China Digital Culture (Group) Limited
中國數碼文化(集團)有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8175)

ANNUAL REPORT
2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of China Digital Culture (Group) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 report 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 report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hsu Tung Sheng *(Chairman)*
Hsu Tung Chi *(Chief Executive Officer)*
Pang Hong Tao (resigned on 31 May 2016)
Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)
Zhang Jing (appointed on 31 May 2016)
Lai Kwok Fai, Franki (appointed on 22 July 2016)

Independent Non-executive Directors

Kwok Chi Sun, Vincent
Wong Tak Shing
Gou Yanlin (appointed on 13 April 2016)
Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)

AUDIT COMMITTEE

Kwok Chi Sun, Vincent
Wong Tak Shing
Gou Yanlin (appointed on 13 April 2016)
Chang Ching Lien (resigned on 13 April 2016)

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent
Hsu Tung Chi (appointed on 13 April 2016)
Gou Yanlin (appointed on 13 April 2016)
Chang Ching Lien (resigned on 13 April 2016)

NOMINATION COMMITTEE

Kwok Chi Sun, Vincent
Hsu Tung Chi
Wong Tak Shing

COMPANY SECRETARY

Chan Kin Ho, Philip

COMPLIANCE OFFICER

Hsu Tung Chi

AUTHORISED REPRESENTATIVES

Hsu Tung Chi
Chan Kin Ho, Philip

AUDITOR

Mazars CPA Limited
Certified Public Accountants

LEGAL ADVISER

Guantao & Chow, Solicitors & Notaries

REGISTERED OFFICE

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Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Lippo Centre
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Hong Kong

SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
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Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.cdculture.com

STOCK CODE

8175

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	28,691	48,623	115,384	90,046	**206,214**
(Loss) Profit for the year attributable to:					
Equity holders of the Company	(68,928)	5,294	24,890	23,957	**68,860**
Non-controlling interests	(29,326)	1,707	7,753	4,934	**161**
(Loss) Profit for the year	(98,254)	7,001	32,643	28,891	**69,021**

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	93,053	329,530	404,760	555,938	**1,298,560**
Total liabilities	(41,949)	(46,622)	(47,076)	(72,113)	**(418,699)**
Non-controlling interests	20,820	(14,023)	(21,274)	(26,290)	**(24,336)**
Net assets attributable to equity holders of the Company	71,924	268,885	336,410	457,535	**855,525**

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and continued in Bermuda on 19 December 2012. The Company has become the holding company of the Group on 15 January 2003 as a result of the Group Reorganisation.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), we hereby present the annual report of China Digital Culture (Group) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2016.

RESULTS PERFORMANCE

During the year, the Group recorded revenue of approximately HK$206,214,000 and profit attributable to equity holders of the Company of approximately HK$68,860,000.

The increase in profit from 2015 to 2016 was primarily attributable to stronger performance from the entertainment segment and profit generated from the theme park segment following the acquisition of Dream World Holdings Limited ("Dream World") and its subsidiaries (the "Dream World Group") which was completed on 14 January 2016.

LATEST DEVELOPMENT

The Company has continued to develop the eSports business through the use of celebrity intellectual property and management of fan economics.

In 2016, the Group developed eSports teams with both Mr. Jay Chou (周杰倫) and Mr. Jeremy Lin (林書豪) and signed important operating contracts with various streaming platforms. In addition, at the beginning of 2017, the Company acquired the remaining 35% equity interest in Socle Limited ("Socle"). Socle and its subsidiaries are principally engaged in the business of licensing sports content.

OUTLOOK

Looking ahead at the rest of 2017, the Company will continue to grow its eSports business and seek new investment opportunities to expand the eSports operations. Our vision is to provide premier media, entertainment and cultural content through various channels to audiences worldwide.

To achieve this vision, our future plans include:

- Acquisitions and joint ventures of/with businesses operating in the eSports and live web business
- Continued development and expansion of eSports related businesses

Finally, on behalf of the Board, I would like to express my heartfelt thanks to all shareholders, investors and customers for their support, and all members of the Board and staff for their dedication and contribution to the Group.

Hsu Tung Sheng
Chairman

Hong Kong, 31 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, the Company recorded revenue of approximately HK$206,214,000 (2015: HK$90,046,000) and a profit before taxation of approximately HK92,929,000 (2015: HK$36,465,000).

The increase in profit was primarily due to stronger performance from the entertainment segment and profit generated from the theme park segment following the acquisition of Dream World which was completed on 14 January 2016.

Sports Segment

The sports segment includes the athlete management and sports content licensing business which is operated by Nova Dragon International Limited ("Nova Dragon") and Socle Limited ("Socle"), respectively.

During the year, the sports segment recorded revenue of approximately HK$55,444,000 (2015: HK$51,650,000) and a profit before taxation and unallocatable income and expenses of approximately HK$24,428,000 (2015: HK$38,507,000).

Nova Dragon and its subsidiaries are principally engaged in assisting professional athletes, such as Mr. Jeremy Lin (林書豪), an NBA player, with marketing and promotional activities worldwide. Socle and its subsidiaries are principally engaged in the business of licensing sports content and is one of the foremost providers of sports and entertainment content in the PRC.

Entertainment Segment

The entertainment segment includes the music and movie/television content licensing business and the investment in movie and musical productions which is operated by Far Glory Limited ("Far Glory") and Orient Digital Entertainment Limited ("ODE"), respectively. The entertainment segment also includes the Group's eSports businesses which has both eSports teams with Mr. Jay Chou (周杰倫) and Mr. Jeremy Lin (林書豪) and also the Group's webcast celebrities management operated by ODE's PRC subsidiaries.

During the year, the entertainment segment recorded revenue of approximately HK$102,386,000 (2015: HK$38,396,000) and a profit before taxation and unallocatable income and expenses of approximately HK$69,614,000 (2015: HK$18,765,000). The profit was mainly contributed by ODE.

ODE and its subsidiaries are principally engaged in the business of licensing and sale of entertainment content and products such as promotion, sales and distribution of movie and television licensed content worldwide and the management of webcast celebrities. ODE also invests in the production of movies, TV shows and musicals.

MANAGEMENT DISCUSSION AND ANALYSIS

Theme Park Segment

The theme park segment includes the film-based cultural theme park business and tourism focused projects which is operated by the Dream World Group. On 14 January 2016, the Company completed the acquisition of Dream World and Dream World has become a wholly-owned subsidiary of the Company.

During the year, the theme park segment recorded a revenue of approximately HK$48,384,000 (2015: HK$Nil) and a profit before taxation and unallocatable income and expenses of approximately HK$23,844,000 (2015: HK$Nil).

Dream World Group is principally engaged in the management and operations of film-based cultural theme parks and tourism focused projects. Dream World is currently operating the Huaqiao Dream World Movie and Cultural Theme Parks located in the Kunshan Huaqiao Economic Development Zone in the junction of Shanghai and Suzhou.

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded revenue of approximately HK$206,214,000, an increase of approximately 129% from approximately HK$90,046,000 for the previous financial year. Cost of services rendered for 2016 was approximately HK$78,027,000 which is an increase of 217% from approximately HK$24,596,000 in 2015. Gross profit margin in 2016 was 62% which is lower than the gross profit margin of 73% for the previous financial year.

During the reporting period, administrative expenses incurred by the Group were approximately HK$58,087,000 (2015: HK$30,028,000).

During the reporting period, the Group recorded HK$2,507,000 (2015: HK$1,832,000) in selling and distribution costs. The increase in selling and distribution costs is primarily attributable to increased revenue in 2016.

As a result of the aforesaid figures, the Group reported a net profit attributable to equity holders of the Company for the year amounted to approximately HK$68,860,000 (2015: HK$23,957,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had current assets of approximately HK$287,076,000 (2015: HK$191,143,000) and current liabilities of approximately HK$233,941,000 (2015: HK$72,113,000). The current assets were comprised mainly of bank balances and cash of approximately HK$48,058,000 (2015: HK$63,792,000) and accounts and other receivables of approximately HK$211,922,000 (2015: HK$125,297,000). The Group's current liabilities were comprised mainly of accounts and other payables of approximately HK$75,405,000 (2015: HK$56,718,000). As at 31 December 2016, the Group had interest-bearing borrowings of approximately HK$6,418,000 (2015: HK$Nil) which is repayable within one year. As at 31 December 2016, the Group had a current ratio of approximately 1.23 as compared to that of 2.65 as at 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Most of the business transactions, assets and liabilities of the Group are denominated in Hong Kong Dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong Dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2016, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

FUND RAISING ACTIVITIES

Convertible Bonds

There were outstanding convertible bonds in the aggregate principal amounts of approximately HK$14,640,000 which are convertible into 30,500,000 shares of the Company as at 31 December 2016. Convertible bonds issued or converted during the year and up to the date of this report are as follows. Please refer to Note 26 to the consolidated financial statements for more details.

Pursuant to the relevant acquisition agreement with respect to the acquisition of 100% equity interest in Dream World, on 4 July 2016, the Company issued zero coupon convertible bonds with fair value of HK$120,000,000 at the initial conversion price of HK$0.48 per conversion share to the vendors and their nominees respectively. The convertible bonds will mature on the fifth anniversary from the date of issue.

Placing of Shares under Specific Mandate

On 23 July 2015, the Company and a placing agent entered into a placing agreement (as supplemented and amended by the supplemental agreement dated 18 August 2015) in relation to the placing of up to 1,250,000,000 new shares of the Company under specific mandate at a placing price of HK$0.12 per share (before share consolidation effect). Proceeds of the placing under specific mandate are intended to be used for funding the acquisition of Dream World, and/or for general working capital of the Group. As at 31 December 2015, no shares have been issued under the placing agreement under specific mandate.

On 5 April 2016, the Company has further entered into a second supplemental agreement and appointed an additional placing agent to issue 312,500,000 shares. The placing was completed on 14 April 2016, with proceeds from the issue of the placing shares of approximately HK$145,488,000.

Issue of Consideration Shares under Specific Mandate

On 4 April 2016, the Company and Eastern Eagle Investment Company Limited ("Eagle Investment"), an independent third party, entered into an agreement in relation to the grant of exclusive right to the Company to use the image and name of Mr. Jay Chou in the eSports field. The consideration shall be a total sum of HK$10,000,000 which shall be satisfied by way of issue and allotment of 20,833,334 consideration shares by the Company to Eagle Investment at the issue price of HK$0.48 per share. The transaction was completed on 14 June 2016.

Issue of Consideration Shares under General Mandate

On 16 June 2016, the Company and JLIN Marketing, LLC ("JLIN"), an independent third party, entered into the license agreement in relation to, among others, the grant of exclusive right to the Company to use the name and endorsement of Mr. Jeremy Lin for the Company's Dota team at a total consideration up to US$1,560,000 (equivalent to approximately HK$12,090,000), to be paid by the Company to JLIN or its nominee(s) by (i) cash payment of US$1,170,000 (equivalent to approximately HK$9,068,000); and (ii) the issue of consideration shares equivalent to a total amount of US$390,000 (equivalent to approximately HK$3,022,000). The transaction was completed on 16 June 2016.

GEARING RATIO

The gearing ratio (consolidated borrowings/consolidated total equity) was 0.80% (31 December 2015: Nil). As at 31 December 2016, total borrowings of the Group amounted to approximately HK$7,030,000 (31 December 2015: HK$Nil).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 14 January 2016, the Company completed the acquisition of Dream World. Upon completion, Dream World has become a wholly-owned subsidiary of the Company. The aggregate consideration of the acquisition shall be up to HK$587,250,000 to be paid by the Company to the vendors by (i) cash payment of HK$150,000,000; (ii) the issue of consideration shares for a total amount of HK$77,250,000; and (iii) subject to the fulfillment of profit guarantee requirements and progress of stage of construction of the projects, the issue of convertible bonds in the principal amount of up to HK$360,000,000 by the Company. Dream World Group is principally engaged in the business of operating film-based cultural parks and tourism focused projects. The purpose of this acquisition was to diversify and enhance the Company's business segments.

According to the audited accounts of Dream World Group, the relevant profit guarantee requirement for the financial year ended 31 December 2015 ("2015 Profit Guarantee Requirement") has been satisfied. Following the fulfilment of 2015 Profit Guarantee Requirement, on 4 July 2016, the Company issued convertible bonds in the principal amount of HK$120,000,000 at the initial conversion price of HK$0.48 per conversion share to the vendors and their nominees in accordance with the acquisition agreement.

On 22 April 2016 and 28 October 2016, the Company subscribed the convertible notes of Light Cycle Limited ("Light Cycle") at a principal amount of HK$15,000,000 and HK$5,000,000 respectively. Therefore, the Company had subscribed for a total principal amount of convertible notes of HK$20,000,000 in Light Cycle as at 31 December 2016 and the additional HK$10,000,000 of the final tranche of convertible notes were subsequently subscribed on 3 January 2017. Light Cycle is principally engaged in the business of operating yoga and cycling studios. The convertible notes of HK$20,000,000 are convertible into approximately 9.21% equity interest in Light Cycle as enlarged by the conversion shares at the conversion price of HK$93.54 per share. As at 31 December 2016, there were no issued unlisted convertible notes that were converted into shares.

MANAGEMENT DISCUSSION AND ANALYSIS

On 1 June 2016, the Company completed the acquisition of Jieyi Wenchuang Company Limited ("Jieyi Wenchuang"), Jieyi Wenchuang is principally engaged in the business of training, nurturing and managing eSports teams and eSports broadcasters. Upon completion, Jieyi Wenchuang has become a wholly owned subsidiary of the Company. The aggregate cash consideration of the acquisition was NT$1,151,000 (equivalent to approximately HK$274,000). Jieyi Wenchuang is currently operating an eSports team with the exclusive right to use the image right of Mr. Jay Chou in the eSports field.

On 13 July 2016, the Company completed the acquisition of Shanghai Xin Ke Culture Media Company Limited ("Xin Ke"), Xin Ke is principally engaged in the business of entertainment project planning, celebrity management and production of online streaming content. Upon completion, Xin Ke has become a wholly owned subsidiary of the Company. The cash consideration of the acquisition was HK$35,000,000.

On 9 September 2016, Beijing Orient Lixiang Culture Media Company Limited ("Orient Lixiang"), a wholly owned subsidiary of the Company, has established Beijing Digital Weixi Culture & Creative Co., Ltd ("Digital Weixi") with an independent third party. Digital Weixi is principally engaged in the operations and management of eSports team. Digital Weixi is 51% owned by Orient Lixiang and currently operating an eSports team with the exclusive right to use the image right Mr. Jeremy Lin in the eSports field.

On 30 November 2016, the Company entered into an acquisition agreement with Marvel Paramount International Limited, an independent third party, in relation to the acquisition of 100% of the issued share capital of Vector Vision Enterprises Limited and its subsidiaries ("Vector Group"), at a cash consideration of HK$80,000,000. Vector Group is principally engaged in the celebrity and artists training course agency business. The transaction was not completed as at the date of this report.

On 28 December 2016, the Company entered into an acquisition agreement with an independent third party in relation to the acquisition of 35% of the issued share capital of Socle, a non-wholly owned subsidiary of the Group, at a cash consideration of HK$58,000,000. Socle and its subsidiaries are principally engaged in the business of licensing sports content. The acquisition was completed on 10 January 2017.

FOREIGN EXCHANGE RISK

Since almost all transactions of the Group are denominated either in Hong Kong Dollars and Renminbi and most of the bank deposits are being kept in Hong Kong Dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE INFORMATION

As at 31 December 2016, the Group had 99 (2015: 34) full-time employees. Employee costs for the year 2016, excluding directors' emoluments, amounted to approximately HK$11,337,000 (2015: HK$6,459,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopts an employee share option scheme to provide eligible employees performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business, During the year, the Group has established an environmental, social and governance ("ESG") management team to manage, monitor, recommend and report on environmental and social aspects. An ESG report is being prepared with reference to Appendix 20 Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and will be published on the Company's and the Stock Exchange's websites.

The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. Towards that end, it has encouraged employees, customers, service providers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its service providers and has provided high quality services to its customers so as to ensure sustainable development.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code Provision") as set out in Appendix 15 of the GEM Listing rules. In the opinion of the Directors, the Company has complied with the Code Provision throughout the year ended 31 December 2016.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2016.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2016 and up to the date of this report were:

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*
Mr. Pang Hong Tao (resigned on 31 May 2016)
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)
Ms. Zhang Jing (appointed on 31 May 2016)
Mr. Lai Kwok Fai, Franki (appointed on 22 July 2016)

Independent non-executive directors:

Mr. Kwok Chi Sun, Vincent
Mr. Wong Tak Shing
Mr. Gou Yanlin (appointed on 13 April 2016)
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)

The Board is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, material transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the day-to-day management, administration and operation of the Company are delegated to the senior management. These responsibilities include the implementation of decisions of the Board, the coordination and direction of day-to-day operation and management of the Company in accordance with the strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior management and the Board has the full support of them to discharge its responsibilities.

