement/agreement of the Consideration Share is among the range of the above mentioned comparables.

We consider the multiples of publicly traded comparable companies provide a relevant benchmark for the purpose of Consideration Shares. In this case, we consider that the consideration for the Acquisition is fair and reasonable to the Company and the Independent Shareholders as a whole.

6. Possible dilution effect on the shareholding interests of the public Shareholders

Assuming there will be no adjustment to the number of Consideration Shares and no other factors affecting the shareholding structure of the Company, set out below is the shareholding structure of the Company (i) as at the date of this announcement, and (ii) immediately upon Completion (assuming that 1,900,000,000 Consideration Shares will be issued and allotted upon Completion):

	As at the date of this announcement		Upon Completion (Note)	
	Number of Shares	%	Number of Shares	%
China Xinhua News Network	1,188,621,377	29.31	2,004,947,907	29.61
Mr. Chia Kar Hin, Eric John (an executive Director)	14,600,000	0.36	14,600,000	0.22
Mr. Kan Kwok Cheung (an executive Director)	69,000,000	1.70	69,000,000	1.02
Public	2,783,128,570	68.63	2,783,128,570	41.10
Vendors	—	—	1,900,000,000	28.06
	<u>4,055,349,947</u>	<u>100.00</u>	<u>6,771,676,477</u>	<u>100.00</u>

Note: This is on the basis that part of the outstanding Convertible Bonds held by China Xinhua News Network will be converted into a total of 816,326,530 new Shares simultaneously upon Completion. China Xinhua News Network has notified the Company of its intention to convert part of its outstanding Convertible Bonds into a total of 816,326,530 new Shares simultaneously upon Completion, so that China Xinhua News Network will remain as the single largest Shareholder immediately upon issue and allotment of the Consideration Shares at Completion.

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As stated from the Board Letter, upon completion of the Acquisition, the Board believes that the existing television broadcasting business of the Group and the cultural-related business of the Target Group will complement with each other and there will be synergies between them. The Board considers that the Acquisition in on normal commercial terms and its terms are fair and reasonable and in the interest of the Company and the Shareholders take as a whole.

As stated from the Board Letter, (i) the Vendors irrevocably guarantee to the Purchaser that each of the 2016 Net Profit, 2017 Net Profit and 2018 Net Profit shall not be less than RMB50,000,000; (ii) the Profit Guarantee Retained Consideration in an amount of HK\$60,000,000 (subject to adjustment, if any) will be payable by the Purchaser to the Vendors after Completion and after and subject to the determination of the 2016 Net Profit pursuant to the terms of the Agreement; (iii) each of the Vendors undertakes to the Company and the Purchaser that it will not, amongst others, directly or indirectly dispose of, nor directly or indirectly enter into any agreement to dispose of, or announce its intention to do so, any of the Consideration Shares within 24 months from the date of the Agreement.

Having considered the reasons for and possible benefits of the Acquisition, the profit guarantee provided by the Vendors, the undertaking of the Consideration Shares by the Vendors, and the synergies for the Acquisition, we consider that the potential dilution in the shareholding interests of the Independent Shareholders in the Company upon Completion is acceptable.

7. Financial effect of the Acquisition

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements. The unaudited pro forma consolidated financial information of the Enlarged Group illustrating the financial impact of the Acquisition on the results, assets and liabilities of the Group is set out in Appendix III to this circular.

(a) Earnings

The loss attributable to owners of the Company amounted to approximately HK\$46.4 million for the year ended 31 March 2016. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, as if the Acquisition had taken place at 31 March 2016 and 1 April 2015 respectively, the Enlarged Group's loss attributable to owners of the Company would have been amounted to approximately HK\$ 18.3 million for the year ended 31 March 2016.

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(b) Net asset and Liquidity value

As at 31 March 2016, the audited consolidated total assets and total liabilities of the Group amounted to approximately HK\$418.8 million and HK\$414.2 million, respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming Completion had taken place on 31 March 2016, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would be increased to approximately HK\$1,295.1 million and HK\$672.4 million, respectively.

It should be noted that the above-mentioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

8. Specific Mandate

As set out in the Board Letter, pursuant to the Agreement, the Company shall issue the Consideration Shares to the Vendor (or its nominee) as a part of the Consideration at Completion. The Consideration Shares shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of a specific mandate from the Shareholders at the EGM for the allotment and issue of the Consideration Shares.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that (i) the Acquisition is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,

For and on behalf of

Changjiang Corporate Finance (HK) Limited

Ivan Chan

Managing Director

Michael Zhao

Vice President

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is the summary of the audited consolidated results of the Group for the years ended 31 March 2014, 2015, and 2016 and unaudited consolidated results of the Group for the three months ended 30 June 2016 as extracted from the relevant published annual reports and quarterly report of the Company:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

The following is a summary of the audited consolidated financial results of the Group for the years ended 31 March 2014, 2015 and 2016 and the unaudited consolidated financial results of the Group for the three months ended 30 June 2016 as extracted from the relevant published annual reports and quarterly report of the Company:

	3 months ended 30 June 2016 HK\$'000 (Unaudited)	Year ended 31 March 2016 HK\$'000 (Audited)	2015 HK\$'000 (Audited)	2014 HK\$'000 (Audited)
Revenue	123,330	370,939	369,635	324,331
Cost of services	<u>(117,052)</u>	<u>(302,288)</u>	<u>(346,553)</u>	<u>(274,231)</u>
Gross profit	6,278	68,651	23,082	50,100
Other income	588	906	4,136	30,961
Other gains and losses	1,457	1,950	10,083	(3,307)
Amortisation expenses	(4,919)	(23,598)	(24,088)	(59,463)
Selling and distribution expenses	(243)	(97)	(226)	(85)
Administrative expenses	(6,471)	(34,992)	(33,121)	(29,706)
Change in fair value of financial assets at fair value through profit or loss	<u>(1,385)</u>	<u>(5,773)</u>	<u>502</u>	<u>–</u>
(Loss)/profit from operations	(4,695)	7,047	(19,632)	(11,500)
Finance costs	(8,959)	(34,276)	(25,720)	(42,041)
Impairment loss on trade receivables	–	(2,238)	–	(9,469)
Impairment loss recognised in respect of goodwill	–	–	–	(151,194)
Impairment loss on intangible assets	<u>–</u>	<u>(19,751)</u>	<u>–</u>	<u>(269,309)</u>
Loss before income tax	(13,654)	(49,218)	(45,352)	(483,513)
Income tax	<u>803</u>	<u>2,775</u>	<u>3,629</u>	<u>52,221</u>
Loss for the period/year attributable to the owners of the Company	<u>(12,851)</u>	<u>(46,443)</u>	<u>(41,723)</u>	<u>(431,292)</u>

Consolidated Statement of Financial Position

The following is a summary of the audited consolidated assets and liabilities of the Group as at 31 March 2014, 2015 and 2016 as extracted from the relevant published annual reports of the Company:

	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Non-current assets	139,972	181,872	208,624
Current assets	<u>278,868</u>	<u>184,740</u>	<u>124,333</u>
Total assets	418,840	366,612	332,957
Less: Current liabilities	<u>130,832</u>	<u>111,537</u>	<u>707,433</u>
Total assets less current liabilities	288,008	255,075	(374,476)
Less: Non-current liabilities	<u>283,377</u>	<u>284,041</u>	<u>33,463</u>
Total net assets/(liabilities)/total equity	<u><u>4,631</u></u>	<u><u>(28,966)</u></u>	<u><u>(407,939)</u></u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 March 2016 has been set out on pages 80 to 228 of the 2015/16 annual report of the Company which was published on 29 June 2016 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2015/16 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2016/0629/GLN20160629033.pdf>

The audited consolidated financial statements of the Group for the year ended 31 March 2015 has been set out on pages 78 to 240 of the 2014/15 annual report of the Company which was published on 26 June 2015 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2014/15 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2015/0626/GLN20150626003.pdf>

The audited consolidated financial statements of the Group for the year ended 31 March 2014 has been set out on pages 52 to 140 of the 2013/14 annual report of the Company which was published on 26 June 2014 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2013/14 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2014/0626/GLN20140626009.pdf>

3. UNAUDITED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS OF THE GROUP

The unaudited consolidated first quarterly financial statements of the Group for the three months ended 30 June 2016 have been set out on pages 3 to 14 of the first quarterly report for 2016/17 of the Company which was published on 12 August 2016 on the Stock Exchange's website (www.hkexnews.hk). Please also see below quick link to the 2016/17 first quarterly report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2016/0812/GLN20160812009.pdf>

4. INDEBTEDNESS STATEMENT**Borrowings**

As at 31 August 2016, being the latest practicable date for ascertaining the indebtedness statement of the Enlarged Group prior to the printing of this circular, the Enlarged Group had the following outstanding bank borrowings and other borrowings:

1. outstanding bank borrowings of approximately HK\$325.9 million (equivalent to approximately RMB280.3 million). The bank borrowings were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately HK\$2.8 million (equivalent to approximately RMB2.4 million), interest-bearing ranged from 6.7% to 10.7% and repayable on December 2016, January 2017 and October 2017;
2. outstanding promissory note with principal amount of approximately HK\$45.0 million which was unsecured, interest free and will be matured on 11 August 2017;
3. outstanding Convertible Bonds with principal amount of approximately HK\$257.0 million which was unsecured, interest-bearing and will be matured on 9 December 2017; and
4. the obligations under finance leases amounted to approximately HK\$7.3 million.

Security and guarantees

As at 31 August 2016, the bank borrowings together with the banking facilities were secured by cross guarantee of approximately HK\$31.0 million within the Enlarged Group. The Enlarged Group executed corporate guarantee of approximately HK\$2,069.8 million (equivalent to approximately RMB1,780.0 million) and the charges over trade receivables of the Target Company to certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests.

As at 31 August 2016, 32 motor vehicles of the Enlarged Group under hire purchase with an aggregate outstanding principal amount of approximately HK\$3.8 million were secured by personal guarantees from Mr. Kan Kwok Cheung.

Contingent liabilities

As at 31 August 2016, the Enlarged Group has executed cross financial guarantees of approximately HK\$31.0 million to certain banks for credit facilities granted to subsidiaries. The Enlarged Group has executed corporate guarantee of approximately HK\$2,069.8 million (equivalent to approximately RMB1,780.0 million) to certain banks for credit facilities granted to certain subsidiaries of ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests. Save as aforesaid, the Enlarged Group did not have any material contingent liabilities.

Commitments

As at 31 August 2016, the Enlarged Group did not have any material commitments.

Disclaimers

Save as the aforesaid, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at 31 August 2016, the Enlarged Group did not have outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities.

5. WORKING CAPITAL STATEMENT

The Directors are satisfied after due and careful enquiry that after taking into account the expected completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Set out below is the management discussion and analysis of the Group for (i) the year ended 31 March 2014 (which includes information extracted and summarised from the annual report for 2013/14 of the Company); (ii) the year ended 31 March 2015 (which includes information extracted and summarised from the annual report for 2014/15 of the Company); (iii) the year ended 31 March 2016 (which includes information extracted and summarised from the annual report for 2015/16 of the Company); and (iv) the three months ended 30 June 2016 (which includes information extracted and summarised from the first quarterly report for 2016/17 of the Company).

For the year ended 31 March 2014 (which includes information extracted and summarised from the annual report for 2013/14 of the Company)

BUSINESS REVIEW

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertisement business in the PRC. During the year ended 31 March 2014, the Group continued to focus on rendering waterworks engineering services to the public sector in Hong Kong and further develop its television broadcasting business in the Asia-Pacific region (excluding the PRC) and large outdoor display screen advertisement business in the PRC.

Provision of waterworks engineering services

During the year ended 31 March 2014, the Group has been undertaking three main contracts and six subcontracts. Among the nine contracts, six are related to provision of waterworks engineering services and the remaining contracts are related to provision of drainage services. Details of the contracts undertaken are set out below:

Contract number	Particulars of contract	Client	Contract period under main contracts	
Main contracts				
9/WSD/09	Replacement and rehabilitation of water mains stage 3-mains in Sai Kung	Water Supplies Department of the Government (“WSD”)	May 2010 – Feb 2014	}
8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension	WSD	Dec 2011 – May 2014	
3/WSD/13	Mainlying near She Shan Tsuen, Tai Po	WSD	Sept 2013 – Jul 2016	
Subcontracts				
18/WSD/08	Replacement and rehabilitation of water mains stage 3 – mains on Hong Kong Island South and outlying islands	Ming Hing Civil Contractors Limited	Mar 2009 – Oct 2014	}
8/WSD/10	Replacement and rehabilitation of water mains, stage 4 phase 1 – mains in Tuen Mun, Yuen Long, North District and Tai Po	Hsin Chong Construction Company Limited	Apr 2011 – Dec 2015	
DC/2012/04	Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang	Hsin Chong Tsun Yip Joint Venture	Jun 2012 – Dec 2017	
DC/2012/07	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 1	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Jan 2016	
DC/2012/08	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 2	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Aug 2016	
5/WSD/13	Replacement and rehabilitation of water mains, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories	Hsin Chong Tsun Yip Joint Venture	Nov 2013 – Feb 2016	
				Total contract value HK\$1,805.9 million
				Total amount of works certified (Note) HK\$931.8 million

Note: Amount of works certified is based on the certificates of payment received from client.

Among the above nine contracts, one main contract (contract numbered 3/WSD/13) and one subcontract (contract numbered 5/WSD/13) were newly awarded during the year ended 31 March 2014.

During the year ended 31 March 2014, the two contracts with contracts numbered 8/WSD/10 and DC/2012/07 were the main contributors to the Group's revenue, which generated approximately HK\$134.8 million and HK\$41.3 million, constituting approximately 41.6% and 12.7% of the Group's total revenue respectively.

Television broadcasting business

The Group's news coverage and television programmes place itself in a unique position among the television broadcasters worldwide. Currently, it is broadcasting the television programmes relating to information contents from Xinhua News Agency in Hong Kong, Macau, Thailand, New Zealand, Mongolia, Malaysia, Laos and Australia. During the year ended 31 March 2014, the Group has entered into three cooperation agreements and a memorandum of understanding with local television service suppliers in Hong Kong, New Zealand, Australia and Thailand respectively so as to further expand the coverage of China Xinhua News Network Channel and China Xinhua News Network World Channel (collectively the "CNC Channels"). In addition to Chinese and English language, the Group will provide certain television programmes which are translated to Thai language and broadcasted in Thailand in order to expand the viewership in countries of different languages. By entering into these cooperation agreements and memorandum of understanding, the Directors consider it will improve the utilisation efficiency of the advertising time of the respective channel, which will in turn bolster the Company's capability in executing commercial advertising and benefit the Shareholders as a whole. The Group is actively seeking cooperation opportunities with strategic partners and giving customers a unique viewing experience, and expansion beyond Hong Kong.

With the great success of television programmes "Hong Kong, Hong Kong" and "Hong Kong Voice Express", the Company has produced a documentary television feature programme "ICAC" for the purpose of marking the 40th anniversary of Hong Kong's Independent Commission Against Corruption during the year ended 31 March 2014. "ICAC" has been broadcasted in February 2014 through the CNC Channels, Now TV Channel No. 369 of PCCW Media Limited and TVB news channel of Television Broadcasts Limited and LETV platform and received good responses from the audience. Two documentaries produced by the Company "ICAC" and "Hong Kong, Hong Kong", have been nominated for a television documentary award in the 27th China TV Golden Eagle Award. In the future, the Group will continue to produce information contents according to different social themes.

The Group's television broadcasting business has been strongly supported by its Shareholder, Xinhua News Agency. On 22 July 2013, the Company and CNC China, entered into a channel resources usage framework agreement (the "CRU Framework Agreement"), pursuant to which CNC China and/or its subsidiaries will procure the sale of advertising resources on the television channels controlled by the Company to independent third party clients for advertising revenue. The CRU Framework Agreement will have a term of 3 years ending on 31 March 2016. In order to implement the CRU Framework Agreement, on 22 July 2013, Xinhua TV Asia-Pacific entered into the channel resources usage agreements with CNC China, pursuant to which Xinhua TV Asia-Pacific agreed to provide advertising resources on its television channels for broadcasting advertisements of the Ministry of Commerce of the PRC ("MOFCOM") Department of Foreign Investment Administration (商務部外國投資管理司)(the "MOFCOM CRU Agreement") and Yibin Wuliangye Liquor Sales Co., Ltd. (the "Wuliangye CRU Agreement") respectively. Both MOFCOM CRU Agreement and Wuliangye CRU Agreement became effective on 22 July 2013 and will end on 31 March 2016. As such, the Directors consider that the entering into of the MOFCOM CRU Agreement and the Wuliangye CRU Agreement can utilise its broadcasting network of television channels so as to safeguard stability and security of the continuing operation of the Group's advertising business.

Nevertheless, the Group still recorded a loss in this business segment for the year ended 31 March 2014. In April 2014, the Company has issued certain profit warning announcements and informed the public that impairment loss in respect of goodwill and intangible assets as well as provision of doubtful debts regarding this segment would have a significant impact on the Group's result. Despite the fact that the Group's television broadcasting business continued to make steady progress as compared with previous year, the television broadcasting business of the Group is still under development and in the process of adjusting its business to cope with the challenging business conditions. It has not yet brought in satisfactory return to the Group since its acquisition in year 2011. Certain assets, such as certain trade receivable, goodwill and television broadcasting right relating to this segment have been impaired in the current year for the sake of this reason.

Large outdoor display screen advertisement business

Since mid of 2012, the Group has aimed to develop the large outdoor display screen advertisement business in the PRC. During the year ended 31 March 2014, the Group has constructed and installed LED displays in Sichuan Chengdu, Jiangsu Xuyi and Jiangsu Kunshan. In addition, the networked LED control platform in which the LED displays can be managed and connected through a centralized network, has been set up. Despite the

escalating market competition, the Group has started to generate advertising revenue from advertising agents in relation to the broadcasting of commercial advertisements on large outdoor display screens in Sichuan Chengdu and Jiangsu Xuyi for the year ended 31 March 2014. Going forward, the Group will continue to negotiate with potential customers, including but not limited to commercial real estate developers, PRC government authorities and other potential partners for cooperation in order to balance the risk and return of this competitive segment.

To further develop the large outdoor display screen advertisement business in the PRC, the Company has incorporated a wholly-owned subsidiary, which is principally engaged in advertising business in Qianhai, Shenzhen. Through the establishment of a company in Qianhai, the Company can tap into the vast advertisement market in the PRC. Companies setting up in Qianhai can enjoy various favourable policies, including the advantages in the aspects of financial service, finance and taxation, human resources policies, regulations and telecommunication. The Directors consider that incorporating a company in Qianhai and leveraging as a Guangdong/Hong Kong cooperation platform helps to enhance the Company's allocation of resources in order to strengthen the development of its business in the Greater China market.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2014, the Group reported a revenue of approximately HK\$324.3 million (2013: approximately HK\$293.0 million), representing an increase of approximately 10.7% as compared with that for the previous year. The revenue derived from provision of waterworks engineering services, television broadcasting business and large outdoor display screen advertisement business constituted approximately 93.5%, 5.2% and 1.3% of the Group's total revenue respectively. The higher revenue was mainly due to the increase in works from Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang (contract numbered DC/2012/04) and Lam Tsuen Valley Sewerage – village sewage, stage 2, phase 1 and phase 2 (contract number DC/2012/07 and DC/2012/08) and commencement of several contracts. For the year ended 31 March 2014, the Group derived advertising revenue of approximately HK\$16.9 million (2013: approximately HK\$11.8 million) from television broadcasting business and approximately HK\$4.0 million (2013: nil) from large outdoor display screen advertisement business respectively.

During the year ended 31 March 2014, the revenue of the Group was primarily generated from the undertaking of waterworks contracts in the capacity of a subcontractor. The breakdown of total revenue by nature of capacity of the Group is set forth below:

	For the year ended 31 March			
	2014		2013	
	HK\$'000	% of total	HK\$'000	% of total
Main contractor	15,076	5.0	47,124	16.8
Subcontractor	245,035	80.8	221,953	78.9
Jointly controlled operations	<u>43,273</u>	<u>14.2</u>	<u>12,166</u>	<u>4.3</u>
Total	<u><u>303,384</u></u>	<u><u>100.0</u></u>	<u><u>281,243</u></u>	<u><u>100.0</u></u>

Cost of services

The Group's cost of services increased by approximately 10.5% to approximately HK\$274.2 million (2013: approximately HK\$248.3 million) for the year ended 31 March 2014 as compared with that for the previous year. The Group's cost of services mainly includes costs of construction services, costs of television broadcasting business and direct costs attributable to large outdoor display screen advertisement business. Costs of construction services mainly comprise raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Costs of television broadcasting business mainly comprise transmission costs and broadcasting fee. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operator while broadcasting fee

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

comprises annual fee payable to media broadcasting providers and China Xinhua News Network. Direct costs attributable to large outdoor display screen advertisement business mainly comprise depreciation charges of LED display screens and control room. The following table sets out a breakdown of the Group's cost of services:

	For the year ended 31 March			
	2014		2013	
	HK\$'000	% of total	HK\$'000	% of total
Costs of construction services				
Raw materials	30,915	11.3	19,373	7.8
Direct labour	62,335	22.7	52,371	21.1
Subcontracting fee	108,850	39.8	125,081	50.4
Other direct costs	<u>62,571</u>	<u>22.8</u>	<u>44,717</u>	<u>18.0</u>
Subtotal	<u>264,671</u>	<u>96.6</u>	<u>241,542</u>	<u>97.3</u>
Costs of television broadcasting business				
Transmission costs	2,500	0.9	2,500	1.0
Broadcasting fee	<u>5,861</u>	<u>2.1</u>	<u>4,210</u>	<u>1.7</u>
Subtotal	<u>8,361</u>	<u>3.0</u>	<u>6,710</u>	<u>2.7</u>
Direct costs attributable to large outdoor display screen advertisement business	<u>1,199</u>	<u>0.4</u>	<u>–</u>	<u>–</u>
Subtotal	<u>1,199</u>	<u>0.4</u>	<u>–</u>	<u>–</u>
Total	<u>274,231</u>	<u>100.0</u>	<u>248,252</u>	<u>100.0</u>

Gross profit

The gross profit of the Group for the year ended 31 March 2014 increased by approximately 11.9% to approximately HK\$50.1 million (2013: approximately HK\$44.8 million) as compared with that for the previous year. The gross profit margin of the Group amounted to approximately 15.4% for the year ended 31 March 2014 (2013: approximately 15.3%), which was almost the same as that of the previous year. The increase in gross profit was largely as a consequence of higher revenue derived for the year.

Other income

The Group's other income for the year ended 31 March 2014 increased by approximately 7.4% to approximately HK\$31.0 million (2013: approximately HK\$28.8 million) as compared with that for the previous year. The increase was mainly attributable to the increase in waiver of convertible notes interests from the noteholders during the year.

Other gains and losses

The Group's other gains and losses for the year ended 31 March 2014 amounted to approximately HK\$3.3 million in deficit (2013: approximately HK\$0.5 million in surplus). The decrease in other gains and losses was mainly attributable to the net fair value changes on financial assets at fair value through profit or loss during the year.

Amortisation expenses

The Group's amortisation expenses for the year ended 31 March 2014 decreased by approximately 1.7% to approximately HK\$59.5 million (2013: approximately HK\$60.5 million) as compared with that for the previous year. The amortisation expenses mainly consisted of amortisation of television broadcasting rights and film rights for the television broadcasting business.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 March 2014 amounted to approximately HK\$85,000 (2013: approximately HK\$423,000). The selling and distribution expenses mainly consisted of advertising expenses for the television broadcasting business for the year.

Administrative expenses

The Group's administrative expenses for the year ended 31 March 2014 increased by approximately 7.6% to approximately HK\$29.7 million (2013: approximately HK\$27.6 million) as compared with that for the previous year. The administrative expenses mainly consisted of auditor's remuneration, legal and professional fees, staff costs (including Directors' remuneration), depreciation expenses and rental expenses. The increase in the administrative expenses was mainly attributable to the increase in staff costs and depreciation expenses of head office due to the expansion of business.

Finance costs

The Group's finance costs for the year ended 31 March 2014 increased by approximately 1.5% to approximately HK\$42.0 million (2013: approximately HK\$41.4 million) as compared with that for the previous year. The finance costs mainly consisted of interest expenses on the promissory note and convertible notes.

Impairment loss recognised in respect of goodwill and intangible assets

During the year ended 31 March 2012, the Group entered into a sale and purchase agreement with China Xinhua News Network, APT Satellite TV Development Limited and Proud Glory Investments Limited to acquire entire equity interest of Xinhua TV Asia-Pacific Operating Co. Limited ("Xinhua TV Asia-Pacific") at an aggregate consideration of approximately HK\$700.0 million, comprising (a) issuance of 474,335,664 Shares to China Xinhua News Network at HK\$0.196 per share; and (b) HK\$607,030,210 by way of the issue of the convertible notes to China Xinhua News Network, Proud Glory Investments Limited and APT Satellite TV Development Limited at a conversion price of HK\$0.196 per Share. The Group completed its very substantial acquisition (the "Acquisition of Xinhua TV") of the entire equity interest in Xinhua TV Asia-Pacific on 9 December 2011 and commenced the television broadcasting business since then.

Although the television broadcasting business continued to make steady growth and progress when compared with previous years, it is still under development and far behind the development schedule as expected. It has not yet brought in satisfactory return to the Group since the Acquisition of Xinhua TV. The Group generated its first revenue from television broadcasting business during the year ended 31 March 2013.

The recoverable amount of Xinhua TV Asia-Pacific was determined with reference to a valuation conducted by an independent valuer, based on income-based approach, after considering the financial information of Xinhua TV Asia-Pacific as at 31 March 2014, including but not limited to (i) the financial position of Xinhua TV Asia-Pacific and its subsidiaries as at 31 March 2014; (ii) the total revenue derived from television broadcasting business; (iii) number of existing contracts and memorandum of understanding; and (iv) the market and industry condition. Due to the unsatisfactory results in these years and relatively slow development pace of television broadcasting business, the Directors consider that major inputs regarding revenue are adjusted downwards to reflect the current situation for prudence sake. Except aforesaid, to the best of knowledge and belief of the Directors, there has not been any change of valuation methodology, basis of valuation and assumptions as at 31 March 2014 and no other changes in circumstance and reasons giving rise to changes in valuation approach. All changes of inputs were made to reflect the recent development of television broadcasting business as compared to that expected in previous years.

As such, the recoverable amount of Xinhua TV Asia-Pacific was amounted to approximately HK\$163.0 million and the impairment loss, which arose from the difference between the aggregate carrying amounts of goodwill and intangible assets and the recoverable amount of entire equity interest in Xinhua TV Asia-Pacific as at 31 March 2014, of approximately HK\$151.2 million and approximately HK\$269.3 million is recognised in respect of goodwill and intangible assets for the year ended 31 March 2014.

Net loss

The net loss attributable to owners of the Company for the year ended 31 March 2014 increased by 2.7 times to approximately HK\$431.3 million (2013: approximately HK\$116.2 million) as compared with that for the previous year. The increase in net loss was mainly resulted from the impairment loss in respect of goodwill, intangible assets and trade receivables for the year.

Loss per Share

The basic loss per Share for the year ended 31 March 2014 was approximately HK25.14 cents (2013: approximately HK6.94 cents).

Segment Information

For the year ended 31 March 2014, revenue from segments of provision of waterworks engineering business, television broadcasting business and large outdoor display screen advertisement business accounted for approximately 93.5%, 5.2% and 1.3% of the Group's total revenue respectively. The segment of television broadcasting business recorded a segment loss of approximately HK\$480.9 million while the segment of provision of waterworks engineering business and large outdoor display screen advertisement business recorded a segment profit of approximately HK\$28.1 million and HK\$2.0 million respectively.

Cash Flows***Operating Activities***

For the year ended 31 March 2014, the cash inflow from operating activities was mainly generated from the payment by the customers for the Group's undertaking of the civil engineering projects and advertising income. The Group recorded loss before income tax of approximately HK\$483.5 million and operating profit before changes in working capital of approximately HK\$35.7 million. During the year, the increase in trade and other receivables, outweighed by decrease in inventories and increase in trade and other payables, accounted for a cash outflow of approximately HK\$23.1 million. It resulted in net cash inflow from operating activities of approximately HK\$12.6 million for the year. The lower cash inflow as compared with the preceding year was mainly due to a consequence of

certain projects reaching a work stage with relatively thinner gross profit margin and increase in certain expenses, including legal and professional fee and rental expenses during the year.

Investing Activities

Net cash used in investing activities was approximately HK\$24.5 million for the year ended 31 March 2014 which was mainly arising from the purchases of property, plant and equipment, additions of film rights and net purchase of financial assets at fair value through profit or loss. During the year ended 31 March 2014, the Group acquired new machinery, equipment and motor vehicles for replacement of the old ones and for use in the new projects.

Financing Activities

Net cash used in financing activities was approximately HK\$3.8 million for the year ended 31 March 2014. This was mainly attributable to repayment of finance leases of approximately HK\$3.6 million.

PROSPECTS

During the year ended 31 March 2014, the respective established brandnames of the Group are given full play in our vigorously developed three main businesses, namely provision of waterworks engineering services, television broadcasting business and large outdoor display screen advertisement business. Although the Group has incurred a significant loss due to unsatisfactory performance regarding the television broadcasting business, the Directors are of confident that the Group's business strategy has the capacity to operate very effectively in the current economic environment and develop new areas of business while the provision of waterworks engineering services will continue to contribute stable revenue to the Group. In addition to television and LED platforms, the Group has been growing its advertising base through mobile and other platforms and diversified its business to video broadcasting business in the Greater China region. Upon the launch of video broadcasting business, the Directors expect that, in addition to the television broadcasting business and large outdoor display screen advertisement business, it will be another key driver of our future revenue growth. The Group's overall business diversification and flexibility strategy enhances the Group's image in a positive manner and suggests that the Group's future prospects remain positive.

Provision of waterworks engineering services

The Group's waterworks engineering services remains the major source of revenue of the Group. The performance of the Group's waterworks engineering business was comparable with that for the previous year. In the coming years, it is believed that the replacement and rehabilitation programme of water mains (the "R&R Programme") launched by WSD will continue to open up numerous waterworks opportunities to the Group. According to WSD, Stage 4 Phase 1 of the R&R Programme had commenced in March 2011 and will be completed in 2015. About 500 kilometres of water mains will be replaced and rehabilitated at this stage. Stage 4 Phase 2 of the R&R Programme had commenced in January 2012 and will be completed in 2015. About 350 kilometres of water mains will be replaced and rehabilitated at this stage.