The directors' biographical information is set out on pages 18 and 19 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

CORPORATE GOVERNANCE REPORT

In compliance with the requirements under Rules 5.05(1) and (2) of the GEM Listing Rules, the Company appointed three independent non-executive directors representing at least one-third of the board, who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Each director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

	Board meeting	**General meeting**
Executive directors:		
Mr. Hsu Tung Sheng	40/40	0/2
Mr. Hsu Tung Chi	40/40	1/2
Mr. Pang Hong Tao (resigned on 31 May 2016)	16/16	0/1
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	30/30	1/2
Ms. Zhang Jing (appointed on 31 May 2016)	23/23	0/1
Mr. Lai Kwok Fai, Franki (appointed on 22 July 2016)	9/9	0/0
Non-executive directors:		
Mr. Kwok Chi Sun, Vincent	40/40	1/2
Mr. Wong Tak Shing	40/40	0/2
Mr. Gou Yanlin (appointed on 13 April 2016)	30/30	0/2
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	10/10	0/0

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. Currently, Mr. Hsu Tung Sheng, who is the chairman of the Board, and is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst Mr. Hsu Tung Chi, who is the Chief Executive Officer, supported by the executive directors and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

REMUNERATION COMMITTEE

The remuneration committee was established in June 2005 with written terms of reference in compliance with the Code Provision. The remuneration committee consists of three members, of which two are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent and Mr. Gou Yanlin, and one is executive director, namely Mr. Hsu Tung Chi. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The remuneration committee, with delegated responsibility, is responsible for determining remuneration packages of individual executive directors and senior management, including but not limited to directors' fees, salaries, allowances, share options, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year under review, the remuneration committee held four meetings with the following attendance:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Hsu Tung Chi	4/4
Mr. Gou Yanlin (appointed on 13 April 2016)	2/2
Mr. Chang Ching Lien (resigned on 13 April 2016)	2/2

NOMINATION COMMITTEE

The Company has established a nomination committee on 23 March 2012 with written terms of reference in compliance with the GEM Listing Rules. The nomination committee comprises three members, of which one is executive director, namely Mr. Hsu Tung Chi and two are independent non-executive directors namely Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The nomination committee is mainly responsible for making recommendations to the Board on appointment of directors and succession planning for the directors. The Board took into consideration criteria such as expertise, experience, the market situation and applicable laws and regulations when considering new director appointments.

During the year under review, the nomination committee held 3 meetings with the following attendance:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	3/3
Mr. Hsu Tung Chi	3/3
Mr. Wong Tak Shing	3/3

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary responsibilities of the audit committee include the monitoring of the integrity of periodic financial statements and the annual report, interim report and quarterly reports, the review and monitoring of the auditor's independence, and the review of risk management and internal control system of the Group. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Gou Yanlin, all of whom are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Wong Tak Shing	4/4
Mr. Gou Yanlin (appointed on 13 April 2016)	3/3
Mr. Chang Ching Lien (resigned on 13 April 2016)	1/1

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2016 have been reviewed by the audit committee during the year, who were of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all directors have participated in continuous professional development by attending training courses, or reading materials/in-house briefing on the topics related to corporate governance and regulations as follows:

	Reading materials/ In-house briefing	Attending training course
Executive directors:		
Mr. Hsu Tung Sheng	✓	
Mr. Hsu Tung Chi	✓	
Mr. Pang Hong Tao (resigned on 31 May 2016)	✓	
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	✓	
Ms. Zhang Jing (appointed on 31 May 2016)	✓	✓
Mr. Lai Kwok Fai, Franki (appointed on 22 July 2016)	✓	✓
Independent non-executive directors:		
Mr. Kwok Chi Sun, Vincent	✓	✓
Mr. Wong Tak Shing	✓	✓
Mr. Gou Yanlin (appointed on 13 April 2016)	✓	✓
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	✓	✓

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the fees paid to the auditor in respect of audit and non-audit services provided by the auditor of the Group were as follows:

Nature of services	Amount (HK$'000)
Audit services	1,710
Non-audit services	
– Quarter review	35
– Others	28

COMPANY SECRETARY

Mr. Chan Kin Ho, Philip has been appointed as the company secretary of the Company from 1 July 2013. Mr. Chan is a Certified Public Accountant under the Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. He reports to the Board and assists the Board in functioning effectively and efficiently. During the year, Mr. Chan undertook not less than 15 hours of professional training to update his skill and knowledge.

RISK MANAGEMENT INTERNAL CONTROL

The Board is responsible for maintaining the Group's risk management and internal control system and reviewing the effectiveness of these controls. Risk management and internal control system is designed to meet the particular needs of the Group and the risk to which it is exposed.

The key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;
– regular financial information provided to management for reviewing the Group's performance;
– clearly defined management structure and lines of responsibility.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The statement by the external auditor about its responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders.

CORPORATE GOVERNANCE REPORT

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

SHAREHOLDERS' RIGHTS

A. Procedures for the Shareholders to convene a special general meeting

Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid up capital of the Company may submit a written requisition to the Company to convene a special general meeting. The requisition must state the purpose of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong.

If the directors do not proceed duly to convene a special general meeting within twenty-one days from the deposit of the requisition, then the requisitionists (or any of them representing more than one half of the total voting rights of all of them) may themselves convene a meeting provided it is held within three months from the date of deposit of the requisition.

B. Procedures for putting forward proposals at a Shareholders meeting

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders having a right to vote at the meeting, or not less than one hundred shareholders of the Company, may submit to the Company a written request (a) to give to the shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting or (b) to circulate to the shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A copy of such written request signed by the requisitionists or two or more copies which between them contain the signatures of all the requisitions must be deposited at the registered office of the Company or the Company's principal place of business in Hong Kong not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or one week before the meeting in the case of any other requisition.

INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Since the change of domicile with effect from 19 December 2012, the changes in the Company's constitutional documents, have been available on the websites of the Company and the Stock Exchange.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Hsu Tung Sheng, aged 50, was appointed as an executive director on 3 June 2009 and redesignated as chairman of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Chi. Mr. Hsu holds a bachelor's degree in law from the National Chengchi University (Taiwan) (國立政治大學(台灣)). Mr. Hsu has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Hsu was a consultant of Toyota Tsusho Corporation ("Toyota Tsusho") and participated in numerous large investment projects for Toyota Tsusho. Mr. Hsu has built up a good relationship with enterprises in Japan. Mr. Hsu will be responsible for marketing, management function and business operation of the copyright management and digital licensing business of the Group. He was previously an executive director and chairman of China Neng Xiao Technology (Group) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Hsu Tung Chi, aged 48, was appointed as an executive director and chief executive officer of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Sheng. Mr. Hsu holds a bachelor's degree in Economics from Fu Jen Catholic University (輔仁大學) in Taiwan. Mr. Hsu Tung Chi has over 10 years' experience in advisory on management, operation and strategic planning. He was previously an executive director of China Neng Xiao Technology (Group) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Chang Ching Lien, aged 47, was appointed as an independent non-executive director in July 2014 and was re-designated as an executive director of the Company in April 2016. Mr. Chang obtained a master degree in business administration from A.B. Freeman Business School, Tulane University in the United States in 2001. He possesses extensive experience in corporate finance, investments and strategic planning. He was the chief investment officer of Matrass Mining Group and was responsible for fund raising, corporate finance and financial modeling for the company from 2011 to 2012. Prior to Matrass Mining Group, Mr. Chang was the managing director and an executive committee member of Xinhua Finance from 2001 to 2011, and was responsible for sales and market expansion across the Asian region and had built up sales force and network and established the company's long-term strategy.

Ms. Zhang Jing, aged 49, was appointed as an executive director of the Company in May 2016. Ms. Zhang obtained a master of business administration in accountancy from Bernard M. Baruch College, City University of New York of the United States in 1998. Ms. Zhang has qualified as a Certified Public Accountant in the United States in 1999. She possesses extensive experience auditing, accounting and financial management. She was the senior manager of Ernst & Young and was responsible for conducting China tax research, preparing and reviewing daily tax news update and setting up database of China tax and accounting for the company from 2006 to 2011. Prior to Ernst & Young, Ms. Zhang was the senior tax consultant of Deloitte Touche Tohmatsu from 2002 to 2003, and was responsible for conducting research on PRC tax regulations, issuing tax opinions for international companies and reviewing corporate PRC tax returns.

At present, Ms. Zhang works as director in Crown Smart Investment Limited, responsible for all daily operations, investment activities and analysis of profit and loss statements of the company.

DIRECTORS' PROFILE

Mr. Lai Kwok Fai, Franki, aged 52, was appointed as an executive director of the Company in July 2016. Mr. Lai obtained a bachelor degree of arts in computing studies from Hong Kong Polytechnic University in 1989. He possesses extensive experience in accounting and financial advisory. Mr. Lai was the chief financial officer of Net Movie Ltd from 2008 to 2012. Prior to that, Mr. Lai served as an executive director of JPMorgan Chase & Co. from 2000 to 2008, successfully helping over 30 Asia Pacific companies listing on the stock exchanges in the U.S. and Europe. Before joining JPMorgan Chase & Co, Mr. Lai was a vice president of Citibank from 1989 to 2000, responsible for providing advisory of capital market to customers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Chi Sun, Vincent, aged 54, was appointed an independent non-executive director in October 2004. Mr. Kwok is also a member of the audit committee, the nomination committee and the remuneration committee of the Company, is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Evergreen International Holdings Limited and China Neng Xiao Technology (Group) Limited, the former four named companies are listed on the main board of the Stock Exchange while the last named company is listed on the GEM of the Stock Exchange.

Mr. Wong Tak Shing, aged 54, was appointed as an independent non-executive director of the Company in December 2009. Mr. Wong is also a member of the audit committee and the nomination committee of the Company, graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 27 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong is also an independent non-executive director of Pa Shun Pharmaceutical International Holdings Limited. Mr. Wong was previously an executive director of China Neng Xiao Technology (Group) Limited, a company listed on the GEM of the Stock Exchange and an independent non-executive director of Digital Domain Holdings Limited, a company listed on the main board of the Stock Exchange.

Mr. Gou Yanlin, aged 42, was appointed as an independent non-executive director of the Company in April 2016. Mr. Gou obtained a Bachelor Degree in Heating, Ventilation and Air Conditioning from Lanzhou University of Technology of the People's Republic of China in 1997. He possesses extensive experience in hotel management. He was the general manager of Foshan City Starry Hotel Co., Ltd and was responsible for daily operations and business development of the hotel from 2012 to 2014. Prior to Foshan City Starry Hotel Co., Ltd, Mr. Gou was the chief investment project officer of 7 Days Group Holdings Limited from 2008 to 2012, and was responsible for investment attraction and exhibition planning etc..

At present, Mr. Gou works as the chairman of the board and the general manager of Guangzhou IMovie Inn Management Co., Ltd since 2014, and is responsible for all daily operations and business development of the company.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2016.

DATE OF INCORPORATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands and continued in Bermuda as an exempted company with limited liability in accordance with the Companies Act 1981 (as amended) of Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The Company's shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 February 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATION

The Company confirmed it has complied with relevant laws and regulations which constitute material impact on the business and operation of the Company and its subsidiaries in all material times.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 36.

The directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on pages 39 and 40.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account had a balance of approximately HK$900,607,000 as at 31 December 2016 (2015: HK$599,286,000).

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the year is set out in the sections of "Chairman's Statement" and "Management Discussion and Analysis" of this report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*
Mr. Pang Hong Tao (resigned on 31 May 2016)
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)
Ms. Zhang Jing (appointed on 31 May 2016)
Mr. Lai Kwok Fai, Franki (appointed on 22 July 2016)

Independent non-executive directors:

Mr. Kwok Chi Sun, Vincent
Mr. Wong Tak Shing
Mr. Gou Yanlin (appointed on 13 April 2016)
Mr. Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)

DIRECTORS' REPORT

In accordance with No.99 and 100 of the Bye-laws of the Company, Mr. Hsu Tung Chi and Mr. Wong Tak Shing, Ms. Zhang Jing, Mr. Lai Kwok Fai, Franki, and Mr. Gou Yanlin shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 5.09 of the GEM Listing Rules. The Board believes that the existing independent non-executive directors are independent based on the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company has a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' REMUNERATION

Directors' remuneration is subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Company. Details of the remuneration of the directors are set out in note 8 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were (a) required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or (b) required, pursuant to section 352 of the SFO, to be entered in the register to therein, or (c) required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in Shares

Name of director	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial owner	18,375,000 (L)	0.98%
Mr. Hsu Tung Chi *(Note 1)*	Beneficial owner	186,179,559 (L)	9.89%
	Interest of controlled corporation	18,246,223 (L)	0.97%
Daily Technology Company Limited *(Note 1)*	Beneficial owner	18,246,223 (L)	0.97%
Ms. Zhang Jing *(Note 2)*	Beneficial owner	48,000,000 (L)	2.55%
	Interest of beneficiary of a trust	32,000,000 (L)	1.70%
Mr. Lai Kwok Fai, Franki *(Note 3)*	Beneficial owner	960,000 (L)	0.05%
	Interest of controlled corporation	53,523,437 (L)	2.84%

(L) denotes long position

Notes:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 186,639,559 shares. Daily Technology Company Limited ("Daily Technology") beneficially owns 18,246,223 shares, which is in turn wholly owned by Mr. Hsu. Under the SFO, Mr. Hsu is deemed to be interested in 18,246,223 shares.

2. Ms. Zhang Jing ("Ms. Zhang") beneficially owns 48,000,000 shares. Crown Smart Investment beneficially owns 32,000,000 shares, Ms. Zhang is deemed to be interested in these shares by virtue of her being an ultimate beneficial owner of Crown Smart.

3. Mr. Lai Kwok Fai, Franki ("Mr. Lai") beneficially owns 960,000 shares. Earn Wise Limited ("Earn Wise") beneficially owns 53,523,437 shares, which is in turn wholly owned by Mr. Lai. Under the SFO, Mr. Lai is deemed to also be interested in 53,523,437 shares.

(ii) Interest in underlying shares of the convertible bonds

Name of director	Nature of interests	Principal amount of the convertible bonds	Number of underlying	Approximate percentage of interests
Mr. Lai Kwok Fai, Franki *(Note)*	Interest of controlled corporation	HK$14,640,000	30,500,000 (L)	1.62%

Note:

Earn Wise is beneficially owned as to 100% by Mr. Lai. The underlying shares represented the new shares to be issued upon full conversion of HK$14,640,000 convertible bonds held by Earn Wise, at the initial conversion price of HK$0.48 per conversion share. Under the SFO, Mr. Lai is deemed to be interest in 30,500,000 underlying shares.

(L) denotes long position

(ii) Interest in share options

Name of director	Nature of interests	Number of share options granted	Approximate percentage of interests
Mr. Hsu Tung Sheng	Beneficial owner	8,251,276	0.44%
Mr. Hsu Tung Chi	Beneficial owner	5,501,276	0.29%

Save as disclosed above, as at 31 December 2016, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 27 March 2013 pursuant to an ordinary resolution passed at a special general meeting. Details of the movements in the number of share options during the period under the Scheme are as follows:

Categories of grantees	As at 1 January 2016	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2016	Exercise price HK$	Grant date	Exercisable period
Directors							
Mr. Hsu Tung Sheng	8,251,276	–	–	8,251,276	0.4572	10/06/2014	10/06/2014 – 09/06/2017
Mr. Hsu Tung Chi	5,501,276	–	–	5,501,276	0.4572	10/06/2014	10/06/2014 – 09/06/2017
Consultant							
Willing International Capital (Shanghai) Company Limited	5,501,276	–	–	5,501,276	0.4572	10/06/2014	10/06/2014 – 09/06/2017
Employees	22,008,932	–	–	22,008,932	0.4572	10/06/2014	10/06/2014 – 09/06/2017
	41,262,760	–	–	41,262,760			

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2016, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Interest in shares

Name of substantial shareholder	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Ms. Chuang Meng Hua *(Note 1)*	Interest of a sponsor	204,425,782	10.86%
Best Million Holdings Limited *(Note 2)*	Beneficial owner	114,816,405 (L)	6.10%
Ms. Ma Hsin-Ting *(Note 2)*	Interest of controlled corporation	114,816,405 (L)	6.10%
Ease Wing Limited *(Note 3)*	Beneficial owner	114,816,406 (L)	6.10%
Mr. Ho Chi Sing *(Note 3)*	Interest of controlled corporation	114,816,406 (L)	6.10%

Notes:

1. Ms. Chuang Meng Hua is the spouse of Mr. Hsu Tung Chi, therefore, pursuant to the SFO, she is deemed to be interested in all the shares in which Mr. Hsu is interested.

2. Best Million Holdings Limited ("Best Million") is wholly and beneficially owned by Ms. Ma Hsin-Ting ("Ms. Ma"). Best Million beneficially owns 114,816,405 shares. Under the SFO, Ms. Ma is deemed to be interested in 114,816,405 shares held by Best Million.

3. Ease Wing Limited ("Ease Wing") is wholly and beneficially owned by Mr. Ho Chi Sing ("Mr. Ho"). Ease Wing beneficially owns 114,816,406 shares. Under the SFO, Mr. Ho is deemed to be interested in 114,816,406 shares held by Ease Wing.

Save as disclosed above, as at 31 December 2016, the directors were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

RELATED AND CONNECTED PARTY TRANSACTIONS

Except otherwise disclosed in the consolidated financial statements, the Group had no transactions incurred during the Year which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 10 January 2017, the Company completed its acquisition of 35% equity interest in Socle. Upon completion, Socle has become a wholly owned subsidiary of the Group.

On 8 February 2017, the Company entered into a subscription agreement with Hangzhou Liaison Interactive Information Technology Company Limited (the "Subscriber"), an independent third party, to issue convertible bonds in the aggregate principal amount of HK$412,500,000 at an interest rate of 5.5% per annum and carry the rights to convert into 750,000,000 ordinary shares of the Company at a conversion price of HK$0.55 per conversion share (subject to adjustments). The convertible bonds will mature on the fifth anniversary from the date of issue. The transaction is subject to Shareholders' approval at the special general meeting to be held on 31 March 2017. Please refer to the announcements of the Company dated 9 February 2017 and circular dated 13 March 2017 for further information.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results are described below:

DIRECTORS' REPORT

Credit Risk

The Group's credit risk is primarily attributable to accounts and other receivables and bank balances. A detailed discussion of the Group's credit risk in respect of accounts and other receivables is set out in note 22 to the consolidated financial statements.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 25 to the consolidated financial statements.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Directors of the Company closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year, the Group's largest customer and the five largest customers accounted for 29.5% (2015: 13.3%) and 75.8% (2015: 60.2%) respectively, of the Group's total turnover.

During the financial year, the Group's largest supplier and the five largest suppliers accounted for 40.0% (2015: 20.3%) and 87.5% (2015: 80.0%) respectively, of the Group's total purchases.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2016 were audited by Mazars CPA Limited, Certified Public Accountants. A resolution will be submitted to the annual general meeting to re-appoint Mazars CPA Limited as auditor of the Company.

On behalf of the Board

Hsu Tung Sheng
CHAIRMAN

31 March 2017

INDEPENDENT AUDITOR'S REPORT

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
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To the shareholders of

CHINA DIGITAL CULTURE (GROUP) LIMITED

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CHINA DIGITAL CULTURE (GROUP) LIMITED (the "Company") and its subsidiaries (together the "Group") set out on pages 36 to 126, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets *Refer to note 15 and note 14 to the consolidated financial statements.* As at 31 December 2016, the Group had goodwill of HK$673,073,000 and various types of intangible assets of HK$255,547,000 relating to multiple cash generating units ("CGUs"). For the purpose of assessing impairment, the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to determine the key assumptions, including operating margins, short term and long term growth rates and discount rates, underlying the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill and intangible assets.	Our procedures in relation to management's impairment assessment of the Group's goodwill and intangible assets included: • Assessing management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business; • Assessing the value-in-use calculations methodology adopted by management; • Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; • Assessing the reasonableness of key assumptions (including operating margins, short term and long term growth rates and discount rates) based on our knowledge of the business and industry; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets. We found management's conclusion that there was no impairment in respect of goodwill and intangible assets to be supported by available evidence.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the key audit matter
Business combinations *Refer to note 32 to the consolidated financial statements.*	
In 2016, the Group acquired 100% equity interests in (i) Dream World Holdings Limited and its subsidiaries; (ii) Jieyi Wenchuang Company Limited; and (iii) Shanghai Xin Ke Culture Media Company Limited at total considerations of HK$608,828,000. The accounting for business combinations required a significant amount of management's estimation and judgements, including the fair value measurements of the considerations and the identifiable assets acquired and liabilities assumed and adjustments made to align accounting policies. Management has estimated the fair value of the considerations amounted to HK$608,828,000 and the fair value of identifiable assets acquired and liabilities assumed amounted to HK$176,457,000. Goodwill of HK$432,371,000 arose at the date of acquisitions. This conclusion was based on the valuation methodologies used by the external valuer that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth.	Our procedures in relation to management's purchase price allocations included: • Assessing the valuation methodologies used by management to estimate values-in-use; • Evaluating the independent external valuer's competence, capabilities and objectivity; • Reviewing and assessing the reasonableness of key assumptions based on our knowledge and understanding of the business and market; and • Reconciling input data to supporting evidences, such as approved budgets and considering the reasonableness of these budgets. We found the fair value of the considerations paid and the identifiable assets acquired and liabilities assumed and adjustments made to be supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report but does not include the consolidated financial statements and our auditor’s report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2017

The engagement director on the audit resulting in this independent auditor's report is:
Lai Hon Wai
Practising Certificate number: P06342

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	**206,214**	90,046
Cost of services rendered		**(78,027)**	(24,596)
Gross profit		**128,187**	65,450
Other income	6	**32,053**	2,875
Selling and distribution costs		**(2,507)**	(1,832)
Administrative and other expenses		**(58,087)**	(30,028)
Finance costs	7	**(3,060)**	–
Fair value loss on contingent consideration – convertible bonds	32(a)	**(2,772)**	–
Share of results of an associate	32(a)	**(123)**	–
Share of results of a joint venture	16	**(762)**	–
Profit before taxation	7	**92,929**	36,465
Income tax expense	10	**(23,908)**	(7,574)
Profit for the year		**69,021**	28,891
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(7,029)**	(3,477)
Share of other comprehensive loss of a joint venture		**(196)**	–
		(7,225)	(3,477)
Total comprehensive income for the year		**61,796**	25,414
Profit attributable to:			
Equity holders of the Company		**68,860**	23,957
Non-controlling interests		**161**	4,934
		69,021	28,891
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		**62,902**	21,658
Non-controlling interests		**(1,106)**	3,756
		61,796	25,414
Earnings per share	12		
Basic		**HK4.209 cents**	HK2.451 cents
Diluted		**HK3.532 cents**	HK2.408 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	13	**21,102**	3,716
Intangible assets	14	**255,547**	4,837
Goodwill	15	**673,073**	240,702
Interest in joint ventures	16	**5,012**	–
Available-for-sale financial assets	17	**11,159**	23,388
Deposits for available-for-sale financial assets	17	**–**	11,751
Deposit for acquisition of a subsidiary	18	**40,000**	80,000
Loans to and due from joint ventures	19	**5,591**	401
		1,011,484	364,795
Current assets			
Inventories	20	**6,180**	2,054
Financial assets at fair value through profit or loss	21	**20,916**	–
Accounts and other receivables	22	**211,922**	125,297
Bank balances and cash	23	**48,058**	63,792
		287,076	191,143
Current liabilities			
Accounts and other payables	24	**75,405**	56,718
Interest-bearing borrowings	25	**6,418**	–
Contingent consideration – convertible bonds	32(a)	**117,999**	–
Tax payable		**34,119**	15,395
		233,941	72,113
Net current assets		**53,135**	119,030
Total assets less current liabilities		**1,064,619**	483,825
Non-current liabilities			
Interest-bearing borrowings	25	**612**	–
Convertible bonds	26	**10,999**	–
Consideration payable for intangible asset		**3,022**	–
Contingent consideration – convertible bonds	32(a)	**119,928**	–
Deferred tax liabilities	31	**50,197**	–
		184,758	–
NET ASSETS		**879,861**	483,825

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	*27*	**75,277**	46,726
Reserves		**780,248**	410,809
Equity attributable to equity holders of the Company		**855,525**	457,535
Non-controlling interests		**24,336**	26,290
TOTAL EQUITY		**879,861**	483,825

Approved and authorised for issue by the Board of Directors on 31 March 2017 and signed on its behalf by

Hsu Tung Sheng
Director

Hsu Tung Chi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000 *(Note 39a(i))*	Special reserve HK$'000 *(Note i)*	Capital reserve HK$'000 *(Note ii)*	Warrant reserve HK$'000 *(Note 39a(iii))*	Foreign currency translation reserve HK$'000 *(Note 39a(v))*	Share options reserve HK$'000 *(Note 39a(iv))*	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	36,398	508,587	10,084	(20,749)	276	(41)	7,782	(205,927)	300,012	336,410	21,274	357,684
Profit for the year	–	–	–	–	–	–	–	23,957	23,957	23,957	4,934	28,891
Other comprehensive loss												
Item that may be reclassified subsequently to profit or loss												
Foreign currency translation differences	–	–	–	–	–	(2,299)	–	–	(2,299)	(2,299)	(1,178)	(3,477)
Total comprehensive (loss) income for the year	–	–	–	–	–	(2,299)	–	23,957	21,658	21,658	3,756	25,414
Non-controlling interests arising from incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	1,260	1,260
Transactions with equity holders												
Contribution and distribution												
Equity-settled share-based payment	–	–	–	–	–	–	4,717	–	4,717	4,717	–	4,717
Shares issued upon exercise of share option	1,650	23,349	–	–	–	–	(6,139)	–	17,210	18,860	–	18,860
Shares issued upon exercise of unlisted warrants	1,378	19,423	–	–	(138)	–	–	–	19,285	20,663	–	20,663
Shares issued upon placing	7,300	47,927	–	–	–	–	–	–	47,927	55,227	–	55,227
Total transactions with equity holders	10,328	90,699	–	–	(138)	–	(1,422)	–	89,139	99,467	–	99,467
At 31 December 2015	46,726	599,286	10,084	(20,749)	138	(2,340)	6,360	(181,970)	410,809	457,535	26,290	483,825

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to equity holders of the Company													
			Reserves												
	Note	Share capital HK$'000	Share premium HK$'000 (Note 39a(i))	Special reserve HK$'000 (Note i)	Capital reserve HK$'000 (Note ii)	Warrant reserve HK$'000 (Note 39a(iii))	Foreign currency translation reserve HK$'000 (Note 39a(v))	Share options reserve HK$'000 (Note 39a(iv))	Statutory reserve HK$'000 (Note iii)	Convertible bonds reserve HK$'000 (Note 26)	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016		46,726	599,286	10,084	(20,749)	138	(2,340)	6,360	-	-	(181,970)	410,809	457,535	26,290	483,825
Profit for the year		-	-	-	-	-	-	-	-	-	68,860	68,860	68,860	161	69,021
Other comprehensive loss															
Items that may be reclassified subsequently to profit or loss															
Foreign currency translation differences		-	-	-	-	-	(5,762)	-	-	-	-	(5,762)	(5,762)	(1,267)	(7,029)
Share of other comprehensive loss of a joint venture		-	-	-	-	-	(196)	-	-	-	-	(196)	(196)	-	(196)
Other comprehensive loss for the year		-	-	-	-	-	(5,958)	-	-	-	-	(5,958)	(5,958)	(1,267)	(7,225)
Total comprehensive (loss) income for the year		-	-	-	-	-	(5,958)	-	-	-	68,860	62,902	62,902	(1,106)	61,796
Non-controlling interests arising from incorporation of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	345	345
Transactions with equity holders															
Contribution and distribution															
Deemed disposal of interest in a subsidiary	33	-	-	-	-	-	328	-	-	-	-	328	328	(1,193)	(865)
Equity-settled share-based payment	28(a)	-	-	-	-	-	-	1,181	-	-	-	1,181	1,181	-	1,181
Issue of consideration shares for acquisition of subsidiaries	27	6,438	61,961	-	-	-	-	-	-	-	-	61,961	68,399	-	68,399
Issue of consideration shares for acquisition of an intangible asset	27	833	9,792	-	-	-	-	-	-	-	-	9,792	10,625	-	10,625
Issue of convertible bonds for acquisition of subsidiaries	26	-	-	-	-	-	-	-	-	6,807	-	6,807	6,807	-	6,807
Shares issued upon conversion of convertible bonds	26, 27	8,780	96,580	-	-	-	-	-	-	(3,100)	-	93,480	102,260	-	102,260
Shares issued upon placing	27	12,500	132,988	-	-	-	-	-	-	-	-	132,988	145,488	-	145,488
Transfer from accumulated losses to statutory reserve		-	-	-	-	-	-	-	5,251	-	(5,251)	-	-	-	-
Total transactions with equity holders		28,551	301,321	-	-	-	328	1,181	5,251	3,707	(5,251)	306,537	335,088	(1,193)	333,895
At 31 December 2016		75,277	900,607	10,084	(20,749)	138	(7,970)	7,541	5,251	3,707	(118,361)	780,248	855,525	24,336	879,861

Note:

(i) The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group Reorganisation took place in 2003.

(ii) The capital reserve represents the share of net liabilities of additional interest in subsidiaries acquired without change in control.

(iii) Statutory reserve comprises statutory surplus reserves fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the Articles of Association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**92,929**	36,465
Depreciation and amortisation		**18,352**	6,018
(Reversal of) allowance for doubtful debts		**(3,012)**	2,570
Write-off of prepayment to licensors		**4,939**	–
Gain on deemed disposal of a subsidiary		**(865)**	–
Gain on disposal of an associate		**(473)**	–
Gain on disposal of available-for-sale financial assets		**(22,301)**	–
Fair value gain on financial assets at fair value through profit or loss		**(916)**	–
Fair value loss on contingent consideration – convertible bonds		**2,772**	–
Equity-settled share-based payment		**1,181**	4,717
Share of results of an associate		**123**	–
Share of results of a joint venture		**762**	–
Bank interest income		**(69)**	(44)
Interest expense		**3,060**	–
Write back of accounts payable		**–**	(2,322)
Changes in working capital:			
Accounts and other receivables		**(63,893)**	16,390
Accounts and other payables		**12,139**	9,519
Inventories		**(4,260)**	6,875
Cash generated from operations		**40,468**	80,188
Interest paid		**(2,994)**	–
Income taxes paid		**(10,334)**	(11,629)
Net cash from operating activities		**27,140**	68,559

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Acquisition of available-for-sale financial assets		**(20,528)**	(23,388)
Acquisition of subsidiaries	*32*	**(95,054)**	(11,996)
Advance to joint ventures		**–**	(2,570)
Capital injection from non-controlling interests		**345**	1,260
Deposit for acquisition of a subsidiary		**(40,000)**	(80,000)
Deposits for available-for-sale financial assets		**–**	(11,751)
Purchase of property, plant and equipment		**(18,247)**	(3)
Purchase of intangible assets		**(47,173)**	–
Purchase of financial assets at fair value through profit or loss		**(20,000)**	–
Deemed disposal of a subsidiary	*33*	**(3,589)**	–
Proceeds from disposal of an associate		**2,141**	–
Proceeds from disposal of available-for-sale financial assets		**40,000**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**7,770**	–
Interest received		**69**	44
Net cash used in investing activities		**(194,266)**	(128,404)
FINANCING ACTIVITIES			
New bank loans raised		**16,271**	–
Other loan raised		**4,464**	11,941
Proceeds from issue of new shares		**145,488**	55,227
Proceeds from exercise of unlisted warrants		**–**	20,663
Proceeds from exercise of share options		**–**	18,860
Repayment of bank loans		**(12,143)**	–
Repayment of other loan		**(1,562)**	–
Advances from (to) directors		**2,591**	(399)
Net cash from financing activities		**155,109**	106,292
Net (decrease) increase in cash and cash equivalents		**(12,017)**	46,447
Cash and cash equivalents at beginning of year		**63,792**	20,979
Effect of foreign exchange rate changes, net		**(3,717)**	(3,634)
Cash and cash equivalents at end of year	*23*	**48,058**	63,792

1. CORPORATE INFORMATION

CHINA DIGITAL CULTURE (GROUP) LIMITED (the "Company") is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is located at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are detailed in note 40 to the consolidated financial statements.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2015 consolidated financial statements except for the adoption of certain new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 3 to the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group is set out in note 3 to the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

Adoption of new/revised HKFRSs

Amendments to HKAS 1: Disclosure Initiative

The amendments include changes in the following five areas: (1) materiality; (2) disaggregation and subtotals; (3) structure of notes; (4) disclosure of accounting policies; (5) presentation of items of other comprehensive income arising from investments accounted for using equity method. It is considered that these amendments are clarifying amendments that do not directly affect an entity's accounting policies or accounting estimates.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

Amendments to HKAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to HKAS 16 clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to HKAS 38 clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Annual Improvements Project – 2012-2014 Cycle

HKAS 34 Interim Financial Reporting: Disclosure of Information "elsewhere in the interim financial report"

The amendment clarifies the meaning of disclosures of certain information "elsewhere in the interim financial report" as allowed by HKAS 34. The disclosures shall be given by cross-reference from the interim financial statements to some other statement that is available to users of the interim financial statements on the same terms as the interim financial statements and at the same time.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost except for financial assets at fair value through profit or loss and contingent consideration – convertible bonds, which are measured at fair value as explained in the accounting policy as set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Non-controlling interests are presented, separately from equity holders of the Company, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

Allocation of total comprehensive income

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

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an investment in subsidiary is stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

The Group's investment in associate or joint venture is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Goodwill arising on an acquisition of an associate or a joint venture is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or joint venture. Such goodwill is included in interests in associates or joint ventures. On the other hand, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associates and joint ventures *(Continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate or vice versa, any retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, on the loss of significant influence or joint control, the Group remeasures any retained interest in the former investee at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the partial interest in the investee and the carrying amount of the investment at the date when significant influence or joint control is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former investee are accounted for on the same basis as would be required if the former investee had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be an associate or joint venture is regarded as the fair value on initial recognition as a financial asset.

In the Company's statement of financial position which is presented within these notes, an investment in associates and joint ventures is stated at cost less impairment loss determined on individual basis.

Goodwill

Goodwill arising on an acquisition of a business is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired business.

Goodwill on acquisition of business is recognised as a separate asset and is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

On the other hand, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over 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, after reassessment, is recognised immediately in profit or loss as an income from bargain purchase.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	10%
Computer equipment	$33^{1}/_{3}$%
Furniture, fixtures and office equipment	18% to 20%
Motor vehicles	10%

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated lives are as follows:

Broadcasting and software license rights	20% to $33^{1}/_{3}$%
Image rights in eSports field	$16^{2}/_{3}$% to $33^{1}/_{3}$%
Usage right of movie database	10%
Exclusive operation rights – before launch of theme park	50%
Exclusive operation rights – after launch of theme park	2.94%

Both the period and method of amortisation are reviewed annually.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are amortised over the estimated useful lives and stated at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) the Group transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading, financial assets or liabilities designated upon initial recognition as at fair value through profit or loss, and financial assets or liabilities resulting from a contingent consideration arrangement in a business combination to which HKFRS 3 applies. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Loans and receivables

Loans and receivables including accounts and other receivables, loans to and due from joint ventures and bank balances and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

Financial liabilities

The Group's financial liabilities include accounts and other payables, interest-bearing borrowings and contingent consideration – convertible bonds. All financial liabilities except for financial liabilities at fair value through profit or loss, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Convertible bond

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of issue costs. The corresponding dividends on those shares are charged as interest expense in profit or loss.

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Convertible bond *(Continued)*

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond equity reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond equity reserve is transferred to accumulated profits/losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Income from licensing of broadcasting right for entertainment and sports event content is recognised over the contract period in accordance with the terms of the underlying contracts.

Sale of entertainment content and products is recognised on transfer of respective rights in accordance with the respective agreement and on delivery of the content concerned, if applicable.

Consultancy service income relating to organise music concert and system development business is recognised when services are rendered.