The outlook for the construction industry in Hong Kong remains optimistic. Not only will the R&R Programme launched by WSD continue to open up numerous waterworks opportunities to the Group, the infrastructure and development projects being currently implemented or to be implemented by the Government, roads and drainage works and site formation works will also create tremendous business opportunities to the Group in the future. On 9 September 2013, the Group has obtained a new main contract of mainlaying near She Shan Tsuen, Tai Po (contract numbered 3/WSD/13) with total contract sum of approximately HK\$75.0 million. On 20 November 2013, the Group and Hsin Chong Construction Company Limited have jointly obtained a new main contract of R&R Programme, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories (contract numbered 5/WSD/13) with total contract sum of approximately HK\$433.3 million. We believe that the Group is able to take up more contracts and capture more potential business opportunities.

Going forward, the Group will continue to improve its quality of service and enhance management capabilities and competitiveness to bid for more rewarding contracts in Hong Kong and to further scale up the Group's business. The Group will continue to seek improvements in cost-savings, production efficiency and Group profitability and identify opportunities for joint ventures or strategic alliances in a bid to drive its strategy of vertical as well as horizontal expansion.

Television broadcasting business

Drawing on the brand name of and backup from Xinhua News Agency, the Group is positioned to capture the opportunities arising from this business segment with relatively low initial entry barrier. The Group has developed a broadcasting network of television channels with relatively extensive scale. In addition to increasing in coverage by looking for cooperation with media providers in different countries, the Group maintained good relationship with those television service providers that are currently working with. Looking forwards, the Group will actively adjust the current business mode and negotiate the new cooperation mode with the media providers, including new and existing partners in order to balance the interests of all parties be bundled together to form a stable long-term partnership, with a view to broadening our market reach and enhancing our profitability.

Currently, the Group has enriched the content of “Hong Kong Voice Express” by integrating the programmes with entertainment and sports news in Hong Kong in order to reflect and keep track of current move in Hong Kong. The revised edition of “Hong Kong Voice Express” has been broadcasted in April 2014.

The Group will continue to put effort into expand this segment. By leveraging on the extensive network of reporters worldwide and resources available to Xinhua News Agency in producing television programmes, it is believed that viewership will increase with appropriate promotional effort and the business will bring in additional advertising and related revenue to the Group in the future. The Directors believe that the Group’s broadcasting scope will be extended to more countries as time progresses. Towards this end, the Company entered into the MOFCOM CRU Agreement and the Wuliangye CRU Agreement in mid of 2013 which will bring and boost the advertising revenue of the Company. This strategic move of stepping forward into this segment will broaden our base of profit-generating businesses.

Large outdoor display screen advertisement business

The Directors believe that the large outdoor display screen advertisement business would be a new direction for the Group. Upon completion of construction and installation of LED displays in Sichuan Chengdu, Jiangsu Xuyi, Jiangsu Kunshan and Yangzhou, the Group aims at constructing more LED displays in other PRC cities, including Nanjing and preliminary site reconnaissance work has been completed.

By leveraging on the brand name of Xinhua News Agency, the Group could save brand development and marketing costs in promoting the large outdoor display screen advertisement business. Except for the current business model, the Group will identify and grasp opportunities for joint ventures or strategic alliances in order to increase the effectiveness on cost-saving and seek for higher profit growth. The Group will continue to negotiate with potential commercial real estate developers, PRC government authorities and other potential partners to boost up the development of this business segment and increase its market share in the PRC. The Directors believe that such endeavour, coupled with the Group's growing advertising capability, will enable the Group to further diversify its advertising business. The Group will continue reposition itself and will strive to bring modest growth in both revenue, earnings and reputation to the Shareholders in the coming future.

Video broadcasting business

On 27 December 2013, the Group entered into a licence agreement (the "Licence Agreement") with The Associated Press (the "AP"), pursuant to which the Group and AP will work together to create and launch a Greater China market video service for the mobile platforms of three China national telecommunication operators. The Group, in close working consultation with AP, would license selected Sports News Television sports news video, AP technology news video, AP horizons video and AP archive video, and distribute such videos via the video platforms of the telecommunication operators to the mobile phone users in the PRC, Hong Kong and Macau. Such videos cover selected matches from NBA, NHL, PGA, soccer, tennis, etc. and details of the Licence Agreement were set out in the announcement of the Company dated 27 December 2013. The Directors believe that the entering into of the Licence Agreement will help enhance the contents currently broadcasted by the Company and the means by which such contents are distributed can be diversified into mobile platforms which will further strengthen our presence in the fast expanding Greater China market and in turn attract additional advertisement revenue.

The Group will cautiously seek to capture suitable market opportunities, explore new business opportunity to broaden its source of income and expand the business operations and in turn, maximise the Shareholders' returns.

CAPITAL STRUCTURE

The Shares were listed on GEM on 30 August 2010. The capital of the Group comprises only ordinary shares.

Total equity attributable to owners of the Company amount to approximately HK\$407.9 million in deficit as at 31 March 2014 (31 March 2013: approximately HK\$36.1 million). The increase in deficit was mainly resulted from the net loss suffered by the Group during the year as a result of impairment loss in respect of goodwill, intangible assets and trade receivables in an aggregate of approximately HK\$430.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2014, the Group generally financed its operations through internally generated cash flows.

As at 31 March 2014, the Group had net current liabilities of approximately HK\$583.1 million (31 March 2013: net current assets of approximately HK\$16.5 million), including cash balance of approximately HK\$20.6 million (31 March 2013: approximately HK\$36.2 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 0.18 as at 31 March 2014 (31 March 2013: approximately 1.19). The incurrence of net current liabilities and decrease in current ratio were primarily due to higher trade and other payables as a result of more business activities and business development and the current obligation of redemption of promissory note and convertible notes on their maturity dates being 11 August 2014 and 8 December 2014 respectively.

GEARING RATIO

The gearing ratio, which is based on the total amount of borrowings, promissory note, convertible notes, finance lease payables and advance received from customers divided by total assets, was 178.8% as at 31 March 2014 (31 March 2013: approximately 82.8%). The increase was resulted from the decrease in total assets due to impairment loss in respect of goodwill and intangible assets for the year.

FOREIGN EXCHANGE EXPOSURE

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity. During the year ended 31 March 2014, the Group was mainly exposed to foreign currency exchange risk of United States Dollars and Renminbi and the management mainly monitored the foreign currency exchange risk with advices from the Group's major banks.

CAPITAL COMMITMENT

As at 31 March 2014, the Group had an outstanding commitment of approximately HK\$3.5 million in respect of acquisition of property, plant and equipment. Save as aforesaid, the Group did not have any significant capital commitments (31 March 2013: approximately HK\$10.7 million).

CHARGES ON THE GROUP'S ASSETS

The Group's machineries and motor vehicles with net book values as at 31 March 2014 amounted to approximately HK\$1.4 million (31 March 2013: nil) and HK\$8.6 million (31 March 2013: approximately HK\$7.5 million) was held under finance lease. As at 31 March 2014, the Group pledged its machinery and motor vehicles with net book values of approximately HK\$78,000 (31 March 2013: approximately HK\$0.3 million) and approximately HK\$1.8 million (31 March 2013: approximately HK\$3.6 million) respectively as securities for its performance of obligations as a sub-contractor of the R & R Programme, Stage 4, Phase 1 – Mains in Tuen Mun, Yuen Long, North District and Tai Po.

CONTINGENT LIABILITIES

As at 31 March 2014, the Group did not have any material contingent liabilities (31 March 2013: Nil).

INFORMATION ON EMPLOYEES

As at 31 March 2014, the Group had 270 full-time staff in Hong Kong and over 90% of them are direct labour. Total staff costs (including Directors' remuneration) for the year ended 31 March 2014 amounted to approximately HK\$72.7 million (2013: approximately HK\$62.0 million), representing an increase of approximately 17.4% over that for the previous year. The increase was mainly due to the increase in the number of staff to support the expansion of the Group's business.

SIGNIFICANT INVESTMENT HELD

As at 31 March 2014, the Group held a 17% equity interest in the issued share capital of China New Media (HK) Company Limited as a long term investment.

Except for investment in subsidiaries and the investment as disclosed above, during the year ended 31 March 2014 and as at the end of the reporting period, the Group did not hold any significant investment in equity interest in any company.

Subsequent to end of the reporting period, the Group has disposed of 17% equity interest in the share capital of China New Media (HK) Company Limited to an independent third party at a consideration of HK\$400,000.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 March 2014, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 March 2014, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

For the year ended 31 March 2015 (*which includes information extracted and summarised from the annual report for 2014/15 of the Company*)

BUSINESS REVIEW

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertisement business in the PRC. During the year ended 31 March 2015, the Group continued to focus on rendering waterworks engineering services to the public sector in Hong Kong and further develop its television broadcasting business in the Asia-Pacific region (excluding the PRC) and large outdoor display screen advertisement business in the PRC.

Provision of waterworks engineering services

During the year ended 31 March 2015, the Group has been undertaking two main contracts and six subcontracts. Among the eight contracts, five are related to provision of waterworks engineering services and the remaining contracts are related to provision of drainage services. Details of the contracts undertaken are set out below:

Contract number	Particulars of contract	Client	Contract period under main contracts	
Main contracts				
8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension	WSD	Dec 2011 – May 2014	}
3/WSD/13	Mainlying near She Shan Tsuen, Tai Po	WSD	Sept 2013 – Jul 2016	
Subcontracts				
18/WSD/08	Replacement and rehabilitation of water mains stage 3 – mains on Hong Kong Island South and outlying islands	Ming Hing Civil Contractors Limited	Mar 2009 – Mar 2015	}
8/WSD/10	Replacement and rehabilitation of water mains, stage 4 phase 1 – mains in Tuen Mun, Yuen Long, North District and Tai Po	Hsin Chong Construction Company Limited	Apr 2011 – Dec 2015	
DC/2012/04	Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang	Hsin Chong Tsun Yip Joint Venture	Jun 2012 – Dec 2017	
DC/2012/07	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 1	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Jan 2016	
DC/2012/08	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 2	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Aug 2016	
5/WSD/13	Replacement and rehabilitation of water mains, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories	Hsin Chong Tsun Yip Joint Venture	Nov 2013 – Feb 2016	
				Total contract value HK\$1,959.2 million
				Total amount of works certified (Note) HK\$1,432.9 million

Note: Amount of works certified is based on the certificates of payment received from client.

During the year ended 31 March 2015, the two contracts with contracts numbered 5/WSD/13 and DC/2012/07 were the main contributors to the Group's revenue, which generated approximately HK\$161.5 million and HK\$46.3 million, constituting approximately 43.7% and 12.5% of the Group's total revenue respectively.

Television broadcasting business

The Group has developed a broadcasting network of television channels with relatively extensive scale. Currently, it is broadcasting the television programmes relating to information contents from Xinhua News Agency in Hong Kong, Thailand, Mongolia, Malaysia, Laos and Australia. The Group maintained good relationship with those television service providers that are currently working with and in the meantime, actively sought for cooperation opportunities with other strategic partners in order to give customers a unique viewing experience and expand in the worldwide coverage of the China Xinhua News Network Channel and China Xinhua News Network World Channel (collectively the “CNC Channels”).

Expect for broadcasting television programmes in the CNC Channels, the Group has currently produced several self-produced television feature programmes. “Macau, Macau”, one of the documentary television feature programme produced by the Group, for the purpose of marking the 15th anniversary of the transfer of sovereignty over Macau to the PRC, has been completed during the year ended 31 March 2015. “Macau, Macau” debuted on 1 December 2014 at a special premiere held at The Venetia Macao and was broadcasted on the CNC Channels in over 70 countries from 18 December 2014 with good response. Besides gaining social influence, the production of “Macau, Macau” was supported by the subsidy from Macau Government Tourist Office. In addition to the CNC Channels, the Company has granted the licence of certain television feature programmes, such as “Hong Kong, Hong Kong” and “Macau, Macau”, to other media channel operators in respect of broadcasting these television feature programmes on its channels in Hong Kong and other different countries so as to boost up the audience rating.

In addition to good response from audience, the television feature programme “ICAC” which was produced in last year, has been awarded the third honor of the television documentary films in the 27th China TV Golden Eagle Award (第二十七屆中國電視金鷹獎) of the China TV Golden Eagle Award Organising Committee (中國電視金鷹獎組織委員會). It affirmed the production quality and success of the self-produced features programmes of the Group. In the future, with the great success of television feature programmes, the Group will continue to produce information contents according to different social themes.

Large outdoor display screen advertisement business

Large outdoor display screen advertisement business segment has only made a steady development due to the challenging and competitive business environment in the PRC. Except for the LED displays in Sichuan Chengdu, Jiangsu Xuyi and Jiangsu Kunshan, the Group has constructed and installed a LED display in Yangzhou during the year. In order to increase the effectiveness on cost-saving and obtain higher profit growth, the Group has formed a joint operation arrangement in respect of construction and operation of LED display in Yangzhou jointly during the year. As such, it allows the Group to share both construction and operation costs with each other and at the same time enjoy the advertising revenue derived from the joint operation. In addition to the joint operation arrangement, the Group has entered into an advertising agreement with an advertising agent pursuant to which the Group grants the right to the advertising agent for operating certain portion of the advertising air time of the LED display in Yangzhou in return for a fixed amount of advertising revenue. The Directors consider that it is a more effective way to boost the Group's advertising income.

Despite the adversities, including but not limited to the keen competition environment and high construction and operation costs, that the Group faced, the Group has actively seized business opportunities and sought for expansion of this business segment during the year. The Group has maintained good relationship with the constructors and extended the construction agreement with the constructors so as to build up more LED displays in the PRC in the coming year. Going forward, the Group will continue to negotiate with potential customers, including but not limited to commercial real estate developers, PRC government authorities and other potential partners for cooperation in order to balance the risk and return of this competitive segment.

Aimed at maximising profit and return for the Group and the Shareholders, the Group is exploring new business opportunity to broaden its source of income and expand the business operations.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2015, the Group reported a revenue of approximately HK\$369.6 million (2014: approximately HK\$324.3 million), representing an increase of approximately 14.0% as compared with that for the previous year. The revenue derived from provision of waterworks engineering services, television broadcasting business and large outdoor display screen advertisement business constituted approximately 97.0%, 2.7% and 0.3% of the Group's total revenue respectively. The higher revenue was mainly due to the increase in works from the replacement and rehabilitation of water mains stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories. For the year ended 31 March 2015, the Group derived advertising revenue of approximately HK\$9.9 million (2014: approximately HK\$16.9 million) from television broadcasting business and approximately HK\$1.0 million (2014: approximately HK\$4.0 million) from large outdoor display screen advertisement business respectively.

During the year ended 31 March 2015, the revenue of the Group was primarily generated from the undertaking of waterworks contracts in the capacity of a subcontractor. The breakdown of total revenue by nature of capacity of the Group is set forth below:

	For the year ended 31 March			
	2015		2014	
	HK\$'000	% of total	HK\$'000	% of total
Main contractor	28,094	7.8	15,076	5.0
Subcontractor	247,891	69.1	245,035	80.8
Jointly controlled operations	<u>82,699</u>	<u>23.1</u>	<u>43,273</u>	<u>14.2</u>
Total	<u>358,684</u>	<u>100.0</u>	<u>303,384</u>	<u>100.0</u>

Cost of services

The Group's cost of services increased by approximately 26.4% to approximately HK\$346.6 million (2014: approximately HK\$274.2 million) for the year ended 31 March 2015 as compared with that for the previous year. The Group's cost of services mainly includes costs of construction services, costs of television broadcasting business and direct costs attributable to large outdoor display screen advertisement business. Costs of construction services mainly comprise raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Costs of television broadcasting business mainly comprise transmission costs and broadcasting fee. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operators while broadcasting fee comprises annual fee payable to media broadcasting providers and China Xinhua News

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Network. Direct costs attributable to large outdoor display screen advertisement business mainly comprise depreciation charges of LED display screens and control room. The following table sets out a breakdown of the Group's cost of services:

	For the year ended 31 March			
	2015		2014	
	HK\$'000	% of total	HK\$'000	% of total
Costs of construction services				
Raw materials	44,155	12.8	30,915	11.3
Direct labour	65,865	19.0	62,335	22.7
Subcontracting fee	162,374	46.9	108,850	39.8
Other direct costs	<u>61,138</u>	<u>17.6</u>	<u>62,571</u>	<u>22.8</u>
Subtotal	<u>333,532</u>	<u>96.3</u>	<u>264,671</u>	<u>96.6</u>
Costs of television broadcasting business				
Transmission costs	2,500	0.7	2,500	0.9
Broadcasting fee	<u>7,784</u>	<u>2.2</u>	<u>5,861</u>	<u>2.1</u>
Subtotal	<u>10,284</u>	<u>2.9</u>	<u>8,361</u>	<u>3.0</u>
Direct costs attributable to large outdoor display screen advertisement business	<u>2,737</u>	<u>0.8</u>	<u>1,199</u>	<u>0.4</u>
Subtotal	<u>2,737</u>	<u>0.8</u>	<u>1,199</u>	<u>0.4</u>
Total	<u>346,553</u>	<u>100.0</u>	<u>274,231</u>	<u>100.0</u>

Gross profit

The gross profit of the Group for the year ended 31 March 2015 decreased by approximately 53.9% to approximately HK\$23.1 million (2014: approximately HK\$50.1 million) as compared with that for the previous year. The gross profit margin of the Group decreased to approximately 6.2% for the year ended 31 March 2015 (2014: approximately 15.4%). The decrease in gross profit and gross profit margin was largely due to large portion of revenue and gross margin derived from certain waterworks engineering projects recognised at the early stage in the prior years.

Other income

The Group's other income for the year ended 31 March 2015 decreased by approximately 86.6% to approximately HK\$4.1 million (2014: approximately HK\$31.0 million) as compared with that for the previous year. The decrease in other income was mainly due to the recognition of one-off item, i.e. waiver of interests on convertible notes of approximately HK\$30.7 million from certain noteholders in the previous year.

Other gains and losses

The Group's other gains and losses for the year ended 31 March 2015 increased by approximately 4.2 times to approximately HK\$10.6 million in surplus (2014: approximately HK\$3.3 million in deficit) as compared with that for the previous year. The increase in other gains and losses was mainly attributable to gains arising from extension of promissory note recognised during the year.

Amortisation expenses

The Group's amortisation expenses for the year ended 31 March 2015 decreased by approximately 59.5% to approximately HK\$24.1 million (2014: approximately HK\$59.5 million) as compared with that for the previous year. The amortisation expenses mainly consisted of amortisation charges of television broadcasting right and film rights for the television broadcasting business. The decrease in amortisation expenses was mainly due to the impairment loss of television broadcasting right recognised for the year ended 31 March 2014 and thus caused a significant reduction in carrying amount of television broadcasting right.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 March 2015 increased by approximately 165.9% to approximately HK\$0.2 million (2014: approximately HK\$85,000) as compared with that for the previous year. The selling and distribution expenses mainly consisted of advertising expenses for the television broadcasting business. The increase in selling and distribution expenses was mainly due to the increase in marketing effort in promotion of television feature programme "Macau, Macau" during the year.

Administrative expenses

The Group's administrative expenses for the year ended 31 March 2015 increased by approximately 11.5% to approximately HK\$33.1 million (2014: approximately HK\$29.7 million) as compared with that for the previous year. The administrative expenses mainly consisted of auditors' remuneration, legal and professional fees, staff costs (including Directors' remuneration), depreciation expenses and rental expenses. The increase in the administrative expenses was mainly attributable to the increase in staff costs and depreciation expenses due to the expansion of business.

Finance costs

The Group's finance costs for the year ended 31 March 2015 decreased by approximately 38.8% to approximately HK\$25.7 million (2014: approximately HK\$42.0 million) as compared with that for the previous year. The decrease in finance costs was mainly due to reduction in carrying amount of convertible notes which were resulted from the exercise of conversion rights of convertible notes by certain noteholders during the year.

Impairment loss recognised in respect of goodwill and intangible assets

During the year ended 31 March 2012, the Group entered into a sale and purchase agreement with China Xinhua News Network, APT Satellite TV Development Limited and Proud Glory Investments Limited to acquire entire equity interest of Xinhua TV Asia-Pacific at an aggregate consideration of approximately HK\$700.0 million, comprising (a) issuance of 474,335,664 Shares to China Xinhua News Network at HK\$0.196 per share; and (b) HK\$607,030,210 by way of the issue of the convertible notes to China Xinhua News Network, APT Satellite TV Development Limited and Proud Glory Investments Limited at a conversion price of HK\$0.196 per Share. The Group completed its very substantial acquisition (the "Acquisition of Xinhua TV") of the entire equity interests in Xinhua TV Asia-Pacific on 9 December 2011 and commenced the television broadcasting business since then.

The recoverable amounts of Xinhua TV Asia-Pacific as at 31 March 2015 and 2014, were determined with reference to valuations conducted by an independent valuer, based on income-based approach, after considering the financial informations of Xinhua TV Asia-Pacific as at 31 March 2015 and 2014, including but not limited to (i) the financial positions of Xinhua TV Asia-Pacific and its subsidiaries as at 31 March 2015 and 2014; (ii) the total revenue derived from television broadcasting business; (iii) number of existing contracts and memorandum of understanding; and (iv) the market and industry condition.

The recoverable amount of Xinhua TV Asia-Pacific approximates to the carrying amount of intangible assets, i.e., television broadcasting right as at 31 March 2015. Therefore, no impairment loss is recognised during the year ended 31 March 2015. To the best of knowledge and belief of the Directors, there has not been any change of valuation methodology, basis of valuation and assumptions as at 31 March 2015 and no other changes in circumstance and reasons giving rise to changes in valuation approach. All changes of inputs were made to reflect the recent development of television broadcasting business as compared to that expected in previous years.

During the year ended 31 March 2014, although the television broadcasting business continued to make steady growth and progress when compared with previous years, it is still under development and far behind the development schedule as expected. It has not yet brought in satisfactory return to the Group since the Acquisition of Xinhua TV. The Group generated its first revenue from television broadcasting business during the year ended 31 March 2013.

Due to the unsatisfactory results in these years and relatively slow development pace of television broadcasting business, the Directors considered that major inputs regarding revenue were adjusted downwards to reflect the current situation for prudence sake. As such, the recoverable amount of Xinhua TV Asia-Pacific as at 31 March 2014 was amounted to approximately HK\$163.0 million and the impairment loss, which arose from the difference between the aggregate carrying amounts of goodwill and intangible assets and the recoverable amount of entire equity interests in Xinhua TV Asia-Pacific as at 31 March 2014, of approximately HK\$151.2 million and approximately HK\$269.3 million respectively were recognised in respect of goodwill and intangible assets for the year ended 31 March 2014. Except aforesaid, to the best of knowledge and belief of the Directors, there had not been any change of valuation methodology, basis of valuation and assumptions as at 31 March 2014 and no other changes in circumstance and reasons giving rise to changes in valuation approach. All changes of inputs were made to reflect the recent development of television broadcasting business as compared to that expected in previous years.

Net loss

The net loss attributable to owners of the Company for the year ended 31 March 2015 decreased by approximately 90.3% to approximately HK\$41.7 million (2014: approximately HK\$431.3 million) as compared with that for the previous year. The decrease in net loss was mainly resulted from the recognition of one-off item, i.e., the impairment loss in respect of goodwill and intangible assets and provision for doubtful debt, made in the previous year.

Loss per Share

The basic loss per Share for the year ended 31 March 2015 was approximately HK1.34 cents (2014: approximately HK25.14 cents).

Segment Information

For the year ended 31 March 2015, revenue from segments of provision of waterworks engineering business, television broadcasting business and large outdoor display screen advertisement business accounted for approximately 97.0%, 2.7% and 0.3% of the Group's total revenue respectively. The segments of television broadcasting business and large outdoor display screen advertisement business recorded a segment loss of approximately HK\$25.4 million and HK\$2.8 million respectively while the segment of provision of waterworks engineering business recorded a segment profit of approximately HK\$12.9 million.

Cash Flows***Operating Activities***

For the year ended 31 March 2015, the cash inflow from operating activities was mainly generated from the payment by the customers for the Group's undertaking of the civil engineering projects and advertising income. The Group recorded loss before income tax of approximately HK\$45.4 million and operating profit before changes in working capital of approximately HK\$8.0 million. During the year, the increase in inventories, increase in trade and other receivables and decrease in trade and other payables accounted for a cash outflow of approximately HK\$40.6 million. It resulted in net cash outflow from operating activities of approximately HK\$32.6 million for the year. The lower cash inflow as compared with the preceding year was mainly due to a consequence of certain projects reaching a work stage with relatively thinner gross profit margin and increase in certain expenses, including legal and professional fee, rental expenses and staff costs during the year.

Investing Activities

Net cash used in investing activities was approximately HK\$8.1 million for the year ended 31 March 2015 which was mainly arising from the purchases of property, plant and equipment, deposits paid for acquisition of a subsidiary and additions of film rights. During the year ended 31 March 2015, the Group acquired new machinery, equipment and motor vehicles for replacement of the old ones and for use in the new projects.

Financing Activities

Net cash generated from financing activities was approximately HK\$76.3 million for the year ended 31 March 2015. This was mainly attributable to the funds raised from the placing exercises with net proceeds of approximately HK\$81.6 million. The cash inflow was partially offset by repayment of finance leases of approximately HK\$5.2 million.

PROSPECTS

During the year, the respective established brandnames of the Group are given full play in our vigorously developed three main businesses, namely provision of waterworks engineering services, television broadcasting business and large outdoor display screen advertisement business. The Group is currently pursuing a strategy of diversification of business segments by developing new businesses, deeply exploring the potential and value of its existing resources, and putting greater efforts to improve the synergy of its terminal resources in order to improve its overall efficiency and expand room for development. The Group will continue to streamline and strengthen its existing businesses and operations to meet the challenges ahead. The Directors are optimistic towards its core businesses and will seize the business opportunities to achieve long-term sustainable growth for the benefits of the Group and the Shareholders as a whole.

Provision of waterworks engineering services

The Group's waterworks engineering services remains the major source of revenue of the Group. In the coming years, it is believed that the replacement and rehabilitation programme of water mains (the "R&R Programme") launched by WSD will continue to open up numerous waterworks opportunities to the Group. According to WSD, Stage 4 Phase 1 of the R&R Programme had commenced in March 2011 and will be completed in 2015. About 500 kilometres of water mains will be replaced and rehabilitated at this stage. Stage 4 Phase 2 of the R&R Programme had commenced in January 2012 and will be completed in 2015. About 350 kilometres of water mains will be replaced and rehabilitated at this stage.

Due to the economy of Hong Kong and intensity competition and threat from rising construction costs, Hong Kong economy is expected to continue its moderate growth, particularly for the construction industry. However, we will work closely with our subcontractors and suppliers, develop construction initiatives in technology and design for better operational efficiency, and reduce the demand for manpower to trim down the overall construction costs. Taking into account the construction industry in Hong Kong, the Group still remains prudently optimistic about the business outlook on this segment in the foreseeable future. We believe that the Group is able to take up more contracts and capture more potential business opportunities.

Going forward, the Group will continue to improve its quality of service and enhance management capabilities and competitiveness for bidding for more rewarding contracts in Hong Kong and to further scale up the Group's business. Also, the Group will intend to expand our services from time to time and apply for additional licences, permits or qualifications which may be required. The Group will continue to seek improvement in cost-savings, efficiency and profitability and identify opportunities for joint ventures or strategic alliances in a bid to drive its strategy of vertical as well as horizontal expansion.

Television broadcasting business

Television broadcasting business is now under overwhelming competitive pressure due to the rapid growth of the media technologies which has posed great challenges to the traditional television broadcasting business. In view of the significant loss incurred in this segment for the year ended 31 March 2014, the immediate task of the Group is to achieve a turnaround in its profitability of this business segment. However, the television broadcasting business is still at the stage of adjustment and may continue to encounter difficulties as the same as the previous year. In face of the difficult operation environment, the Group is actively sought to increase the coverage of the CNC Channels by strengthening and rejuvenating its marketing and sales team internally. Besides, the Group will seek for new type of co-operation arrangements with television service providers so as to lower the cost of operation which in turn to improve its profitability.

Also, the Group will continue to produce information contents according to different social themes. Apart from continuing to serve viewers' needs for quality and informative programmes, such as Hong Kong Voice Express, the Group is actively enlarging its market share, improving its market image and developing new contents, including the production of crowd pleasing materials that cater to the tastes of the main stream audience. The Company is now preparing to produce a documentary television feature programme regarding the background and history of The University of Macau which is estimated to be completed in year 2015.

In view of these uncertainties for this business segment, the Group remains cautiously optimistic and continues to execute our business strategies while keeping a close eye on the latest developments of the market. The Group's strong backup from Xinhua News Agency and relationships with media service providers, together with the forward-looking strategy are favourable factors for the development of our business and operations.

Large outdoor display screen advertisement business

Upon completion of construction and installation of LED displays in Sichuan Chengdu, Jiangsu Xuyi, Jiangsu Kunshan and Yangzhou, the Group aims at constructing more LED displays in other PRC cities so as to increase the attractiveness to the potential advertising customers. With the view of fierce industry competition, the Group will continue to adopt the strategy of forming joint operation arrangements or other effective co-operation arrangements with potential partners in respect of construction and operation of LED displays so as to increase the cost-effectiveness of this segment. At the same time, the Group aims to increase the market share by comprehensively fostering marketing plan for advertising business as well as the capacity to maintain customer relationships. Meanwhile, the Group will look for new business opportunities from time to time, including but not limited to negotiating with potential commercial real estate developers, PRC government authorities and other potential partners to strengthen its market position and boost up the development of this business segment.

Video broadcasting business

In an era where internet and mobile internet grow sharply, the lifestyle changes rapidly nowadays. The Group has made great efforts in seeking market penetration in the mobile internet industry and transforming from television-based operation to mobile internet-based operation. Currently, the Group has been growing its advertising base through mobile and other platforms and diversified its business to video broadcasting business in the Greater China region. By leveraging on the video contents of the Group, the Company has entered into a cooperation agreement (the “Video Cooperation Agreement”) with China Mobile Limited (the “China Mobile”) in October 2014 pursuant to which the Group becomes a cooperation partner and content provider of certain mobile video platforms of the China Mobile, namely 和視頻 and 和視界 (collectively the “Mobile Video Platforms”). As a result, the Group can broadcast locally produced programmes, video contents broadcasted in and extracted from CNC Channels and videos that the Group has licensed to broadcast, either with charges or free of charge, via the Mobile Video Platforms of China Mobile with effect from October 2014. The Directors aims at further co-operations with other media platforms and believed that it is another source of income in the future.