Commission income from assisting professional athletes in marketing and promotional activities is recognised on a time proportion basis according to the terms of the underlying contracts.

Sale of athletes' agency agreements is recognised on the execution of a binding agreement.

Theme park operation service income is recognised when services are rendered.

Event production and online broadcasting income from organising and arranging for the production of the event or online broadcasting show and broadcasting on the platform is recognised when services are rendered.

Income for managing eSports teams and eSports broadcasters is recognised when services are rendered.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;

- Income and expenses for each statement of comprehensive income are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;

- On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;

- On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and

- On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Impairment of other assets, other than goodwill

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, intangible assets and investments in joint ventures may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leases

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Short-term employee benefits
Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans
The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Pursuant to the law and regulations of the People's Republic of China (the "PRC"), contributions to the defined contribution retirement schemes for the Group's PRC staff are made to the relevant government authorities in the PRC, which are calculated on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

Share-based payment transactions

Equity-settled transactions
The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account any market conditions and non-vesting conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are to be fulfilled, ending on the date on which the entitlement of relevant employees to the award is no longer conditional on the satisfaction of any non-market vesting conditions ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the reserve within equity.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted. In all cases, the fair value is measured at the date the Group obtains the goods or the counterparty renders the services.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the 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 entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(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 group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision makers, who are the directors of the Company, for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

(a) Critical judgements made in applying accounting policies

Subsidiary governed under contractual arrangements

The Group had entered into a set of control agreements and supplemental agreements (the "Control Agreements") with 北京東方力恒影視傳媒有限公司 (unofficial English name as Beijing Orient Liheng Television Media Company Limited, "Liheng") and the two legal owners of Liheng on 10 November 2014 and 30 December 2014 respectively. In accordance with the terms of the Control Agreements, the Group controls Liheng because:

(i) the board of directors of Liheng is controlled by the Group pursuant to the management appointment agreements and the directors' undertakings;

(ii) the general meeting of Liheng is controlled by the Group pursuant to the shareholders' undertakings and the directors' undertakings; and

(iii) all the benefits arising from the equity interests in Liheng is entirely conveyed to the Group pursuant to the share charge and the exclusive consultancy service agreement.

The Group believes that, notwithstanding the lack of equity ownership, the Control Agreements give the Group control over Liheng in substance. Accordingly, Liheng is accounted for as a subsidiary of the Group.

(b) Key sources of estimation uncertainty

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the end of the reporting period, the carrying amount of accounts receivables after provision for impairment amounted to HK$113,912,000 (2015: HK$51,312,000).

Impairment of investments and receivables

The Company and the Group assess annually if investment in subsidiaries and joint ventures have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities and available-for-sale financial assets measured at cost less impairment loss are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

Allowance for inventories

The Group's management reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis or more frequently if there is any indication of impairment loss. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 15 to the consolidated financial statements.

Intangible assets and amortisation

The management determines the estimated useful lives and related amortisation for the Group's intangible assets. At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets with finite useful lives to determine whether there is an indication that the intangible assets may be impaired. 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. Intangible assets with finite useful lives are amortised over the expected useful economic lives.

Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 7	*Disclosure Initiative* [1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses* [1]
Annual Improvements to HKFRSs	*2012-2014 Cycle* [2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions* [3]
HKFRS 15	*Revenue from Contracts with Customers* [3]
HKFRS 9 (2014)	*Financial Instruments* [3]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* [3]
HKFRS 16	*Leases* [4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [5]

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRSs *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2017

[2] Effective for annual periods beginning on or after 1 January 2017 or 2018 where applicable

[3] Effective for annual periods beginning on or after 1 January 2018

[4] Effective for annual periods beginning on or after 1 January 2019

[5] The effective date of the amendments which was originally intended to be effective for annual periods beginning on or after 1 January 2016 has been deferred/removed

The directors of the Company are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's consolidated financial statements.

4. SEGMENTAL INFORMATION

The Group manages its businesses by individual companies, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's directors for the purposes of resource allocation and performance assessment, the Group has presented the following reporting segments. No operating segments have been aggregated to form the following reporting segments.

- Entertainment segment which engages in the business of training, nurturing and managing eSports teams and eSports broadcasters, distribution of copyright-protected items, licensing of entertainment content, production of television drama series and talent management, provision of consultancy services in cultural industry and provision of entertainment-related services;

- Sports segment which engages in licensing of professional sports events content and provision of marketing and promotional services to professional athletes; and

- Theme park segment which engages in operating film-based cultural parks and tourism focused projects.

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

Year ended 31 December 2016

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Segment revenue				
Sale to external customers	**102,386**	**55,444**	**48,384**	**206,214**
Segment results before the following items:	**41,074**	**24,428**	**26,266**	**91,768**
Fair value loss on contingent consideration – convertible bonds	**–**	**–**	**(2,772)**	**(2,772)**
Gain on deemed disposal of a subsidiary	**865**	**–**	**–**	**865**
Gain on disposal of an associate	**–**	**–**	**473**	**473**
Gain on disposal of available-for-sale financial assets	**22,301**	**–**	**–**	**22,301**
Share of results of an associate	**–**	**–**	**(123)**	**(123)**
Share of results of a joint venture	**(762)**	**–**	**–**	**(762)**
Reversal of allowance for doubtful debts on loans to and due from joint ventures	**6,136**	**–**	**–**	**6,136**
Segment results	**69,614**	**24,428**	**23,844**	**117,886**
Unallocated income				**916**
Unallocated expenses				**(25,873)**
Profit before taxation				**92,929**
Taxation	**(10,584)**	**(6,244)**	**(7,080)**	**(23,908)**
Profit for the year				**69,021**

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

Year ended 31 December 2015

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Segment revenue				
Sale to external customers	38,396	51,650	–	90,046
Segment results before the following items:	21,335	38,507	–	59,842
Allowance for doubtful debts on loans to and due from joint ventures	(2,570)	–	–	(2,570)
Segment results	18,765	38,507	–	57,272
Unallocated income				1
Unallocated expenses				(20,808)
Profit before taxation				36,465
Taxation	(2,312)	(5,262)	–	(7,574)
Profit for the year				28,891

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements. Segment results represent the results achieved by each segment without allocation of central administration costs including directors' emoluments, investment and other income and other gains and losses. This is the measurement method reported to the chief operating decision makers, who are the directors of the Company, for the purposes of resource allocation and assessment of segment performance.

4. SEGMENTAL INFORMATION *(Continued)*

(b) Segment assets and liabilities

As at 31 December 2016

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Assets before the following items:	195,485	71,125	52,019	318,629
Goodwill	169,472	105,635	397,966	673,073
Intangible assets	49,857	9,907	195,783	255,547
Loans to and due from joint ventures	5,591	–	–	5,591
Interest in joint ventures	5,012	–	–	5,012
Segment assets	425,417	186,667	645,768	1,257,852
Unallocated assets				40,708
Consolidated total assets				1,298,560
Segment liabilities	65,209	37,649	308,804	411,662
Unallocated liabilities				7,037
Consolidated total liabilities				418,699

4. SEGMENTAL INFORMATION *(Continued)*

(b) Segment assets and liabilities *(Continued)*

As at 31 December 2015

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Assets before the following items:	181,858	115,662	–	297,520
Goodwill	135,067	105,635	–	240,702
Intangible assets	4,180	657	–	4,837
Loans to and due from joint ventures	401	–	–	401
Segment assets	321,506	221,954	–	543,460
Unallocated assets				12,478
Consolidated total assets				555,938
Segment liabilities	34,080	35,236	–	69,316
Unallocated liabilities				2,797
Consolidated total liabilities				72,113

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments; and
- All liabilities are allocated to the sales/service activities of individual segment.

4. SEGMENTAL INFORMATION *(Continued)*

(c) Other segment information

Year ended 31 December 2016

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Amortisation of intangible assets	**(6,041)**	**(6,275)**	**(5,005)**	**(17,321)**
Depreciation of property, plant and equipment	**(932)**	**(95)**	**(4)**	**(1,031)**
Reversal of (allowance for) doubtful debt	**6,136**	**(3,124)**	**–**	**3,012**
Write-off of prepayment to licensors	**–**	**(4,939)**	**–**	**(4,939)**
Capital expenditure	**(74,651)**	**(12,091)**	**(200,813)**	**(287,555)**
Gain on deemed disposal of a subsidiary	**865**	**–**	**–**	**865**

Year ended 31 December 2015

	Entertainment HK$'000	Sports HK$'000	Theme park HK$'000	Total HK$'000
Amortisation of intangible assets	(747)	(4,358)	–	(5,105)
Depreciation of property, plant and equipment	(809)	(104)	–	(913)
Capital expenditure	(3)	–	–	(3)
Write back of accounts payable	–	2,322	–	2,322

4. SEGMENTAL INFORMATION *(Continued)*

(d) Geographic information

The Group's operations are principally located in Hong Kong and the PRC.

The Group's revenue from external customers by location of its customers and information about its non-currents assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**65,934**	–	**338,343**	278,406
The PRC	**138,003**	78,346	**638,803**	50,849
Taiwan	**2,277**	11,700	**12,576**	–
	206,214	90,046	**989,722**	329,255

Non-current assets presented above exclude financial instruments and interest in joint ventures.

(e) Information about major customers

Revenue from external customers contributing 10% or more of total revenue from the Group's Entertainment, Sports and Theme park segments are as follows:

Customer	Segment	**2016 HK$'000**	2015 HK$'000
A	Entertainment	**60,840**	–
B	Theme park	**48,384**	–
C	Sports	**33,000**	–
D	Entertainment	**–**	12,000
E	Sports	**–**	11,700
F	Sports	**–**	11,000
G	Entertainment	**–**	11,000
		142,224	45,700

Other than as disclosed above, no other sales to a single customer of the Group accounted for 10% or more of total revenue of the Group for both years.

5. REVENUE

An analysis of the Group's revenue during the year is as follows:

	2016 HK$'000	2015 HK$'000
Entertainment		
– Licensing of music content	**8,531**	974
– Consultancy service income	**3,860**	6,422
– Sale of entertainment content and products	**76,840**	31,000
– Event production and online broadcasting income	**7,154**	–
– Managing eSports teams and eSports broadcasters	**6,001**	–
Sports		
– Licensing of sports events content	**43,250**	44,666
– Marketing and promotional service commission income	**6,381**	4,658
– Sale of athletes' agency agreements	**5,813**	2,326
Theme Park		
– Theme park operation service income	**48,384**	–
Total revenue	**206,214**	90,046

6. OTHER INCOME

	Note	2016 HK$'000	2015 HK$'000
Bank interest income		**69**	44
Exchange gain, net		**1,267**	509
Fair value gain on financial assets at fair value through profit or loss	*21*	**916**	–
Gain on deemed disposal of a subsidiary	*33*	**865**	–
Gain on disposal of an associate		**473**	–
Gain on disposal of available-for-sale financial assets		**22,301**	–
Reversal of doubtful debts on loans to and due from joint ventures	*19*	**6,136**	–
Sundry income		**26**	–
Write back of accounts payable		**–**	2,322
		32,053	2,875

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging (crediting):

	2016 HK$'000	2015 HK$'000
Finance costs		
Interest on convertible bonds	66	–
Interest on bank loans	318	–
Interest on other loans	2,676	–
	3,060	–
Other items		
Employee benefits expenses (including directors' remuneration)		
Salaries and allowances	13,526	5,194
Contribution to defined contribution retirement schemes	686	376
Equity-settled share-based payment	1,063	4,245
	15,275	9,815
Auditor's remuneration	1,812	1,199
Amortisation of intangible assets		
– included in cost of services rendered	8,507	4,358
– included in administrative and other expenses	8,814	747
Depreciation of property, plant and equipment	1,031	913
Operating lease payments on hire of equipment	–	71
Operating lease payments on premises	4,015	2,835
Provision for doubtful debt – accounts receivable	3,124	–
(Reversal of) allowance for doubtful debts on loans to and due from joint ventures	(6,136)	2,570
Write-off of prepayment to licensors	4,939	–

8. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments received and receivable by the Company's directors are as follows:

	Directors' fees HK$'000	Salaries and allowances HK$'000	Equity-settled share-based payment HK$'000	Contribution to defined contribution retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2016					
Executive directors					
Hsu Tung Sheng	120	876	118	–	1,114
Hsu Tung Chi	120	876	118	–	1,114
Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	160	–	–	–	160
Pang Hong Tao (resigned on 31 May 2016)	100	–	–	–	100
Lai Kwok Fai, Franki (appointed on 22 July 2016)	106	1,012	–	–	1,118
Zhang Jing (appointed on 31 May 2016)	140	–	–	–	140
	746	2,764	236	–	3,746
Independent non-executive directors					
Kwok Chi Sun, Vincent	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
Chang Ching Lien (re-designated from independent non-executive director to executive director on 13 April 2016)	29	–	–	–	29
Gou Yanlin (appointed on 13 April 2016)	43	–	–	–	43
	192	–	–	–	192
	938	2,764	236	–	3,938

8. DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees HK$'000	Salaries and allowances HK$'000	Equity-settled share-based payment HK$'000	Contribution to defined contribution retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2015					
Executive directors					
Hsu Tung Sheng	120	876	472	–	1,468
Hsu Tung Chi	120	876	472	–	1,468
Pang Hong Tao	240	–	–	–	240
	480	1,752	944	–	3,176
Independent non-executive directors					
Kwok Chi Sun, Vincent	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
Chang Ching Lien	60	–	–	–	60
	180	–	–	–	180
	660	1,752	944	–	3,356

The directors of the Company are regarded as the key management personnel of the Group for disclosure purposes.

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2016 and 2015. In addition, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join, or upon joining the Group or as a compensation for loss of office for the years ended 31 December 2016 and 2015.

8. DIRECTORS' EMOLUMENTS *(Continued)*

Except as disclosed in note 22(iv) to these consolidated financial statements, there were no loans, quasi-loans or other dealings in favour of the directors of the Company that were entered into or subsisted during the years ended 31 December 2016 and 2015.

The directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company or a connected entity of a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2016 and 2015.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2015: two) directors, details of whose remuneration are set out in note 8 to the consolidated financial statements above. Details of the remuneration of the remaining two (2015: three) highest paid individuals, who are not directors, for the years ended 31 December 2016 and 2015 are as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and allowances	**1,599**	1,022
Contribution to defined contribution retirement schemes	**–**	52
Equity-settled share-based payment	**118**	1,415
	1,717	2,489

The above two (2015: three) highest paid individuals fell within the following bands:

	2016	2015
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**1**	–
	2	3

10. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

PRC Enterprise Income Tax ("EIT") has been provided at the rate of 25% (2015: 25%) on the estimated assessable profits of the PRC subsidiaries during the year.

	2016	2015
	HK$'000	HK$'000
Hong Kong Profits Tax		
Current year provision	**12,635**	2,587
EIT		
Current year provision	**11,375**	4,944
(Over) Underprovision in prior year	**(102)**	43
Total tax expense for the year	**23,908**	7,574

Reconciliation of effective tax rate

	2016	2015
	%	%
Income tax at applicable tax rate	**20.1**	21.9
Non-deductible expenses	**7.2**	5.9
Non-taxable revenue	**(1.9)**	(6.8)
Unrecognised tax losses	**–**	2.2
Unrecognised temporary differences	**1.1**	(0.9)
Utilisation of previously unrecognised tax losses	**(0.7)**	(1.6)
(Over) underprovision in prior year	**(0.1)**	0.1
Effective tax rate for the year	**25.7**	20.8

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate.

11. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for both years.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company and the weighted average number of the Company's ordinary shares in issue during the year as follows:

	2016 HK$'000	2015 HK$'000
Profit attributable to equity holders of the Company and used to determine basic earnings per share	**68,860**	23,957
Add: Interest expense on convertible bonds, net of tax	**66**	–
Less: Fair value gain on contingent consideration - convertible bonds	**(1,200)**	–
Profit used to determine diluted earnings per share	**67,726**	23,957

	2016 No. of shares '000	2015 No. of shares '000
Issued ordinary shares at 1 January	**1,168,150**	3,639,853
Effect of shares issued	**468,014**	270,609
Effect of share consolidation	**–**	(2,932,847)
Weighted average number of ordinary shares for basic earnings per share	**1,636,164**	977,615
Effect of dilutive potential shares from:		
– Unlisted warrants	**N/A**	N/A
– Share options	**1,052**	17,134
– Contingent consideration – convertible bonds	**250,000**	N/A
– Convertible bonds	**30,500**	N/A
Weighted average number of ordinary shares for diluted earnings per share	**1,917,716**	994,749
Earnings per share		
Basic	**HK4.209cents**	HK2.451cents
Diluted	**HK3.532cents**	HK2.408cents

Note:

The contingent consideration – convertible bonds in relation to the 2016 Performance Target as detailed in note 32(a) to the consolidated financial statements were assumed to have been converted into ordinary shares, and the net profit used to determine diluted earnings per share has been adjusted to eliminate the change in fair value of contingent consideration.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 *(Note i)*	Total HK$'000
Reconciliation of carrying amount – year ended 31 December 2015						
At beginning of reporting period	4,253	33	511	–	–	4,797
Additions – acquisition of subsidiaries	–	–	–	46	–	46
Additions	–	3	–	–	–	3
Depreciation	(646)	(18)	(208)	(41)	–	(913)
Effect on foreign currency exchange differences	(198)	(1)	(19)	1	–	(217)
At end of reporting period	3,409	17	284	6	–	3,716
Reconciliation of carrying amount – year ended 31 December 2016						
At beginning of reporting period	**3,409**	**17**	**284**	**6**	**–**	**3,716**
Additions – acquisition of subsidiaries *(note 32)*	**681**	**256**	**236**	**–**	**–**	**1,173**
Additions	**271**	**140**	**301**	**–**	**17,535**	**18,247**
Depreciation	**(720)**	**(67)**	**(244)**	**–**	**–**	**(1,031)**
Effect on foreign currency exchange differences	**(192)**	**(3)**	**(12)**	**–**	**(796)**	**(1,003)**
At end of reporting period	**3,449**	**343**	**565**	**6**	**16,739**	**21,102**
At 31 December 2015						
Cost	6,076	538	916	46	–	7,576
Accumulated depreciation	(2,667)	(521)	(632)	(40)	–	(3,860)
Net carrying amount	3,409	17	284	6	–	3,716
At 31 December 2016						
Cost	**6,633**	**947**	**1,485**	**43**	**16,739**	**25,847**
Accumulated depreciation	**(3,184)**	**(604)**	**(920)**	**(37)**	**–**	**(4,745)**
Net carrying amount	**3,449**	**343**	**565**	**6**	**16,739**	**21,102**

Note:

(i) Construction in progress represents the total contract sum of leasehold improvement amounted to RMB19,854,000 (equivalent to approximately HK$22,155,000), in which RMB15,000,000 (equivalent to approximately HK$16,739,000) was paid as at 31 December 2016. Construction in progress will be transferred to leasehold improvements upon completion.

14. INTANGIBLE ASSETS

	Broadcasting license rights HK$'000	Software license rights HK$'000	Usage right of movie database HK$'000 (Note i)	Image rights in eSports field HK$'000 (Note ii)	Exclusive operation rights of theme park HK$'000 (Note iii)	Total HK$'000
Reconciliation of carrying amount – year ended 31 December 2015						
At beginning of reporting period	8,826	1,449	–	–	–	10,275
Amortisation	(4,358)	(747)	–	–	–	(5,105)
Effect on foreign currency exchange differences	(288)	(45)	–	–	–	(333)
At end of reporting period	4,180	657	–	–	–	4,837
Reconciliation of carrying amount – year ended 31 December 2016						
At beginning of reporting period	**4,180**	**657**	**–**	**–**	**–**	**4,837**
Additions	**–**	**–**	**44,150**	**23,197**	**–**	**67,347**
Additions – acquisition of subsidiaries *(note 32)*	**–**	**–**	**–**	**–**	**200,788**	**200,788**
Amortisation	**(4,092)**	**(643)**	**(4,415)**	**(3,166)**	**(5,005)**	**(17,321)**
Effect on foreign currency exchange differences	**(88)**	**(14)**	**–**	**(2)**	**–**	**(104)**
At end of reporting period	**–**	**–**	**39,735**	**20,029**	**195,783**	**255,547**
At 31 December 2015						
Cost	8,957	3,583	–	–	–	12,540
Accumulated amortisation	(4,777)	(2,926)	–	–	–	(7,703)
Net carrying amount	4,180	657	–	–	–	4,837
At 31 December 2016						
Cost	**8,369**	**3,348**	**44,150**	**23,195**	**200,788**	**279,850**
Accumulated amortisation	**(8,369)**	**(3,348)**	**(4,415)**	**(3,166)**	**(5,005)**	**(24,303)**
Net carrying amount	**–**	**–**	**39,735**	**20,029**	**195,783**	**255,547**

14. INTANGIBLE ASSETS *(Continued)*

Note:

(i) On 1 January 2016, the Company entered into a license agreement ("License Agreement") with an independent third party, which is a professional movie license company and owned the license right of numerous movies. Pursuant to the License Agreement, the vendor granted the Company license right regarding the movie database in the PRC region for 10 years, from 1 January 2016 to 31 December 2025 ("contract period") at a consideration of HK$44,150,000. Within the contract period, the Company has right to sub-license the usage right to other parties. The usage right of movie database was measured initially at cost and amortised over 10 years using the straight-line method. At the end of the reporting period, the remaining amortisation period is 9 years.

(ii) During the year ended 31 December 2016, the Group acquired image rights to use the names and endorsement of celebrities in eSports field in an aggregate consideration of HK$23,197,000 (2015: HK$Nil). The image rights were initially measured at cost and amortized over 3 to 6 years using the straight-line method.

(iii) On 14 January 2016, the Group acquired Dream World Holdings Limited ("Dream World") and its subsidiaries (the "Dream World Group"). Dream World Group entered into cooperation agreements with an independent third party for the exclusive operation rights of a film-based cultural park for 40 years from 2012. The theme park will be launched in 2018. At the date of completion of Dream World Acquisition, the Group recognised exclusive operation rights - before launch of theme park of HK$10,010,000 and exclusive operation rights - after launch of theme park of HK$190,778,000. The exclusive operation rights of theme park was measured initially at cost and amortised over 2 years in respect of portion attributable to before launch of theme park and 34 years in respect of portion attributable to after launch of theme park using straight-line method. At the end of the reporting period, the remaining amortisation period of the exclusive operation rights is 1 year before launch of theme park and 34 years after launch of theme park.

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15. GOODWILL

The amounts of goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position arising from the acquisition of subsidiaries are as follows:

	2016	2015
	HK$'000	HK$'000
Reconciliation of carrying amount		
At beginning of reporting period	**240,702**	218,875
Acquisition of subsidiaries	**432,371**	21,827
At end of reporting period	**673,073**	240,702
At 31 December		
Cost	**704,073**	271,702
Accumulated impairment losses	**(31,000)**	(31,000)
	673,073	240,702

Goodwill arose because the consideration paid for the acquisitions effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

15. GOODWILL *(Continued)*

The carrying amount of goodwill was allocated to the Group's cash-generating units (the "CGUs") identified according to the country of operations and business segments as follows for impairment test:

	2016 HK$'000	2015 HK$'000
Entertainment		
– Music content	**18,545**	18,545
– Film and TV series production and distribution	**94,695**	94,695
– Television-related content	**21,827**	21,827
– Event production and online broadcasting	**33,522**	–
– Managing eSports teams and eSports broadcasters	**883**	–
Sports		
– Sports events content	**1,924**	1,924
– Marketing and promotional services	**103,711**	103,711
Theme Park		
– Theme park operation services	**397,966**	–
	673,073	240,702

The recoverable amount of the CGUs has been determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by the Board of Directors covering a 5-year period. Cash flows beyond the 5-year period have been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The recoverable amounts of the CGUs exceeded their carrying amounts based on value-in-use calculations. Accordingly, no additional impairment on goodwill was recognised during the years ended 31 December 2016 and 2015.

15. GOODWILL *(Continued)*

Key assumptions used for value-in-use calculations are as follows:

	Entertainment							
	Music content		Film and TV series production and distribution		Television-related content		Event production and online broadcasting	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Gross profit margin	**60%**	99%	**47%**	54%	**95%**	22%	**83%**	N/A
Average growth rate	**78%**	4%	**8%**	37%	**5%**	87%	**31%**	N/A
Long-term growth rate	**3%**	3%	**3%**	3%	**3%**	3%	**3%**	N/A
Discount rate	**37%**	36%	**33%**	31%	**34%**	37%	**34%**	N/A

	Sports				Theme park	
	Sports events content		Marketing and promotional services		Theme park operation services	
	2016	2015	**2016**	2015	**2016**	2015
Gross profit margin	**59%**	55%	**47%**	98%	**75%**	N/A
Average growth rate	**7%**	19%	**3%**	47%	**54%**	N/A
Long-term growth rate	**3%**	3%	**3%**	3%	**3%**	N/A
Discount rate	**39%**	42%	**22%**	27%	**25%**	N/A

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Apart from the considerations described above in determining the value-in-use of the CGUs, the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.

16. INTEREST IN JOINT VENTURES

	2016 HK$'000	2015 HK$'000
Unlisted shares		
Share of net assets	**5,012**	–

Particulars of the joint ventures which are all 50% held by a 97.61% owned subsidiary of the Group are as follows:

Name of joint venture	Place of incorporation/type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Effective percentage equity attributable to the Group *Directly*	*Indirectly*	Principal activities
Shinning Day Limited [(i)]	British Virgin Islands/ limited liability company	Hong Kong	4 shares of US$1 each	48.81%	–	Investment holding
Golden Sino Limited [(i)]	Hong Kong/limited liability company	Hong Kong	1,000 shares with capital of HK$1,000	–	48.81%	Investment holding
Beijing YiLaiShen Technology Company Limited* 北京易來申科技有限公司[(i)]	The PRC/foreign wholly-owned enterprise	The PRC	Paid-up capital of HK$12,000,000	–	48.81%	Distribution of copyright-protected items and other entertainment related business
Beijing WenZiShuma Investment Management Company Limited* 北京文資數碼投資管理有限公司	The PRC/limited liability company	The PRC	Paid-up capital of RMB6,000,000	48.81%	–	Project investment, investment management and financial consultancy service

* English translation of company name is for identification purpose only.

(i) Companies collectively referred to as the Shinning Day Group.

16. INTEREST IN JOINT VENTURES *(Continued)*

Fair value of investments

All of the above joint ventures are not listed and there is no quoted market price available for the investments.

Relationship with joint ventures

Shinning Day Group was established by the Group and the other joint venturer, which is a music provider in the PRC, to engage in distribution of copyright-protected items and other entertainment related business in the PRC. The investment is a strategic move of the Group to leverage the expertise of the other joint venturer in the field of the entertainment related business.

Beijing WenZiShuma Investment Management Company Limited was established by the Group and the other joint venturer, which is a project investment company in the PRC, to engage in project investment, investment management and financial consultancy service in the PRC. The investment is a strategic move of the Group to leverage the expertise of the other joint venturer in the field of the project investment related business.

Financial information of joint ventures

Summarised financial information of joint ventures is set out below, which represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.

16. INTEREST IN JOINT VENTURES *(Continued)*

At 31 December 2016	Shinning Day Group HK$'000	Beijing WenZiShuma Investment Management Company Limited HK$'000
Gross amount		
Non-current assets	30	11,428
Current assets	5,748	9,910
Current liabilities	(27,878)	(11,314)
Equity	(22,100)	10,024
Group's ownership interests	50.00%	50.00%
Group's share of equity	–**	5,012
Included in above:		
Cash and cash equivalents	17	5,049
Current financial liabilities*	(26,628)	(11,161)
Year ended 31 December 2016		
Gross amount		
Revenue	29	3,496
Profit (Loss) for the year	1,502	(1,524)
Other comprehensive loss for the year	(3,641)	(391)
Loss for the year and total comprehensive loss for the year	(2,139)	(1,915)
Group's ownership interest	50.00%	50.00%
Group's share of results of joint ventures	–**	(762)
Group's share of other comprehensive loss for the year	–**	(196)
Included in above:		
Depreciation and amortisation	–	(38)
Interest income	–	14
Interest expenses	(940)	–

* Exclude trade and other payables and provisions.

** The Group's share of net liabilities is limited to zero.

16. INTEREST IN JOINT VENTURES *(Continued)*

At 31 December 2015	Shinning Day Group HK$'000	Beijing WenZiShuma Investment Management Company Limited HK$'000
Gross amount		
Non-current assets	32	–
Current assets	8,553	–
Current liabilities	(28,546)	–
Equity	(19,961)	–
Group's ownership interests	50.00%	–
Group's share of equity	-**	–
Included in above:		
Cash and cash equivalents	7,827	–
Current financial liabilities*	(27,320)	–
Year ended 31 December 2015		
Gross amount		
Revenue	8,142	–
Profit for the year	7,230	–
Other comprehensive income for the year	134	–
Profit for the year and total comprehensive income for the year	7,364	–
Group's ownership interest	50.00%	–
Group's share of results of joint ventures	–**	–
Included in above:		
Depreciation and amortisation	–	–
Interest income	–	–
Interest expenses	(943)	–

* Exclude trade and other payables and provisions.

** The Group's share of net liabilities is limited to zero.

16. INTEREST IN JOINT VENTURES *(Continued)*

The above financial information is prepared using the same accounting policies as those adopted by the Group.

The unrecognised share of profit of Shinning Day Group for the current year amounted to HK$751,000 (2015: profit of HK$3,529,000) and the unrecognised share of losses cumulatively up to the end of the reporting period amounted to HK$1,201,000 (2015: HK$1,952,000) respectively.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	**2016** **HK$'000**	2015 HK$'000
Unlisted investments, at cost		**11,159**	23,388
Deposits for available-for-sale financial assets	*(i)*	**–**	11,751

The available-for-sale investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed. The directors of the Company are of the opinion that their fair values cannot be measured reliably. No impairment has been identified by the directors on these investments at the end of the reporting period.

Note:

(i) On 21 December 2015, Liheng signed a project cooperation agreement with an independent third party and agreed to invest RMB10,000,000 (equivalent to approximately HK$11,941,000) in a reality TV show ("Reality TV Show") which is one-eighth of the total investment cost of the project. As the production of the Reality TV Show could not be completed and broadcasted according to schedule, the Company has withdrawn from the investment. The amount was reclassified to other receivables which is interest-free and repayable within one year.

18. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

(a) On 30 November 2016, the Company entered into an acquisition agreement (as supplemented by the further announcements dated 21 December 2016, 28 December 2016 and 16 January 2017) ("Vector Vision Agreement") with an independent third party to acquire 100% of the issued share capital in Vector Vision Enterprises Limited ("Vector Vision"). The aggregate consideration shall be up to HK$80,000,000 to be settled by the Company by (i) refundable deposit of HK$40,000,000 in cash within 28 business days from the execution of the acquisition agreement; and (ii) a sum of HK$40,000,000 in cash within 10 business days from completion. As at 31 December 2016, deposit of HK$40,000,000 had been paid pursuant to the Vector Vision Agreement. The acquisition of Vector Vision was not completed as at the date of this report.

Vector Vision is incorporated in the British Virgin Islands ("BVI") with limited liability and is principally engaged in the celebrity and artists training course agency business.

(b) The deposit as at 31 December 2015 of HK$80,000,000 was related to the acquisition of Dream World, which was completed on 14 January 2016. Further details of this transaction have been disclosed in note 32(a) to the consolidated financial statements.

19. LOANS TO AND DUE FROM JOINT VENTURES

	Note	**2016** **HK$'000**	2015 HK$'000
Due from joint ventures	*(i)*	**2,669**	3,615
Loans to a joint venture	*(ii)*	**17,000**	17,000
		19,669	20,615
Allowance for doubtful debts	*(iii)*	**(14,078)**	(20,214)
		5,591	401

Note:

(i) The amounts due from joint ventures are unsecured, interest-free and have no fixed repayment term. The directors expect that the amounts will not be realised in the next twelve months of the end of the reporting period.

19. LOANS TO AND DUE FROM JOINT VENTURES *(Continued)*

Note: (Continued)

(ii) On 1 January 2011, the Group granted a revolving loan facility of HK$17,000,000 to a joint venture, which is unsecured, interest-bearing at prime rate plus 1.5% per annum and repayable within 36 months from the date of agreement.

On 27 December 2013, the Group signed a supplemental agreement with the joint venture and agreed to extend the term of the loan facility from 28 December 2013 to 28 December 2016.

On 27 December 2016, the Group further signed a supplemental agreement with the joint venture and agreed to extend the term of the loan facility from 28 December 2016 to 27 December 2019. The joint venture had drawn down HK$17,000,000 (2015: HK$17,000,000) as at 31 December 2016.

(iii) Allowance for doubtful debts was made in respect of the loans to and amounts due from joint ventures because these joint ventures have suffered substantial accumulated losses and the directors are of the opinion that the probability of recovering the loans to and amounts due from these joint ventures in full would be remote. During the year, reversal of allowance for doubtful debts was made because of the improvement in the financial position of the joint ventures to the Group.

Movement in allowance for doubtful debts is as follows:

	2016	2015
	HK$'000	HK$'000
At beginning of reporting period	**20,214**	17,644
(Decrease) Increase in allowance	**(6,136)**	2,570
At end of reporting period	**14,078**	20,214

The carrying value of the loans and amounts due approximates their fair value.

20. INVENTORIES

	2016	2015
	HK$'000	HK$'000
Movie scripts	**6,180**	2,054

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Analysis of financial assets at fair value through profit or loss:

	2016 HK$'000	2015 HK$'000
Unlisted convertible notes at fair value, designated upon initial recognition		
At beginning of reporting period	–	–
Additions	20,000	–
Fair value adjustments	916	–
At end of reporting period	20,916	–

Note:

(a) During the year ended 31 December 2016, the Group subscribed convertible note of principal amount of HK$5,000,000 ("Convertible note A") and HK$15,000,000 ("Convertible note B") of Light Cycle Limited ("Light Cycle").

In the opinion of the directors, subscription of the convertible notes, representing 9.21% equity interest in Light Cycle, would not constitute significant influence on Light Cycle, and the unlisted convertible notes were designated as at fair value upon initial recognition as they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. The fair values are estimated using valuation technique based on assumptions and estimates including but not limited to average stock price, risk-free rate, expected volatility and expected dividend yield of similar comparable by an independent qualified professional valuer, Graval Consulting Limited ("Graval"), by using the Binomial Option Pricing Model.