Despite the ever-changing economic environment, the Group will implement stringent control over the costs and make frequent review in order to maximize its profit by utilizing existing resources efficiently and maximizing synergic effects between business segments. The Group will also fine-tune the pace of operation and development and adopt flexible marketing policies to suit the development of different business segments. The Group is now developing a diversified business strategy such that its different business segments cater the taste of different groups of customers, including diversifying its business and strengthening the development of existing business. Besides, by capitalizing the advantages of business segments accumulated over the years, the Group aims penetrate into upstream resources

business so as to realise vertical integration into industry-specific markets to form competitive edges across industries or regions for its long-term stable development. This allows to adapt and react to sudden changes in demand and to realise its full business potential markets.

The Group will continue to review its existing business segments from time to time and strive to improve the business operation and financial position of the Group. Looking forward, the Group will continue to look for business opportunities in its main business segments and take effort to optimize the synergy of its related investments and other profitable investments with a view to maximize return to the Shareholders. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio into businesses with growth potential, that expand its geographical reach, broaden its source of income and further improve the financial position of the Group.

CAPITAL STRUCTURE

The Shares were listed on GEM on 30 August 2010. The capital of the Group comprises only ordinary shares.

On 3 July 2014, the Company entered into a placing agreement with Gransing Securities Co., Limited to place an aggregate of 334,900,000 Shares to not less than six placees at an issue price of HK\$0.25 per placing Share and that the net price to the Company of each placing Share is approximately HK\$0.243. The placing price represented (i) a discount of approximately 13.8% to the closing price of HK\$0.29 per Share as quoted on the Stock Exchange on 3 July 2014, being the last trading date of the placing agreement; and (ii) a discount of approximately 14.7% to the average closing price of HK\$0.293 per Share as quoted on the Stock Exchange for the five consecutive trading days preceding 3 July 2014. The placing Shares were placed to not less than six placees, who and whose ultimate beneficial owners are independent institutional, professional and/or individual investors and not concert parties with the controlling shareholder(s) (if any) (as defined under Hong Kong Code on Takeovers and Mergers), and not connected with any directors, chief executive or substantial shareholder (if any) of the Company or its subsidiaries and their respective associates. None of the placees and their respective associates became a substantial shareholder of the Company as a result of the placing.

The Directors were of the view that the placing would strengthen the financial position of the Group, including its ability to meet any future obligations and further expand the Group's business. The Directors considered that the terms of the placing agreement, including the rate of the placing commission, were fair and reasonable based on the current market conditions. Accordingly, the Board considered that the placing was in the interests of the Company and the Shareholders as a whole. The placing was completed on 17 July 2014 and raised gross proceeds of approximately HK\$83.7 million. The proceeds from the placing was used to finance the Group's development, payment of registered capital of a subsidiary incorporated in the PRC, repayment of unsecured and non-interest bearing advances from certain Directors and general working capital of the Company.

Total equity attributable to owners of the Company amounted to approximately HK\$29.0 million in deficit as at 31 March 2015 (31 March 2014: approximately HK\$407.9 million in deficit). The decrease in deficit was mainly resulted from fund raising activities from the placing and conversion of convertible notes from noteholders.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2015, the Group generally financed its operations through internally generated cash flows and net proceeds from placing exercise.

As at 31 March 2015, the Group had net current assets of approximately HK\$73.2 million (31 March 2014: net current liabilities of approximately HK\$583.1 million), including cash balance of approximately HK\$62.2 million (31 March 2014: approximately HK\$20.6 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 1.66 as at 31 March 2015 (31 March 2014: approximately 0.18). The change from net current liabilities to net current assets and increase in current ratio were primarily due to fund raising activities from placing, conversion of convertible notes and extension of promissory note and convertible notes during the year.

GEARING RATIO

The gearing ratio, which is based on the amount of total bank overdraft, promissory note, convertible notes, finance lease payables and advance received from customers divided by total assets, was approximately 70.1% as at 31 March 2015 (31 March 2014: approximately 178.8%). The decrease in gearing ratio was resulted from the decrease in total liabilities due to exercise of conversion rights of convertible notes by certain noteholders and increase in total assets.

FOREIGN EXCHANGE EXPOSURE

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity. During the year ended 31 March 2015, the Group was mainly exposed to foreign currency exchange risk of United States Dollars and Renminbi and the management mainly monitored the foreign currency exchange risk with advices from the Group's major banks.

CAPITAL COMMITMENTS

As at 31 March 2015, the Group did not have any significant capital commitments (31 March 2014: approximately HK\$3.5 million in respect of acquisition of property, plant and equipment).

CHARGES ON THE GROUP'S ASSETS

The Group's machineries and motor vehicles with net book values of approximately HK\$0.8 million (2014: approximately HK\$1.4 million) and approximately HK\$12.3 million (2014: approximately HK\$8.6 million) was held under finance lease respectively as at 31 March 2015. As at 31 March 2015, the Group pledged its machinery and motor vehicles with net book values of approximately HK\$12,000 (31 March 2014: approximately HK\$78,000) and approximately HK\$0.7 million (31 March 2014: approximately HK\$1.8 million) respectively as securities for its performance of obligations as a sub-contractor of the Replacement and Rehabilitation of water mains, Stage 4, Phase 1 – Mains in Tuen Mun, Yuen Long, North District and Tai Po.

CONTINGENT LIABILITIES

As at 31 March 2015, the Group did not have any material contingent liabilities (31 March 2014: Nil).

INFORMATION ON EMPLOYEES

As at 31 March 2015 the Group had 275 full-time staff in Hong Kong and over 90% of them are direct labour. Total staff costs (including Directors' remuneration) for the year ended 31 March 2015 amounted to approximately HK\$80.2 million (2014: approximately HK\$72.7 million), representing an increase of approximately 10.3% over that for the previous year. The increase was mainly due to the increase in the number of staff to support the expansion of the Group's business.

SIGNIFICANT INVESTMENT HELD

As at 1 April 2014, the Group held a 17% equity interest in the issued share capital of China New Media (HK) Company Limited as a long term investment. During the year, the Group has disposed of 17% equity interest in the share capital of China New Media (HK) Company Limited.

Except for investment in subsidiaries and save as disclosed above, during the year ended 31 March 2015 and as at the end of the reporting period, the Group did not hold any significant investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

On 8 December 2014, the Group entered into a sale and purchase agreement with an independent third party pursuant to which a wholly-owned subsidiary of the Company will acquire 60% of the issued share capital of Xinhua Afanti Asset Management Limited (formerly known as Afanti Asset Management Limited) at the consideration of HK\$1.0 million. The acquisition has not yet completed as at date of this report and the acquisition is subject to approval of Securities and Futures Commission.

Save as disclosed above, as at 31 March 2015, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 March 2015, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

For the year ended 31 March 2016 (which includes information extracted and summarised from the annual report for 2015/16 of the Company)

BUSINESS REVIEW

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in return for advertising and related revenue and large outdoor display screen advertisement business in the PRC. During the year ended 31 March 2016, the Group continued to focus on rendering waterworks engineering services to the public sector in Hong Kong and further develop its television broadcasting business in the Asia-Pacific region (excluding the PRC) and large outdoor display screen advertisement business in the PRC.

Provision of waterworks engineering services

During the year ended 31 March 2016, the Group has been undertaking three main contracts and seven subcontracts. Among the ten contracts, four are related to provision of waterworks engineering services and the remaining contracts are related to provision of drainage and site formation services. Details of the contracts undertaken are set out below:

Contract number	Particulars of contract	Client	Contract period under main contracts	
Main contracts				
8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension	WSD	Dec 2011 – May 2014	
3/WSD/13	Mainlying near She Shan Tsuen, Tai Po	WSD	Sept 2013 – Jul 2016	
DC/2013/09	Advance Works for Shek Wu Hui Sewage Treatment Works – Further Expansion Phase 1A and Sewerage Works at Ping Che Road	Drainage Services Department of the Government	July 2015 – Aug 2017	
Subcontracts				
8/WSD/10	Replacement and rehabilitation of water mains, stage 4 phase 1 – mains in Tuen Mun, Yuen Long, North District and Tai Po	Hsin Chong Construction Company Limited	Apr 2011 – Dec 2015	Total contract value HK\$2,035.2 million Total amount of works certified (Note) HK\$1,281.9 million
DC/2012/04	Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang	Hsin Chong Tsun Yip Joint Venture	Jun 2012 – Dec 2017	
DC/2012/07	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 1	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Jul 2016	
DC/2012/08	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 2	Hsin Chong Tsun Yip Joint Venture	Oct 2012 – Aug 2016	
5/WSD/13	Replacement and rehabilitation of water mains, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories	Hsin Chong Tsun Yip Joint Venture	Nov 2013 – May 2016	
CV/2015/03	Site Formation and Infrastructural Works near Tong Hang Road and Tsz Tin Road in Area 54, Tuen Mun	Hsin Chong Tsun Yip Joint Venture	Nov 2015 – May 2019	
810B	West Kowloon Terminus Station South, Contract 810B	Laing O'Rourke – Hsin Chong – Paul Y Joint Venture	Jun 2015 – Oct 2015	

Note: Amount of works certified is based on the certificates of payment received from client.

Among the above ten contracts, a main contract (contract numbered DC/2013/09) and two subcontracts (contract numbered 810B and CV/2015/03) were newly awarded during the year ended 31 March 2016.

During the year ended 31 March 2016, the two contracts with contracts numbered 5/WSD/13 and DC/2012/07 were the main contributors to the Group's revenue, which generated approximately HK\$166.7 million and approximately HK\$43.2 million, constituting approximately 44.9% and approximately 11.6% of the Group's total revenue respectively.

Television broadcasting business

The Group has developed a broadcasting network of television channels with relatively extensive scale. Currently, it is broadcasting the television programmes relating to information contents from China Xinhua News Network Channel and China Xinhua News Network World Channel (collectively the "CNC Channels") in the Asia-Pacific region (excluding the PRC). In order to boost up this business segment, the Group aimed to co-operate with strategic partners pursuant to which the Group would jointly organize functions and activities with the strategic partners and provide airtime slot of the CNC Channels to the strategic partners in return for sharing of advertising revenue. Also, during the year, the Group had successfully entered into an advertising agency agreement pursuant to which the Group granted 50% advertising time slot to the advertisement agent exclusively for a minimum guarantee of RMB10.0 million per year for a term of three years. The Group believes that the new co-operation arrangement would increase the utilization of airtime slot of the CNC Channels as well as minimize the costs and risks for organizing different activities and functions.

During the year, two feature programmes of the Company, namely "ICAC" and "Macau Macau", have been awarded the Best Documentary (最佳紀錄片獎) and Jury Recommendations (評委會特別推薦獎) respectively at the Gold Aries Award Macau International Film Festival 2016 (2016 金羊獎澳門國際電影節) which was held in Macau. Gold Aries Award Macau International Film Festival is organised by Macau International Film & Multicultural Development Promotion Association and coorganised by Beijing Film Academy and is cooperating with numerous international internet enterprises. The Awards affirmed the production quality and success of feature programmes of the Company. The Group will continue to produce information contents according to different social themes.

Large outdoor display screen advertisement business

Due to keen competition in the PRC market, the development pace of large outdoor display screen advertisement business is stagnant. The Group also faces certain uncertainties and risks in operating this business segment. Although the Group aimed to consolidate the existing LED displays and build more LED displays in suitable regions, the progress is still very slow due to resistance from different regulations in different provinces. Currently, the Group has made continuous efforts to improve the operational efficiency by implementing cost control initiatives and co-operating with strategic partners in order to reduce the risks in running this business. Going forward, the Group will remain prudent yet responsive to changing market conditions and execute on market opportunities for any development in order to sustain the profitability improvement in the long run.

The Group is dedicated to creating ample value by various means to its Shareholders. Instead of focusing on short-term catalysts, the Group concentrates on reinforcing its competitive advantages for the delivery of long-term sustainable value. Looking into the future, the Group will continue to explore related industries through strategic cooperation, investment and acquisition while consolidating the existing businesses, to increase the revenue of the Group and maintain a steady growth.

FINANCIAL REVIEW**Revenue**

For the year ended 31 March 2016, the Group reported a revenue of approximately HK\$370.9 million (2015: approximately HK\$369.6 million), representing an increase of approximately 0.4% as compared with that for the previous year. The revenue derived from provision of waterworks engineering services and television broadcasting business as well as large outdoor display screen advertisement business constituted approximately 97.3% and approximately 2.7% of the Group's total revenue respectively. The increase in revenue was mainly due to large portion of revenue derived from and recognised at the early stage of certain waterworks engineering projects in the current year. For the year ended 31 March 2016, the Group derived aggregate advertising revenue of approximately HK\$9.9 million (2015: approximately HK\$10.9 million) from television broadcasting business and large outdoor display screen advertisement business.

During the year ended 31 March 2016, the revenue of the Group was primarily generated from the undertaking of waterworks contracts in the capacity of a subcontractor. The breakdown of total revenue by nature of capacity of the Group is set forth below:

	For the year ended 31 March			
	2016		2015	
	HK\$'000	% of total	HK\$'000	% of total
Main contractor	40,435	11.2	28,094	7.8
Subcontractor	235,340	65.2	247,891	69.1
Jointly controlled operations	<u>85,223</u>	<u>23.6</u>	<u>82,699</u>	<u>23.1</u>
Total	<u>360,998</u>	<u>100.0</u>	<u>358,684</u>	<u>100.0</u>

Cost of services

The Group's cost of services decreased by approximately 12.8% to approximately HK\$302.3 million (2015: approximately HK\$346.6 million) for the year ended 31 March 2016 as compared with that for the previous year. The Group's cost of services mainly includes costs of construction services, costs of television broadcasting business and direct costs attributable to large outdoor display screen advertisement business. Costs of construction services mainly comprise raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Costs of television broadcasting business mainly comprise transmission costs and broadcasting fee. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operators while broadcasting fee comprises annual fee payable to media broadcasting providers and China Xinhua News Network. Direct costs attributable to large outdoor display screen advertisement business mainly comprise depreciation charges of LED display screens and control room. The decrease in cost of services was mainly due to the fact that certain waterworks engineering projects were at the final stage of completion or were completed in the current year and thus the subcontracting fee decreased accordingly.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The following table sets out a breakdown of the Group's cost of services:

	For the year ended 31 March			
	2016		2015	
	HK\$'000	% of total	HK\$'000	% of total
Costs of construction services				
Raw materials	28,494	9.4	44,155	12.8
Direct labour	71,801	23.8	65,865	19.0
Subcontracting fee	124,964	41.3	162,374	46.9
Other direct costs	<u>64,990</u>	<u>21.5</u>	<u>61,138</u>	<u>17.6</u>
Subtotal	<u>290,249</u>	<u>96.0</u>	<u>333,532</u>	<u>96.3</u>
Costs of television broadcasting business				
Transmission costs	2,500	0.8	2,500	0.7
Broadcasting fee and other direct costs	<u>6,398</u>	<u>2.1</u>	<u>7,784</u>	<u>2.2</u>
Subtotal	<u>8,898</u>	<u>2.9</u>	<u>10,284</u>	<u>2.9</u>
Direct costs attributable to large outdoor display screen advertisement business	<u>3,141</u>	<u>1.1</u>	<u>2,737</u>	<u>0.8</u>
Subtotal	<u>3,141</u>	<u>1.1</u>	<u>2,737</u>	<u>0.8</u>
Total	<u><u>302,288</u></u>	<u><u>100.0</u></u>	<u><u>346,553</u></u>	<u><u>100.0</u></u>

Gross profit

The gross profit of the Group for the year ended 31 March 2016 increased by approximately 197.4% to approximately HK\$68.7 million (2015: approximately HK\$23.1 million) as compared with that for the previous year. The gross profit margin of the Group increased to approximately 18.5% for the year ended 31 March 2016 (2015: approximately 6.2%). The increase in gross profit and gross profit margin was largely due to large portion of revenue and gross margin derived from and recognised at the early stage of certain waterworks engineering projects during the year.

Other income

The Group's other income for the year ended 31 March 2016 decreased by approximately 78.1% to approximately HK\$0.9 million (2015: approximately HK\$4.1 million) as compared with that for the previous year. The decrease in other income was mainly due to the recognition of one-off item, i.e. the waiver of promissory note interests from a noteholder in the previous year.

Other gains and losses

The Group's other gains and losses for the year ended 31 March 2016 decreased by approximately 80.7% to approximately HK\$2.0 million (2015: approximately HK\$10.1 million) as compared with that for the previous year. The decrease in other gains and losses was mainly due to recognition of one-off item, i.e. gains arising on extension of promissory note in the previous year.

Amortisation expenses

The Group's amortisation expenses for the year ended 31 March 2016 decreased by approximately 2.0% to approximately HK\$23.6 million (2015: approximately HK\$24.1 million) as compared with that for the previous year. The amortisation expenses mainly consisted of amortisation charges of television broadcasting right and film rights for the television broadcasting business.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 March 2016 decreased by approximately 57.1% to approximately HK\$97,000 (2015: approximately HK\$0.2 million) as compared with that for the previous year. The selling and distribution expenses mainly consisted of advertising expenses for the television broadcasting business.

Administrative expenses

The Group's administrative expenses for the year ended 31 March 2016 increased by approximately 5.6% to approximately HK\$35.0 million (2015: approximately HK\$33.1 million) as compared with that for the previous year. The administrative expenses mainly consisted of auditors' remuneration, legal and professional fees, staff costs (including Directors' remuneration), depreciation expenses and rental expenses. The increase in the administrative expenses was mainly attributable to the increase in staff costs and rental expenses due to the expansion of business.

Finance costs

The Group's finance costs for the year ended 31 March 2016 increased by approximately 33.3% to approximately HK\$34.3 million (2015: approximately HK\$25.7 million) as compared with that for the previous year. The finance costs mainly consist of interest expenses for the promissory note and convertible notes. The increase in finance costs was mainly due to recognition of adjustment of overprovision of interest expenses of convertible notes in prior years which were resulted from the exercise of conversion rights of convertible notes by certain noteholders during the year ended 31 March 2015.

Impairment loss recognised in respect of intangible assets

During the year ended 31 March 2012, the Group entered into a sale and purchase agreement with China Xinhua News Network, APT Satellite TV Development Limited and Proud Glory Investments Limited to acquire entire equity interest of Xinhua TV Asia-Pacific at an aggregate consideration of approximately HK\$700.0 million, comprising (a) issuance of 474,335,664 Shares to China Xinhua News Network at HK\$0.196 per share; and (b) HK\$607,030,210 by way of the issue of the convertible notes to China Xinhua News Network, Proud Glory Investments Limited and APT Satellite TV Development Limited at a conversion price of HK\$0.196 per Share. The Group completed its very substantial acquisition (the "Acquisition of Xinhua TV") of the entire equity interest in Xinhua TV Asia-Pacific on 9 December 2011 and commenced the television broadcasting business since then.

The recoverable amounts of Xinhua TV Asia-Pacific as at 31 March 2016 and 2015, were determined with reference to a valuation conducted by an independent valuer, based on income-based approach, after considering the financial information of Xinhua TV Asia-Pacific as at 31 March 2016 and 2015, including but not limited to (i) the financial position of Xinhua TV Asia-Pacific and its subsidiaries as at 31 March 2016 and 2015; (ii) the total revenue derived from television broadcasting business; (iii) number of existing contracts and memorandum of understanding; and (iv) the market and industry condition. During the year ended 31 March 2016, although the television broadcasting business continues to make steady growth and progress when compared with previous years, it is still under development and far behind the development schedule as expected. It has not yet brought in satisfactory return to the Group since the Acquisition of Xinhua TV. Due to the unsatisfactory results in these years and relatively slow development pace of television broadcasting business, the Directors considered that major inputs regarding revenue were adjusted downwards to reflect the current situation for prudence sake. As such, the recoverable amount of Xinhua TV Asia-Pacific as at 31 March 2016 is amounted to approximately HK\$99.3 million and the impairment loss, which arose from the difference between the aggregate carrying amount of intangible assets and the recoverable amount of entire equity interest in Xinhua TV Asia-Pacific as at 31 March 2016, of approximately HK\$19.8 million is recognised in respect of intangible assets for the year ended 31 March

2016. Except aforesaid, to the best of knowledge and belief of the Directors, there has not been any change of valuation methodology, basis of valuation and assumptions as at 31 March 2016 and no other changes in circumstance and reasons giving rise to changes in valuation approach. All changes of inputs are made to reflect the recent development of television broadcasting business as compared to that expected in previous years.

The recoverable amount of Xinhua TV Asia-Pacific approximated to the carrying amount of intangible assets, i.e., television broadcasting right as at 31 March 2015. Therefore, no impairment loss was recognised during the year ended 31 March 2015. To the best of knowledge and belief of the Directors, there had not been any change of valuation methodology, basis of valuation and assumptions as at 31 March 2015 and no other changes in circumstance and reasons giving rise to changes in valuation approach. All changes of inputs were made to reflect the recent development of television broadcasting business as compared to that expected in previous years.

Net loss

The net loss attributable to owners of the Company for the year ended 31 March 2016 increased by 11.3% to approximately HK\$46.4 million (2015: approximately HK\$41.7 million) as compared with that for the previous year. The increase in net loss was mainly resulted from net effect of increase in gross profit against recognition of impairment loss in respect of intangible assets, decrease in other income and other gains and losses for the year ended 31 March 2016.

Loss per Share

The basic loss per Share for the year ended 31 March 2016 was approximately HK1.18 cents (2015: approximately HK1.34 cents).

Segment Information

For the year ended 31 March 2016, revenue from segments of provision of waterworks engineering business, television broadcasting business and large outdoor display screen advertisement business accounted for approximately 97.3%, 2.3% and 0.4% of the Group's total revenue respectively. The segments of television broadcasting business and large outdoor display screen advertisement business recorded a segment loss of approximately HK\$46.2 million and HK\$3.9 million respectively while the segment of provision of waterworks engineering business recorded a segment profit of approximately HK\$57.8 million.

Cash Flows***Operating Activities***

For the year ended 31 March 2016, the cash inflow from operating activities was mainly generated from the payment by the customers for the Group's undertaking of the civil engineering projects and advertising income. The Group recorded loss before income tax of approximately HK\$49.2 million and operating profit before changes in working capital of approximately HK\$51.4 million. During the year, the increase in inventories, increase in trade and other receivables and payment of income tax, outweighed by increase in trade and other payables, accounted for a cash outflow of approximately HK\$25.8 million. It resulted in net cash inflow from operating activities of approximately HK\$25.6 million for the year. The higher cash inflow as compared with the preceding year was mainly due to a consequence of large portion of revenue and gross margin derived from and recognised at the early stage of certain waterworks engineering project during the year.

Investing Activities

Net cash used in investing activities was approximately HK\$11.5 million for the year ended 31 March 2016 which was arising from outweigh of the purchases of property, plant and equipment and additions of film rights against proceed from disposal of property, plant and equipment and deposits refunded from termination of acquisition of a subsidiary. During the year ended 31 March 2016, the Group acquired new machinery, equipment and motor vehicles for replacement of the old ones and for use in the new projects.

Financing Activities

Net cash generated from financing activities was approximately HK\$57.3 million for the year ended 31 March 2016. This was mainly attributable to the funds raised from the placing exercises with net proceeds of approximately HK\$63.3 million. The cash inflow was partially offset by repayment of finance leases of approximately HK\$6.0 million.

PROSPECTS

The near-term outlook for Hong Kong economy will be full of challenge and filled with uncertainties. To deal with the unstable market situation, the Group has reallocated resources to diversify the existing businesses and explore potential business opportunities. By doing so, the Group will endeavour to seek long-term business and profit growth by adopting measures to adjust its business strategies to align with corporate missions and objectives and implementing prudent capital management and liquidity risk management so as to improve business performance and returns for the shareholders of the Company.

Provision of waterworks engineering services

This business segment was operated in tough environment resulting from the substantial increase in construction costs including materials, staff and labor costs which had adversely impacted the overall cost structure which in turn affected the Group's overall performance and the operating margins. Also, as the delays in awarding of tenders for numerous major government infrastructure construction projects due to various external factors and slow economic growth, the Group faces challenges in this business segment. If the problem is not resolved, it will result in fewer new public works projects obtained from the Government. With the gradual completion of certain major ongoing projects, the Group is looking forward to the rolling out of new infrastructure projects. With reduced construction projects in the market, the Group had prudently adjusted its overall business strategy, including tendering certain construction contracts from private sectors, in order to minimize our exposure to any further unexpected changes in this industry. The Group will implement a detailed management system to oversee this business segment through selected projects and clients and to discontinue certain operations with low efficiency and cost effectiveness and high risks to ensure that the construction business remains healthy for future development. On 15 July 2015 and 20 November 2015, the Group has successfully obtained a new main construction of advance work for Shek Wu Hui sewage treatment works – further expansion phase 1A and sewerage works at Ping Che Road (contract numbered DC/2013/09) and a new subcontract construction of site formation and infrastructural works near Tong Hang Road and Tsz Tin Road in Area 54 Tuen Mun (contract numbered CV/2015/03), with contract sum of approximately HK\$156.0 million and approximately HK\$428.4 million respectively.

Despite the vigorous competition in Hong Kong construction industry, the Group is still optimistic to maintain steady growth in net profit and scale of operations due to its long established reputation and proven ability. The Group has demonstrated itself capability to strengthen medium-term profitability by enhancing scale and market share. With a view of good reputation and proven track record, the Group is confident that the profitability can be sustained in the long run.

Television broadcasting business

Driven by new media and technologies, the Group is facing constant challenges of descending scale of traditional advertising market, especially television advertising industry. In face of the difficult operating environment, the Group will continue to step up its collaboration efforts with strategic partners to complement each other's advantages and achieve win-win situations. Besides of increasing the coverage of the CNC Channels by strengthening and rejuvenating its marketing and sales team internally, the Group would hire experienced and competent staff to take part in the growing businesses of the Group. The Group would continue to invest in the Group's core brandname, enhance the Group's

marketing activities and expanding network and execute on market opportunities for any new strategic co-operation in order to further diversify the Group's existing business and minimize the exposure to any unexpected changes in this business segment.

Leveraging on its resources and capabilities, the Group has been exploring new business opportunities to create new sources of revenue or to generate additional revenue from the growing internet market. The Group's video contents are now uploaded on different media digital platforms, such as NetEase, Sohu and Tencent for subscription. Looking forward, the Group will continue to adopt the diversification strategy and actively explore opportunities in mobile and internet-related businesses in order to cope with the fast-growing mobile internet market.

Large outdoor display screen advertisement business

Under the circumstances of overcapacity and fierce competition in the industry, coupled with the increasingly stringent requirements imposed on the industry, the operation of this business segment confronted greater challenges. Currently, the Group will seek co-operation from different parties, including but not limited to commercial real estate developers, PRC government authorities and other potential partners in order to speed up the development of this business segment. The Group will maintain a firm direction of development and grasp and execute business opportunities in the market. In particular, the Group believes that the existing businesses of the Group will complement with each other and there will be synergies between them.

The Group will further enhance the existing business operations, actively responding to severe market conditions and exploring potential ways for sustained development of the Group in order to create favourable value returns for its Shareholders. We are optimistic on our long term prospects and are fully committed to continue our current strategies and operational excellence to weather the challenges. Looking forwards, the Group actively pushed forward mergers and acquisitions which enabled the Group to introduce talents, explore the markets, reinforce its influence, enlarge its business scale and generate synergy effects to its existing businesses.

CAPITAL STRUCTURE

The Shares were listed on GEM on 30 August 2010. The capital of the Group comprises only ordinary shares.

On 21 July 2015, the Company entered into a placing agreement with Ping An of China Securities (Hong Kong) Company Limited to place an aggregate of 300,000,000 Shares to not less than six placees at an issue price of HK\$0.25 per placing Share and that the net price to the Company of each placing Share is approximately HK\$0.24375. The placing price represents (i) a discount of approximately 15.25% to the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on 21 July 2015, being the last trading date of the placing agreement; and (ii) a discount of approximately 18.75% to the average closing price of HK\$0.307 per Share as quoted on the Stock Exchange for the five consecutive trading days preceeding 21 July 2015.

The placing Shares were placed to not less than six placees, who and whose ultimate beneficial owners are independent institutional, professional and/or individual investors and not concert parties with the controlling shareholder(s) (if any) (as defined under Hong Kong Code on Takeovers and Mergers), and not connected with any directors, chief executive or substantial shareholder (if any) of the Company or its subsidiaries and their respective associates. None of the placees and their respective associates became a substantial shareholder of the Company as a result of the placing. The Directors were of the view that the placing would strengthen the financial position of the Group, including its ability to meet any future obligations and further expand the Group's business. The Directors considered that the terms of the placing agreement, including the rate of the placing commission, were fair and reasonable based on the current market conditions. Accordingly, the Board considered that the placing was in the interests of the Company and the Shareholders as a whole.

The completion of the placing took place on 4 August 2015 and aggregate of 260,000,000 placing Shares have been successfully placed to not less than six placees at issue price of HK\$0.25 per Share and raised gross proceeds of approximately HK\$65.0 million. The proceeds from the placing was used for the purpose of general working capital of the Company and development of business(es) in line with future development policy of Xinhua News Agency and in the best interests of the Company and the Shareholders as a whole.

Total equity attributable to owners of the Company amounted to approximately HK\$4.6 million in surplus as at 31 March 2016 (31 March 2015: approximately HK\$29.0 million in deficit). The increase in equity was mainly resulted from fund raising activities from the placing exercise and conversion of convertible notes from noteholders.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2016, the Group generally financed its operations through internally generated cash flows and net proceeds from placing exercise.

As at 31 March 2016, the Group had net current assets of approximately HK\$148.0 million (31 March 2015: approximately HK\$73.2 million), including cash balance of approximately HK\$127.4 million (31 March 2015: approximately HK\$62.2 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 2.13 as at 31 March 2016 (31 March 2015: approximately 1.66). The increase in net current assets and current ratio were primarily due to fund raising activities from placing exercise during the year.

GEARING RATIO

The gearing ratio, which is based on the amount of total bank overdraft, promissory note, convertible notes, finance lease payables and advance received from customers divided by total assets, was approximately 62.5% as at 31 March 2016 (31 March 2015: approximately 70.1%). The decrease in gearing ratio was resulted from increase in total assets due to fund raising activities from the placing exercise during the current year.