	Convertible note A	Convertible note B	Total
Principal amount *(HK$'000)*:	5,000	15,000	**20,000**
Date of maturity:	28 October 2021	22 April 2021	
Coupon rate:	2% per annum	2% per annum	
Volatility of underlying listed shares:	39.96%	39.96%	
Risk-free interest rate (with reference to Hong Kong Exchange Fund Notes):	1.473%	1.543%	
Fair value as at 31 December 2016	HK$'000	HK$'000	**HK$'000**
Convertible notes	5,254	15,662	**20,916**

22. ACCOUNTS AND OTHER RECEIVABLES

	Note	2016 HK$'000	2015 HK$'000
Accounts receivable			
From third parties		**116,902**	51,312
Allowance for doubtful debts	*(i)*	**(2,990)**	–
	(i)	**113,912**	51,312
Other receivables			
Deposits, prepayments and other receivables		**23,661**	6,359
Prepayments to licensors and service providers		**45,177**	38,760
Receivable from disposal of available-for-sale financial asset	*(ii)*	**15,000**	–
Refund of deposits of available-for-sale financial asset	*17(i)*	**10,713**	15,225
Due from directors of subsidiaries of the Company	*(iii)*	**2,624**	7,653
Due from directors	*(iv)*	**835**	5,988
		98,010	73,985
		211,922	125,297

22. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

Note:

(i) Accounts receivable

In general, the Group allows a credit period from 30 days to 90 days to its customers upon presentation of invoices. Included in the Group's accounts receivable balances are debtors with carrying amounts of HK$94,047,000 (2015: HK$20,429,000), which were past due at the end of the reporting period but not impaired as there has not been any significant change in credit quality and part of which has been subsequently settled. These relate to several customers for whom there is no recent history of default.

At the end of the reporting period, the ageing analysis of the accounts receivable (net of allowance for doubtful debts) by invoice date is as follows:

	2016 HK$'000	2015 HK$'000
0-30 days	**15,534**	30,883
31-90 days	**6,277**	–
91-365 days	**90,662**	16,625
Over 365 days	**1,439**	3,804
	113,912	51,312

At the end of the reporting period, the ageing analysis of the accounts receivable by overdue date that are neither individually nor collectively considered to be impaired is as follows:

	2016 HK$'000	2015 HK$'000
Current	**19,865**	30,883
Less than 1 month past due	**67,614**	–
1 month to 3 months past due	**24,944**	2,325
3 months to 12 months past due	**855**	14,300
Over 1 year past due	**634**	3,804
	94,047	20,429
	113,912	51,312

Receivables that were neither past due nor impaired relate to several customers for whom there was no history of default.

22. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

Note: (Continued)

(i) Accounts receivable (Continued)

Movement in allowance for doubtful debts is as follows:

	2016 HK$'000	2015 HK$'000
At beginning of reporting period	**–**	–
Increase in allowance	**3,124**	–
Exchange realignment	**(134)**	–
At end of reporting period	**2,990**	–

(ii) Receivable from disposal of available-for-sale financial asset

On 15 July 2016, the Group entered into an agreement with an independent third party for the disposal of an available-for-sale financial asset at a consideration of HK$25,000,000. The receivable has been partially settled during the year and the remaining balance of HK$15,000,000 has been fully settled subsequently after year end.

(iii) Due from directors of subsidiaries of the Company

The amounts due from directors of the Company's subsidiaries are unsecured, interest-free and have no fixed repayment term.

(iv) Due from directors

The amounts due from directors are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due from directors approximates their fair value. Details of the amounts due from directors are as follows:

Name of director	Greatest during the year HK$'000	2016 HK$'000	2015 HK$'000
Hsu Tung Chi	8,977	**–**	5,936
Hsu Tung Sheng	53	**49**	52
Lai Kwok Fai Franki	7,000	**465**	–
Chang Ching Lien	321	**321**	–
		835	5,988

23. BANK BALANCES AND CASH

	2016 HK$'000	2015 HK$'000
Bank balances and cash are denominated in		
HK$	**29,733**	43,236
RMB	**17,055**	19,310
NT$	**224**	–
USD	**1,046**	1,246
Bank balances and cash	**48,058**	63,792

Cash at bank earns interest at floating rates based on daily bank deposit rates.

24. ACCOUNTS AND OTHER PAYABLES

	Note	2016 HK$'000	2015 HK$'000
Accounts payable			
To third parties	*(i)*	**14,852**	18,013
Other payables			
Accrued charges and other payables		**30,648**	9,718
Other loan	*(ii)*	**13,391**	11,941
Deferred income		**33**	2,719
Due to directors	*(iii)*	**2,202**	4,686
Due to a joint venture	*(iv)*	**5,590**	401
Due to directors of subsidiaries of the Company	*(iv)*	**8,689**	9,240
		60,553	38,705
		75,405	56,718

24. ACCOUNTS AND OTHER PAYABLES *(Continued)*

Note:

(i) Accounts payable

At the end of the reporting period, the ageing of accounts payable by invoice date is in the range of zero to 30 days.

(ii) Other loan

Liheng has entered into an agreement with an independent third party (the "Producer"), pursuant to which Liheng agrees to invest RMB10 million in a Reality TV Show to be produced and developed by the Producer as disclosed in note 17(i). In November 2015, Liheng entered into an investment cooperation agreement with 阿里巴巴(杭州)文化創意有限公司 (Alibaba (Hangzhou) Culture Creation Limited, "Alibaba Hangzhou"), pursuant to which Alibaba Hangzhou agreed to lend RMB10 million (equivalent to approximately HK$11,941,000) loan to Liheng for the production and development of the Reality TV Show, and Liheng, in return, agreed to repay Alibaba Hangzhou the entire RMB10 million together with 20% fixed interest return within 12 months. The Company also entered into a corporate guarantee agreement with Alibaba Hangzhou on 4 December 2015, pursuant to which the Company agreed to secure due performance of the payment obligation by Liheng under the investment cooperation agreement.

On 31 December 2015, an agreement was entered into between Alibaba Hangzhou and 北京聚迷互動影視傳媒有限公司 (Beijing Jumi Hudong Film Media Limited, "Beijing Jumi"), an independent third party, to transfer the rights and obligations of Alibaba Hangzhou as stated in the agreement to Beijing Jumi. Beijing Jumi, currently being a party to the corresponding agreement, is therefore entitled to receive the principal of RMB10 million and the 20% fixed interest return from Liheng.

The corresponding principal and fixed interest return have not been repaid by Liheng during the year as the production of the Reality TV Show was not completed and broadcasted according to the schedule. Liheng and Beijing Jumi have mutually agreed to settle the amount in full before June 2017.

(iii) Due to directors

The amounts due to the Company's directors, Mr. Hsu Tung Chi and Mr. Chang Ching Lien, are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due to directors approximates their fair value.

(iv) Due to a joint venture/directors of subsidiaries of the Company

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due approximates their fair value.

25. INTEREST-BEARING BORROWINGS

	Note	2016 HK$'000	2015 HK$'000
Unsecured bank loans	*(a)*	**4,128**	–
Secured loan from a third party	*(b)*	**2,902**	–
		7,030	–

The maturity of the bank loans based on repayment schedule (ignoring the effect of any repayment on demand clause) are as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**6,418**	–
In the second to fifth years	**612**	–
	7,030	–

Note:

(a) At the end of the reporting period, bank loans with a clause in their terms that gives the banks an overriding rights to demand for repayment without notice or with notice period of less than 12 months at its sole discretion are classified as current liabilities even though the directors do not expect that the banks would exercise their right to demand repayment. The bank loans are denominated in Hong Kong Dollars.

(b) The loan from a third party is repayable in 2 years and is secured by the Group's inventories and the deposit paid for script-writing with carrying value of approximately HK$2,790,000 in total and a corporate guarantee from the Company.

The ranges of interest rates on the Group's interest-bearing borrowings are as follows:

	2016	2015
Interest rates		
Hong Kong Interbank Offer Rate	**Plus 2.5% p.a**	–
Fixed rate	**5%-11%**	–

26. CONVERTIBLE BONDS

The convertible bonds recognised at the end of the reporting period are calculated as follows:

	2016 HK$'000	2015 HK$'000
Liability component at 1 January	–	–
Face value of convertible bonds issued	120,000	–
Equity component at the issue date	(6,807)	–
Liability component at the issue date	113,193	–
Conversion of convertible bonds	(102,260)	–
Interest expenses	66	–
Liability component at 31 December	10,999	–
Portion classified as non-current	(10,999)	–
Current portion	–	–
Equity component at 1 January	–	–
Convertible bonds issued	6,807	–
Conversion of convertible bonds	(3,100)	–
Equity component at 31 December	3,707	–

On 4 July 2016, the Company issued zero coupon convertible bonds with face value of HK$120,000,000 to acquire 100% equity interest in Dream World Group. The convertible bonds will mature on the fifth anniversary from the date of issue.

During the year, convertible bonds with fair value of HK$102,260,000 were converted into a total of 219,499,998 shares of the Company.

As at 31 December 2016, convertible bonds with fair value of HK$10,920,000 was held by Earn Wise Limited, at the initial conversion price of HK$0.48 per conversion share.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.48, subject to adjustments, from the date of issue up to the maturity date.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible bonds. The fair value of the liability component was calculated using a market interest rate of 6.0% per annum for instruments of comparable credit status. The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

27. SHARE CAPITAL

	Note	Number of ordinary shares '000	Nominal value HK$'000
Authorised:			
At 1 January 2015, ordinary shares of HK$0.01 each		20,000,000	200,000
Share consolidation from HK$0.01 each to HK$0.04 each		(15,000,000)	–
At 31 December 2015, 1 January 2016 and 31 December 2016, ordinary shares of HK$0.04 each		5,000,000	200,000
Issued and fully paid:			
At 1 January 2015, ordinary shares of HK$0.01 each		3,639,853	36,398
Issue of shares under share option scheme		165,000	1,650
Shares issued upon exercise of unlisted warrants		137,750	1,378
Share issued upon placing		730,000	7,300
Share consolidation		(3,504,453)	–
At 31 December 2015, ordinary shares of HK$0.04 each		1,168,150	46,726
Issue of consideration shares for acquisition of subsidiaries – Dream World Group	*32(a)*	160,938	6,438
Issue of consideration shares for acquisition of an intangible asset – Image rights in eSports field		20,833	833
Shares issued upon conversion of convertible bonds	*(i)*	219,500	8,780
Shares issued upon placing	*(ii)*	312,500	12,500
At 31 December 2016, ordinary shares of HK$0.04 each		1,881,921	75,277

Note:

(i) During the year, the bondholders converted the convertible bonds with fair value of HK$102,260,000 into 219,499,998 ordinary shares of the Company at the exercise price of HK$0.48 per share, details of which are set out in note 26 to the consolidated financial statements.

(ii) On 23 July 2015, the Company and a placing agent entered into a placing agreement (as supplemented and amended by the supplemental agreement dated 18 August 2015) in relation to the placing of up to 1,250,000,000 new shares of the Company under specific mandate at a placing price of HK$0.12 per share (before share consolidation effect). Proceeds of the placing under specific mandate are intended to be used for funding the acquisition of Dream World as mentioned in note 32(a) to the consolidated financial statements, and/or for general working capital of the Group. As at 31 December 2015, no shares have been issued under the placing agreement under specific mandate.

On 5 April 2016, the Company has further entered into a second supplemental agreement and appointed an additional placing agent to issue 312,500,000 shares. The placing was completed on 14 April 2016, with proceeds from the issue of the placing shares of approximately HK$145,488,000.

28. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Old Share Option Scheme"). The Old Share Option Scheme was valid and effective for a period of ten years and expired on 23 January 2013. On 27 March 2013, with approval by the shareholders, the Company adopted a new share option scheme (the "New Share Option Scheme"), with similar terms except for the extension of eligible participants to include consultants and suppliers as well as the reduction of the offer of acceptance from 28 days to 7 days to replace the Old Share Option Scheme.

The purpose of the New Share Option Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board may, at its discretion, invite any full-time employees of the Company, consultants and suppliers of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10% of the issued shares of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the New Share Option Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Options might be granted at a consideration of HK$1. Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 30 November 2015, every four issued and unissued ordinary shares of HK$0.01 each was consolidated into one consolidated share of HK$0.04 each. As a result of the share consolidation on 1 December 2015, the exercise price of the share options had been adjusted to HK$0.4572 per share since then. The options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

28. SHARE OPTION SCHEME *(Continued)*

Details of specific categories of share options granted under the New Share Option Scheme are as follows:

Date of grant	Exercise period	Exercise price*	Fair value at grant date/ service date
		HK$	HK$
10/06/2014			
– Lot 1	10/06/2014 to 10/06/2017	0.1143	0.0339
– Lot 2	10/06/2015 to 10/06/2017	0.1143	0.0421
– Lot 3	10/06/2016 to 10/06/2017	0.1143	0.0483

* Before share consolidation

In accordance with the terms of the New Share Option Scheme, options granted during the financial year ended 31 December 2014 are exercisable during the validity period of 3 years from the date of grant and subject to a vesting scale in tranches of one-third on the date of grant and each anniversary date thereof up to and including the second anniversary date.

(a) Fair value of share options and assumptions

The fair value of the share options is determined using a Binomial Option Pricing Model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expectations of early exercise are incorporated into the model. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

Share price at grant date (before share consolidation)	0.1130
Exercise price (before share consolidation)	0.1143
Option life	3 years
Expected volatility	71.68%
Expected dividends	Nil
Risk-free interest rate	0.70%

The expected volatility is based on the historic volatility (based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

During the year, the fair value of equity-settled share-based payment of HK$1,181,000 (2015: HK$4,717,000) has been recognised in profit or loss.

28. SHARE OPTION SCHEME *(Continued)*

(b) Movement in share option

The following table discloses movements of the Company's number of share options during the years ended 31 December 2016 and 2015:

Grant date	Exercise period	Exercise price* HK$	Outstanding at 1 January	Granted during the year	Exercised during the year	Share consolidation (every 4 shares into 1 share)	Outstanding at 31 December
Year ended 31 December 2016							
Directors							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	**13,752,552**	**–**	**–**	**–**	**13,752,552**
Employees							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	**22,008,932**	**–**	**–**	**–**	**22,008,932**
Consultant							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	**5,501,276**	**–**	**–**	**–**	**5,501,276**
			41,262,760	**–**	**–**	**–**	**41,262,760**
Exercisable at end of reporting period							**41,262,760**
Weighted average exercise price							**HK$0.4572**
Weighted average share price at date of exercise							**N/A**

* Before share consolidation

28. SHARE OPTION SCHEME *(Continued)*

(b) Movement in share option *(Continued)*

Grant date	Exercise period	Exercise price* HK$	Outstanding at 1 January	Granted during the year	Exercised during the year	Share consolidation (every 4 shares into 1 share)	Outstanding at 31 December
Year ended 31 December 2015							
Directors							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	66,010,208	–	(11,000,000)	(41,257,656)	13,752,552
Employees							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	231,035,728	–	(143,000,000)	(66,026,796)	22,008,932
Consultant							
10/06/2014	10/06/2014 to 10/06/2017	0.1143	33,005,104	–	(11,000,000)	(16,503,828)	5,501,276
			330,051,040	–	(165,000,000)	(123,788,280)	41,262,760
Exercisable at end of reporting period							27,508,507
Weighted average exercise price							HK$0.1143
Weighted average exercise price after share consolidation							HK$0.4572
Weighted average share price at date of exercise							HK$0.7300

* Before share consolidation

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29. WARRANTS

In October 2013, the Company entered into a warrant subscription agreement with the subscribers in relation to the warrant subscription, pursuant to which, the Company had conditionally agreed to allot and issue to the subscribers and the subscribers had conditionally agreed to subscribe for an aggregate of 275,500,000 unlisted warrants conferring the rights to subscribe for an aggregate of 275,500,000 warrant shares at an exercise price of HK$0.15 per warrant share for a period of 48 months. The issue price of warrant was HK$0.001 per warrant. Each warrant carried the right to subscribe for 1 warrant share. The Company would receive net proceeds of approximately HK$41,300,000 upon full exercise of the subscription rights attaching to the warrants. In December 2013, the subscription and issue of the 275,500,000 unlisted warrants was completed. No unlisted warrants were issued and exercised during the year ended 31 December 2014.

During the year ended 31 December 2015, 137,750,000 unlisted warrants were exercised for a total cash consideration of approximately HK$20,663,000. The transaction cost incurred was insignificant.

As a result of the share consolidation on 1 December 2015, pursuant to the terms and conditions of the warrants, the exercise price of the outstanding warrants had been adjusted to HK$0.6 per share as at 31 December 2015.

No unlisted warrants were issued and exercised during the year ended 31 December 2016.

As at 31 December 2015 and 2016, there were 34,437,500 unlisted warrants remained outstanding.

30. RETIREMENT BENEFITS SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Schemes"). The assets of the MPF Schemes are held separately in provident funds managed by independent trustees. Under the MPF Schemes, the Group and each of the employees make monthly contributions to the schemes at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$30,000 since June 2014.

The Group's subsidiaries in the PRC also participate in defined contribution retirement schemes covering their full-time PRC employees. The schemes are administered by the relevant government authorities which undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiaries.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$686,000 (2015: HK$376,000).

31. DEFERRED TAXATION

The movements in the Group's net deferred tax liabilities were as follows:

	2016 HK$'000	2015 HK$'000
At the beginning of the reporting period	–	–
Acquisition of subsidiaries – Dream World Group *(note 32 (a))*	50,197	–
At the end of the reporting period	50,197	–

Recognised deferred tax liabilities of HK$50,197,000 at the end of the reporting period represent temporary difference on intangible assets of exclusive operation rights of theme park.

The retained earnings of certain PRC subsidiaries would be subject to additional taxation if they are distributed. The estimated withholding tax effects on the distribution of retained earnings of these PRC entities were approximately HK$6,271,000 (2015: HK$3,697,000). In the opinion of the directors, these retained earnings, at the present time, are required for financing the continuing operations of the entities and no distribution would be made in the foreseeable future. Accordingly, no provision for deferred taxation in respect of withholding tax on dividend have been made.

	2016 HK$'000	2015 HK$'000
Unrecognised deferred tax assets arising from		
Deductible temporary differences	1,022	171
Tax losses	3,173	3,392
At the end of the reporting period	4,195	3,563

Neither the tax losses nor the deductible temporary differences expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

32. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Dream World Group

On 6 July 2015, the Group entered into a sale and purchase agreement ("Dream World Agreement") with three independent third parties (the "Vendors") pursuant to which the Group/the Vendors agreed to acquire/sell the entire equity interests of Dream World Group (the "Dream World Acquisition"). Dream World is principally engaged in the business of operating film-based cultural parks and tourism focused projects. Details of the Dream World Acquisition were set out in the Company's circular dated 28 October 2015.

Pursuant to the Dream World Agreement, the consideration shall be an aggregate sum of a maximum of HK$587,250,000 for the Dream World Acquisition and is to be satisfied by the Group as follows:

(i) *Initial consideration*

- A sum of HK$50,000,000 to be paid in cash as a refundable deposit immediately upon the signing of the Dream World Agreement;

- A sum of HK$100,000,000 to be paid in cash within 6 months from the completion date; and

- A sum of HK$77,250,000 to be paid by the allotment and issue of 643,750,000 consideration shares at HK$0.12 per share (before share consolidation effect) upon completion of signing the Dream World Agreement.

(ii) *Contingent consideration*

A sum of maximum of HK$360,000,000 to be paid by issuance of convertible bonds, subject to the fulfilment of profit guarantee requirements and the Group being satisfied with the progress of the stage of construction of the project for the three years ending 31 December 2015, 31 December 2016 and 31 December 2017 respectively.

The contingent consideration requires the Group to pay the Vendors a maximum of HK$360,000,000 by issuance of convertible bonds if Dream World Group's profit after tax in each of the years ending 31 December 2015, 2016 and 2017 is not less than HK$15,000,000, HK$20,000,000 and HK$25,000,000 ("Performance Target") respectively.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Acquisition of Dream World Group *(Continued)*

In the event that the Group is satisfied with the progress of the stage of construction of the project for the three years ending 31 December 2015, 31 December 2016 and 31 December 2017 respectively and Dream World Group's records a consolidated profit but fails to meet the Performance Target (the shortfall being the difference between the Performance Target and the actual consolidated profit) in any of the three financial years ending 31 December 2015, 31 December 2016 and 31 December 2017: (1) without prejudice to the Vendors' option to pay cash reimbursement to the Group for the relevant contingent consideration as described below, the contingent consideration payable to the Vendors or their nominee(s) for that year shall be reduced in proportion by the amount of shortfall to the Performance Target in the corresponding financial year(s); and (2) the amount of shortfall shall be carried forward as an additional amount to the Performance Target in the following financial year, and the corresponding reduced amount of contingent consideration shall be carried forward as an additional amount of contingent consideration payable in the following financial year.

On 14 January 2016 ("completion date"), the Dream World Agreement was completed and Dream World has become a subsidiary of the Group since then.

The directors of the Company have engaged Graval to determine the fair value of the initial consideration in respect of the consideration shares and contingent consideration at the completion date. Graval has determined the methodologies and the key valuation parameters and reviewed the business assumptions adopted.

The fair value of the consideration shares included in the initial consideration is valued based on the last traded price of shares as of the completion date. The fair value of the contingent consideration – convertible bonds is valued using the Binomial Option Pricing Model. Key valuation parameters include discount rates, volatility and spot share price and conversion price. As at the completion date of acquisition on 14 January 2016, the fair value of the contingent consideration – convertible bonds was estimated to be approximately HK$355,155,000 to be settled by way of issuance of the contingent convertible bonds with face value amounting to HK$360,000,000.

The fair value of the contingent consideration – convertible bonds is revalued at 31 December 2016 with reference to the Dream World's actual profit for the year ended 31 December 2015 (the "2015 actual profit"). The 2015 actual profit exceeded the benchmarked contingent profit level and the Group settled the contingent consideration – convertible bonds for 2015 Performance Target in full. The face value of the contingent consideration – convertible bonds is HK$120,000,000.

Movement of contingent consideration – convertible bonds is disclosed in note 37.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Acquisition of Dream World Group *(Continued)*

As at 31 December 2016, the allocation of the contingent consideration – convertible bonds is as follows:

	2016
	HK$'000
Current portion	**117,999**
Non-current portion	**119,928**
	237,927

Due to the fact that the fair value of the contingent consideration – convertible bonds is indexed to the achievements of the Performance Target, therefore, the fair value of the contingent consideration – convertible bonds is remeasured as at 31 December 2016 on the same basis as above and the Group recognised a fair value loss on contingent consideration – convertible bonds of HK$2,772,000 in profit or loss for the year ended 31 December 2016 increasing the contingent consideration to HK$237,927,000 as a result of the increase in share price of the Company.

The transaction costs of approximately HK$6,088,000 have been included in administrative and other expenses in the consolidated statement of comprehensive income.

In respect of the Dream World Acquisition, the fair value of accounts and other receivables acquired included accounts and other receivables with a fair value of approximately HK$3,430,000 and HK$12,019,000 respectively. The total gross contractual amount of the accounts and other receivables were approximately HK$3,430,000 and HK$12,019,000 respectively, of which no balance was expected to be uncollectible.

Since acquisition, Dream World reported revenue of HK$48,384,000 and a profit of HK$21,770,000. If the business combination effected during the year had been taken place at the beginning of the year, the revenue and profit of the Group would have been approximately HK$206,214,000 and HK$69,021,000 respectively.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Acquisition of Dream World Group *(Continued)*

Upon completion of the acquisition of 100% interest of Dream World on 14 January 2016, Shanghai Sanpace Technology Co., Ltd ("Shanghai Sanpace") became an associate of the Group until the completion of disposal of 15% interest of Shanghai Sanpace with total consideration of RMB1,800,000 (equivalent to HK$2,141,000) on 30 September 2016. During the year ended 31 December 2016, the Group shared the loss of Shanghai Sanpace and generated a gain on disposal of Shanghai Sanpace of approximately HK$123,000 and HK$473,000 respectively.

(b) Acquisition of Jieyi Wenchuang Company Limited ("Jieyi Wenchuang")

On 8 March 2016, the Group entered into a sale and purchase agreement ("Jieyi Wenchuang Agreement") with four independent third parties to acquire the entire equity interest of Jieyi Wenchuang (the "Jieyi Wenchuang Acquisition"), at a cash consideration of NT$1,151,000 (equivalent to approximately HK$274,000). Jieyi Wenchuang is principally engaged in the business of training, nurturing and managing eSports teams and eSports broadcasters.

On 1 June 2016, the Jieyi Wenchuang Agreement was completed and Jieyi Wenchuang has become a subsidiary of the Group since then.

The transaction costs of approximately HK$196,000 have been included in administrative and other expenses in the consolidated statement of comprehensive income.

In respect of the Jieyi Wenchuang Acquisition, the fair value of accounts and other receivables acquired included accounts and other receivables with a fair value of approximately HK$108,000 and HK$423,000 respectively. The total gross contractual amount of the accounts and other receivables were approximately HK$108,000 and HK$422,000 respectively, of which no balance was expected to be uncollectible.

Since acquisition, Jieyi Wenchuang reported revenue of HK$6,002,000 and a profit of HK$727,000. If the business combination effected during the year had been taken place at the beginning of the year, the revenue and profit of the Group would have been approximately HK$206,319,000 and HK$68,166,000 respectively.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Acquisition of Shanghai Xin Ke Culture Media Company Limited ("Xin Ke")

On 12 July 2016, the Group entered into a sale and purchase agreement ("Xin Ke Agreement") with an independent party to acquire the entire equity interest of Shanghai Xin Ke Culture Media Company Limited (the "Xin Ke Acquisition"), at a cash consideration of HK$35,000,000. Shanghai Xin Ke Culture Media Company Limited is principally engaged in the business of entertainment project planning, celebrity management and production of online streaming content.

On 13 July 2016, the Xin Ke Agreement was completed and Xin Ke has become a subsidiary of the Group since then.

The transaction costs of approximately HK$396,000 was included in administrative and other expenses in the consolidated statement of comprehensive income.

In respect of the Xin Ke Acquisition, the fair value of accounts and other receivables acquired included accounts and other receivables with a fair value of approximately HK$1,573,000 and HK$708,000 respectively. The total gross contractual amount of the accounts and other receivables were approximately HK$1,573,000 and HK$708,000 respectively, of which no balance was expected to be uncollectible.

Since acquisition, Xin Ke reported revenue of HK$5,567,000 and a profit of HK$3,378,000. If the business combination effected during the year had been taken place at the beginning of the year, the revenue and profit of the Group would have been approximately HK$208,508,000 and HK$70,613,000 respectively.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisitions during the year ended 31 December 2016

The following summarised the consideration paid and the amounts of the assets acquired and liabilities assumed at the date of the respective acquisitions.

	Dream World Group HK$'000	Jieyi Wenchuang Company Limited HK$'000	Shanghai Xin Ke Culture Media Company Limited HK$'000	Total HK$'000
Consideration				
Cash paid	150,000	274	35,000	185,274
Shares issued, at fair value	68,399	–	–	68,399
Contingent consideration – convertible bonds, at fair value	355,155	–	–	355,155
	573,554	274	35,000	608,828
Recognised amounts of identifiable assets acquired and liabilities assumed				
Intangible asset	200,788	–	–	200,788
Property, plant and equipment	5	1,168	–	1,173
Investment in an associate	1,791	–	–	1,791
Bank balances and cash	9,665	80	475	10,220
Accounts and other receivables	15,449	530	2,281	18,260
Financial assets at fair value through profit or loss	7,770	–	–	7,770
Accounts and other payables	(3,723)	(2,387)	(748)	(6,858)
Tax payables	(5,960)	–	(530)	(6,490)
Deferred tax liabilities	(50,197)	–	–	(50,197)
Total identifiable net assets (liabilities)	175,588	(609)	1,478	176,457
Goodwill arising on acquisition	397,966*	883	33,522	432,371
Net cash flow on acquisition of subsidiaries				
Net cash acquired from subsidiaries	9,665	80	475	10,220
Cash consideration paid	(150,000)	(274)	(35,000)	(185,274)
Deposit for acquisition of a subsidiary	80,000	–	–	80,000
Net outflow of cash and cash equivalents	(60,335)	(194)	(34,525)	(95,054)

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisitions during the year ended 31 December 2016 *(Continued)*

* At the date of the completion of Dream World Acquisition, a goodwill of HK$553,402,000 was provisionally recognised based on management's preliminary assessment of the fair values of assets acquired and liabilities assumed. During the preparation of the consolidated financial statements for the year ended 31 December 2016, the identification and determination of the fair values of the net identifiable assets acquired was completed by reference to a valuation report prepared by an independent professional valuer. With reference to the valuation report, at the date of completion of the Dream World Acquisition, intangible assets of exclusive operation rights of theme park, goodwill and deferrd tax liabilities were recognised at HK$200,788,000, HK$397,966,000 and HK$50,197,000 respectively. Amortisation of the intangible assets of exclusive operation rights of theme park for the year ended 31 December 2016 was HK$5,005,000.

If all the above business combinations effected during the year had been taken place at the beginning of the year, the revenue and profit of the Group would have been approximately HK$208,613,000 and HK$69,758,000 respectively.

33. DEEMED DISPOSAL OF A SUBSIDIARY

On 19 January 2016, Beijing WenZiShuma Investment Management Company Limited ("WenZiShuma"), a non-wholly owned subsidiary of the Company allotted and issued its subscription shares to an independent third party. The Group's equity interest in WenZiShuma was diluted from 80% to 50% and resulted in loss of control over WenZiShuma. This transaction is regarded as a deemed disposal of a subsidiary. WenZiShuma has become a joint venture of the Group since 19 January 2016.

	HK$'000
Net assets disposed of:	
Available-for-sale financial assets	2,388
Cash and bank balances	3,589
Accrued liabilities and other payables	(5)
Due to an immediate holding company	(1)
Tax payable	(1)
Net assets value	5,970
Non-controlling interests	(1,193)
Release of exchange reserve	328
	5,105
Investment retained in the former subsidiary at fair value	(5,970)
Gain on deemed disposal of a subsidiary	(865)
Consideration	–

33. DEEMED DISPOSAL OF A SUBSIDIARY *(Continued)*

The gain on deemed disposal of a subsidiary is included in other income in the consolidated statement of comprehensive income.

Analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

	HK$'000
Cash and bank balances in a subsidiary disposed of and net outflow of cash and cash equivalents on disposal	(3,589)

34. COMMITMENTS

Capital expenditure commitment

	Note	2016 HK$'000	2015 HK$'000
Contracted but not provided for, net of deposit recognised in the consolidated financial statements:			
– Acquisition of subsidiaries – Dream World Group	*32(a)*	**–**	507,250
– Acquisition of a subsidiary – Vector Vision	*18(a), 38(b)*	**40,000**	–
– Acquisition of an intangible asset		**9,068**	–
– Construction in progress		**5,416**	–
		54,484	507,250

Commitments under operating leases

The Group leases equipment and premises under operating leases. The leases are negotiated for a term ranging from 1 year to over 5 years.

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

	2016 HK$'000	2015 HK$'000
Within one year	**6,772**	1,444
In the second to fifth years inclusive	**42,135**	6,300
Over five years	**13,047**	568
	61,954	8,312

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise share options, warrants, available-for-sale financial assets and bank balances. The Group has various other financial instruments such as accounts and other receivables and accounts and other payables, which arise directly from its business activities.

The accounting policies for financial instruments have been applied to the items below:

	2016				2015		
	Available-for-sale financial assets HK$'000	Loans and receivables HK$'000	Assets at fair value through profit and loss HK$'000	Total HK$'000	Available-for-sale financial assets HK$'000	Loans and receivables HK$'000	Total HK$'000
Financial assets as per consolidated statement of financial position							
Available-for-sale financial assets	11,159	–	–	11,159	23,388	–	23,388
Loans to and due from joint ventures	–	5,591	–	5,591	–	401	401
Financial assets at fair value through profit or loss	–	–	20,916	20,916	–	–	–
Accounts and other receivables	–	164,808	–	164,808	–	95,125	95,125
Bank balances and cash	–	48,058	–	48,058	–	63,792	63,792
Total	11,159	218,457	20,916	250,532	23,388	159,318	182,706

	2016			2015	
	Financial liabilities at fair value HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities as per consolidated statement of financial position					
Accounts and other payables	–	78,394	78,394	53,999	53,999
Interest-bearing borrowings	–	7,030	7,030	–	–
Convertible bonds	–	10,999	10,999	–	–
Contingent consideration – convertible bonds	237,927	–	237,927	–	–
Total	237,927	96,423	334,350	53,999	53,999

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum.

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

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to accounts and other receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of accounts and other receivables is set out in note 22 to the consolidated financial statements. The Group only provides services to recognised and credit-worthy third parties. Management closely monitors all outstanding debts and reviews the collectability of debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the financial statements. The Group does not hold any collateral over these assets.

At the end of the reporting period, the Group had a concentration of credit risk as 44% (2015: 21%) and 87% (2015: 82%) of the total accounts receivable were made up by the Group's largest customer's and the five largest customers' outstanding balances respectively.

The Group's bank balances are placed with credit-worthy banks in Hong Kong, in the PRC and in Taiwan.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 25 to the consolidated financial statements.

The Group's policy is to minimise the interest rate risk for interest-bearing borrowings with an original tenor of more than one year by fixing the interest rate at the commencement of the tenor. The Group may make use of interest rate swaps transactions in order to effect fixed interest rates for such borrowings if required.

At the end of the reporting period, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit before tax would decrease/increase by HK$20,535 (2015: HK$Nil) but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. No analysis was performed for 2015 as were no interest-bearing borrowings.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility.

The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle the financial liabilities at the end of the reporting period is summarised below:

	31 December 2016				
	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Accounts and other payables	78,394	78,394	72,350	3,022	3,022
Interest-bearing borrowings	7,030	7,301	–	6,672	629
Contingent consideration – convertible bonds	237,927	240,000	–	120,000	120,000
Convertible bonds	10,999	14,640	14,640	–	–
Total	334,350	340,335	86,990	129,694	123,651

	31 December 2015				
	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Accounts and other payables	53,999	56,387	42,058	14,329	–

Fair value

The carrying amount of the Group's financial assets and financial liabilities carried at other than fair value are not materially different from their fair value as at 31 December 2016 and 2015.

36. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. The capital structure of the Group consists of equity attributable to shareholders (comprising issued capital and reserves). No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015.

37. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value

	31 December 2016 HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Assets measured at fair value				
Financial assets at fair value through profit or loss				
– Unlisted convertible notes	**20,916**	**–**	**–**	**20,916**
Liabilities measured at fair value				
Contingent consideration				
– convertible bonds *(note 32(a))*	**237,927**	**–**	**–**	**237,927**

	31 December 2015 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
– Unlisted convertible notes	–	–	–	–
Liabilities measured at fair value				
Contingent consideration				
– convertible bonds	–	–	–	–

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

37. FAIR VALUE MEASUREMENTS *(Continued)*

Movements in Level 3 fair value measurements

	Assets		Liabilities	
	Financial assets at fair value through profit or loss		Contingent consideration	
Description	Unlisted convertible notes		Convertible bonds	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
At beginning of the reporting period	–	–	–	–
Additions	20,000	–	355,155	–
Issuance of convertible bonds on 4 July 2016	–	–	(120,000)	–
Net change in fair value	916	–	2,772	–
At end of the reporting period	20,916	–	237,927	–

The above gains or losses are reported as "fair value gain on financial assets at fair value through profit or loss" in other income and fair value loss on contingent consideration – convertible bonds.

Quantitative information of the significant unobservable inputs and description of valuation techniques used in Level 3 fair value measurement

Description	Fair value at 31 December 2016 HK$'000	Valuation techniques	Unobservable input	Range (weighted average, if applicable)	Sensitivity of fair value to changes in unobservable inputs
Asset					
Financial assets at fair value through profit or loss					
– Unlisted convertible notes	20,916	Binomial Option Pricing Model	Share price of unlisted convertible notes is derived by income approach	HK$93.49	Assuming other factors remain unchanged, the higher the share price, the higher the fair value of the convertible notes.
			Volatility is based on the average of the implied of the comparable bonds	39.96%	Assuming other factors remain unchanged, the higher the volatility of the share price, the higher the fair value of the convertible notes.
			Discount rate is based on the average of the comparable bonds	13.19% and 13.26% for convertible notes A and B respectively	Assuming other factors remain unchanged, the higher the discount rate, the lower the fair value of the convertible notes.