FOREIGN EXCHANGE EXPOSURE

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity. During the year ended 31 March 2016, the Group was mainly exposed to foreign currency exchange risk of United States Dollars and Renminbi and the management mainly monitored the foreign currency exchange risk with advices from the Group's major banks.

CAPITAL COMMITMENT

As at 31 March 2016, the Group had an outstanding commitment of approximately HK\$0.7 million in respect of acquisition of property, plant and equipment. Save as abovesaid, the Group did not have any other significant capital commitments as at 31 March 2016 (31 March 2015: Nil).

CHARGES ON THE GROUP'S ASSETS

The Group's motor vehicles with net book values of approximately HK\$14.4 million was held under finance lease as at 31 March 2016. As at 31 March 2015, the Group's machineries and motor vehicles with net book values of approximately HK\$0.8 million and approximately HK\$12.3 million were held under finance lease. As at 31 March 2016, the Group pledged its motor vehicles with net book values of approximately HK\$89,000 (2015: machinery and motor vehicles with net book values of approximately HK\$12,000 and approximately HK\$0.7 million respectively) as securities for its performance of obligations as a subcontractor of the Replacement and Rehabilitation of water mains, Stage 4, Phrase 1 – Mains in Tuen Mun, Yuen Long, North District and Tai Po.

CONTINGENT LIABILITIES

As at 31 March 2016, the Group did not have any material contingent liabilities (31 March 2015: Nil).

INFORMATION ON EMPLOYEES

As at 31 March 2016 the Group had 307 full-time staff in Hong Kong and the PRC and over 90% of them are direct labour. Total staff costs (including Directors' remuneration) for the year ended 31 March 2016 amounted to approximately HK\$86.6 million (2015: approximately HK\$80.2 million), representing an increase of approximately 8.0% over that for the previous year. The increase was mainly due to the increase in the number of staff to support the expansion of the Group's business.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, during the year ended 31 March 2016 and as at the end of the reporting period, the Group did not hold any significant investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

- (a) On 2 February 2016, the Group entered into a sale and purchase agreement with independent third parties pursuant to which a wholly-owned subsidiary of the Company will acquire 100% equity interest in Shenzhen City Century Culture Creative Limited* (深圳市世紀文化創意有限公司) (“Shenzhen Culture Company”) at a total consideration of HK\$600,000,000. The consideration will be partly settled by cash and partly by the issue and allotment of consideration shares. The primary business of Shenzhen Culture Company and its subsidiary is the operation and management of Shenzhen City Culture Creative Park* (深圳市文化創意園) in return for rental income including management fee. The proposed acquisition has not yet been completed as at the reporting date. Further details of the proposed acquisition were set out in the announcement of the company dated 3 June 2016.
- (b) On 25 March 2016, the Company entered into a memorandum of understanding with independent third parties pursuant to which the Company proposed to inject cash into Tianjin Anlian Chengtong Information Technology Company Limited* (天津安聯程通信息技術有限公司) (“Tianjin Technology Company”) as registered capital. Upon completion of the proposed capital injection, the Company will become the single largest shareholder of the Tianjin Technology Company. The Tianjin Technology Company is mainly engaged in the operation and management of the supply chain management system, namely ALCT Supply Chain Platform (陸路運輸管理與交易平台), which is capable of connecting the tax system of the PRC tax authority for issue of VAT invoice. As at the reporting date, the Group has not yet entered into any formal capital injection agreement. Further details of the proposed capital injection were set out in the announcement of the company dated 29 March 2016.

Save as disclosed above, as at 31 March 2016, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 March 2016, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

* for identification purpose only

For the three months ended 30 June 2016 (which includes information extracted and summarised from the first quarterly report for 2016/17 of the Company)

BUSINESS REVIEW

The Group is principally engaged in the provision of waterworks engineering services for the public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding the PRC) in re-turn for advertising and related revenue and large outdoor display screen advertisement business in the PRC. During the three months ended 30 June 2016 (the “Period”), the Group continued to focus on rendering waterworks engineering services for the public sector in Hong Kong and develop its television broadcasting business and large outdoor display screen advertisement business.

Provision of waterworks engineering services

During the Period, the Group has been undertaking three main contracts and seven subcontracts. Among the ten contracts, four are related to provision of waterworks engineering services and the remain-ing contracts are related to provision of drainage services and site formation services. Details of the contracts undertaken are set out below:

	Contract number	Particulars of contract
Main contracts	8/WSD/11	Construction of Pak Shek Kok Fresh Water Service Reservoir Extension
	3/WSD/13	Mainlying near She Shan Tsuen, Tai Po
	DC/2013/09	Advance Works for Shek Wu Hui Sewage Treatment Works – Further Expansion Phase 1A and Sewer-age Works at Ping Che Road
Subcontracts	8/WSD/10	Replacement and rehabilitation of water mains, stage 4 phase 1 – mains in Tuen Mun, Yuen Long, North District and Tai Po
	DC/2012/04	Sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang
	DC/2012/07	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 1
	DC/2012/08	Lam Tsuen Valley Sewerage – village sewerage, stage 2, phase 2
	5/WSD/13	Replacement and rehabilitation of water mains, stage 4 phase 1 and stage 4 phase 2 – mains in northern and eastern New Territories
	CV/2015/03	Site Formation and Infrastructural Works near Tong Hang Road and Tsz Tin Road in Area 54, Tuen Mun
	810B	West Kowloon Terminus Station South, Contract 810B

During the Period, the revenue derived from provision of waterworks engineering services constitut-ed approximately 97.5% of the Group’s total revenue.

Television broadcasting business

The Group has developed a broadcasting network of television channels with relatively extensive scale. Currently, it is broadcasting the television programmes relating to information contents from China Xinhua News Network Channel and China Xinhua News Network World Channel (collectively the “CNC Channels”) in different locations in the Asia-Pacific region (excluding the PRC). Expect for broadcasting television programmes in the CNC Channels, the Group entered into a strategic cooperation agreement with a cooperate partner in the PRC during the Period to establish a cooperation partnership so as to jointly develop the television e-commerce business and the exclusive and originated emerging mode of development of television business. The Directors believe that the enter into of the strategic cooperation agreement would facilitate the further expansion of the television broadcasting business of the Group to other new media platforms and by leveraging on the strength, resources and expertise of both parties, the cooperation would thus facilitate the development of the business of the Group and increase the revenue of the Group.

Large outdoor display screen advertisement business

Amid the continuous intense competition and stringent requirements imposed on the industry, the development pace of large outdoor display screen advertisement business is stagnant as compared with last year. In light of the difficult operating environment, the Group will continue to make efforts to broaden its customer base, strengthen cost and quality control and enhance marketing and promotion activities to further uplift the image and competitiveness of the business segment. Going forward, the Group will remain prudent yet responsive to changing market conditions and execute on market opportunities for any development in order to sustain and improve the profitability in the long run.

Aimed at maximising profit and return for the Group and the shareholders of the Company, the Group is exploring new businesses opportunities constantly to broaden its income source and diversify the busi-nesses of the Group.

FINANCIAL REVIEW**Revenue**

For the Period, the Group reported a revenue of approximately HK\$123.3 million (2015: approximately HK\$77.6 million), representing an increase of approximately 59.0% as compared with that for the same period of the previous year. The revenue derived from provision of waterworks engineering services and television broadcasting business as well as large outdoor display screen advertisement business constituted approximately 97.5% and 2.5% of the Group's total revenue respectively. The increase in revenue was mainly due to increase in work from civil engineering projects with contract numbered CV/2015/03 and 5/WSD/13 and large portion of revenue derived from and recognised at the early stage of certain waterworks engineering projects in the Period. The Group derived aggregate advertising revenue of approximately HK\$3.1 million (2015: approximately HK\$2.0 million) from television broadcasting business and large outdoor display screen advertisement business.

During the Period, the revenue of the Group was primarily generated from the undertaking of waterworks contracts in the capacity of a subcontractor. The subcontracting revenue amounted to approximately HK\$84.7 million (2015: approximately HK\$54.0 million), representing approximately 68.7% of the total revenue for the Period (2015: approximately 69.6%). On the other hand, the revenue generated from the undertaking of waterworks contracts in the capacity of a main contractor and jointly controlled operator amounted to approximately HK\$35.5 million (2015: approximately HK\$21.6 million), representing approximately 28.8% (2015: approximately 27.8%) of the total revenue for the Period.

Cost of services

The Group's cost of services increased by approximately 54.9% to approximately HK\$117.1 million for Period (2015: approximately HK\$75.6 million) as compared with that for the same period of the previous year. The Group's cost of services mainly includes costs of construction services, costs of television broadcasting business and direct costs attributable to large outdoor display screen advertisement business. Costs of construction services mainly comprise raw materials, direct labour and subcontracting fee for services provided by the subcontractors. Costs of television broadcasting business mainly comprise transmission costs and broadcasting fee. Transmission costs comprise satellite transmission fee and carriage fee payable to satellite operators while broadcasting fee comprises annual fee payable to media broadcasting providers and China Xinhua News Network. Direct costs attributable to large outdoor display screen advertisement business mainly comprise depreciation charges of LED display screens and control room.

Gross profit

The gross profit of the Group for the Period increased by approximately 2.1 times to approximately HK\$6.3 million (2015: approximately HK\$2.0 million) as compared with that for the same period of the previous year. The gross profit margin of the Group increased to approximately 5.1% for the Period (2015: approximately 2.6%). The increase in gross profit and gross profit margin was largely due to large portion of revenue and gross margin derived from certain projects recognised at the early stage during the Period.

Other income

The Group's other income for the Period increased by approximately 3.6 times to approximately HK\$0.6 million (2015: approximately HK\$0.1 million) as compared with that for the same period of the previous year. The increase in other income was mainly due to the written-back of certain retention payables of provision of waterworks engineering business for the Period.

Other gains and losses

The Group's other gains and losses for the Period increased by approximately 2.3 times to approximately HK\$1.5 million (2015: approximately HK\$0.4 million) as compared with that for the same period of the previous year. Other gains and losses mainly consisted of net gains on disposal of property, plant and equipment for the Period.

Amortisation expenses

The Group's amortisation expenses for the Period decreased by approximately 14.7% to approximately HK\$4.9 million (2015: approximately HK\$5.8 million) as compared with that for the same period of the previous year. The amortisation expenses mainly consisted of amortisation of television broadcasting right and film rights for the television broadcasting business. The decrease in amortisation expenses was mainly due to the impairment loss of television broadcasting right recognised for the year ended 31 March 2016 and thus caused a reduction in carrying amount of television broadcasting right.

Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to approximately HK\$243,000 (2015: approximately HK\$43,000). The selling and distribution expenses mainly consisted of advertising expenses for the television broadcasting business.

Administrative expenses

The Group's administrative expenses for the Period decreased by approximately 17.6% to approximately HK\$6.5 million (2015: approximately HK\$7.9 million) as compared with that for the same period of the previous year. The administrative expenses mainly consisted of legal and professional fees, staff costs (including Directors' remuneration), depreciation expenses and rental expenses.

Finance costs

The Group's finance costs for the Period increased by approximately 3.7% to approximately HK\$9.0 million (2015: approximately HK\$8.6 million) as compared with that for the same period of the previous year. The finance costs mainly consisted of interest expenses for the promissory note and convertible notes.

Net Loss

The net loss attributable to the owners of the Company for the Period decreased by 27.7% to approximately HK\$12.9 million (2015: approximately HK\$17.8 million) as compared with that for the same period of previous year. The decrease in net loss was mainly due to increase in gross profit and decrease in amortisation expenses and administrative expenses.

Loss per Share

The basic loss per Share was approximately HK0.32 cent (2015: approximately HK0.48 cent).

Segment Information

For the three months ended 30 June 2016, revenue from segments of provision of waterworks engineering business, television broadcasting business and large outdoor display screen advertisement business accounted for approximately 97.5% (three months ended 30 June 2015: approximately 97.4%), 2.5% (three months ended 30 June 2015: approximately 2.1%) and 0% (three months ended 30 June 2015: approximately 0.5%) of the Group's total revenue respectively. The segments of television broadcasting business and large outdoor display screen advertisement business recorded a segment loss of approximately HK\$4.3 million (three months ended 30 June 2015: approximately HK\$5.9 million) and HK\$0.3 million (three months ended 30 June 2015: approximately HK\$0.9 million) respectively while the segment of provision of waterworks engineering business recorded a segment profit of approximately HK\$3.9 million (three months ended 30 June 2015: approximately HK\$0.1 million).

Cash Flows***Operating Activities***

For the three months ended 30 June 2016, the cash inflow from operating activities was mainly generated from the payment by the customers for the Group's undertaking of the projects and advertising income. The Group recorded loss before income tax of approximately HK\$13.7 million (three months ended 30 June 2015: approximately HK\$19.6 million) and operating profit before changes in working capital of approximately HK\$4.4 million (three months ended 30 June 2015: operating loss before changes in working capital approximately HK\$5.5 million). During the period, the decrease in inventories, increase in trade and other payables and payment of income tax, outweighed by increase in trade and other receivables, accounted for a cash outflow of approximately HK\$7.5 million (three months ended 30 June 2015: cash inflow of approximately HK\$27.1 million). It resulted in net cash inflow from operating activities of approximately HK\$3.1 million (three months ended 30 June 2015: approximately HK\$21.6 million) for the period. The lower cash inflow as compared with the same period of the preceding year was mainly due to a consequence of increase in trade receivables of certain waterworks engineering project during the period.

Investing Activities

Net cash used in investing activities was approximately HK\$7.7 million (three months ended 30 June 2015: approximately HK\$98,000) for the three months ended 30 June 2016 which was arising from outweigh of the purchases of property, plant and equipment and additions of film rights against proceed from disposal of property, plant and equipment. During the three months ended 30 June 2016, the Group acquired new machinery, equipment and motor vehicles for replacement of the old ones and for use in the new projects.

Financing Activities

Net cash used in financing activities was approximately HK\$1.5 million (three months ended 30 June 2015: approximately HK\$1.4 million) for the three months ended 30 June 2016. The cash outflow was mainly due to repayment of finance leases of approximately HK\$1.5 million (three months ended 30 June 2015: approximately HK\$1.4 million).

PROSPECTS

During the Period, the Group's provision of waterworks engineering services remains the major revenue contributor to Group while the Group continues to devote efforts to further develop its television broadcasting business and large outdoor display screen advertisement business. Despite the challenging business environment in Hong Kong and the PRC, the Group adopts a unique operation model with sound business conditions and competitiveness and is well prepared for the forthcoming challenges. The Group will maintain its cautiously optimistic outlook as ever, looking for new breakthroughs on top of the existing businesses in a stable, flexible and constantly innovative manner, seeking and seizing opportunities in the midst of challenges, actively expanding into new markets so as to further enhance its competitiveness and consolidate its market share.

Provision of waterworks engineering services

This business segment is currently operated in tough environment resulting from the substantial increase in construction costs including materials, staff and labor costs in recent years which had adversely impacted the overall cost structure which in turn affected the Group's overall performance and the operating margins. Following the approval of the pending public works in 2016, the Group anticipates more foundation projects will be launched and the growth of the construction market in Hong Kong will be re-sumed. The Group believes that the future of construction market and the business of the Group still remains positive.

Despite the vigorous competition in Hong Kong construction industry, the Group is still optimistic to maintain steady growth in net profit and scale of operations due to its long established reputation and proven ability. To maintain its competitive edge, the Group continues to adhere to its business strategy, by expanding its capacity to capture more business opportunities, reinforcing its capability in project management skills and offering qualitative and flexible solution to its customers.

Television broadcasting business

With the rapid development of internet and mobile web, the traditional advertising industry is gradually steering towards the internet market. While undergoing rapid transformation, the advertising industry also faces intense competition, unprecedented difficulties and challenges. In face of the difficult operating environment, the Group will continue to step up its collaboration efforts with strategic partners to complement each other's advantages and achieve win-win situations. The Group planned to invest in the television e-commerce business which is a new and emerging mode of development of television business. Also, the Group will develop marketing strategies to increase its market presence through different channels such as social media network and surfing on mobile

apps. Such moves will not only contribute profit to the Group, but also, through using advanced technology to enhance the Group's overall business strategy and create an all-win scenario.

Large outdoor display screen advertisement business

As the current market environment in PRC is still associated with uncertainties, the Group believed that the operating environment will continue to be challenging in this business segment. The Group will continue to exercise a cautious approach in seeking business development. Currently, the Group will seek cooperation from different parties, including but not limited to commercial real estate developers, PRC government authorities and other potential partners in order to speed up the development of this business segment. The Group will closely monitor the progress of the business operation and be determined to take necessary actions.

Leverage on the Group's well established international network and diversified businesses, the Group is confident in its long-term development. The Group kept on adopting different marketing and business strategies and seizing every opportunity to enlarge the market share and expand the market coverage. In such a dynamic market environment, the Group endeavours to keep itself abreast and innovative in various aspects such as corporate strategies, business model and management structure.

Apart from reinforcing its existing businesses, the Group will continue to place its efforts searching for suitable investment opportunities which strategically fit into its diversification moves and generate a steady source of income. On 2 February 2016, the Group entered into a conditional sale and purchase agreement with independent third parties pursuant to which the Group will acquire the entire issued share capital of Shenzhen City Century Culture Creative Limited* (深圳市世紀文化創意有限公司) at a consideration of HK\$600,000,000. The primary business of Shenzhen City Century Culture Creative Limited and its subsidiary (collectively the "Target Group") is the operation and management of Shenzhen City Culture Creative Park* (深圳市文化創意園) in return for rental income including management fee. The Directors consider that the acquisition represents a valuable business opportunity for the Group to invest in the cultural-related industry and will broaden the Group's income and asset base. In particular, the Board believes that the existing television broadcasting business of the Group and the cultural-related business of the Target Group will complement with each other and there will be synergies between them.

* for identification purpose only

CAPITAL STRUCTURE

The Shares were listed on GEM on 30 August 2010. The capital of the Group comprises only ordinary shares.

Total equity attributable to owners of the Company amounted to approximately HK\$8.8 million in deficit as at 30 June 2016 (31 March 2016: approximately HK\$4.6 million in surplus). The decrease in equity was mainly resulted from net loss for the three months ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

During the three months ended 30 June 2016, the Group generally financed its operations through internally generated cash flows.

As at 30 June 2016, the Group had net current assets of approximately HK\$138.7 million (31 March 2016: approximately HK\$148.0 million), including cash balance of approximately HK\$115.2 million (31 March 2016: approximately HK\$127.4 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 2.0 as at 30 June 2016 (31 March 2016: approximately 2.13).

GEARING RATIO

The gearing ratio, which is based on the amount of total bank borrowings, promissory note, convertible notes, obligations under finance lease and advance received from customers divided by total assets, was 64.1% as at 30 June 2016 (31 March 2016: approximately 62.5%) which remains constant with that of 31 March 2016.

FOREIGN EXCHANGE EXPOSURE

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity. During the three months ended 30 June 2016, the Group was mainly exposed to foreign currency exchange risk of United States Dollars and Renminbi and the management mainly monitored the foreign currency exchange risk with advices from the Group's major banks.

CAPITAL COMMITMENT

At 30 June 2016, the Group did not have any significant capital commitments. As at 31 March 2016, the Group had an outstanding commitment of approximately HK\$0.7 million in respect of acquisition of property, plant and equipment. Save as abovesaid, the Group did not have any other significant capital commitments as at 31 March 2016.

CHARGES ON THE GROUP'S ASSETS

The Group's motor vehicles with net book values of approximately HK\$20.9 million (31 March 2016: approximately HK\$14.4 million) was held under finance lease as at 30 June 2016. As at 30 June 2016, the Group pledged its motor vehicles with net book values of approximately HK\$0 (31 March 2016: approximately HK\$89,000) as securities for its performance of obligations as a subcontractor of the Replacement and Rehabilitation of water mains, Stage 4, Phrase 1 – Mains in Tuen Mun, Yuen Long, North District and Tai Po.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities (31 March 2016: Nil).

INFORMATION ON EMPLOYEES

As at 30 June 2016, the Group had 333 full-time employees in Hong Kong and over 90% of them are direct labour. Total staff costs (including remuneration of the Directors) for the three months ended 30 June 2016 amounted to approximately HK\$24.1 million (30 June 2015: approximately HK\$18.4 million), representing an increase of approximately 30.8% over that for the three months ended 30 June 2015.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, during the three months ended 30 June 2016, the Group did not hold any significant investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

- (a) On 2 February 2016, the Group entered into a sale and purchase agreement with independent third parties pursuant to which a wholly-owned subsidiary of the Company will acquire 100% equity interest in Shenzhen City Century Culture Creative Limited* (深圳市世紀文化創意有限公司) (“Shenzhen Culture Company”) at a total consideration of HK\$600,000,000. The consideration will be partly settled by the issue of promissory note and partly by the issue and allotment of consideration shares and partly by cash. The primary business of Shenzhen Culture Company and its subsidiary is the operation and management of Shenzhen City Culture Creative Park* (深圳市文化創意園) in return for rental income including management fee. The proposed acquisition has not yet been completed as at the reporting date. Further details of the proposed acquisition were set out in the announcements of the company dated 3 June 2016, 27 June 2016 and 20 July 2016.
- (b) On 25 March 2016, the Company entered into a memorandum of understanding with independent third parties pursuant to which the Company proposed to inject cash into Tianjin Anlian Chengtong Information Technology Company Limited* (天津安聯程通信息技術有限公司) (“Tianjin Technology Company”) as registered capital. Upon completion of the proposed capital injection, the Company will become the single largest shareholder of the Tianjin Technology Company. The Tianjin Technology Company is mainly engaged in the operation and management of the supply chain management system, namely ALCT Supply Chain Platform (陸路運輸管理與交易平臺), which is capable of connecting the tax system of the PRC tax authority for issue of VAT invoice. As at the reporting date, the Group has not yet entered into any formal capital injection agreement. Further details of the proposed capital injection were set out in the announcement of the company dated 29 March 2016. Save as disclosed above, as at 31 March 2016, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the three months ended 30 June 2016, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

* for identification purpose only

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng Limited.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 October 2016

The Board of Directors
CNC Holdings Limited
Suites 2708-2710, 27/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
HONG KONG

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Shenzhen City Century Culture Creative Limited* 深圳市世紀文化創意有限公司 (the “Target Company”) and its subsidiary ((hereinafter collectively referred to as the “Target Group”), comprising the consolidated statements of financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 June 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for the years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016 (the “Relevant Periods”), together with the notes thereto (the “Financial Information”), and the comparative consolidated statement of profit or loss and other comprehensive income, the consolidated statement changes in equity and the consolidated statement of cash flows of the Target Group for the six months ended 30 June 2015 (the “Unaudited Comparative Financial Information”), prepared on the basis of presentation set out in Note 3 of Appendix II below, for inclusion in the circular of CNC Holdings Limited (the “Company”) dated 28 October 2016 (the “Circular”) in connection with the sale and purchase agreement dated 2 February 2016 (the “Agreement”) entered into among Mr. Li Yinfa, Ms. Li Yanyun (the “Vendors”) and Succeed Capital Limited (the “Purchaser”) in relation to the the sale and purchase of an aggregate 100% equity interest in the Target Company for a total consideration of HK\$600,000,000 (the “Consideration”) (collectively referred to as the “Acquisition”).

* for identification purpose only

APPENDIX II**FINANCIAL INFORMATION OF THE TARGET GROUP**

The Target Company is principally engaged in investment holding and property leasing business and its subsidiary is principally engaged in provision of property management services. The Target Company was incorporated in the People's Republic of China (the "PRC") with limited liability on 16 February 2006. As at the date of this report, the Target Company has the following subsidiary:

Name of subsidiary	Place and date of incorporation and operation	Registered and paid up capital	Percentage ownership interest directly held by the Target Company	Principal activity
深圳市梓盛發物業服務有限公司 (Shenzhen Zishengfa Property Services Co., Ltd*) ("Shenzhen Zishengfa")	The PRC, 10 July 2009	RMB3,000,000	100%	Provision of property management services

The Target Group has adopted 31 December as its financial year end date.

No statutory financial statements have been prepared for the Target Company and Shenzhen Zishengfa for the years ended 31 December 2013, 2014 and 2015.

The audited consolidated financial statements of the Target Group were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in PRC and the details are as follows:

Financial year/period	Name of auditors
31 December 2013	Ruihua Certified Public Accountants
31 December 2014	Ruihua Certified Public Accountants

No audited consolidated financial statements have been prepared for the Target Group for the year ended 31 December 2015.

* for identification purpose only

BASIS OF PREPARATION

For the purpose of this report, the directors of the Target Company have prepared the Financial Information for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error. The Financial Information for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information set out in this report has been prepared from the unaudited financial statements with no adjustments made thereon.

RESPONSIBILITY OF THE DIRECTORS

The directors of the Company and the Target Group are responsible for the contents of the Circular, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3 of Appendix II. The directors of the Company and the Target Company are responsible for the preparation of the Financial Information and the Unaudited Comparative Financial Information that give a true and fair view in accordance with HKFRSs and the disclosure requirements of Listing Rules and the Hong Kong Companies Ordinance, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information and the Unaudited Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

For the Financial Information for the Relevant Periods, it is our responsibility to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant financial statements of the Target Group for the Relevant Periods, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of the Target Company’s management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information for the Relevant Periods give a true and fair view of the financial position of the Target Group as at 31 December 2013, 31 December 2014, 2015 and 30 June 2016 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material aspects, in accordance with the same basis adopted in respect of the financial information.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention in note 3(c) of Appendix II of the Financial Information which indicates that the Target Group had net current liabilities of approximately RMB187,276,000, RMB117,751,000, RMB45,668,000 and RMB181,000 as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively, and net liabilities of approximately RMB57,624,000 and RMB6,096,000 as at 31 December 2013 and 2014 respectively. These conditions, along with other matters as set forth in note 3(c) of Appendix II of the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i>
Revenue	5	110,560	127,582	137,552	60,254	74,151
Other income	7	10,736	12,255	42,731	13,194	19,237
Administrative and other operating expenses		<u>(88,237)</u>	<u>(95,148)</u>	<u>(81,929)</u>	<u>(41,744)</u>	<u>(39,605)</u>
Profit from operations	8	33,059	44,689	98,354	31,704	53,783
Finance costs	11	<u>(8,731)</u>	<u>(10,442)</u>	<u>(22,518)</u>	<u>(11,411)</u>	<u>(7,143)</u>
Profit before income tax		24,328	34,247	75,836	20,293	46,640
Income tax	12	<u>(7,095)</u>	<u>(10,519)</u>	<u>(17,484)</u>	<u>(5,208)</u>	<u>(8,746)</u>
Profit for the year/period		17,233	23,728	58,352	15,085	37,894
Other comprehensive income for the year/period, net of tax		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year/period		<u>17,233</u>	<u>23,728</u>	<u>58,352</u>	<u>15,085</u>	<u>37,894</u>
Profit and total comprehensive income for the year/period attributable to the owners of the Target Company		<u>17,233</u>	<u>23,728</u>	<u>58,352</u>	<u>15,085</u>	<u>37,894</u>

The accompanying notes form an integral part of the Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2013	2014	2015	30 June
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	14	127,152	111,655	97,924	90,331
Available-for-sale financial assets	15	<u>2,500</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>129,652</u>	<u>111,655</u>	<u>97,924</u>	<u>90,331</u>
Current assets					
Trade and other receivables	16	24,715	27,906	40,166	42,754
Amount due from the ultimate holding company	17	126,716	490,663	499,264	457,447
Amounts due from fellow subsidiaries	18	–	–	12,698	12,977
Pledged bank deposits	19	–	115,000	2,960	2,390
Cash and cash equivalents	19	<u>33,416</u>	<u>25,755</u>	<u>2,613</u>	<u>2,547</u>
		<u>184,847</u>	<u>659,324</u>	<u>557,701</u>	<u>518,115</u>
Current liabilities					
Trade and other payables	20	164,875	171,003	182,274	156,995
Amounts due to fellow subsidiaries	21	41,500	40,610	40,000	40,000
Borrowings	22	127,000	522,099	336,364	290,950
Financial guarantee contracts	29	33,733	42,044	35,614	24,656
Tax payable		<u>5,015</u>	<u>1,319</u>	<u>9,117</u>	<u>5,695</u>
		<u>372,123</u>	<u>777,075</u>	<u>603,369</u>	<u>518,296</u>
Net current (liabilities)/assets		<u>(187,276)</u>	<u>(117,751)</u>	<u>(45,668)</u>	<u>(181)</u>
Net (liabilities)/assets		<u>(57,624)</u>	<u>(6,096)</u>	<u>52,256</u>	<u>90,150</u>
Capital and reserves					
Share capital	23	13,000	40,800	40,800	40,800
Reserves	24	<u>(70,624)</u>	<u>(46,896)</u>	<u>11,456</u>	<u>49,350</u>
Total equity		<u>(57,624)</u>	<u>(6,096)</u>	<u>52,256</u>	<u>90,150</u>

The accompanying notes form an integral part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2013	9,000	3,800	1,508	(93,165)	(78,857)
Increase in registered capital	4,000	–	–	–	4,000
Profit and total comprehensive income for the year	–	–	–	17,233	17,233
Transfer to statutory reserves	–	–	2,883	(2,883)	–
At 31 December 2013 and 1 January 2014	13,000	3,800	4,391	(78,815)	(57,624)
Increase in registered capital	27,800	–	–	–	27,800
Profit and total comprehensive income for the year	–	–	–	23,728	23,728
Transfer to statutory reserves	–	–	3,246	(3,246)	–
At 31 December 2014 and 1 January 2015	40,800	3,800	7,637	(58,333)	(6,096)
Profit and total comprehensive income for the year	–	–	–	58,352	58,352
Transfer to statutory reserves	–	–	5,012	(5,012)	–
At 31 December 2015 and 1 January 2016	40,800	3,800	12,649	(4,993)	52,256
Profit and total comprehensive income for the period	–	–	–	37,894	37,894
Transfer to statutory reserves	–	–	1,812	(1,812)	–
At 30 June 2016	<u>40,800</u>	<u>3,800</u>	<u>14,461</u>	<u>31,089</u>	<u>90,150</u>
At 1 January 2015	40,800	3,800	7,637	(58,333)	(6,096)
Profit and total comprehensive income for the period	–	–	–	15,085	15,085
Transfer to statutory reserves	–	–	1,509	(1,509)	–
At 30 June 2015 (unaudited)	<u>40,800</u>	<u>3,800</u>	<u>9,146</u>	<u>(44,757)</u>	<u>8,989</u>

The accompanying notes form an integral part of the Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended	
		2013	2014	2015	30 June	2016
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Profit before income tax		24,328	34,247	75,836	20,293	46,640
Adjustments for:						
Interest income	7	(68)	(3,860)	(4,505)	(644)	(8)
Depreciation of property, plant and equipment	14	14,947	15,973	15,862	7,679	7,783
Increase/(decrease) in fair value of financial guarantee contracts		1,069	8,311	(6,430)	–	(10,958)
Finance costs	11	8,731	10,442	22,518	11,411	7,143
Operating cash flows before movements in working capital		49,007	65,113	103,281	38,739	50,600
Decrease/(increase) in trade and other receivables		50,494	(3,191)	(12,260)	(2,954)	(2,588)
Decrease/(increase) in amount due from the ultimate holding company		96,257	(363,947)	(8,601)	(618)	41,817
Increase in amounts due from fellow subsidiaries		–	–	(12,698)	(4,870)	(279)
Decrease/(increase) in trade and other payables		(34,336)	6,128	11,271	5,149	(25,279)
Increase/(decrease) in amounts due to fellow subsidiaries		40,000	(890)	(610)	(610)	–
Cash generated from/(used in) operations		201,422	(296,787)	80,383	34,836	64,271
Income tax paid		(2,402)	(14,215)	(9,686)	(3,915)	(12,168)
Interest paid		(8,731)	(10,442)	(22,518)	(11,411)	(7,143)
Net cash generated from/(used in) operating activities		190,289	(321,444)	48,179	19,510	44,960
Cash flows from investing activities						
Payment for purchase of property, plant and equipment		(60,891)	(489)	(2,131)	(2,131)	(277)
Proceeds from disposal of property, plant and equipment		–	13	–	–	87
(Increase)/decrease in pledged bank deposits		–	(115,000)	112,040	(15,000)	570
Proceeds from disposal of available-for-sale financial assets		–	2,500	–	–	–
Interest received		68	3,860	4,505	644	8
Net cash (used in)/generated from investing activities		(60,823)	(109,116)	114,414	(16,487)	388

APPENDIX II
FINANCIAL INFORMATION OF THE TARGET GROUP

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i>
Cash flows from financing activities						
New bank loans raised		130,000	530,099	96,700	1,700	–
Repayment of bank loans		(233,500)	(135,000)	(282,435)	–	(45,414)
Proceeds from increase in registered capital		<u>4,000</u>	<u>27,800</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net cash (used in)/generated from financing activities		<u>(99,500)</u>	<u>422,899</u>	<u>(185,735)</u>	<u>1,700</u>	<u>(45,414)</u>
Net increase/(decrease) in cash and cash equivalents		29,966	(7,661)	(23,142)	4,723	(66)
Cash and cash equivalents at the beginning of the year/period		<u>3,450</u>	<u>33,416</u>	<u>25,755</u>	<u>25,755</u>	<u>2,613</u>
Cash and cash equivalents at the end of the year/period		<u><u>33,416</u></u>	<u><u>25,755</u></u>	<u><u>2,613</u></u>	<u><u>30,478</u></u>	<u><u>2,547</u></u>
Analysis of balances of cash and cash equivalents						
Cash and bank balances	19	<u><u>33,416</u></u>	<u><u>25,755</u></u>	<u><u>2,613</u></u>	<u><u>30,478</u></u>	<u><u>2,547</u></u>

The accompanying notes form an integral part of the Financial Information.

II. NOTES TO THE FINANCIAL INFORMATION

1. General

The Target Company was incorporated in the People's Republic of China (the "PRC") on 16 February 2006 with limited liability. The registered office and place of business is located at 廣東省深圳市福田區福強路4001號深圳文化創意園B座5樓. The principal activities of the Target Company are investment holding and property leasing business. The principal activity of the subsidiary is provision of property management service..

The immediate holding company of the Target Company is 深圳市前海華美嘉物流有限公司, a company incorporated in the PRC. In the opinion of the directors of the Target Company, the ultimate holding company of the Target Company is 深圳市梓盛發實業集團有限公司, a company incorporated in the PRC.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied all HKFRSs which are effective for the Target Group's financial year beginning on 1 January 2015 consistently throughout the Relevant Years.

The Target Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRS 15	Classifications to HKFRS 15 Revenue from Contracts with Customers ³
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrecognised Losses ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted that apply HKFRS 15 on or before the date of initial application of HKFRS 16.

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrecoverable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Target Company anticipate that HKFRS 9 in the future may have a material impact on amounts reported and disclosures made in the Financial Information. However, it is not practical to provide a reasonable estimate of that effect of HKFRS 9 until the Target Group performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Target Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC)-Int 4 “Determining whether an Arrangement contain a Lease”, HK(SIC)-Int 15 “Operating Lease – Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 “Leases”. Under HKFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities. There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer). HKFRS 16 substantially carries forward the lessor’s accounting requirements in HKAS 17.

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

The directors of the Target Company is in the process of making an assessment of the potential impact of application of HKFRS 16, the directors of the Target Company consider that it is not practicable to provide a reasonable estimate of the effect of the adoption of HKFRS 16 until the Target Group performs a detailed review.

3. Significant Accounting Policies

(a) Statement of compliance

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the disclosures requirements of the Hong Kong Companies Ordinance.

(b) Functional and presentation currency

The Financial Information are presented in Renminbi (“RMB”), which is the same as the functional currency of the Target Group. All values are rounded to the nearest thousand dollars (RMB’000) except otherwise indicated.

(c) Basis of preparation

The Financial Information have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In preparing the Financial Information, the directors of the Target Company have given careful consideration to the future liquidity of the Target Group notwithstanding that the Target Group had net current liabilities of approximately RMB187,276,000, RMB117,751,000, RMB45,668,000 and RMB181,000 as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively, and net liabilities of approximately RMB57,624,000 and RMB6,096,000 as at 31 December 2013 and 2014 respectively.

The Financial Information have been prepared on a going concern basis as 深圳市梓盛發實業集團有限公司, the ultimate holding company of the Target Company has confirmed to provide continuing financial support to the Target Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due. Accordingly, the Financial Information were prepared on a going concern basis.

The Target Group's continuance in business as a going concern is dependent upon the continuing financial support from its ultimate holding company. Should the Target Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the Financial Information.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and entities (including structured entities) controlled by the Target Company and its subsidiary. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Target Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Target Group considers all relevant facts and circumstances in assessing whether or not the Target Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Target Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Target Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and,
- any additional facts and circumstances that indicate that the Target Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component item of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of the subsidiary is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies into line with the Target Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Changes in the Target Group's ownership interests in existing subsidiaries

Changes in the Target Group's ownership interests in existing subsidiaries that do not result in the Target Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Target Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Target Company.

When the Target Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Target Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(e) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Target Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Target Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Target Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Target Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Target Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(f) Merger accounting for business combination involving entities under common control

The Financial Information incorporate the financial statements items of the combined entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

(g) *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The principal annual rates used for the Relevant Periods are as follows:

Leasehold improvements	10%-50%
Furnitures and office equipment	19%-32%
Machinery	10%
Motor vehicles	12%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(h) *Impairment on tangible assets*

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(i) *Financial instruments*

Financial assets and financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial asset are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss, of which interest income is included in net gains or losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Available-for-sale equity investments 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 any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from the ultimate holding company, amounts due from fellow subsidiaries, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or,
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or,
- the disappearance of an active market for that financial asset because of financial liabilities.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an

allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to fellow subsidiaries and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount upon initial recognition. Interest expense is recognised on an effective interest basis.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Target Company are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- (i) The amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) The amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies.

Derecognition

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(j) *Cash and cash equivalents*

Cash and cash equivalents comprise deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(k) *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessor

Rental income from operating leases is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease.

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(I) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Periods. Taxable profit differs from profit before income tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is charged 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 or 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise 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 associated with investment in a subsidiary, except where the Target 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised

to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(m) Borrowing costs

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

(n) Government grant

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(o) *Employee benefits*

1. *Retirement benefit costs*

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

2. *Short term employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3. *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) *Related party*

A related party is a person or entity that is related to the entity that is preparing the Financial Information:

- (1) A person or a close member of that person's family is related to the Target Group if that person:
 - (i) has control or joint control over to the Target Group;
 - (ii) has significant influence over to the Target Group;
 - (iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group.

- (2) An entity is related to the Target Group if any of the following condition applies:
- (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Company. If the Target Group is itself such a plan, the sponsorship employers are also related to the Target Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (1).
 - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a company of which it is a part, provides key management personnel services to the Company or the Company's parent.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Property rental income under operating lease is recognised on a straight line basis over the relevant lease term.

Property management fee income is recognised when management services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Sundry income is recognised when received.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Target Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

4. Key sources of estimation uncertainty

The followings are 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 material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Useful lives of property, plant and equipment

The Target Group's 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. The Target Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade and other receivables

The provision for impairment loss on trade and other receivables of the Target Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each account. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Impairment of assets

The Target Group assesses annually whether the financial assets and non-financial assets have suffered any impairment in accordance with accounting policies stated in note 3(g) and 3(h) respectively. The assets are reviewed for the impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount.

The determination of recoverable amount requires an estimation of future cash flows and the selection of appropriate discount rates.

(d) Income taxes and deferred taxation

The Target Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Revenue

An analysis of the Target Group's revenue for the Relevant Periods is as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Carpark rental income	2,041	2,569	3,738	1,602	2,251
Property rental income	82,218	96,986	109,590	48,335	60,441
Property management fee income	26,301	28,027	24,224	10,317	11,459
	<u>110,560</u>	<u>127,582</u>	<u>137,552</u>	<u>60,254</u>	<u>74,151</u>

6. Segment Information

The segmentations are based on the information about the operation of the Target Group that management uses to make decisions and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. For the years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016, the Target Group were only engaged in the segment of property leasing business and property management services. No analysis of the Target Group's results, assets and liabilities of other reportable segment is presented.

Revenue from major products and services

All of the Target Group's revenue for the Relevant Periods represented carpark rental income, property rental income and property management fee income as disclosed in Note 5 to the Financial Information.

Geographical information

As all of the Target Group's revenue are derived from the PRC and all the Target Group's identifiable assets and liabilities are located in the PRC, therefore no geographical segment information is presented in accordance with HKFRS 8 Operating Segments.

Information about major customers

No revenue from customers contributing over 10% of total revenue of the Target Group for the Relevant Periods.

7. Other income

The Target Group's other income comprises:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Bank interest income	68	3,860	4,505	644	8
Subsidies from government	1,600	950	900	–	800
Management fee income from the ultimate holding company	–	–	10,554	–	–
Reimbursement of interest expenses from the ultimate holding company	8,731	7,092	20,199	11,579	7,143
Sundry income	337	353	143	971	328
Gain on fair value changes in financial guarantee contracts	–	–	6,430	–	10,958
	<u>10,736</u>	<u>12,255</u>	<u>42,731</u>	<u>13,194</u>	<u>19,237</u>

8. Profit from operations

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	RMB'000	RMB'000	RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Profit from operations has been arrived after charging/(crediting):					
Auditors' remuneration	66	400	120	–	–
Depreciation on property, plant and equipment	14,947	15,973	15,862	7,679	7,783
Employee benefit expenses (including directors' emoluments) (note 9)	5,496	7,066	6,797	3,811	3,180
Loss on fair value changes in financial guarantee contracts	1,069	8,311	–	–	–
Operating lease rentals in respect of rental premises	<u>37,445</u>	<u>37,445</u>	<u>37,445</u>	<u>19,701</u>	<u>18,723</u>

9. Employee benefit expenses (including directors' emoluments)

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	RMB'000	RMB'000	RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Directors' fees	–	–	–	–	–
Salaries, allowances and benefits in kind	5,083	6,620	6,325	3,577	2,961
Retirement scheme contributions	<u>413</u>	<u>446</u>	<u>472</u>	<u>234</u>	<u>219</u>
	<u>5,496</u>	<u>7,066</u>	<u>6,797</u>	<u>3,811</u>	<u>3,180</u>

10. Directors' emoluments and five highest paid individuals**(a) Directors' emoluments**

Pursuant to Section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the aggregate amounts of emoluments paid by the companies now comprising Target Group to the directors of Target Company during the Relevant Periods are as follow:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Directors' fees	-	-	-	-	-
Salaries, allowances and benefits in kind	-	-	-	-	-
Retirement scheme contributions	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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The emoluments of the directors of the Target Company for the Relevant Periods are set out below:

	Directors' fees RMB'000	Salaries allowance and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Year ended 31 December 2013:					
Mr. Li Yinfa	-	-	-	-	-
Mr. Li Aimin	-	-	-	-	-
Mr. Huang Yanlin	-	-	-	-	-
Mr. Ye Boxin	-	-	-	-	-
Mr. Ye Zhang Tian	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Year ended 31 December 2014:					
Mr. Li Yinfa (resigned on 15 January 2014 and reappointed on 22 May 2014)	-	-	-	-	-
Mr. Li Aimin	-	-	-	-	-
Mr. Huang Yanlin	-	-	-	-	-
Mr. Ye Boxin (resigned on 15 January 2014)	-	-	-	-	-
Mr. Ye Zhang Tian (resigned on 15 January 2014)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Year ended 31 December 2015:					
Mr. Li Yinfa	-	-	-	-	-
Mr. Li Aimin	-	-	-	-	-
Mr. Huang Yanlin	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Six months ended 30 June 2015 (unaudited)					
Mr. Li Yinfa	-	-	-	-	-
Mr. Li Aimin	-	-	-	-	-
Mr. Huang Yanlin	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Six months ended 30 June 2016					
Mr. Li Yinfa	-	-	-	-	-
Mr. Li Aimin	-	-	-	-	-
Mr. Huang Yanlin	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

11. Finance costs

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest expenses on borrowings wholly repayable within five years	<u>8,731</u>	<u>10,442</u>	<u>22,518</u>	<u>11,411</u>	<u>7,143</u>

12. Taxation

- (a) The amount of income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax					
– PRC Enterprise Income Tax					
– Provision for the year/period	<u>7,095</u>	<u>10,519</u>	<u>17,484</u>	<u>5,208</u>	<u>8,746</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Target Group is 25% for the Relevant Periods.

- (b) The tax charge for the Relevant Periods can be reconciled to the profit in the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	<u>24,328</u>	<u>34,247</u>	<u>75,836</u>	<u>20,293</u>	<u>46,640</u>
Tax at PRC Enterprise Income Tax rate at 25%	6,082	8,562	18,959	5,073	11,660
Tax effect of expenses not deductible for tax purpose	1,013	1,957	–	135	–
Tax effect of income not taxable for tax purpose	<u>–</u>	<u>–</u>	<u>(1,475)</u>	<u>–</u>	<u>(2,914)</u>
Income tax expense	<u>7,095</u>	<u>10,519</u>	<u>17,484</u>	<u>5,208</u>	<u>8,746</u>

13. Dividends

The directors of the Target Company do not recommend the payment of any dividend in respect of the Relevant Periods.

14. Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Furnitures and office equipment <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2013	99,827	3,340	5,192	702	109,061
Additions	<u>51,260</u>	<u>9,491</u>	<u>140</u>	<u>–</u>	<u>60,891</u>
At 31 December 2013 and 1 January 2014	151,087	12,831	5,332	702	169,952
Additions	377	112	–	–	489
Disposals	<u>–</u>	<u>(14)</u>	<u>–</u>	<u>–</u>	<u>(14)</u>
At 31 December 2014 and 1 January 2015	151,464	12,929	5,332	702	170,427
Additions	1,858	273	–	–	2,131
Disposals	<u>–</u>	<u>(405)</u>	<u>–</u>	<u>(53)</u>	<u>(458)</u>
At 31 December 2015 and 1 January 2016	153,322	12,797	5,332	649	172,100
Additions	–	3	–	274	277
Disposals	<u>–</u>	<u>(110)</u>	<u>–</u>	<u>–</u>	<u>(110)</u>
At 30 June 2016	<u>153,322</u>	<u>12,690</u>	<u>5,332</u>	<u>923</u>	<u>172,267</u>
Accumulated depreciation:					
At 1 January 2013	23,454	935	2,929	535	27,853
Provided for the year	<u>13,012</u>	<u>1,348</u>	<u>504</u>	<u>83</u>	<u>14,947</u>
At 31 December 2013 and 1 January 2014	36,466	2,283	3,433	618	42,800
Provided for the year	13,011	2,371	512	79	15,973
Eliminated on disposals	<u>–</u>	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>

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	Leasehold improvements RMB'000	Furnitures and office equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015	49,477	4,653	3,945	697	58,772
Provided for the year	13,096	2,348	418	–	15,862
Eliminated on disposals	–	(378)	–	(80)	(458)
At 31 December 2015 and 1 January 2016	62,573	6,623	4,363	617	74,176
Provided for the period	6,458	1,135	176	14	7,783
Eliminated on disposals	–	(23)	–	–	(23)
At 30 June 2016	69,031	7,735	4,539	631	81,936
Net book value:					
At 30 June 2016	<u>84,291</u>	<u>4,955</u>	<u>793</u>	<u>292</u>	<u>90,331</u>
At 31 December 2015	<u>90,749</u>	<u>6,174</u>	<u>969</u>	<u>32</u>	<u>97,924</u>
At 31 December 2014	<u>101,987</u>	<u>8,276</u>	<u>1,387</u>	<u>5</u>	<u>111,655</u>
At 31 December 2013	<u>114,621</u>	<u>10,548</u>	<u>1,899</u>	<u>84</u>	<u>127,152</u>

15. Available-for-sale financial assets

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets comprise:				
Unlisted equity securities in the PRC	<u>2,500</u>	<u>–</u>	<u>–</u>	<u>–</u>
Analysed for reporting purposes as:				
Non-current assets	<u>2,500</u>	<u>–</u>	<u>–</u>	<u>–</u>

Unlisted equity securities represented the securities issued by a private entity incorporated in the PRC. The private entity is principally engaged in mortgage and pledge pawn business in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Target Company are of the opinion that their fair value cannot be measured reliably. During the year ended 31 December 2014, the unlisted equity securities was disposed to an independent third party at a consideration of RMB2,500,000.

16. Trade and other receivables

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	528	11,309	12,665
Prepayments	2,562	2,455	488	726
Deposits and other receivables	<u>22,153</u>	<u>24,923</u>	<u>28,369</u>	<u>29,363</u>
	<u>24,715</u>	<u>27,906</u>	<u>40,166</u>	<u>42,754</u>

The following is an ageing analysis of trade receivables presented based on the invoice dates.

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Current or less than 1 month	–	528	166	11,929
1 to 3 months	–	–	–	234
More than 3 months but less than 12 months	–	–	10,785	–
More than 12 months	<u>–</u>	<u>–</u>	<u>358</u>	<u>502</u>
	<u>–</u>	<u>528</u>	<u>11,309</u>	<u>12,665</u>

The Target Group grants an average credit period of 30 days to its customers.

Trade receivables disclosed above include amounts (see below for ageing analysis) which are past due at the end of the Relevant Periods for which the Target Group has not recognised for an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue by:				
31-60 days	–	–	–	234
Over 61 days	–	–	11,143	502
	<u>–</u>	<u>–</u>	<u>11,143</u>	<u>736</u>
	<u>–</u>	<u>–</u>	<u>11,143</u>	<u>736</u>

17. Amount due from the ultimate holding company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
深圳市梓盛發實業集團有限公司	<u>126,716</u>	<u>490,663</u>	<u>499,264</u>	<u>457,447</u>
Maximum outstanding balances during the year/period	<u>126,716</u>	<u>490,663</u>	<u>499,264</u>	<u>499,264</u>

Amount due from the ultimate holding company is unsecured, interest-free and recoverable on demand.

18. Amounts due from fellow subsidiaries

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
深圳市華美嘉酒店管理有限公司	–	–	8,757	8,736
深圳市粵信創意文化有限公司	–	–	3,941	4,241
	<u>–</u>	<u>–</u>	<u>12,698</u>	<u>12,977</u>
Maximum outstanding balances during the year/period				
深圳市華美嘉酒店管理有限公司	–	–	8,757	8,757
深圳市粵信創意文化有限公司	–	–	3,941	4,241
	<u>–</u>	<u>–</u>	<u>12,698</u>	<u>12,998</u>

Amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

19. Pledged bank deposits/cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and bank balances.

Bank balances comprise bank balances that bear interest at prevailing market rates from 0.30% to 1.75% per annum for the Relevant Periods and have original maturity of three months or less. Conversion of Renminbi (“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.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Target Group and fellow subsidiaries of the Target Group. As at 31 December 2014, certain pledged bank deposits of approximately RMB7,000,000 were secured for bank borrowings of a subsidiary of the ultimate holdings company of the Target Group which is not within the Target Group and Mr. Li Yinfa, a director of the Target Company (“Mr. Li”) has equity interests in. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

20. Trade and other payables

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	1,275	1,345	1,616	1,545
Receipt in advance	31,350	26,917	36,169	24,058
Accruals and other payables	<u>132,250</u>	<u>142,741</u>	<u>144,489</u>	<u>131,392</u>
	<u>164,875</u>	<u>171,003</u>	<u>182,274</u>	<u>156,995</u>

The Target Group normally settled trade payables within 30 days credit term. The following is an ageing analysis of trade payables presented based on the invoice dates.

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current or less than 1 month	425	237	126	245
1 to 3 months	360	426	645	1,064
More than 3 months but less than 12 months	18	4	304	–
More than 12 months	<u>472</u>	<u>678</u>	<u>541</u>	<u>236</u>
	<u>1,275</u>	<u>1,345</u>	<u>1,616</u>	<u>1,545</u>

21. Amounts due to fellow subsidiaries

Amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand.

22. Borrowings

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	<u>127,000</u>	<u>522,099</u>	<u>336,364</u>	<u>290,950</u>
The carrying amounts of the above borrowings are repayable:				
Within one year	127,000	235,099	83,500	68,950
Within a period of more than one year but not exceeding two years	–	–	252,864	222,000
Within a period of more than two years but not exceeding five years	<u>–</u>	<u>287,000</u>	<u>–</u>	<u>–</u>
	127,000	522,099	336,364	290,950
The carrying amounts of bank loans that are not repayable within one year from the end of the reporting period but contains a repayment on demand clause (shown under current liabilities)	<u>–</u>	<u>(287,000)</u>	<u>(252,864)</u>	<u>(222,000)</u>
	127,000	235,099	83,500	68,950
Less: Amounts due within one year shown under current liabilities	<u>(127,000)</u>	<u>(235,099)</u>	<u>(83,500)</u>	<u>(68,950)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

As at 31 December 2013, the borrowings of the Target Group were secured by corporate guarantee executed by a subsidiary of the ultimate holding company of the Target Group which is not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li, the director of the Target Company has equity interests, the charges over properties held by Mr. Li and personal guarantee provided by Mr. Li, interest-bearing ranged from 6.93% to 7.8% and repayable in September 2014 and October 2014.

As at 31 December 2014, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li Yanyun (“Ms. Li”), (collectively “Mr. Li and Ms. Li”) and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company and certain bank deposits of approximately RMB108,000,000, interest-bearing ranged from 6.7% to 10.7% and repayable in October 2015 and October 2017.

As at 31 December 2015, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB2,960,000, interest-bearing ranged from 6.7% to 10.7% and repayable in July 2016, December 2016 and October 2017.

As at 30 June 2016, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB2,390,000, interest-bearing ranged from 6.7% to 10.7% and repayable in December 2016, January 2017 and October 2017.

23. Share capital

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Registered capital	13,000	40,800	40,800	40,800

24. Reserves

Capital reserve

The capital reserve represents capital contribution from a shareholder.

Statutory reserve

As stipulated by the relevant PRC laws and regulations, the Target Company and the subsidiary of the Target Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except when the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

25. Material related party transactions

Save as disclosed elsewhere in the Financial Information, during the Relevant Periods, the Target Group had entered into the following material related party transactions:

(a) Transactions with related parties during the Relevant Periods

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Property rental income received from the ultimate holding company	<u>–</u>	<u>2,560</u>	<u>4,484</u>	<u>4,484</u>	<u>2,104</u>
Property management fee income from the ultimate holding company	<u>–</u>	<u>405</u>	<u>157</u>	<u>78</u>	<u>–</u>
Management fee income from the ultimate holding company	<u>–</u>	<u>–</u>	<u>10,554</u>	<u>–</u>	<u>–</u>
Reimbursement of interest expenses from the ultimate holding company	<u>8,731</u>	<u>7,092</u>	<u>20,199</u>	<u>11,579</u>	<u>7,143</u>

- (b) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Company provided financial guarantees to certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and its ultimate holding company in aggregate amount of approximately RMB1,070,000,000, RMB1,270,000,000, RMB1,750,000,000 and RMB1,750,000,000 in respect of the banking facilities granted by the banks to certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and its ultimate holding company.
- (c) As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li.

Compensation of key management personnel

During the Relevant Periods, no compensation of any kind was paid to the Target Company's directors and other members of key management personnel.

26. Operating leases***The Target Group as lessee***

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Minimum lease payments paid under operating leases during the Relevant Periods	<u>27,462</u>	<u>37,424</u>	<u>40,873</u>	<u>19,701</u>	<u>21,315</u>

At the end of the reporting period, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within one year	37,440	40,858	43,135	43,963
In the second to fifth years inclusive	174,918	181,579	187,388	167,132
Over five years	<u>276,691</u>	<u>229,172</u>	<u>180,228</u>	<u>155,022</u>
	<u>489,049</u>	<u>451,609</u>	<u>410,751</u>	<u>366,117</u>

Operating lease payments represents rental payable by the Target Group for its property, plant and equipment held for sub-lease purposes. Leases are negotiated for an average term of 10 years.

The Target Group as lessor

Property rental income earned during the years ended 31 December 2013, 31 December 2014, 31 December 2015 and for the six months ended 30 June 2016 were approximately RMB82,218,000, RMB96,986,000, RMB109,590,000 and RMB60,441,000 respectively.

At the end of the Relevant Periods, the Target Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	120,145	139,979	118,233	86,189
In the second to fifth years inclusive	352,893	227,299	119,339	87,205
After five years	<u>30,437</u>	<u>16,052</u>	<u>5,779</u>	<u>3,865</u>
	<u>503,475</u>	<u>383,330</u>	<u>243,351</u>	<u>177,259</u>

27. Capital risk management

The Target Group manages its capital to ensure that the entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior years.

The capital structure of the Target Group consists of net debts (which includes borrowings as disclosed in note 22), net of cash and cash equivalents and pledged bank deposits and equity attributable to the owners of the Target Company, comprising share capital and reserves.

The Target Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the end of the Relevant Periods was as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Debt (note (a))	127,000	522,099	336,364	290,950
Cash and bank balances (note (b))	<u>(33,416)</u>	<u>(140,755)</u>	<u>(5,573)</u>	<u>(4,937)</u>
Net debt	<u>93,584</u>	<u>381,344</u>	<u>330,791</u>	<u>286,013</u>
Equity (note (c))	<u>(57,624)</u>	<u>(6,096)</u>	<u>52,256</u>	<u>90,150</u>
Net debt to equity ratio	<u>Undefined</u>	<u>Undefined</u>	<u>633%</u>	<u>317%</u>

Notes:

- (a) Debt comprises borrowings as detailed in note 22.
- (b) Cash and bank balances comprise pledged bank deposits and cash and cash equivalents.
- (c) Equity includes all capital and reserves attributable to the owners of the Target Company.

28. Financial instruments

(a) Categories of financial instruments

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents and pledged bank deposits)	182,285	656,869	557,213	517,389
Available-for-sale financial assets	<u>2,500</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial liabilities				
Amortised cost	302,025	706,795	522,469	463,887
Financial guarantee contracts	<u>33,733</u>	<u>42,044</u>	<u>35,614</u>	<u>24,656</u>

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include available-for-sale financial assets, trade and other receivables, amount due from the ultimate holding company, amounts due from fellow subsidiaries, pledged bank deposits, cash and cash equivalents, trade and other payables, amounts due to fellow subsidiaries, financial guarantee contracts and borrowings. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors those exposures to ensure appropriate measures are implemented on a timely and effective manner.

(1) Market risk

(i) Interest rate risk

The Target Group's interest rate risk arises primarily from bank borrowings which are at floating rates which expose the Target Group to cash flow interest rate risk. The Target Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The following tables detail the interest rate profile of the Target Group's net borrowings at the end of reporting period:

	As at 31 December 2013		As at 31 December 2014	
	Effective interest rate		Effective interest rate	
	%	RMB'000	%	RMB'000
Net variable rate borrowings				
Floating rate bank borrowings	(Note)	127,000	(Note)	262,000
Floating rate bank balances	(Note)	—	(Note)	—
		<u>127,000</u>		<u>262,000</u>
	As at 31 December 2015		As at 30 June 2016	
	Effective interest rate		Effective interest rate	
	%	RMB'000	%	RMB'000
Net variable rate borrowings				
Floating rate bank borrowings	(Note)	291,864	(Note)	246,450
Floating rate bank balances	(Note)	—	(Note)	—
		<u>291,864</u>		<u>246,450</u>

Note:

Details of the Target Group's bank balances and bank borrowings are set out in notes 19 and 22 to the Financial Information respectively.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Group's post-tax profit for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and for the six months ended 30 June 2016 would decrease/increase by approximately RMB953,000, RMB1,965,000, RMB2,189,000 and RMB1,848,000 respectively. Retained profits will decrease/increase by the same amount.

(ii) Foreign exchange risk

The Target Group mainly operates in the PRC with most of the transactions denominated and settled in Renminbi. Most of Target Group's monetary assets and liabilities are also denominated in Renminbi. Therefore, the Target Group has no significant currency risk exposure.

(2) Credit risk

As at the end of the Relevant Periods, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Target Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Target Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid fund which are deposited with several banks with high credit ratings, the Target Group does not have any other significant concentration of credit risk.

(3) Liquidity risk

In the management of liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Target Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group has available bank loan facilities of approximately RMB127,000,000, RMB522,099,000, RMB336,364,000 and RMB290,950,000 respectively. Details of which are set out in note 22.