37. FAIR VALUE MEASUREMENTS *(Continued)*

Movements in Level 3 fair value measurements *(Continued)*

Quantitative information of the significant unobservable inputs and description of valuation techniques used in Level 3 fair value measurement *(Continued)*

Description	Fair value at 31 December 2016 HK$'000	Valuation techniques	Unobservable input	Range (weighted average, if applicable)	Sensitivity of fair value to changes in unobservable inputs
Liabilities					
Contingent consideration					
– Convertible bonds	237,927	Binomial Option Pricing Model	Volatility is based on historical share price of the Company	68.98%	Assuming other factors remain unchanged, the higher the volatility of the share price, the higher the fair value of the contingent consideration.
			Probability for a subsidiary achieving the profit guarantee requirements	95% and 90% for profit guarantee requirements of Dream World Group for year ended 31 December 2016 and year ending 31 December 2017 respectively	Assuming other factors remain unchanged, the higher the probability, the higher the fair value of the contingent consideration.
			Discount rate is based on average of the comparable bonds	6.17% and 6.24% for current portion and non-current portion of contingent consideration – convertible bonds respectively	Assuming other factors remain unchanged, the higher the discount rate, the lower the fair value of the contingent consideration.

The descriptions of the valuation techniques and inputs used in fair value measurement for financial assets at fair value through profit or loss – unlisted convertible notes and contingent consideration – convertible bonds were detailed in note 21 and note 32(a) to the consolidated financial statements respectively.

38. EVENTS AFTER THE REPORTING PERIOD

(a) On 28 December 2016, the Company entered into an acquisition agreement with an independent third party in relation to the acquisition of 35% of the issued share capital of Socle Limited ("Socle"), a non-wholly owned subsidiary of the Group. Socle and its subsidiaries (the "Socle Group") are principally engaged in the business of licensing of professional sports events and entertainment content and investment holdings.

The consideration shall be an aggregate sum of up to HK$58,000,000, to be paid by the Company in two separate tranches: (i) HK$25,000,000 within 15 business days upon the execution of the agreement; (ii) HK$33,000,000 within 5 business days from completion date.

The acquisition was completed on 10 January 2017. Upon the completion of the transaction, Socle Group has become a wholly owned subsidiary of the Group. The following summarised the consideration paid and the amounts of the assets acquired and liabilities assumed at the date of acquisition.

	HK$'000
Consideration paid to non-controlling interests	(58,000)
Carrying amount of non-controlling interests acquired	25,563
Difference recognised directly in equity	(32,437)

Details of the capital restructuring exercises of Socle Group are set out in the Company's announcements dated 28 December 2016, 29 December 2016 and 10 January 2017.

(b) On 30 November 2016, the Company entered into an acquisition agreement with an independent third party in relation to the acquisition of 100% of the issued share capital of Vector Vision Enterprises Limited and its subsidiaries ("Vector Group"). Vector Group is principally engaged in the celebrity and artists training course agency business.

The consideration shall be an aggregate sum of up to HK$80,000,000, to be paid by the Company in two separate tranches: (i) HK$40,000,000 refundable deposit to be paid within 28 business days upon the execution of the agreement; (ii) HK$40,000,000 within 10 business days from completion date. The Group paid a deposit of HK$40,000,000 as at 31 December 2016. The acquisition of Vector Group was not completed as at the date of this report.

(c) On 8 February 2017, the Company entered into a subscription agreement with an independent third party, to issue convertible bonds in the aggregate principal amount of HK$412,500,000 at an interest rate of 5.5% per annum and carry the rights to convert into 750,000,000 ordinary shares of the Company at a conversion price of HK$0.55 per conversion share (subject to adjustments). The convertible bonds will mature on the fifth anniversary from the date of issue.

The transaction was not completed as at the date of this report.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Pursuant to the Hong Kong Companies Ordinance, the statement of financial position of the Company and the movements in its reserves are set out below:

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Interest in subsidiaries	40	**872,760**	200,068
Loans to a subsidiary		**40,000**	40,000
		912,760	240,068
Current assets			
Accounts and other receivables		**77,286**	132,747
Financial assets at fair value through profit or loss		**20,916**	–
Amount due from a director		**5,067**	–
Bank balances and cash		**19,174**	19,003
		122,443	151,750
Current liabilities			
Other payables		**13,230**	3,010
Contingent consideration – convertible bonds		**117,999**	–
		131,229	3,010
Net current (liabilities) assets		**(8,786)**	148,740
Total assets less current liabilities		**903,974**	388,808
Non-current liabilities			
Convertible bonds		**10,999**	–
Consideration payable for an intangible asset		**3,022**	–
Contingent consideration – convertible bonds		**119,928**	–
		133,949	–
NET ASSETS		**770,025**	388,808
Capital and reserves			
Share capital		**75,277**	46,726
Reserves	39(a)	**694,748**	342,082
TOTAL EQUITY		**770,025**	388,808

Approved and authorised for issue by the Board of Directors on 31 March 2017 and signed on its behalf by

Hsu Tung Sheng	**Hsu Tung Chi**
Director	*Director*

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

39(a) Reserves

	Note	Share premium HK$'000 *(Note (i))*	Contributed surplus HK$'000 *(Note (ii))*	Warrant reserve HK$'000 *(Note (iii))*	Share option reserve HK$'000 *(Note (iv))*	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015		508,587	3,047	276	7,782	–	(286,385)	233,307
Profit for the year and total comprehensive income for the year		–	–	–	–	–	19,636	19,636
Transactions with equity holders								
Contribution and distribution								
Equity-settled share-based payment		–	–	–	4,717	–	–	4,717
Shares issued upon exercised of share option		23,349	–	–	(6,139)	–	–	17,210
Shares issued upon exercise of unlisted warrants		19,423	–	(138)	–	–	–	19,285
Shares issued upon placing		47,927	–	–	–	–	–	47,927
Total transactions with equity holders		90,699	–	(138)	(1,422)	–	–	89,139
At 31 December 2015		599,286	3,047	138	6,360	–	(266,749)	342,082
At 1 January 2016		**599,286**	**3,047**	**138**	**6,360**	**–**	**(266,749)**	**342,082**
Profit for the year and total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**46,457**	**46,457**
Transactions with equity holders								
Contribution and distribution								
Equity-settled share-based payment	28	**–**	**–**	**–**	**1,181**	**–**	**–**	**1,181**
Issue of consideration shares for acquisition of subsidiaries		**61,961**	**–**	**–**	**–**	**–**	**–**	**61,961**
Issue of consideration shares for acquisition of an intangible asset		**9,792**	**–**	**–**	**–**	**–**	**–**	**9,792**
Issue of convertible bonds for acquisition of subsidiaries	26	**–**	**–**	**–**	**–**	**6,807**	**–**	**6,807**
Shares issued upon conversion of convertible bonds		**96,580**	**–**	**–**	**–**	**(3,100)**	**–**	**93,480**
Shares issued upon placing		**132,988**	**–**	**–**	**–**	**–**	**–**	**132,988**
Total transactions with equity holders		**301,321**	**–**	**–**	**1,181**	**3,707**	**–**	**306,209**
At 31 December 2016		**900,607**	**3,047**	**138**	**7,541**	**3,707**	**(220,292)**	**694,748**

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

39(a) Reserves *(Continued)*

Note:

(i) The share premium represents the excess of the proceeds or considerations from issuance of the Company's shares over their par value. The share premium of the Company is available for distribution to shareholders subject to certain requirements of the Company Act 1981 of Bermuda (as amended).

(ii) The contributed surplus of the Company arose from the Group Reorganisation which took place in 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of the subsidiaries acquired during the Group Reorganisation.

(iii) The warrant reserve relates to the private placing of unlisted warrants.

(iv) The share option reserve represents the fair value of the actual or estimated number of unexercised or lapsed share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 3 to these consolidated financial statements.

(v) Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

(vi) At the end of the reporting period, the Company has no reserves available for distribution to the equity holders of the Company.

40. SUBSIDIARIES

(i) Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	*Indirectly*	
Rise Assets Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	100%	–	Investment holding
Wonder Link Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	100%	Investment holding
Marvel Cosmos Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	100%	Investment holding

40. SUBSIDIARIES *(Continued)*

(i) Particulars of the subsidiaries of the Company are as follows:*(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Silver Season Investments Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	100%	Investment holding
Cheer Plan Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	100%	Investment holding
Far Glory Group						
Far Glory Limited	British Virgin Islands/limited liability company	Hong Kong	10,900 shares of US$1 each	–	97.61%	Investment holding
Great Wave Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	97.61%	Investment holding
Sky Asia Investments Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK$1	–	97.61%	Investment holding
Beijing LianYiHuiZhong Technology Company Limited * 北京聯易匯眾科技有限公司	The PRC/foreign wholly-owned enterprise	The PRC	Paid-up capital of HK$6,000,000	–	97.61%	Distribution of copyright-protected items and other entertainment-related business
Beijing Orient Liheng Television Media Company Limited * 北京東方力恒影視傳媒有限公司	The PRC/limited liability company	The PRC	Paid-up capital of RMB3,000,000	–	97.61%	Production of television drama series and talent management
ODE Group						
Orient Digital Entertainment Company Limited	British Virgin Islands/limited liability company	Hong Kong	1,000 shares of US$1 each	–	100%	Investment holding
Orient Digital Entertainment Limited	Hong Kong/limited liability company	Hong Kong	1,000 shares with capital of HK$1,000	–	100%	Licensing and sale of entertainment content and products

40. SUBSIDIARIES *(Continued)*

(i) Particulars of the subsidiaries of the Company are as follows: *(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company *Directly*	*Indirectly*	Principal activities
ODE Group (Continued)						
Beijing Orient Lixiang Culture Media Company Limited *#1 北京東方理想文化傳播有限公司（「東方理想」）	The PRC/foreign wholly–owned enterprise	The PRC	Registered capital of RMB2,000,000	–	100%	Investment management focusing on investments in the cultural industry
Kunshan Jieyi Culture Communication Co., Ltd *#2 昆山杰藝文化傳播有限公司（「昆山杰藝」）	The PRC/limited liability company	The PRC	Registered capital of RMB1,000,000	–	100%	Provision of consultancy services in cultural industry
Guangzhou City Digital Entertainment Limited* 廣州市數娛傳媒有限公司	The PRC/limited liability company	The PRC	Paid-up capital of RMB14,000	–	51%	Provision of consultancy services in cultural industry
Beijing Star Dream Investment Culture Co., Ltd* 北京明星夢投文化有限公司（「明星夢投」）	The PRC/limited liability company	The PRC	Paid-up capital of RMB700,000	–	60%	Provision of consultancy services in cultural industry
Beijing Star Dream Business Management Co., Ltd*#3 北京星夢生活商業管理有限公司（「星夢生活」）	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	–	31%#8	Provision of consultancy services in cultural industry
Shanghai Xin Ke Culture Media Company Limited *#4 上海歆珂文化傳媒有限公司（「上海歆珂」）	The PRC/limited liability company	The PRC	Registered capital of RMB500,000	–	100%	Provision of entertainment project planning, celebrity management and production of online streaming content
Beijing Digital Weixi Culture & Creative Co., Ltd*#5 北京數碼維稀文化創意有限公司（「數碼維稀」）	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	–	51%	Operations and management of eSports team

40. SUBSIDIARIES *(Continued)*

(i) Particulars of the subsidiaries of the Company are as follows:*(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company *Directly*	*Indirectly*	Principal activities
Nova Dragon Group						
Nova Dragon International Limited	British Virgin Islands/limited liability company	Hong Kong	10 shares of US$1 each	–	100%	Investment holding
MVP Sports Marketing Company Limited	Hong Kong/limited liability company	Hong Kong	10,000 shares with capital of HK$10,000	–	100%	Assisting professional athletes in marketing and promotional activities
Socle Group						
Socle Limited	British Virgin Islands/limited liability company	Hong Kong	1,000 shares with no par value	–	65%	Investment holding
Imagine Communications Holding Limited	Cayman Islands/limited liability company	Hong Kong	2,000 shares of US$0.001 each	–	65%	Investment holding
Olympic Wealth Limited	British Virgin Islands/limited liability company	The PRC	1 share of US$1 each	–	65%	Licensing of professional sports events and entertainment content
Star Global Management Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK$1	–	65%	Inactive
Goldline Enterprises Limited	British Virgin Islands/limited liability company	Hong Kong	1 share of US$1 each	–	65%	Investment holding
Orient Ace Holdings Limited	Hong Kong/limited liability company	Hong Kong	1 share with capital of HK$1	–	65%	Investment holding
Shenzhen Chuangzhan Corporate Image Planning Limited* 深圳創展企業形象策劃有限公司	The PRC/foreign wholly–owned enterprise	The PRC	Paid-up capital of RMB500,000	–	65%	Investment holding
Shanghai YiTiDongLi Cultural and Sports Communications Limited* 上海壹體動力文化體育傳播有限公司	The PRC/ limited liability company	The PRC	Paid-up capital of RMB2,000,000	–	65%	Licensing of professional sports events and entertainment content

40. SUBSIDIARIES *(Continued)*

(i) Particulars of the subsidiaries of the Company are as follows: *(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company *Directly*	*Indirectly*	Principal activities
Dream World Group						
Dream World Holdings Limited	Cayman Islands/limited liability company	Hong Kong	50,000,000 shares of USD0.001 each	100%	–	Investment holding
China Dream World (HK) Limited	Hong Kong/limited liability company	Hong Kong	Paid-up capital of HK$1	–	100%	Investment holding
Harvest (Shanghai) Management Limited*#6 哈法斯(上海)商業管理有限公司 (「哈法斯」)	The PRC/foreign wholly-owned enterprise	The PRC	Registered capital of RMB10,000,000	–	100%	Investment holding
Kunshan Dream World Business Management Co., Ltd*#7 昆山夢世界商業管理有限公司 (「昆山夢世界」)	The PRC/limited liability company	The PRC	Registered capital of RMB10,000,000	–	100%	Operating film-based cultural parks and tourism focused projects
Summer Eagle Group						
Summer Eagle Limited	British Virgin Islands/limited liability company	Hong Kong	100 shares of US$1 each	100%	–	Investment holding
Star Summer Company Limited	Hong Kong/limited liability company	Hong Kong	1 share of HK$1 each	–	100%	Inactive
Summer Eagle Limited Taiwan Branch	Taiwan/limited liability company	Taiwan	Paid-up capital of NT$5,000,000	–	100%	Investment holding
Jieyi Wenchuang Company Limited* 杰藝文創有限公司	Taiwan/limited liability company	Taiwan	Paid-up capital of NT$20,000,000	–	100%	Business of training, nurturing and managing eSports teams and eSports broadcasters

40. SUBSIDIARIES *(Continued)*

(i) Particulars of the subsidiaries of the Company are as follows:*(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Particulars of issued and paid up ordinary share/ registered capital	Percentage of equity attributable to the Company *Directly*	*Indirectly*	Principal activities
Star Sail Group						
Star Sail Enterprises Limited	British Virgin Islands/limited liability company	Hong Kong	100 shares of HK$1 each	100%	–	Investment holding
Star Sail Entertainment Limited	Hong Kong/limited liability company	Hong Kong	1 share of HK$1 each	–	100%	Inactive

* English translation of company name is for identification purpose only.

#1 At 31 December 2016, 東方理想 had no paid-up capital. Its capital is to be fully paid-up before 17 March 2018.

#2 At 31 December 2016, 昆山杰藝 had no paid-up capital. Its capital is to be fully paid up before 31 December 2040.

#3 At 31 December 2016, 星夢生活 had no paid-up capital. Its capital is to be fully paid up before 28 January 2026.

#4 At 31 December 2016, 上海歆珂 had no paid-up capital. Its capital is to be fully paid up before 2 March 2025.

#5 At 31 December 2016, 數碼維稀 had no paid-up capital. Its capital is to be fully paid up before 1 August 2026.

#6 At 31 December 2016, 哈法斯 had no paid-up capital. Its capital is to be fully paid up before 24 November 2024.

#7 At 31 December 2016, 昆山夢世界 had no paid-up capital. Its capital is to be fully paid up before 31 December 2018.

#8 星夢生活 is a subsidiary of 明星夢投 with 51% shareholding. While the Company has directly control on 明星夢投 with 60% shareholding, and hence 星夢生活 is indirectly controlled by the Company, which is the subsidiary of the Company.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.

40. SUBSIDIARIES *(Continued)*

(ii) Financial information of subsidiaries with individually material NCI

The following table shows the information relating to the non-wholly owned subsidiaries, Socle Group, that have material non-controlling interests ("NCI") since acquisition. The summarised financial information represents amounts before inter-company elimination since acquisition.

At 31 December	2016	2015
Proportion of NCI's ownership interests	35%	35%
	HK$'000	HK$'000
Non-current assets	85	4,368
Current assets	77,919	99,167
Current liabilities	(4,967)	(29,351)
Net assets	73,037	74,184
Carrying amount of NCI	25,563	25,964

For the year ended 31 December	2016 HK$'000	2015 HK$'000
Revenue	19,926	33,501
Expenses	(17,475)	(20,194)
Profit for the year and total comprehensive income for the year	2,451	13,307
Profit and total comprehensive income for the year attributable to NCI	858	4,657
Net cash (outflow) inflow from		
Operating activities	(26,841)	25,098
Investing activities	22	26
Total cash (outflows) inflows	(26,819)	25,124