The following tables detail the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

APPENDIX II

FINANCIAL INFORMATION OF THE TARGET GROUP

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted- average effective interest rate %	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Total Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2013							
Trade and other payables	-	-	133,525	-	-	133,525	133,525
Amounts due to fellow subsidiaries	-	41,500	-	-	-	41,500	41,500
Borrowings	9.45	133,815	-	-	-	133,815	127,000
		<u>175,315</u>	<u>133,525</u>	<u>-</u>	<u>-</u>	<u>308,840</u>	<u>308,840</u>
Financial guarantees issued: Maximum amount guaranteed (note)		<u>1,070,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,070,000</u>	<u>33,733</u>
As at 31 December 2014							
Trade and other payables	-	-	144,086	-	-	144,086	144,086
Amounts due to fellow subsidiaries	-	40,610	-	-	-	40,610	40,610
Borrowings	7.04	580,005	-	-	-	580,005	522,099
		<u>620,615</u>	<u>144,086</u>	<u>-</u>	<u>-</u>	<u>764,701</u>	<u>764,701</u>
Financial guarantees issued: Maximum amount guaranteed (note)	-	<u>1,270,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,270,000</u>	<u>42,044</u>
As at 31 December 2015							
Trade and other payables	-	-	146,105	-	-	146,105	146,105
Amounts due to fellow subsidiaries	-	40,000	-	-	-	40,000	40,000
Borrowings	6.88	372,462	-	-	-	372,462	336,364
		<u>412,462</u>	<u>146,105</u>	<u>-</u>	<u>-</u>	<u>558,567</u>	<u>558,567</u>
Financial guarantees issued: Maximum amount guaranteed (note)	-	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,000</u>	<u>35,614</u>
As at 30 June 2016							
Trade and other payables	-	-	132,937	-	-	132,937	132,937
Amounts due to fellow subsidiaries	-	40,000	-	-	-	40,000	40,000
Borrowings	6.92	312,441	-	-	-	312,441	290,950
		<u>352,441</u>	<u>132,937</u>	<u>-</u>	<u>-</u>	<u>485,378</u>	<u>485,378</u>
Financial guarantees issued: Maximum amount guaranteed (note)	-	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,000</u>	<u>24,656</u>

Note:

The amounts included above for financial guarantee contracts are the maximum amounts the Target Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Target Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Bank loans with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis. As at 31 December 2014, 31 December 2015 and 30 June 2016, the aggregate undiscounted principal amounts of these bank loans amounted to RMB287,000,000, RMB252,864,000 and RMB222,000,000 respectively. Taking into account the Target Group’s financial position, the directors of the Target Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors of the Target Company believe that such bank loans will be repaid 2 years after the end of the reporting period in accordance with the schedule repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows, will amount to approximately RMB243,042,000.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial guarantee contracts is determined using option pricing models where the main parameters are the estimation of market value of the underlying properties pledged, the amount of principal of the loan facility, the volatility, the remaining life of the loan and the risk-free rate.
- (ii) the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable as at 31 December 2013, 2014, 2015 and 30 June 2016:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Target Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period. There were no transfers between Levels 1 and 2 for the relevant periods.

29. Financial Guarantee Contracts

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group has executed financial guarantees to certain banks for credit facilities granted to certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li Yinfu, a director of the Target Company has equity interests, amounting to approximately RMB1,070,000,000, RMB1,270,000,000, RMB1,750,000,000 and RMB1,750,000,000 respectively. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the fair values of financial guarantee contracts were amounted to approximately RMB33,733,000, RMB42,044,000, RMB35,614,000 and RMB24,656,000 respectively.

30. Subsequent financial statements

No audited financial statements have been prepared by the Target Company and its subsidiary in respect of any period subsequent to 30 June 2016.

Yours faithfully,

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and six months ended 30 June 2016. The following financial information are based on the financial information of the Target Group set out in Appendix II to this circular.

Business Review

The primary business of the Target Group is the operation and management of the Shenzhen CC Park, which is located at the junction of South Xinzhou Road and Fuqiang Road in the Futian District of Shenzhen. Shenzhen CC Park is the first project in the cultural creative industry of Shenzhen, and created for the idea of “Implementing industrial replacement and adjusting industrial structure, to achieve industrial advancement”* (實施產業置換，調整產業結構，實現產業升級)，which won key support from the Shenzhen Municipal People’s Government. According to the approved land-use plans of Shenzhen, the Shenzhen CC Park is planned for type 2 residential and ancillary functions and cultural facilities function. Shenzhen CC Park covers a total site area of approximately 60,000 sq.m. with a gross floor area of nearly 180,000 sq.m., and is the largest integrated cultural industry cluster in the central area of Shenzhen. The park comprises two phases, being Phase I and Phase II of an aggregate floor area of 98,000 square metres and 74,000 sq.m. (including underground car park areas), respectively.

Financial Review**Revenue**

The Target Group derived its revenue from gross rental income and property management fee income. Gross rental income represents revenue generated from the lease of properties and carpark spaces in Shenzhen CC Park. Property management fee income represents revenue generated from property management services provided in relation to leased properties and carpark spaces.

For the year ended 31 December 2013, the Target Group recorded revenue of approximately RMB110.6 million, which comprised of gross rental income of approximately RMB84.3 million and property management fee income of approximately RMB26.3 million.

For the year ended 31 December 2014, the Target Group recorded revenue of approximately RMB127.6 million, which comprised of gross rental income of approximately RMB99.6 million and property management fee income of approximately RMB28.0 million, representing an increase of approximately 15.4% as compared with that for the preceding year. The increase in revenue was mainly due to the increase in rent-out rating and increase of rental price per square metre due to inflation rate in the PRC.

* for identification purpose only

For the year ended 31 December 2015, the Target Group recorded revenue of approximately RMB137.6 million, which comprised of gross rental income of approximately RMB113.4 million and property management fee income of approximately RMB24.2 million, representing an increase of approximately 7.8% as compared with that for the preceding year. The increase in revenue was mainly due to the increase in rent-out rating and increase of rental price per square metre due to inflation rate in the PRC.

For the six months ended 30 June 2016, the Target Group recorded revenue of approximately RMB74.2 million, which comprised of gross rental income of approximately RMB62.7 million and property management fee income of approximately RMB11.5 million, representing an increase of approximately 23.1% as compared with that for same period of the preceding year. The increase in revenue was mainly due to the increase in rent-out rating and increase of rental price per square metre due to inflation rate in the PRC.

Other Income

The other income mainly represented reimbursement of interest expenses from the ultimate holding company of the Target Group, management fee income from ultimate holding company of Target Group, government grants from municipal governments and bank interest income. The reimbursement of interest expenses from the ultimate holding company of the Target Group represented interest income receivable from the ultimate holding company of the Target Group due to the unified borrowing and repayment arrangement (統借統還). The management fee income from the ultimate holding company of the Target Group represented one-off service fee income receivable in respect of provision of platform for unified borrowing and repayment arrangement.

For the years ended 31 December 2013, the other income of the Target Group amounted to approximately RMB10.7 million.

For the year ended 31 December 2014, the other income of the Target Group amounted to approximately RMB12.3 million, representing an increase of approximately 14.1% as compared with that for the preceding year. The increase in other income was mainly due to the increase in bank borrowings under unified borrowing and repayment arrangement and thus the reimbursement of interest expenses from the ultimate holding company of the Target Group increased.

For the year ended 31 December 2015, the other income of the Target Group amounted to approximately RMB42.7 million, representing an increase of approximately 248.7% as compared with that for the preceding year. The increase in other income was mainly due to the one-off service fee income recognised in respect of provision of platform for unified borrowing and repayment arrangement of approximately RMB10.6 million and gain on fair value changes in financial guarantee contracts of approximately RMB6.4 million.

For the six months ended 30 June 2016, the other income of the Target Group amounted to approximately RMB19.2 million, representing an increase of approximately 45.8% as compared with that for the same period of the preceding year. The increase in other income was mainly due to the gain on fair value changes in financial guarantee contracts of approximately RMB11.0 million recognised in the Financial Information.

Administrative and other operating expenses

Administrative and other operating expenses comprise of the following items:

- (i) Cost of subleasing business primarily consists of costs relating to property leasing and property management services, which consist of costs relating directly to such business activities, such as effective rental expense to PRC government arising from lease of Shenzhen CC Park from the PRC government, depreciation charges in respect of refurbishment of properties for leasing purpose and direct operating expenses such as utility expenses and sales tax. Total amount of effective rental expense in respect of leasing of Shenzhen CC Park and depreciation charges in respect of refurbishment of properties is relatively constant across the relevant periods and contributed to approximately 80% total cost of subleasing business.
- (ii) Operating expenses comprise the direct costs relating to property leasing and property management services. Direct costs arising from rental-earning properties primarily include the repair and maintenance costs for rental-earning properties, as well as fees and costs associated with the management of rental-earning properties and staff costs associated with property management activities. Such direct costs are recognized when such costs are incurred.
- (iii) Administrative expenses comprise primarily costs arising from the administration departments, such as utility charges, administrative staff costs, transportation and entertainment expenses, general office expenses, legal and professional expenses, depreciation charges and other taxes.

For the years ended 31 December 2013, the administrative and other operating expenses of the Target Group amounted to approximately RMB88.2 million.

For the year ended 31 December 2014, the administrative and other operating expenses of the Target Group amounted to approximately RMB95.1 million, representing an increase of approximately 7.83% as compared with that for the preceding year. The increase in administrative and other operating expenses was mainly due to loss on fair value changes in financial guarantee contracts of approximately RMB8.3 million recognised in the Financial Information.

For the year ended 31 December 2015, the administrative and other operating expenses of the Target Group amounted to approximately RMB81.9 million, representing a decrease of approximately 13.9% as compared with that for the preceding year. The decrease in the administrative and other operating expenses was mainly due to the effective cost controls on utilities consumption and streamline of property management service team and thus the cost associated with property management service decreased.

For the six months ended 30 June 2016, the administrative and other operating expenses of the Target Group amounted to approximately RMB39.6 million, representing a decrease of approximately 5.1% as compared with that for the same period of the preceding year. The decrease in the administrative and other operating expenses was mainly due to the effective cost controls on utilities consumption and streamline of property management service team and thus the cost associated with property management service decreased.

Profits from Operations

The profits from operation for the years ended 31 December 2013, 31 December 2014, 31 December 2015 and six months ended 30 June 2016 was approximately RMB33.1 million, RMB44.7 million, RMB98.4 million and RMB53.8 million, respectively. The increase in profits from operation across the relevant periods was primarily due to combining effect of the decrease in administrative and other operating expenses and the increase in revenue.

Finance Costs

Finance costs comprise primarily interest expenses on bank borrowings. The finance costs for the years ended 31 December 2013, 31 December 2014, 31 December 2015 and six months ended 30 June 2016 was approximately RMB8.7 million, RMB10.4 million, RMB22.5 million and RMB7.1 million, respectively. The fluctuation of interest finance costs was in line with bank borrowings drawdown. The significant increase for year ended 31 December 2015 was mainly due to significant bank borrowings made during the year ended 31 December 2014.

Net Profit

The Target Group recorded a net profit of approximately RMB17.2 million for the year ended 31 December 2013.

For the year ended 31 December 2014, the Target Group recorded a net profit of approximately RMB\$23.7 million, representing an increase of approximately 37.7% as compared with that for the preceding year. The increase was mainly due to increase in revenue and effective cost control.

For the year ended 31 December 2015, the Target Group recorded a net profit of approximately RMB58.4 million, representing an increase of approximately 145.9% as compared with that for the preceding year. The increase was mainly due to increase in revenue and other income.

For the six months ended 30 June 2016, the Target Group recorded a net profit of approximately RMB37.9 million representing an increase of approximately 151.2% as compared with that of the preceding year. The increase was mainly due to increase in revenue and other income.

Segmental Information

The Target Group is principally engaged in the business of the operation and management of the Shenzhen CC Park. During the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended 30 June 2016, no separate analysis of reportable segment profit before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

Cash Flows***Operating activities***

For the year ended 31 December 2013, the Target Group recorded profit before income tax of approximately RMB24.3 million and operating profit before changes in working capital of approximately RMB49.0 million. The net cash inflow from operating activities of approximately RMB190.3 million for the year was mainly attributable to realisation of trade and other receivables as well as amount due from ultimate holding company of the Target Group.

For the year ended 31 December 2014, the Target Group recorded profit before income tax of approximately RMB34.2 million and operating profit before changes in working capital of approximately RMB65.1 million. The net cash outflow from operating activities of approximately RMB321.4 million for the year was mainly attributable to increase in amount due from ultimate holding company of the Target Group.

For the year ended 31 December 2015, the Target Group recorded profit before income tax of approximately RMB75.8 million and operating profit before changes in working capital of approximately RMB103.3 million. The net cash inflow from operating activities of approximately RMB48.2 million for the year was mainly attributable to internal generated funds outweighed by tax payable, increase in trade and other receivables and decrease in amounts due to fellow subsidiaries of the Target Group.

For the six months ended 30 June 2016, the Target Group recorded profit before income tax of approximately RMB46.6 million and operating profit before changes in working capital of approximately RMB50.6 million. The net cash inflow from operating activities of approximately RMB45.0 million for the period was mainly attributable to internal generated funds.

Investing activities

The net cash used in investing activities was arising from purchases of property, plant and equipment and placement of pledged bank deposits.

For the year ended 31 December 2013, net cash used in investing activities was approximately RMB60.8 million.

For the year ended 31 December 2014, net cash used in investing activities was approximately RMB109.1 million, representing an increase of approximately 79.4% as compared with that for the preceding year. The increase was mainly due to increase in pledged bank deposits in respect of security for bank borrowings of the Target Group and a subsidiary of the ultimate holding company of the Target Group which is not within the Target Group.

For the year ended 31 December 2015, net cash generated from investing activities was approximately RMB114.4 million. The increase was mainly due to release of pledged bank deposits upon release of certain bank borrowings.

For the six months ended 30 June 2016, net cash generated from investing activities was approximately RMB0.4 million. The increase was mainly due to release of pledged bank deposits upon release of certain bank borrowings.

Financing activities

The net cash generated from financing activities mainly attributable to the bank borrowings drawdown on behalf of the ultimate holding company of the Target Group for resource allocation purpose.

For the year ended 31 December 2013, net cash used in financing activities was approximately RMB99.5 million.

For the year ended 31 December 2014, net cash generated from financing activities was approximately RMB422.9 million. The increase was mainly due to drawdown of certain bank borrowings according to unified borrowing and repayment arrangement of the Target Group.

For the year ended 31 December 2015, net cash used in financing activities was approximately RMB185.7 million. The decrease was mainly due to repayment of certain bank borrowings.

For the six months ended 30 June 2016, net cash used in financing activities was approximately RMB45.4 million. The decrease was mainly due to repayment of certain bank borrowings.

Financial position of the Target Group

As at 31 December 2013

As at 31 December 2013, total consolidated assets of the Target Group amounted to approximately RMB314.5 million which was mainly made up of (i) property, plant and equipment amounting to approximately RMB127.2 million; (ii) trade and other receivables amounting to approximately RMB24.7 million; (iii) bank balances and cash (including pledged bank deposits) amounting to approximately RMB33.4 million; and (iv) amount due from ultimate holding company of the Target Group amounting to approximately RMB126.7 million.

Total consolidated liabilities of the Target Group amounted to approximately RMB372.1 million which was mainly made up of (i) trade and other payables amounting to approximately RMB164.9 million; (ii) amounts due to fellow subsidiaries of the Target Group amounting to approximately RMB41.5 million; (iii) borrowings amounting to approximately RMB127.0 million; and (iv) financial guarantee contracts amounting to approximately RMB33.7 million. The consolidated net liabilities of the Target Group attributable to the owners of the Target Company amounted to approximately RMB57.6 million.

As at 31 December 2014

As at 31 December 2014, total consolidated assets of the Target Group amounted to approximately RMB771.0 million which was mainly made up of (i) property, plant and equipment amounting to approximately RMB111.7 million; (ii) trade and other receivables amounting to approximately RMB27.9 million; (iii) bank balances and cash (including pledged bank deposits) amounting to approximately RMB140.8 million; and (iv) amount due from ultimate holding company of the Target Group amounting to approximately RMB490.7 million. The increase in total consolidated assets of the Target Group as at 31 December 2014 as compared to that of the preceding year was mainly resulted from an increase in amount due from ultimate holding company of the Target Group arising from bank borrowings drawdown on behalf.

Total consolidated liabilities of the Target Group amounted to approximately RMB777.1 million which was mainly made up of (i) trade and other payables amounting to approximately RMB171.0 million; (ii) amounts due to fellow subsidiaries of the Target Group amounting to approximately RMB40.6 million; (iii) borrowings amounting to approximately RMB522.1 million; and (iv) financial guarantee contracts amounting to approximately RMB42.0 million. The increase in consolidated liabilities of the Target Group as at 31 December 2014 as compared to that of the preceding year was mainly resulted from drawdown of bank borrowings. Such an increase was mainly resulted from the additional financing required on behalf of the ultimate holding company. The consolidated net liabilities of the Target Group attributable to the owners of the Target Company amounted to approximately RMB6.1 million. The decrease in the consolidated net liabilities was mainly resulted from the net profit attributable to the owners of the Target Company for the year ended 31 December 2014 amounting to approximately RMB23.7 million and increase in total assets.

As at 31 December 2015

As at 31 December 2015, total consolidated assets of the Target Group amounted to approximately RMB655.6 million which was mainly made up of (i) property, plant and equipment amounting to approximately RMB97.9 million; (ii) trade and other receivables amounting to approximately RMB40.2 million; (iii) bank balances and cash (including pledged bank deposits) amounting to approximately RMB5.6 million; and (iv) amounts due from ultimate holding company of the Target Group and fellow subsidiaries of the Target Group amounting to approximately RMB512.0 million. The decrease in total consolidated assets of the Target Group as at 31 December 2015 as compared to that of the preceding year was mainly resulted from a decrease in pledged bank deposits due to repayment of certain bank borrowings.

Total consolidated liabilities of the Target Group amounted to approximately RMB603.4 million which was mainly made up of (i) trade and other payables amounting to approximately RMB182.3 million; (ii) amounts due to fellow subsidiaries of the Target Group amounting to approximately RMB40.0 million; (iii) borrowings amounting to approximately RMB336.4 million; and (iv) financial guarantee contracts amounting to approximately RMB35.6 million. The decrease in consolidated liabilities of the Target Group as at 31 December 2015 as compared to that of the preceding year was mainly resulted from repayment of certain bank borrowings. The consolidated net assets of the Target Group attributable to the owners of the Target Company amounted to approximately RMB52.3 million. The change from the consolidated net liabilities to the consolidated net assets was mainly resulted from the net profit attributable to the owners of the Target Company for the year ended 31 December 2015 amounting to approximately RMB58.4 million.

As at 30 June 2016

As at 30 June 2016, total consolidated assets of the Target Group amounted to approximately RMB608.4 million which was mainly made up of (i) property, plant and equipment amounting to approximately RMB90.3 million; (ii) trade and other receivables amounting to approximately RMB42.8 million; (iii) bank balances and cash (including pledged bank deposits) amounting to approximately RMB4.9 million; and (iv) amounts due from ultimate holding company of the Target Group and fellow subsidiaries of the Target Group amounting to approximately RMB470.4 million. The decrease in total consolidated assets of the Target Group as at 30 June 2016 as compared to that of the preceding year was mainly resulted from a decrease in amount due from ultimate holding company of the Target Group arising from repayment of certain bank borrowings.

Total consolidated liabilities of the Target Group amounted to approximately RMB518.3 million which was mainly made up of (i) trade and other payables amounting to approximately RMB157.0 million; (ii) amounts due to fellow subsidiaries of the Target Group amounting to approximately RMB40.0 million; (iii) borrowings amounting to approximately RMB291.0 million; and (iv) financial guarantee contracts amounting to approximately RMB24.7 million. The decrease in consolidated liabilities of the Target Group as at 30 June 2016 as compared to that of the preceding year was mainly resulted from repayment of certain bank borrowings. The consolidated net assets of the Target Group attributable to the owners of the Target Company amounted to approximately RMB90.2 million. The increase was mainly resulted from the net profit attributable to the owners of the Target Company for the six months ended 30 June 2016 amounting to approximately RMB37.9 million.

Capital Structure and borrowings

The capital of the Target Company comprises only ordinary shares. Total equity attributable to owners of the Target Company amounted to approximately RMB57.6 million in deficit, RMB6.1 million in deficit, RMB52.3 million in surplus and RMB90.2 million in surplus as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 respectively.

As at 31 December 2013, the borrowings of the Target Group were secured by corporate guarantee executed by a subsidiary of the ultimate holding company of the Target Group which is not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties held by Mr. Li and personal guarantee provided by Mr. Li, interest-bearing ranged from 6.93% to 7.8% and repayable in September 2014 and October 2014.

As at 31 December 2014, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company and certain bank deposits of approximately RMB108.0 million, interest-bearing ranged from 6.7% to 10.7% and repayable in October 2015 and October 2017.

As at 31 December 2015, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB3.0 million, interest-bearing ranged from 6.7% to 10.7% and repayable in July 2016, December 2016 and October 2017.

As at 30 June 2016, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB2.4 million, interest-bearing ranged from 6.7% to 10.7% and repayable in December 2016, January 2017 and October 2017.

Liquidity and Financial Resources

During the years ended 31 December 2013, 31 December 2014, 31 December 2015 and six months ended 30 June 2016, the Target Group generally financed its operations through internally generated cash flows and drawdown of bank loans.

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group had net current liabilities of approximately RMB187.3 million (including cash balance of approximately RMB33.4 million), RMB117.8 million (including cash balance of approximately RMB140.8 million), RMB45.7 million (including cash balance of approximately RMB5.6 million) and approximately RMB0.2 million (including cash balance of approximately RMB4.9 million) respectively. The current ratio, being the ratio of current assets to current liabilities, was approximately 0.50, 0.85, 0.92 and 1.00 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 respectively. The increase in current ratio was mainly due to internally generated cash inflows and repayment of bank borrowings.

Gearing Ratio

The gearing ratio of the Target Group is based on the amount of total borrowing divided by total assets. The gearing ratios of the Target Group were 40.38%, 67.72%, 51.30% and 47.82% as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 respectively. The increase in gearing ratio from year 2013 to year 2014 was mainly due to increase in total bank borrowings according to unified borrowing and repayment arrangement. The decrease in gearing ratio from year 2015 onwards was mainly due to repayment of bank borrowings.

Foreign Currency Exposure

The transactions of the Target Group were mainly denominated in Renminbi. Therefore, the exposure of the Target Group to foreign currency fluctuation was minimal.

Charges on Assets

As at 31 December 2013, the borrowings of the Target Group were secured by corporate guarantee executed by a subsidiary of the ultimate holding company of the Target Group which is not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties held by Mr. Li and personal guarantee provided by Mr. Li, interest-bearing ranged from 6.93% to 7.8% and repayable in September 2014 and October 2014.

As at 31 December 2014, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company and certain bank deposits of approximately RMB108.0 million, interest-bearing ranged from 6.7% to 10.7% and repayable in October 2015 and October 2017. As at 31 December 2014, certain bank deposits of approximately RMB7.0 million were secured for the bank borrowings of a subsidiary of the ultimate holding company of the Target Group which is not within the Target Group and Mr. Li has equity interests in.

As at 31 December 2015, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB3.0 million, interest-bearing ranged from 6.7% to 10.7% and repayable in July 2016, December 2016 and October 2017.

As at 30 June 2016, the borrowings of the Target Group were secured by corporate guarantee executed by certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, the charges over properties jointly held by Mr. Li and Ms. Li and personal guarantee provided by Mr. Li and Ms. Li, the charges over trade receivables of the Target Company, certain bank deposits of approximately RMB2.4 million, interest-bearing ranged from 6.7% to 10.7% and repayable in December 2016, January 2017 and October 2017.

Contingent Liabilities

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group has executed financial guarantees to certain banks for credit facilities granted to certain subsidiaries of the ultimate holding company of the Target Group which are not within the Target Group and the ultimate holding company of the Target Group, the companies in which Mr. Li has equity interests, amounting to approximately RMB1,070.0 million, RMB1,270.0 million, RMB1,750.0 million and RMB1,750.0 million respectively. Save as aforesaid, the Target Group did not have any material contingent liabilities.

Information on Employees

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group had 88, 113, 90 and 97 full-time staff in the PRC. Total staff costs (including Directors' remuneration) for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and six months ended 30 June 2016 amounted to approximately RMB5.5 million, RMB7.1 million, RMB6.8 million and RMB3.2 million respectively. The Target Group did not adopt any share option. The remuneration, promotion and salary increments of employees were assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

Significant Investment, Material Acquisitions and Disposals

As at 1 January 2013, the Target Group held a 25% equity interest in a private entity incorporated in the PRC which is principally engaged in mortgage and pledge pawn business in the PRC. During the year ended 31 December 2014, the Target Group has disposed of 25% equity interest of this private entity.

Save as disclosed above, no significant investments, material acquisitions and disposals have been made by the Target Group during the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and six months ended 30 June 2016.

Future Plan for Material Investments and Capital Assets

No material investments plan has been made by the Target Group during the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and six months ended 30 June 2016. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Target Group did not have any future plans on material investments and capital assets.

Prospects

The primary business of the Target Group is the operation and management of the Shenzhen CC Park, which is located at the junction of South Xinzhou Road and Fuqiang Road in the Futian District of Shenzhen. The Target Group derived its revenue from gross rental income and property management fee income, all of which are net of tax and surcharges.

As one of business strategies of the Target Group, the Target Group planned to further penetrate the existing areas where the Target Group operates and expands the Target Group's business into other cities in the PRC with high growth potential. As such, the Target Group aimed to replicate our successful business model in the existing markets to the new regional markets. The Target Group would continue to leverage on the market knowledge, experience and resources so as to achieve the synergistic effects in terms of operation effectiveness and branding.

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 October 2016

The Board of Directors
CNC Holdings Limited
Suites 2708 – 2710, 27/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
HONG KONG

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN AN INVESTMENT CIRCULAR**

TO THE BOARD OF DIRECTORS OF CNC HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of CNC Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2016, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2016, the unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2016 (the “Unaudited Pro Forma Financial Information”), and related notes as set out in Appendix III of the circular issued by the Company (the “Circular”). The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the very substantial acquisition and connected transaction in relation to the proposed acquisition of 100% equity interest in Shenzhen City Culture Creative Park* 深圳市世紀文化創意有限公司 (the “Acquisition”) on the Group’s financial position as at 31 March 2016 and the Group’s financial performance and cash flows for the year ended 31 March 2016 as if the Acquisition had taken place at 31 March 2016 and 1 April 2015 respectively. As part of this process, information about the Group’s financial position, financial performance and cash flows has been extracted by the directors of the Company from the Group’s financial statements for the year ended 31 March 2016, on which an audit report has been published.

DIRECTORS’ RESPONSIBILITIES FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7, “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

* for identification purpose only

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 March 2016 or 1 April 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong

**(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED
GROUP**

The following is an illustrative and unaudited pro forma financial information as at 31 March 2016 of CNC Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) and Shenzhen City Century Culture Creative Limited 深圳市世紀文化創意有限公司 (the “Target Company”) and its subsidiaries (together referred to as the “Target Group”) (hereinafter collectively referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Financial Information”), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed very substantial acquisition and connected transaction in relation to the proposed acquisition of 100% interest in the Target Company (hereinafter collectively referred to as the “Acquisition”), as if it had taken place on 31 March 2016. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with paragraph 7.31 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), on the basis which is consistent with the accounting policies and presentation format of the Group.

The Unaudited Pro Forma Financial Information are prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2016 as set out in the Group’s corresponding annual report, the audited consolidated statement of financial position of the Target Group as at 30 June 2016 as set out in the Accountants Report as set out in Appendix II of the circular; the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2016 as set out in the Group’s corresponding annual report, the audited consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2015 as set out in Appendix II of the circular; the audited consolidated statement of cash flows of the Group for the year ended 31 March 2016 as set out in the Group’s corresponding annual report, the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 as set out in Appendix II of the circular, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained has the Acquisition been completed on 31 March 2016 or 1 April 2015, nor purport to predict the Enlarged Group’s future financial position of operations.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 March 2016, the Accountants Report of the Target Group for the year ended 31 December 2015 and other financial information included elsewhere in the Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL INFORMATION ON THE ENLARGED GROUP

	Audited consolidated statement of financial position of the Group as at 31 March 2016 HK\$'000 (Note 1)	Audited consolidated statement of financial position of the Target Group as at 30 June 2016 HK\$'000 (Note 2)	HK\$'000 (Note 4)	Pro-forma adjustments		HK\$'000 (Note 5)	HK\$'000 (Note 6)	HK\$'000 (Note 12)	Unaudited consolidated statement of financial position of the Enlarged Group as at 31 March 2016 HK\$'000
Non-current assets									
Property, plant and equipment	40,662	108,623	–						149,285
Goodwill	–	–	280,440						280,440
Intangible assets	99,310	–	262,145						361,455
	<u>139,972</u>	<u>108,623</u>							<u>791,180</u>
Current assets									
Film rights	–	–							–
Inventories	27,134	–							27,134
Trade and other receivables	116,890	51,412				167,718			336,020
Amount due from the ultimate holding company	–	550,081				(550,081)			–
Amounts due from fellow subsidiaries	–	15,605				(15,605)			–
Tax recoverable	1,123	–							1,123
Financial assets at fair value through profit or loss	6,344	–							6,344
Pledged bank deposits	–	2,874							2,874
Cash and cash equivalents	<u>127,377</u>	<u>3,063</u>							<u>130,440</u>
	<u>278,868</u>	<u>623,035</u>							<u>503,935</u>
Total assets	<u>418,840</u>	<u>731,658</u>							<u>1,295,115</u>
Current liabilities									
Trade and other payables	106,951	188,787	60,000	(1,472)				3,579	357,845
Amounts due to fellow subsidiaries	–	48,100				(48,100)			–
Finance lease payables	5,249	–							5,249
Borrowings	–	349,868				(349,868)			–
Financial guarantee contracts	–	29,649	(29,649)			–			–
Employee benefits	3,354	–							3,354
Current tax liabilities	<u>15,278</u>	<u>6,848</u>							<u>22,126</u>
	<u>130,832</u>	<u>623,252</u>							<u>388,574</u>
Net current assets/(liabilities)	<u>148,036</u>	<u>(217)</u>							<u>115,361</u>
Total assets less current liabilities	<u>288,008</u>	<u>108,406</u>							<u>906,541</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Audited consolidated statement of financial position of the Group as at 31 March 2016 HK\$'000 (Note 1)	Audited consolidated statement of financial position of the Target Group as at 30 June 2016 HK\$'000 (Note 2)	HK\$'000 (Note 4)	Pro-forma adjustments		HK\$'000 (Note 12)	Unaudited consolidated statement of financial position of the Enlarged Group as at 31 March 2016 HK\$'000
				HK\$'000 (Note 5)	HK\$'000 (Note 6)		
Non-current liabilities							
Finance lease payables	4,197	–					4,197
Promissory notes	40,995	–	70,604				111,599
Convertible notes	211,482	–		(131,099)			80,383
Deferred tax liabilities	26,703	–	65,536	(4,577)			87,662
	<u>283,377</u>	<u>–</u>					<u>283,841</u>
Total liabilities	<u>414,209</u>	<u>623,252</u>					<u>672,415</u>
Net assets	<u>4,631</u>	<u>108,406</u>					<u>622,700</u>
Capital and Reserves							
Share capital	4,055	49,062	(49,062) 1,900	816			6,771
Reserves	576	59,344	(59,344) 482,600	131,755 4,577		(3,579)	615,929
Total equity	<u>4,631</u>	<u>108,406</u>					<u>622,700</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2016 HK\$'000 (Note 7)	Audited consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2015 HK\$'000 (Note 8)	HK\$'000 (Note 6)	HK\$'000 (Note 9)	Pro-forma adjustments		HK\$'000 (Note 10)	HK\$'000 (Note 11)	HK\$'000 (Note 12)	HK\$'000 (Note 13)	Unaudited consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 March 2016 HK\$'000
Revenue	370,939	167,665									538,604
Costs of services	(302,288)	-									(302,288)
Gross profit	68,651	167,665									236,316
Other income	906	52,086	(7,838)						(24,621)		20,533
Other gains and losses	1,950	-									1,950
Amortisation expenses	(23,598)	-		(35,434)							(59,032)
Selling and distribution expenses	(97)	-									(97)
Administrative and other operating expenses	(34,992)	(99,865)								(3,579)	(138,436)
Change in fair value of financial assets at fair value through profit or loss	(5,773)	-									(5,773)
Profit from operations	7,047	119,886									55,461
Finance costs	(34,276)	(27,448)			(22,151)		19,763		24,621		(39,491)
Impairment loss on intangible assets	(19,751)	-									(19,751)
Impairment loss on trade receivables	(2,238)	-									(2,238)
(Loss)/profit before income tax	(49,218)	92,438									(6,019)
Income tax	2,775	(21,312)		8,859			(2,561)				(12,239)
(Loss)/profit for the year	(46,443)	71,126									(18,258)
Other comprehensive loss											
Items that may be reclassified subsequently to profit or loss											
Exchange difference on translating foreign operations	(1,388)	(958)									(2,346)
Other comprehensive loss for the year, net of tax	(1,388)	(958)									(2,346)
Total comprehensive (loss)/income for the year	(47,831)	70,168									(20,604)
(Loss)/profit for the year attributable to the owners of the Company	(46,443)	71,126									(18,258)
Total comprehensive (loss)/income for the year attributable to the owners of the Company	(47,831)	70,168									(20,604)
(Loss)/earnings per share attributable to the owners of the Company											
- Basic and diluted (HK cents)	(1.18)	N/A									(0.46)

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	Audited consolidated statement of cash flows of the Group for the year ended 31 March 2016	Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015			Pro-forma adjustments				Unaudited consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2016
	HK\$'000 (Note 14)	HK\$'000 (Note 15)	HK\$'000 (Note 6)	HK\$'000 (Note 9)	HK\$'000 (Note 10)	HK\$'000 (Note 11)	HK\$'000 (Note 12)	HK\$'000 (Note 13)	HK\$'000
Cash flows from operating activities									
(Loss)/profit before income tax	(49,218)	92,438	(7,838)	(35,434)	(22,151)	19,763		(3,579)	(6,019)
Adjustments for:									
Amortisation expenses	23,598	-		35,434					59,032
Depreciation of property, plant and equipment	17,746	19,334							37,080
Net gains on disposal of property, plant and equipment	(793)	-							(793)
Finance costs	34,276	27,448			22,151	(19,763)	(24,621)		39,491
Waiver of interests on convertible notes	(400)	-							(400)
Changes in fair value of financial assets at fair value through profit or loss	5,773	-							5,773
Impairment loss on intangible assets	19,751	-							19,751
Impairment loss on trade receivables	2,238	-							2,238
Interest income	(315)	(5,491)							(5,806)
Dividend income	(142)	-							(142)
Decrease in fair value of financial guarantee contracts	-	(7,838)	7,838						-
Exchange gain, net	(1,157)	-							(1,157)
Operating cash flows before movements in working capital	51,357	125,891							149,048
Increase in inventories	(3,799)	-							(3,799)
Increase in trade and other receivables	(33,006)	(14,943)							(47,949)
Increase in amount due from the ultimate holding company	-	(10,484)					24,621		14,137
(Increase)/decrease in amounts due from fellow subsidiaries	-	(15,478)							(15,478)
Increase in trade and other payables	12,560	13,737						3,579	29,876
Decrease in amount due to a fellow subsidiary	-	(744)							(744)
Increase in employee benefits	785	-							785
Cash generated from operations	27,897	97,979							125,876
Income tax paid	(2,261)	(11,806)							(14,067)
Net cash generated from operating activities	25,636	86,173							111,809
Cash flows from investing activities									
Proceeds from disposal of property, plant and equipment	2,680	-							2,680
Purchase of property, plant and equipment	(14,025)	(2,598)							(16,623)
Deposit refund for acquisition of a subsidiary	1,000	-							1,000
Additions of film rights	(1,578)	-							(1,578)
Decrease in pledged bank deposits	-	136,568							136,568
Interest received	315	5,491							5,806
Dividend received	142	-							142
Net cash (used in)/generated from investing activities	(11,466)	139,461							127,995

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Audited consolidated statement of cash flows of the Group for the year ended 31 March 2016 HK\$'000 (Note 14)	Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 HK\$'000 (Note 15)	HK\$'000 (Note 9)	Pro-forma adjustments		HK\$'000 (Note 13)	Unaudited consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2016 HK\$'000
				HK\$'000 (Note 10)	HK\$'000 (Note 11)		
Cash flows from financing activities							
Proceeds from issue of shares pursuant to placing	65,000	-					65,000
Transaction costs attributable to issue of ordinary shares pursuant to placing	(1,655)	-					(1,655)
New bank loans raised	-	117,869					117,869
Repayment of bank loans	-	(344,265)					(344,265)
Finance lease charges paid	(355)	-					(355)
Repayment of finance lease payables	(5,642)	-					(5,642)
Interest paid	(98)	(27,448)					(27,546)
Net cash generated from/(used in) financing activities	57,250	(253,844)					(196,594)
Net increase/(decrease) in cash and cash equivalents	71,420	(28,210)					43,210
Cash and cash equivalents at the beginning of the year	56,188	32,601					88,789
Effect of foreign exchange rate changes	(231)	(1,249)					(1,480)
Cash and cash equivalents at the end of the year	127,377	3,142					130,519
Analysis of the balances of cash and cash equivalents:							
Being:							
Cash and cash equivalents	127,377	3,142					130,519

Notes:

- (1) The amounts were extracted from the audited consolidated statement of financial position of the Group as at 31 March 2016 as set out in the Company's annual report published on 29 June 2016.
- (2) The amounts were derived from the consolidated financial information of the Target Group as set out in Appendix II to this circular. The consolidated financial information of Target Group were presented in Renminbi ("RMB"). For the purpose of preparation of the Unaudited Pro Forma Financial Information, the presentation currency of the Target Group is changed from RMB to Hong Kong dollars ("HK\$"). The consolidated statement of financial position as at 30 June 2016 presented in RMB are translated into HKD at the exchange rate of approximately HK\$1 to RMB0.8316. Also, the values of the consolidated financial information are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

- (3) Pursuant to the sale and purchase agreement dated 2 February 2016 (the “Sale and Purchase Agreement”) entered into among Mr. Li Yinfa, Ms. Li Yanyun (the “Vendors”) and Succeed Capital Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, in relation to the the sale and purchase of an aggregate 100% equity interest in Shenzhen City Century Culture Creative Limited* 深圳市世紀文化創意有限公司 for a total consideration of HK\$600,000,000.

For the purpose of preparation of the Unaudited Pro Forma Financial Information, as if the Acquisition had been completed on 31 March 2016, the consideration is determined as follows:

HK\$'000

Consideration:

– Fair value of promissory note (<i>Note (3)(a)</i>)	70,604
– Fair value of 1,900,000,000 consideration shares (<i>Note (3)(b)</i>)	484,500
– Contingent consideration payable (<i>Note 3(c)</i>)	60,000
	<u>615,104</u>

- (a) The fair value assessment of the promissory note was performed by Stirling Appraisals Limited, an independent professional valuer, using discounted cash flow method. As at 31 March 2016, the estimated fair value of the promissory note is approximately HK\$70,604,000.

The fair value of the promissory note shall be reassessed on the completion date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the acquisition.

- (b) It represents the allotment and issuance of a total of 1,900,000,000 new shares of the Company of HK\$0.001 each, at HK0.20 per share, which was determined after arm’s length negotiations between the Company and the Vendors, with reference to the prevailing trading price of the shares during the period of negotiations. In preparing the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the consideration shares as at 31 March 2016 amounted to approximately HK\$484,500,000 and is recognised in equity as share capital and share premium amounting to approximately HK\$1,900,000 and HK\$482,600,000 respectively. The balance of share capital is equal to number of shares to be allot and issue of 1,900,000,000 times the par value of HK\$0.001, whereas the remaining balance is classified as share premium.
- (c) It represents profit guarantee retained consideration of HK\$60,000,000 which will be payable by the Purchaser to the Vendors after Completion and after and subject to the determination of the net Profit for the year ending 31 December 2016. Upon the occurrence of a shortfall of profit guarantee (i.e. net profit of RMB50.0 million), the Purchaser may reduce the portion or the whole of the profit guarantee retained consideration. The contingent consideration will be settled by cash.

- (4) The identifiable assets and liabilities of the Target Group acquired by the Company will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) “Business Combinations” (“HKFRS 3”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

* for identification purpose only

APPENDIX III

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

For the purpose of the Unaudited Pro Forma Financial Information, the allocation of the purchase price is determined based on the directors' estimates of the fair values of the identifiable assets and liabilities of the Target Group as at 30 June 2016. The consideration of the Acquisition is assumed to be the fair value as if the Acquisition had been completed on 31 March 2016. The Unaudited Pro Forma Financial Information is for illustrative purpose only and the actual outcome may be different upon completion of the Acquisition.

Subject to the completion of the acquisition, the Target Group will become a wholly-owned subsidiary of the Company. The recognition of pro forma goodwill arising on the acquisition of the Target Group as if the acquisition had been completed on 31 March 2016 is as follows:

	<i>HK\$'000</i>
Net assets of the Target Group as at 30 June 2016	108,406
Add: Fair value adjustment on intangible assets (<i>Note 4(b)</i>)	262,145
Add: Release of financial guarantee contracts prior to Completion (<i>Note 4(c)</i>)	29,649
Less: Fair value adjustment on deferred tax liabilities (<i>Note 4(d)</i>)	<u>(65,536)</u>
Fair value of identifiable net assets of the Target Group	<u><u>334,664</u></u>
	<i>HK\$'000</i>
Consideration (<i>Note 3</i>)	615,104
Less: Fair value of identifiable net assets of the Target Group	<u>(334,664)</u>
Goodwill arising from the acquisition (<i>Note 4(g)</i>)	<u><u>280,440</u></u>

- (a) The fair value of property, plant and equipment of the Target Group as at 30 June 2016 are determined by the directors of the Company based on the valuation carried out by Stirling Appraisals Limited. Pursuant to the valuation performed by Stirling Appraisals Limited, the fair value of property, plant and equipment of the Target Group as at 30 June 2016, which mainly comprised leasehold improvements and furnitures and office equipment, is approximate to the carrying amount of property, plant and equipment of the Target Group as at 30 June 2016.

The fair value of the property, plant and equipment of the Target Group shall be reassessed on the completion date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the acquisition.

- (b) The Target Group recognised the Subleasing Right as an operating lease in the financial statements of the Target Group.

Pursuant to HKFRS 3 Business Combinations Paragraph B29, the acquirer shall determine whether the terms of each operating lease in which the acquirer is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to the market terms. Therefore, the intangible assets (i.e. the Subleasing Right) are assumed to be acquired on 31 March 2016 (date of completion of acquisition) and the intangible assets was recognised on completion of acquisition of the Target Group. Accordingly, a fair value adjustment has been included in the unaudited pro-forma financial statements.

The fair value of intangible assets recognised as at 31 March 2016 are determined by the directors of the Company based on the valuation carried out by Stirling Appraisals Limited. Pursuant to the valuation performed by Stirling Appraisals Limited, the fair value of intangible assets (i.e. the Subleasing Right) of the Target Group as at 31 March 2016 is approximately RMB218,000,000 (equivalent to approximately HK\$262,145,000). Accordingly, a pro forma adjustment of approximately HK\$262,145,000 has been made.

The fair value of the intangible assets of the Target Group shall be reassessed on the completion date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the acquisition.

- (c) According to the Sale and Purchase Agreement, the financial guarantee contracts of approximately HK\$29,649,000 will be released prior to the Completion of Acquisition.
- (d) The deferred tax liabilities of the Target Group were increased by approximately HK\$65,536,000 in respect of the temporary difference arising from recognition of intangible assets at the income tax rate of 25% prevailing in the PRC.
- (e) The pro forma adjustment of approximately HK\$59,344,000 represents the net effect of elimination of pre-acquisition reserves of the Target Group as if the Acquisition was completed on 31 March 2016.
- (f) The adjustments represent the allotment and issuance of a total of 1,900,000,000 new shares of the Company of HK\$0.001 each, at HK\$0.2 per share, which was determined after arm's length negotiations between the Company and the Vendors, with reference to the prevailing trading price of the shares during the period of negotiations. In preparation of the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the consideration shares as at 31 March 2016 amounted to approximately HK\$484,500,000 and is recognised in equity as share capital and share premium amounting to approximately HK\$1,900,000 and HK\$482,600,000 respectively.
- (g) For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the directors of the Company performed an impairment test on goodwill in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" as at 31 March 2016.

The directors of the Company consider that no impairment is required in respect of the goodwill taking into account the business potential of the Target Group. After the completion of the acquisition, the Group will perform an annual impairment test on goodwill in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets".

- (5) The pro forma adjustment represents the issue of ordinary shares pursuant to conversion of convertible notes of principal amount of HK\$160,000,000 into 816,326,530 shares by China Xinhua News Network Co. Limited ("China Xinhua NNC"), the convertible notes holder of the Company simultaneously upon completion of the Acquisition so that China Xinhua NNC will remain as the single largest shareholder immediately upon issue and allotment of the consideration shares at Completion. For details, please refer to the Company's announcement dated 20 July 2016 and page 25 of the circular.

The corresponding deferred tax liabilities of approximately HK\$4,577,000 and interest payable of approximately HK\$1,472,000 were reduced upon conversion of convertible notes.

- (6) According to the Sale and Purchase Agreement, any loan, guarantee, pledge or other similar obligations provided by any member of the Target Group to any non-member of the Target Group will be discharged upon Completion. The fair value of financial guarantee contracts of approximately HK\$29,649,000 will be released. The borrowings of the Target Group of approximately HK\$349,868,000 would be settled by netting off the amounts due from/(to) the ultimate holding company and fellow subsidiaries of the Target Group. The net amounts of amounts due from/(to) the ultimate holding company of the Target Group and fellow subsidiaries of the Target Group of approximately HK\$167,718,000 would be reallocated to trade and other receivables if the Acquisition was completed on 31 March 2016.

The pro forma adjustment of approximately HK\$7,838,000 represents reversal of fair value changes on financial guarantee contracts as if the Acquisition was completed on 1 April 2015.

- (7) The amounts were extracted from the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2016 as set out in the Company's annual report published on 29 June 2016.
- (8) The amounts were derived from the consolidated financial information of the Target Group as set out in Appendix II to this circular. The consolidated financial information of Target Group were presented in Renminbi ("RMB"). For the purpose of preparation of the unaudited pro forma financial information, the presentation currency of the Target Group is changed from RMB to Hong Kong dollars ("HK\$"). The consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 presented in RMB are translated into HKD at the exchange rate of approximately HKD1 to RMB0.8204. Also, the values of the consolidated financial information are rounded to the nearest thousand (HK\$'000) except otherwise indicated.
- (9) The pro forma adjustment represents the annual amortisation charge recognised for the intangible asset and the deferred tax credited in the consolidated statement of profit or loss and other comprehensive income of the Enlarged Group. For the purpose of preparing the unaudited pro forma financial information, the estimated useful life of the intangible assets (i.e. the Subleasing Right) are assumed to be 6 years and 10 years respectively. This amortisation charge will have the continuing effect on the financial statements of the Enlarged Group in subsequent years.
- (10) The pro forma adjustment represents the effective interest expense recognised for the promissory note in the consolidated statement of profit or loss and other comprehensive income of the Enlarged Group with the imputed interest rates of 31.374% for the year ended 31 March 2016. These interest expense will have the continuing effect on the financial statements of the Enlarged Group in subsequent years.
- (11) The pro forma adjustment represents the reduction of effective interest expense of convertible notes of approximately HK\$19,763,000 and reversal of deferred tax credit of approximately HK\$2,561,000 recognised in the consolidated statement of profit or loss and other comprehensive income of the Enlarged Group in conjunction with the conversion of convertible notes by China Xinhua NNC, the convertible notes holder of the Company simultaneously upon completion of the Acquisition.
- (12) The pro-forma adjustment represents the reduction of reimbursement of interest expenses from the ultimate holding company and the savings on finance costs on completion of acquisition.
- (13) The adjustment represents the amount payable of approximately HK\$3,579,000 to reflect the estimated legal and professional fee incurred for the acquisition.
- (14) The amounts were extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 March 2016 as set out in the Company's annual report published on 29 June 2016.

- (15) The amounts were derived from the consolidated financial information of the Target Group as set out in Appendix II to this circular. The consolidated financial information of Target Group were presented in Renminbi (“RMB”). For the purpose of preparation of the unaudited pro forma financial information, the presentation currency of the Target Group is changed from RMB to Hong Kong dollars (“HK\$”). The consolidated statement of cash flows for the year ended 31 December 2015 presented in RMB are translated into HKD at the exchange rate of approximately HKD1 to RMB0.8204. Also, the values of the consolidated financial information are rounded to the nearest thousand (HK\$’000) except otherwise indicated.
- (16) No adjustment has been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 March 2016.

(A) LETTER FROM THE REPORTING ACCOUNTANT

The following is the text of a letter, prepared for the purpose of incorporation in this circular, from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 October 2016

The Board of Directors
CNC Holdings Limited
Suites 2708 – 2710, 27/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
HONG KONG

**INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED
FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS
VALUATION OF 100% EQUITY INTEREST IN SHENZHEN CITY CENTURY
CULTURE CREATIVE LIMITED AND ITS SUBSIDIARY AS AT 30 JUNE 2016**

TO THE BOARD OF DIRECTORS OF CNC HOLDINGS LIMITED

Dear Sirs,

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the discounted estimated future cash flows of Shenzhen City Century Culture Creative Limited* 深圳市世紀文化創意有限公司 (the “Target Company”) and its subsidiary (hereinafter collectively referred to as the “Target Group”) on which the valuation prepared by Stirling Appraisals Limited Limited dated 28 October 2016 in respect of 100% equity interest in the Target Company as at 30 June 2016 (the “Valuation”) is based. The Valuation, based on the Underlying Forecast, is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and will be included in a circular to be issued by CNC Holdings Limited (the “Company”) dated 28 October 2016 (the “Circular”).

* For identification purpose only

DIRECTORS' RESPONSIBILITY FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors as set out in Appendix V to the Circular (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report our conclusion to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the GEM Listing Rules, and for no other purpose. We do not assume responsibility forwards or accept liability to any other person for the content of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of 100% equity interests in Shenzhen City Century Culture Creative Limited.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

OPINION

In our opinion, the discounted future estimated cash flows, so far as the calculations is concerned, has been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong

(B) LETTER FROM THE BOARD

The following is the text of a letter, prepared for the purpose of incorporation in this circular, issued by the Board.

28 October 2016

The Stock Exchange of Hong Kong Limited,
11th Floor, One International Finance Centre,
1 Harbour View Street,
Central, Hong Kong

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION**

We refer to the valuation report dated 28 October 2016 containing the valuation of the market value of the 100% equity interest in Shenzhen City Century Culture Creative Limited* (深圳市世紀文化創意有限公司), a company established in the People's Republic of China, by Stirling Appraisals Limited (the “**Valuer**”) as at 30 June 2016 (the “**Valuation**”).

We have considered the letter from HLB Hodgson Impey Cheng Limited dated 28 October 2016 addressed to the board of directors of the Company regarding whether the Valuation was compiled properly so far as the arithmetical accuracy of the calculations are concerned.

We understand that in accordance with Rule 19.61 of the Rules Governing the Listing Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), the discounted cash flow basis adopted by the Valuer has rendered the Valuation a profit forecast (“**Profit Forecast**”) under the GEM Listing Rules.

We hereby confirm that the Profit Forecast has been made after due and careful enquiry.

By Order of the Board
CNC Holdings Limited
Zou Chen Dong
Vice-chairman and Chief Executive Officer

* for identification purpose only

The following is the text of a report prepared for the purpose of incorporation in this circular received from Stirling Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2016 of the market value of the 100% equity interest in the Target Company.



28 October 2016

The Directors
CNC Holdings Limited
Suites 2708-2710,
27/F, Dah Sing Financial Centre,
108 Gloucester Road,
Wanchai,
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from CNC Holdings Limited (referred to as the “Company”) for us to provide our opinion on the market value of the 100% equity interest in Shenzhen City Century Culture Creative Limited (深圳市世紀文化創意有限公司, referred to as the “Target Company”) as at 30 June 2016.

This report presents the basis of valuation, the background of the Target Company, an industry overview, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

BASIS OF VALUATION

Our valuation has been carried out on the basis of market value. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

BACKGROUND OF THE TARGET COMPANY

The Target Company is a company established in the People's Republic of China (referred to as the "PRC") with an initial registered capital of RMB6,000,000 and a registered capital of RMB40,800,000 as at 2 February 2016. It was indirectly held by Mr. Li Yinfa (李吟發先生) and Ms. Li Yanyun (李燕雲女士)(collectively referred to as the "Vendors") who are merchants in the PRC.

Business

The primary business of the Target Company together with Shenzhen Zishengfa Property Services Company Limited (深圳市梓盛發物業服務有限公司), a wholly-owned subsidiary of the Target Company (collectively referred to as the "Target Group"), is the operation and management of the Shenzhen City Culture Creative Park (深圳市文化創意園, referred to as "Shenzhen CC Park"), which is located at the junction of South Xinzhou Road (南新洲路) and Fuqiang Road (福強路) in the Futian District (福田區) of Shenzhen. Shenzhen CC Park is the first project in the cultural creative industry of Shenzhen, and created for the idea of "implementing industrial replacement and adjusting industrial structure, to achieve industrial advancement" (實施產業置換, 調整產業結構, 實現產業升級), which won key support from the Shenzhen Municipal People's Government. According to the approved land-use plans of Shenzhen, Shenzhen CC Park is planned for type 2 residential and ancillary functions and cultural facilities function. Shenzhen CC Park covers a total site area of approximately 60,000 square metres, with a gross floor area of nearly 180,000 square metres, and is the largest integrated cultural industry cluster in the central area of Shenzhen. The park comprises two phases, being Phase I and Phase II of an aggregate floor area of 98,000 square metres and 74,000 square metres (including underground car park areas), respectively.

The Target Group operates and manages the Shenzhen CC Park for rental income as well as management fee. As advised by the Vendors and the Target Group, the principal business of the Target Group includes:

- providing value-added services to its clients, including sales and marketing, and supports on daily operation and management and customer services;
- organising promotional activities to stimulate consumption in the park from time to time;
- providing designated show rooms and exhibition areas for its clients to present their companies, cultural concept and products;
- providing supports in relation to intellectual property issues to its clients; and
- assisting, where appropriate and required, to introduce capital investment institutions to its clients via company presentation, management discussions and site visits.

According to the Target Company, it has applied and successfully enrolled Shenzhen CC Park as one of the venues designated for the China (Shenzhen) International Cultural Industries Fair (中國(深圳)國際文化產業博覽交易會). The Company understands from the Vendors and the Target Company that the fair is the only international and comprehensive cultural industry fair at the national level and is jointly organised by the PRC Ministry of Culture, the PRC Ministry of Commerce, the National Film and Television broadcast, the PRC Press and Publication Administration, China Council for the Promotion of International Trade, Guangdong Provincial People's Government and the Shenzhen Municipal People's Government. It is also the only comprehensive cultural industry fair in the PRC that has obtained the Union of International Fairs certification and was included in the nation's Cultural Development Plan during the "Eleventh Five-Year" as one of the key fairs to support.

The land on which this park is located has been leased to the Target Group by the Government Property Management Centre of Futian District, Shenzhen City (深圳市福田區政府物業管理中心) for a term of up to 18 years. The terms for the lease agreements are up to 31 December 2022 for Phase I, and 23 February 2026 for Phase II, respectively. Pursuant to the lease agreements, the aggregate rent per month for Phase I and Phase II is approximately RMB2,215,000 and RMB1,438,000, respectively.

Financial Information

Set out below is the financial information of the Target Group based on the audited financial statements for the year ended 31 December 2014 and 31 December 2015, as well as the six months ended 30 June 2016.

	For the Year Ended 31 December 2014 (RMB'000)	For the Year Ended 31 December 2015 (RMB'000)	For the Six Months Ended 30 June 2016 (RMB'000)
Revenue	127,582	137,552	74,151
Profits Before Tax	34,247	75,836	46,640
Net Profits	23,728	58,352	37,894

	As at 31 December 2014 (RMB'000)	As at 31 December 2015 (RMB'000)	As at 30 June 2016 (RMB'000)
Total Assets	770,979	655,625	608,446
Total Liabilities	777,075	603,369	518,296
Net (Liabilities)/Assets	(6,096)	52,256	90,150

Sale and Purchase Agreement

On 2 February 2016, Succeed Capital Limited (referred to as the “Purchaser”), being a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement (referred to as the “Agreement”) with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to procure the sale of the Target Shares for a total consideration of HK\$600,000,000. Upon completion of the acquisition, the Purchaser will hold 100% of the equity interest in the Target Company and the Target Company will become a wholly-owned subsidiary of the Company.

Pursuant to the terms of the Agreement, the consideration of the acquisition is HK\$600,000,000 which will be partly settled on completion of the acquisition by:

- (i) the issue of the promissory notes in the principal amount of of HK\$160,000,000 by the Purchaser upon the completion of the acquisition; and
- (ii) the issue and allotment of 1,900,000,000 consideration shares by the Company upon the completion of the acquisition.

The payment of HK\$60,000,000 in cash (subject to adjustment, if any) (referred to as the “Profit Guarantee Retained Consideration”) will be made after the completion of the acquisition and subject to the determination of the audited consolidated net profits of the Target Group for the year ending 31 December 2016.

Moreover, pursuant to the Agreement, the Vendors irrevocably guarantee to the Purchaser that each of the audited consolidated net profits (excluding any income or loss generated by activities outside the ordinary and usual course of the business) of the Target Group for the year ending 31 December 2016 (referred to as the “2016 Net Profit”), 31 December 2017 and 31 December 2018 shall not be less than RMB50,000,000, except for reason due to occurrence of force majeure events, such as natural disaster, war etc. (the acceptance of such exception is at the sole discretion of the Purchaser), and agree to indemnify the Purchaser jointly and severally of any shortfall between RMB50,000,000 and the audited consolidated net profits of the Target Group for each of the year ending 31 December 2016 (referred to as the “2016 Net Profit Shortfall”), 31 December 2017 and 31 December 2018.

According to the Agreement, the Profit Guarantee Retained Consideration will not be paid to Vendors upon the completion of the acquisition pending determination of whether the 2016 Net Profit will be met. Upon the occurrence of a 2016 Net Profit Shortfall, the Purchaser may reduce the portion or the whole of the Profit Guarantee Retained Consideration.

INDUSTRY OVERVIEW

Cultural and Creative Industries

In recent years, the cultural and creative industries are becoming important to the global economy. According to the report “Cultural times: the first global map of cultural and creative industries” published by Ernst & Young, the cultural and creative industries generated revenue of US\$2,250 billion globally in 2013, exceeding that generated by the telecom service industry. The cultural and creative industries also employed 29 million people worldwide, equivalent to about 1% of the world’s active population.

With the evolving of mobile phones, people increasingly expect to assess cultural content anywhere at any time. This boosts the demand of smarter devices and faster network. In turn, the development of the consumer electronics stimulates the innovation of the new form of cultural content, forming a positive cycle among the industries. In 2013, the cultural and creative industries contributed US\$200 billion revenue to the digital economy.

The Asia-Pacific region is the largest market of the cultural and creative industries in the world. It generated US\$743 billion revenue in 2013, representing 33% of the global revenue; and hired 13 million people, equivalent to 43% of the whole industries worldwide. Compared to other regions, the Asia-Pacific region has the largest consumer base for the cultural and creative industries. Many leading companies are Asia-Pacific based companies. For an example, Tencent (騰訊), a PRC based company which is specialized in gaming and instant messaging, generated US\$20 billion revenue in 2013.

The PRC is one of the popular emerging markets for many companies in the cultural and creative industries due to its strong growth and long-term potential. Recent years’ rising prosperity and literacy in the PRC spurs the growth of its cultural and creative industries.

In the recent decade, the PRC has been at the cutting edge of the digital hardware revolution, giving it a significant competitive advantage in the cultural and creative industries. The PRC has more than 500 million internet users with 145 million online consumers, which is the world’s second-largest online consumer population. The PRC has created its own digital world with successful social platforms spurred by proactive government intervention. For examples, Youku (優酷) dominates the video uploads, RenRen (人人) heads the social networking and Weibo (微博) leads the micro-blogging. In particular, Youku and Tudou (土豆), the two biggest video platforms in the PRC, have 900 million users worldwide and have significant influence over the Chinese internet advertising market, which has surged from US\$3 billion in 2009 to US\$13 billion in 2013.

The cultural and creative industries are the increasing focus of the PRC government. In 2009, the PRC State Council emphasised the importance of developing the cultural and creative industries in the “Outline of the State 11th Five-Year Plan for Culture Development”(國家“十一·五”時期文化發展規劃綱要). In the same year, the PRC State Council also promulgated the “Cultural Industry Promotion Plan”(文化產業振興規劃) to support the development of the cultural and creative industries in the PRC. In 2014, the PRC Ministry of Culture, the PRC Ministry of Finance, and the People’s Bank of China jointly issued the “Opinion on Further Advancing the Integration of Culture and Finance”(關於深入推進文化金融合作的意見), providing a framework to support the cultural and creative industries through finance sector.

Shenzhen, as a special economic zone at forefront of the PRC development, claimed that its cultural and creative industries have grown annually by 25% and that in 2010 they had an added value of RMB72.6 billion in the “Development Plan for Cultural Creative Industry in Shenzhen (2011-2015)” (深圳文化創意產業振興規劃 (2011-2015年)). It also stated the share of cultural and creative industries in Shenzhen’s GDP rose from 4.6% to 7.6% from 2004 to 2010. It aimed to further increase the share of cultural and creative industries in Shenzhen’s GDP to 14.5% by 2015.

Office Rental in Shenzhen

Shenzhen is a coastal city near Hong Kong, Zhuhai and Macau. Because of the favourable geographical conditions, the opening of the Free Trade Zone and Houhai (後海) enterprise headquarters, Shenzhen is expected to attract huge number of companies looking for office space in the Pearl River Delta. Also, during the first half of 2016, the tertiary industry of Shenzhen grew by 9.5% on a year-on-year basis. This supports the demand for Shenzhen’s office space.

According to the “Shenzhen Property Market 2015 Review and 2016 Outlook” published by Colliers International, Shenzhen’s Grade A office property market received 10 new projects in 2015, with a combined office gross floor area of around 565,000 square meters, representing 5.1 times of the total volume of new supply in 2014. Of which, 9 new completions were located in Nanshan District (南山區), accounting for more than 90% of the total new supply. As a result, the vacancy rate in Nanshan District increased to 25.8% by the end of 2015. On the other hand, the vacancy rate in Futian District decreased to 5.1%. The average vacancy rate in Shenzhen was increased to 11.2% by the end of 2015.

The Shenzhen office rental market was active in 2015. Local firms, especially in the information technology, finance and service sectors, dominated the demand of the office rental market in Shenzhen.

By the end of 2015, the average Grade A office rent grew by 6.9% year-on-year to RMB215 per square meter per month. It was mainly due to the strong demand together with the annual rental adjustments of several mature projects. The largest rental increase was seen in Futian District, representing an increase of 14% on an annual basis.

SOURCE OF INFORMATION

We have been furnished with information provided by the senior management of the Company. The valuation required the consideration of pertinent factors, including, but not limited to, the following:

- The nature of the Target Company including the industry sector and geographical location;
- The information provided by the senior management of the Company; and
- Other factors that will materially affect the operation of the Target Company.

SCOPE OF WORK

The following processes have been conducted by us in the course of our valuation:

- Interviewed with the senior management of the Company and obtained information in respect of the Target Company;
- Examined the information provided by the senior management of the Company;
- Prepared the valuation based on accepted valuation procedures and practices; and
- Presented the basis of valuation, the background of the Target Company, an industry overview, the source of information, the scope of work, the valuation assumptions, the valuation methodology and our conclusion of value in this report.

VALUATION ASSUMPTIONS

The following assumptions have been adopted in the valuation:

- All licenses issued by any authorized entity that will materially affect the operation of the Target Company have been obtained or can be obtained upon request;
- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where the Target Company operates;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The core operation of the Target Company will not differ materially from those of present or expected;

- The information in respect of the Target Company have been prepared after due and careful consideration by the senior management of the Company;
- There will be no human disruptions or natural disasters that will materially affect the operation of the Target Company;
- The Target Company will be able to renew the lease agreements upon expiration that the new terms will be similar to the current agreements; and
- The financial guarantees provided by the Target Company will be discharged upon the completion of the acquisition.

VALUATION METHODOLOGY

The Valuation Approaches

The following valuation approaches have been considered in the valuation:

1. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset;
2. The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the assets; and
3. The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset.

The income approach was considered to be the most appropriate valuation approach as it can accurately reflect the business model the Target Company. Given the characteristics of the Target Company, there was a lack of explicitly industry comparables or market transactions available as at the date of valuation to derive an indicative value of the Target Company with sufficient level of accuracy. Thus, the market approach was not adopted. Also, the cost approach was considered to be inappropriate as the replication cost of the Target Company may not represent the value of the Target Company.

Under the income approach, the Discounted Cash Flow (DCF) method was adopted. In applying the DCF method, the free cash flows for each year in the future were determined. The results were then discounted using a discount rate to determine the present value of the free cash flows.

The Financial Forecast***Revenue***

The projected revenue was prepared based on financial projections of the Target Company. Most of the revenue of the Target Company is the rental income. Having discussed with the senior management of the Company, it is forecasted that the competition of office rental market in Shenzhen will become intensive. The revenue growth was therefore expected to be decreased gradually in coming years. After five years, the revenue was projected to increase at a steady long-term growth rate of 3.00%, which was determined with reference to the 10-year historical average of inflation in the PRC. Having discussed with the senior management of the Company, it is considered that the adopted basis would be reasonably prudent. The table below presents the revenue.

Year	2016 (6 months)	2017	2018	2019	2020
Revenue (RMB'000)	74,151	156,332	161,011	165,842	170,817

Administrative and Other Operating Expenses

The administrative and other operating expenses comprise of the cost of subleasing business (including rental expense paid to the government, utility expense and sales tax), operating expenses (including repair and maintenance cost and staff cost associated with the property management business) and administrative expenses (including general office expense and administrative staff cost). It was determined with reference to the historical financial information of the Target Company and were projected to increase at a steady long-term growth rate after five years. The projected administrative and other operating expenses are presented in the following table:

Year	2016 (6 months)	2017	2018	2019	2020
Administrative and Other Operating Expenses (RMB'000)	40,074	75,222	77,479	79,803	82,197

Depreciation and Capital Expenditure

The fixed assets of the Target Company include leasehold improvement, plant and machinery, furniture, fixtures and equipment. The capital expenditure (CAPEX) was projected to maintain the fixed assets. The projected depreciation was calculated based on current fair value of net fixed asset and projected CAPEX. The table below presents the projected depreciation and CAPEX.

Year	2016 (6 months)	2017	2018	2019	2020
Depreciation (RMB'000)	5,154	10,996	11,730	12,513	13,348
CAPEX (RMB'000)	4,831	10,308	10,996	11,730	13,348

Net Working Capital

The net working capital (NWC) consists of receivables, payables and received and payments in advance. It was projected with reference to the historical financial information of the Target Company. The projected NWC and its change is presented as below table:

Year	2016 (6 months)	2017	2018	2019	2020
NWC (RMB'000)	(32,515)	(37,816)	(43,473)	(44,721)	(46,002)
Change of NWC (RMB'000)	(2,602)	(5,302)	(5,656)	(1,248)	(1,282)

Free Cash Flows

The projected free cash flows were as follows:

Year	2016 (6 months)	2017	2018	2019	2020
Free Cash Flow (RMB'000)	24,996	59,379	61,108	58,100	58,722

The Comparable Companies

The market value of the Target Company was determined with reference to publicly listed companies that are considered to be comparable to the Target Company (referred to as the “Comparable Companies”).

The selection criteria of the Comparable Companies are as follows:

- The principal activities of the company is located in the PRC;
- The company is principally engaged in the property rental business;
- Shares of the company are listing in a major stock exchange and have actively traded for a reasonable period of time; and
- Detailed financial and operational information in respect of the company are available at Bloomberg Terminal or other publicly available sources.

Details of the Comparable Companies are as follows:

Comparable Company 1

Name of Company	:	Shanghai Jinqiao Export Processing Zone Development Co., Ltd.
Bloomberg Ticker	:	900911 CH
Stock Exchange	:	Shanghai
Company Description	:	Shanghai Jinqiao Export Processing Zone Development Co., Ltd. develops real estate and provides real estate rental services.

Comparable Company 2

Name of Company	:	Yuexiu Real Estate Investment Trust
Bloomberg Ticker	:	405 HK
Stock Exchange	:	Hong Kong
Company Description	:	Yuexiu Real Estate Investment Trust invests in a diverse portfolio of income producing properties which are used primarily for office, retail and other commercial purposes in the PRC.

Comparable Company 3

Name of Company	:	Crown International Corp. Ltd.
Bloomberg Ticker	:	727 HK
Stock Exchange	:	Hong Kong
Company Description	:	Crown International Corp. Ltd. engages in the businesses of hotel investment and operation and property investment.

Comparable Company 4

Name of Company	:	Multifield International Holdings Ltd.
Bloomberg Ticker	:	898 HK
Stock Exchange	:	Hong Kong
Company Description	:	Multifield International Holdings Ltd. invests in and develops residential and commercial properties. It also provides serviced apartment and property management services, project management services, property agency services and operates pubs.

Comparable Company 5

Name of Company	:	Spring Real Estate Investment Trust
Bloomberg Ticker	:	1426 HK
Stock Exchange	:	Hong Kong
Company Description	:	Spring Real Estate Investment Trust is a real estate investment trust formed primarily to own and invest in high quality income-producing real estate in the PRC.

Comparable Company 6

Name of Company	:	Hui Xian Real Estate Investment Trust
Bloomberg Ticker	:	87001 HK
Stock Exchange	:	Hong Kong
Company Description	:	Hui Xian Real Estate Investment Trust is a real estate investment trust. Its real estate investment interests cover Beijing, Chongqing and Shenyang.

The Discount Rate

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate. The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity was determined using the Capital Asset Pricing Model (CAPM).

The yield rate of the 10-year Central Government Bond of the PRC of 2.86%, as extracted from Bloomberg Terminal, was adopted as the risk-free rate.

The market risk premium of the PRC of 11.26% was determined by the market risk premium of the United States and the country risk premium of the PRC. The market risk of the United States of 6.03% was determined with reference to “2016 Valuation Handbook-Guide to Cost of Capital” published by Duff & Phelps, LLC, which is a global valuation and corporate finance advisor. The country risk premium of the PRC of 5.23% was estimated under the combined approach, which incorporates both the country bond approach and relative equity market approach. Under the country bond approach, the country risk premium is based upon the default spread of the bond issued by the country. The country bond spread of 0.90% was determined with reference to the “Country Default Spreads and Risk Premiums”, published by Prof. Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects. Under the relative equity market approach, the country risk premium of 9.55% was determined based upon the volatility of the market, which the Target Company belongs to, relative to U.S. market. Thus, under the combined approach in our valuation, the PRC country risk premium of 5.23% was calculated as the average of the risk premium calculated under the country bond approach and the relative equity market approach.

The beta coefficient of 0.670 was determined by the average of the unlevered betas of the Comparable Companies, then being relevered based on the specific corporate tax rate of 25.00%, which is the applicable corporate tax rate of the Target Company, and the weight of debt, being the average weight of debt of the Comparable Companies, applied to the Target Company. The adjusted betas, applied corporate tax rates, weights of debt and the unlevered betas of the Comparable Companies are as follows:

Comparable Company	Adjusted Beta	Applied Corporate Tax Rate	Weight of Debt	Unlevered Beta
Shanghai Jinqiao Export Processing Zone Development Co., Ltd.	0.969	24.68%	25.35%	0.771
Yuexiu Real Estate Investment Trust	0.712	21.37%	52.71%	0.379
Crown International Corp. Ltd.	0.431	12.62%	0.00%	0.431
Multifield International Holdings Ltd.	0.818	15.01%	55.55%	0.397
Spring Real Estate Investment Trust	0.551	0.00%	52.15%	0.264
Hui Xian Real Estate Investment Trust	0.721	45.09%	34.50%	0.559
Average			36.71%	0.467

By considering the size of the Target Company, a size premium of 5.60% was adopted in the valuation. It was referenced to “2016 Valuation Handbook – Guide to Cost of Capital” published by Duff & Phelps, LLC.

In addition, a company specific premium of 4.00% was adopted to reflect the specific risk associated with the Target Company. The additional risks considered were as follows:

- Type of property: The properties sub-leased by the Target Company were revitalised for the cultural creative industry from industrial buildings. There would be difference in quality compared to those in the market.
- Business model: The Target Company leases the properties from the government and sub-leases the properties to generate revenue. It possesses higher risk comparing to that owning the properties.

The cost of debt of 7.76% was determined by the expected lending rate of the Target Company. The after-tax cost of debt of 5.82% was calculated by multiplying one minus the corporate tax rate of the PRC of 25.00% by the cost of debt.

The weight of debt of 36.71% was determined by the average of the weights of debt of the Comparable Companies, and the weight of equity of 63.29% was calculated as one minus the weight of debt.

As a result, the WACC of the Target Company was calculated as 14.80%.

Terminal Value

In the DCF method, the cash flow is projected for each year into the future for 5 years, after which unique annual cash flows cannot be forecasted with reasonable accuracy. At that point, a terminal value is used to represent the discounted value of all subsequent cash flows. The long-term growth rate 3.00%, which was determined with reference to the average of 10-year historical inflation in the PRC, represents the rate at which the cash flow will grow perpetually after the final year of projection. After determining the terminal value at the final year of projection, the result was then discounted to the date of valuation to derive the present value of the terminal value.

The Discount for the Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability. In the valuation, 16.11% has been adopted as the discount for the lack of marketability. It is the median discount for the 736 transactions examined by private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through September 2015 and was referenced to the “Determining Discounts for Lack of Marketability – A Companion Guide to The FMV Restricted Stock Study”, published by FMV Opinions, Inc. It is an updated research on the discount for lack of marketability database that provides the empirical support needed to determine the discount for the lack of marketability.

SENSITIVITY ANALYSIS

The sensitivity analysis has been applied to determine the impact of changes in the discount rate on the market value of the Target Company. The results of the sensitivity analysis were as follows:

Change in Discount Rate (%)	Discount Rate (%)	Fair Market Value (HK\$)	Change in Fair Market Value (%)
+2.00%	16.80%	556,000,000	-10.47%
+1.00%	15.80%	586,000,000	-5.64%
–	14.80%	621,000,000	–
–1.00%	13.80%	663,000,000	+6.76%
–2.00%	12.80%	713,000,000	+14.81%

REMARKS

For the purpose of our valuation, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating our analysis.

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to uncertainties and contingencies that are beyond the control of the Company, the Target Company or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the 100% equity interest in the Target Company as at 30 June 2016 was **HK\$621,000,000 (HONG KONG DOLLARS SIX HUNDRED AND TWENTY ONE MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, the Target Company or the result reported.

Yours faithfully,
For and on behalf of
STIRLING APPRAISALS LIMITED

Lartin K. K. Lai
BA (Hons), CPA
Director

Notes:

Mr. Lartin K. K. Lai possesses years of professional experience in providing financial reporting, assurance, technological advice and technical due diligence, intangible assets, financial derivatives and essential element to the business valuation of different type companies. He has extensive experience in valuing similar assets or companies as that of the Target Company worldwide.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were 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 which they were taken or deemed to have under section 344 of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

Long positions in the Shares of the Company

<u>Name of Director</u>	<u>Number of shares directly and beneficially owned</u>	<u>Percentage of the Company's issued share capital</u>
Mr. Kan Kwok Cheung (<i>Note 1</i>)	69,000,000	1.70%
Mr. Chia Kar Hin, Eric John (<i>Note 2</i>)	14,600,000	0.36%

Notes:

- Mr. Kan Kwok Cheung is an executive Director and the sole beneficial owner of Shunleetat (BVI) Limited, which was interested in 69,000,000 Shares. Under the SFO, Mr. Kan is deemed to be interested in all the Shares held by Shunleetat (BVI) Limited.
- Mr. Chia Kar Hin, Eric John is an executive Director.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) which were 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 which they were taken or deemed to have under section 344 of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, no other person (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or who/which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long/short position in the Shares and underlying Shares of the Company

Name of shareholder	Number of Shares held		Number of underlying Shares under the Convertible Bonds (Note 1)		Total interests	Percentage of aggregate interests to total issued share capital
	Beneficial owner	Interest in controlled corporation	Beneficial owner	Interest in controlled corporation		
China Xinhua News Network (Notes 3 and 4)	1,188,621,377 (Note 2)	–	1,311,378,623 (Note 2)	–	2,500,000,000	61.65%
CNC China (Note 3)	–	1,188,621,377 (Note 2)	–	1,311,378,623 (Note 2)	2,500,000,000	61.65%

Notes:

- Details of the Convertible Bonds were set out in the circulars of the Company dated 19 November 2011 and 6 January 2015.
- China Xinhua News Network is wholly and beneficially owned by CNC China. Accordingly, CNC China is deemed to be interested in the 1,188,621,377 Shares and 1,311,378,623 underlying Shares held by China Xinhua News Network under the SFO.
- Mr. Zhang Hao, executive Director and the chairman of the Board, is currently the chairman of the board and legal representative of CNC China. Mr. Zhang is a director of China Xinhua News Network.

4. Mr. Zou Chen Dong, executive Director and vice chairman of the Board and chief executive officer of the Group, is a director of China Xinhua News Network.

So far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or who/which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directorship in and employment with substantial Shareholders

Set out below are particulars of the Directors' directorship in or employment with companies which have interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

<u>Name of Director</u>	<u>Position</u>	<u>Name of substantial Shareholder</u>
Zhang Hao	Director Legal representative and chairman	China Xinhua News Network CNC China
Zou Chen Dong	Director	China Xinhua News Network

Save as disclosed above, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Enlarged Group was not engaged in any litigation or claims of material importance, and so far as the Directors are aware, no litigation or claims of material importance is pending or threatened against the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years subject to retirement by rotation and re-election at the annual general meeting pursuant to the articles of association of the Company. The appointment of executive Directors will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other or the payment of three month salary in lieu of notice.

The non-executive Director was appointed for a specific term of three years subject to retirement by rotation and re-election at the annual general meeting pursuant to the articles of association of the Company. The appointment of non-executive Director will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other or the payment of three month salary in lieu of notice.

Each of the independent non-executive Directors was appointed for a specific term of three years, subject to retirement by rotation and re-election at the annual general meeting pursuant to the articles of association of the Company. The appointment of independent non-executive Directors will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other or the payment of three month salary in lieu of notice.

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited financial statements of the Group were made up.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, proposed director, namely Mr. Li, and the controlling shareholders of the Company and their respective close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

8. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save as the proposed Director, namely Mr. Li who was interested in the Acquisition, none of the Directors or proposed Director, namely Mr. Li, was:

- (a) materially interested in any contract or arrangement entered into by any member of the Group which was subsisting at the date of this circular, and which was significant in relation to the business of the Group; or
- (b) had any direct or indirect interest in any assets which have been, since 31 March 2016, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of, or leased to any member of the Enlarged Group.

9. QUALIFICATION AND CONSENT OF EXPERTS AND THEIR INTERESTS IN ASSETS

The following are the qualifications of the expert who has given opinion or, advice contained in this circular:

Name	Qualification
Changjiang Corporate Finance (HK) Limited	a corporation licensed under the SFO to engage in Type 6 (advising on corporate finance) regulated activity under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Stirling Appraisals Limited	Independent professional valuer

Each of Changjiang Corporate Finance (HK) Limited, HLB Hodgson Impey Cheng Limited and Stirling Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, each of each of Changjiang Corporate Finance (HK) Limited, HLB Hodgson Impey Cheng Limited and Stirling Appraisals Limited did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

In addition, as at the Latest Practicable Date, each of Changjiang Corporate Finance (HK) Limited, HLB Hodgson Impey Cheng Limited and Stirling Appraisals Limited did not have any direct or indirect interest in any assets which had been since 31 March 2016, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of, or leased to any member of the Enlarged Group.

10. AUDIT COMMITTEE

The Company has established the Audit Committee on 11 August 2010 with terms of reference in compliance with paragraph C.3.3 of the Corporate Governance Code in Appendix 15 of the GEM Listing Rules.

The primary duties of the Audit Committee include, among other things, reviewing and supervising the financial reporting process and internal control systems, as well as the overall risk management of the Group, reviewing the financial statements and the quarterly, interim and annual reports of the Group, and reviewing the terms of engagement and scope of audit work of the external auditors. As at the Latest Practicable Date, the Audit Committee comprises five members, Mr. Wong Chung Yip, Kenneth, Dr. Li Yong Sheng, The Hon. Ip Kwok Him, *GBS, JP*, Mr. Wan Chi Keung, Aaron, *BBS, JP* and Mr. Jin Hai Tao, further details of whom are set out below:

Mr. Wong Chung Yip, Kenneth (王忠業先生), aged 48, has been appointed by the Company as the independent non-executive Director on 16 December 2013. Mr. Wong graduated with professional diploma in accountancy from Hong Kong Polytechnic in 1990 and obtained a degree of bachelor of law from Peking University in the People's Republic of China in 1998 and a degree of master of science from The Chinese University of Hong Kong in 1999. Mr. Wong has extensive experience in auditing, accounting and corporate finance. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong previously worked at one of the reputable international accounting firms for six years and also worked in Hong Kong Exchanges and Clearing Limited for over 13 years with last position as senior manager of the Listing Division of Hong Kong Exchanges and Clearing Limited. Mr. Wong worked in a financial service institution licensed by the Securities and Futures Commission as vice president of corporate finance division for more than four years. Mr. Wong is the chief executive officer of a financial service institution providing corporate finance advisory licensed by the Securities and Futures Commission.

Dr. Li Yong Sheng (李永升博士), aged 46, has been appointed by the Company as non-executive Director on 4 February 2013. Dr. Li is a reporter superior (主任記者) of Xinhua News Agency and has been working in Xinhua News Agency since his graduation from Wuhan University with a degree of Bachelor of Economics and Management in 1992. Dr. Li obtained a Doctorate of philosophy in Economics from Wuhan University of Technology in 2010. Dr. Li has held the positions of reporter and editor in financial and economical businesses. Dr. Li has served as the associate director of the service line of Xinhua News Agency (新華社服務專線副總監) since 2003 and the editor of Xinhua News Agency Audio and Video News Desk and the officer of the Financial Television Centre (財經電視中心主任) since 2009. In the last three years, Dr. Li did not hold any directorships in any listed public companies.

The Hon. Ip Kwok Him, GBS, JP (葉國謙議員), aged 64, has been appointed by the Company as independent non-executive Director on 18 May 2015. The Hon. Ip is a non-official member of the Executive Council, a member of the Legislative Council of the Hong Kong representing the District Council (The First) functional constituency and a member of the Democratic Alliance for the Betterment and Progress of Hong Kong (“DAB”). The Hon. Ip was appointed as a Justice of the Peace (JP) in 1999 and was awarded the Gold Bauhinia Star (GBS) in the HKSAR 2004 Honours List. The Hon. Ip is presently a Deputy to the 12th National People’s Congress of PRC for HKSAR, the Chairman of Legislative Council Panel on Security, the DAB Party Affairs Advisor and the Convenor of DAB Legislative Council Caucus. The Hon. Ip also currently serves as a non-executive director of the Mandatory Provident Fund Schemes Authority, a member of Central and Western District Council (Kwun Lung) and the deputy chairman of Hon Wah Educational Organisation. The Hon. Ip was a member of the Legislative Council between 1995-1997, a member of the Provisional Legislative Council between 1997-1998, a member of the Legislative Council of the HKSAR representing the district council functional constituency between 2000-2004 and between 2008-2012. The Hon. Ip is currently appointed as the independent non-executive director of Vantage International (Holdings) Limited (a company listed on the main board of the Stock Exchange, stock code: 15).

Mr. Wan Chi Keung, Aaron, BBS, JP (尹志強先生), aged 67, has been appointed by the Company as independent non-executive Director on 9 February 2015. Mr. Wan obtained a degree of master of Business Administration from The Chinese University of Hong Kong in 2008 and a degree of master of Buddhist studies from The University of Hong Kong in 2010. Mr. Wan was appointed as a Justice of the Peace (JP) in 1997 and was awarded the Bronze Bauhinia Star (BBS) in the Hong Kong Special Administrative Region 2004 Honours List. Mr. Wan is engaged in the business of property and chattel valuation and auction. Mr. Wan is a fellow of The Royal Institution of Chartered Surveyors, an associate of The Institution of Business Agents, a member of The Land Institute (London), an associate of The Chartered Institute of Arbitrators and a fellow of The Institute of Administrative Accounting. Mr. Wan is currently appointed as the independent non-executive director of Lee & Man Chemical Company Limited (a company listed on the main board of the Stock Exchange, stock code: 746).

Mr. Jin Hai Tao (靳海濤), aged 62, has been appointed by the Company as independent non-executive Director on 22 June 2012. Mr. Jin has over 33 years' experience in enterprise management, investment, financing and capital market operations. He is on the professional expert board of the Science, Technology & Economic Expert Committee of the Ministry of Science and Technology (國家科技部科技經濟專家委員會專家). He has a Master degree in management from Huazhong University of Science and Technology (華中理工大學工學(管理學)碩士). In addition, Mr. Jin is the vice chairman of Shenzhen Chamber of Investment (SZCI)(深圳市投資商會常務副會長), executive vice president of Shenzhen Finance Consultant Association (深圳市金融顧問協會執行副會長) and honorary chairman of Wenzhou Association for Investment in Enterprises (溫州市投資協會名譽會長).

He joined Shenzhen Capital Group Co., Ltd (深圳市創新投資集團有限公司) as chairman from 2004 to 2015. He was a director of Shenzhen Terca Technology Co., Ltd (深圳市特爾佳科技股份有限公司)(a company listed in the Shenzhen Stock Exchange, stock code: 002213) from 2006 to 2014. Between 1993 and 2000, Mr. Jin was a deputy general manager of Shenzhen Electronic Group Co., Ltd (深圳賽格集團有限公司) and vice president and general manager of Shenzhen SEG Co., Ltd (深圳賽格股份有限公司)(a company listed in the Shenzhen Stock Exchange, stock code: 200058). Currently, he is an independent non-executive director of Wisdom Sports Group (a company listed in the Stock Exchange, stock code: 1661) since June 2013.

Save as disclosed above, each of the chairman and members above of the Audit Committee did not hold any directorships in any other listed public companies during the three year period preceding the date of this circular.

11. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group after the date falling two years immediately prior to the Latest Practicable Date and are or may be material:

- (i) the Agreement; and
- (ii) the supplemental deed dated 9 December 2014 entered into between the Company and China Xinhua News Network in relation to the proposed amendment of certain terms and conditions of the convertible bonds issued by the Company to China Xinhua News Network in the principal amount of HK\$397,030,210 on 9 December 2011.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Suites 2708-10, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong during 10:00 a.m. to 4:00 p.m. on any Business Day from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) material contracts disclosed in the paragraph headed “Material Contracts” in this Appendix;
- (iii) the letter from the Board, the text of which is set out on pages 7 to 28 of this circular;
- (iv) the letter from the Independent Board Committee, the text of which is set out on page 29 to 30 of this circular;
- (v) the letter from Changjiang Corporate Finance (HK) Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 31 to 61 of this circular;
- (vi) the accountants’ report on the Target Group, the text of which is set out in Appendix II of this circular;
- (vii) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (viii) the letter from HLB Hodgson Impey Cheng Limited on profit forecasts, the text of which is set out in Appendix IV to this circular;
- (ix) the letter from the Board on profit forecasts, the text of which is set out in Appendix IV to this circular;
- (x) the valuation report of the Target Group, the text of which is set out in Appendix V to this circular;
- (xi) the written consents referred to in the paragraph headed “Qualification and consent of experts and their interests in assets” in this Appendix;

- (xii) the annual reports of the Company for the two years ended 31 March 2015 and 31 March 2016;
- (xiii) the VSA Announcements; and
- (xiv) this circular.

13. MISCELLANEOUS

- (i) The registered office of the Company is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal office in Hong Kong is at Suites 2708-10, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.
- (ii) The company secretary of the Company is Ms. Li Yuet Tai, who is a member of Hong Kong Institute of Certified Public Accountants. Ms. Li has over 12 years of working experience in auditing and accounting in Hong Kong and the PRC.
- (iii) The compliance officer of the Company appointed pursuant to Rule 5.19 of the GEM Listing Rules is Mr. Chia Kar Hin, Eric John.
- (iv) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text.

NOTICE OF THE EGM



CNC HOLDINGS LIMITED

中國新華電視控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8356)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of CNC Holdings Limited (the “**Company**”) will be held at 2708-2710, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Monday, 14 November 2016 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

Words and expressions that are not expressly defined in this notice shall bear the same meaning as those defined in the circular dated 28 October 2016 published by the Company (the “**Circular**”).

As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) the Agreement (a copy of which has been produced to the meeting and marked “A” and initialed by the Chairman of this meeting for the purpose of identification) entered into between the Purchaser and the Vendors in relation to the Acquisition, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) subject to the passing of ordinary resolution in paragraph (a) above, the grant of the Specific Mandate to the Directors to exercise the powers of the Company to allot and issue the Consideration Shares to the Vendors pursuant to the Agreement be and is hereby approved;

NOTICE OF THE EGM

- (c) subject to the passing of ordinary resolution in paragraph (a) above, the appointment of Mr. Li as an executive Director upon Completion be and is hereby approved; and
- (d) subject to the passing of ordinary resolution in paragraphs (a), (b) and (c) above, that any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents and to take such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement or any transactions contemplated under the Agreement including but without limitation, the issue of the Consideration Shares and the appointment of Mr. Li as an executive Director.”

Yours faithfully,
For and on behalf of the Board of
CNC Holdings Limited
Li Yuet Tai
Company Secretary

Hong Kong
28 October 2016

Registered office:
Cricket Square
Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*
Suites 2708-10, 27/F.
Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong

NOTICE OF THE EGM

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him/her. Any member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his behalf at the meeting. A proxy need not be a member of the Company but must be present in person to represent him/her.
2. To be valid, the form of proxy together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority or other authority, must be deposited at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time of the meeting or any adjournment thereof should he so wish.
3. Pursuant to the GEM Listing Rules, all resolutions at a general meeting must be taken by poll and the results of the poll will be published on the website of the Stock Exchange.
4. A form of proxy for use in connection with the extraordinary general meeting is enclosed and such form is also published on the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk).
5. The meeting will be conducted in Chinese and no translation will be provided.
6. The register of members of the Company will be closed from Wednesday, 9 November 2016 to Monday, 14 November 2016 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the attendance of the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 8 November 2016.

As at the date of this notice, the Directors are Mr. Zhang Hao¹ (Chairman), Mr. Zou Chen Dong¹ (Vice Chairman and Chief Executive Officer), Mr. Kan Kwok Cheung¹, Mr. Chia Kar Hin, Eric John¹, Dr. Li Yong Sheng², The Hon. Ip Kwok Him, GBS, JP³, Mr. Wan Chi Keung, Aaron, BBS, JP³, Mr. Jin Hai Tao³ and Mr. Wong Chung Yip, Kenneth³.

¹ *Executive Director*

² *Non-executive Director*

³ *Independent non-executive Director*