拉近網娛集團有限公司
LAJIN ENTERTAINMENT NETWORK GROUP LIMITED

2017年報
ANNUAL REPORT

lajin 拉近

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

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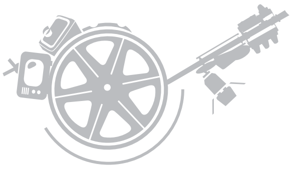

EXECUTIVE DIRECTORS

Ms. Wu Li
Mr. Chan Kam Kwan, Jason

NON-EXECUTIVE DIRECTORS

Mr. Luo Ning
Mr. Zou Xiao Chun
Mr. Zhou Ya Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Ju
Mr. Ng Wai Hung
Mr. Lam Cheung Shing, Richard

COMPANY SECRETARY

Mr. Chan Kam Kwan, Jason

AUDITOR

Ernst & Young
Certified Public Accountants

REMUNERATION COMMITTEE

Mr. Lam Cheung Shing Richard *(Committee Chairman)*
Mr. Zou Xiao Chun
Mr. Ng Wai Hung

NOMINATION COMMITTEE

Mr. Ng Wai Hung *(Committee Chairman)*
Mr. Lam Cheung Shing, Richard
Mr. Zhou Ya Fei

AUDIT COMMITTEE

Mr. Lam Cheung Shing, Richard *(Committee Chairman)*
Mr. Zhou Ya Fei
Mr. Ng Wai Hung

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GEM STOCK CODE

8172

LAJIN'S PRODUCTIONS (拉近出品)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year 2017, Lajin has established sound progress in the areas of TV/movies productions, music, artists management, the development of our Star Factory, and online cross media marketing. The Company sees our competitive edge being built up gradually with these three core strategies (i) to build our Mega Database of TV/Movies' IP Rights; (ii) to foster our own creative team; and (iii) to maximize the payoff point for our integrated business. The Company focuses on the integration of all the above mentioned multi-level core strengths to create a business ecosystem within the "pan-entertainment industry" (a term which refers to the multi-level products developed from intellectual property rights such as films, dramas, fiction and games and etc.), and we see the gradual shaping up of our integrated business model, with music and TV/Movies being our core, through the creation of media contents, we provide channels of development for our own team of artists in multiple areas such as music, drama and TV/movies.

Cross Media Project

As disclosed previously, all episodes of the "Birth of the Stars"（明星的誕生）have been fully broadcast in the first quarter of 2017 via a leading video streaming platform "IQiyi"（愛奇藝）. The program was a huge success with a total hit rate of 300 million times. The Company has identified various talented contestants to join our team, leveraging on the Group's platform and expertise to foster celebrities by our team hired from Korea, we strived to foster our own creative artist team all with different specialties.

The Board is of the view that the production of "Birth of the Stars"（明星的誕生）concurs with our principal strategy to foster our own talents and artists from scratch, at the same time creating an integrated platform to establish an online/offline business ecosystem. We have successfully established our own brand ever since the broadcast of the program. As such, the Group continues to proceed with the production of the sequel to the program, which is tentatively named "Birth of the Bands"（樂隊的誕生）.

"Birth of the Bands", the completely upgraded version of "Birth of the Stars", has been in its preparation stage since 2017. It is a variety show featuring the nurturing of artists developed by the Company, with its shooting done at Lajin Star Factory. Combined with the most advanced multi-media live interactive technology today, it will be fully launched in 2018.

Artists Management

An artists' management team has been built, with the "Birth of the Stars", our Company has identified and signed new artists management contracts with a couple of contestants who have impressive potentials. Furthermore, our subsidiary company, Xin Mei Xing Xiu has further enriched our artists base, both in terms of quantity and exposure. The artists under Xin Mei Xing Xiu's management include key opinion leaders and online celebrities with huge number of followers and fans, some of them have already been gaining popularity.

To date, our team comprises more than 20 artists, many of which have already been active in the TV/movies and commercial advertising industry, and have gained popularity with increased exposure. The Company will provide them with necessary trainings and shooting/production environment leveraging on the facilities provided in our Lajin Star Factory, to enable these future stars to sparkle.

Movies, TV and internet programmes

In 2017 the Group has created quite a number of internet related media contents, including internet drama, short movies, and interactive media contents & etc., weaving all such into Lajin's web of contents within our interactive business ecosystem has been our main focus for the year.

The Group partners with renowned creative teams and media companies with abundant resources for its investments in TV/Movies projects and will only select and invest in quality projects. Such selection criteria would effectively reduce the risks for our investments. The TV series named "She is Beautiful"《她很漂亮》and a movie named "Twenty"《二十歲》invested by the Group had finished filming in 2016 and are currently in post-production stage, aiming to be screened in 2018.

The Group participates in media investments of quality TV/movie related projects either by owning/co-owning the IP rights and partnering with other investors for production, or by simply investing into minority stakes of these projects. Among which, the very first internet drama production of our own named "Solaso Bistro"《問題餐廳》has gained a total hit rate of over 180 million times shortly after its broadcast, setting a new record for women's topics. The Group has completed the shooting of another internet series drama,《我才不會被女孩子欺負呢》(*hereby translated as "I am so Not Going to be Bullied by Girls") and it is expected to be broadcasted exclusively by Youku.com（優酷網）in mid-April 2018.

Another project named《花椒之味》(*hereby translated as "Fagara in Mara"), the Group has invested into 30% of the project and is the lead investor of the project. It is expected that production will commence in March 2018, with core creative team and members of casts already confirmed. The source of such IP right originates from a famous Hong Kong composer Ms. Amy Cheung（張小嫻）, she has enormous number of fans and her works enjoyed great popularity. It is believed that this piece is an award-winning one and could earn huge box office hit.

It has been confirmed that Bai Yicong, the "Big Brother of Internet Drama", will take the helm of the production of "Legend of the Galactic Heroes"《銀河英雄傳説》, a super internet drama bearing the same name, based on the famous Japanese novelist Tanaka Yoshiki's acclaimed work.

During the reporting period, all of our invested projects have commenced shooting. Amongst all, an individualistic internet movie named "Bad together"《太子書院》has engaged extensively all our artists and talents under Lajin's management, and the respective movie soundtracks are products from Lajin's music platform – Huo Miao（火喵）, being sung by Lajin's own artists. This is a project to practice and integrate all our production functions within our business ecosystem. "Bad Together"《太子書院》has been released online in 2018. Furthermore, film shooting of another significant project that the Company has invested in – "the Dynasty Warriors"《真・三國無雙》has commenced since 11 July 2017 and is currently wrapped, ready for post-production, and is expected to be put on the big screen in spring 2019. We have also invested a detective themed TV series named《深淵行者》, it will be released in 2018. In the program, well-experienced artists including Wu Xiubo, Zhang Fengyi, Zhang Jiayi, Bao Beier, Zhai Tianlin, and a number of young actors, together will demonstrate their acting skills. This represents a return of a strong positive energy to the movie and television market, which has been dominated by "little fresh meat" and misfits. It will surely earn high rating and help to set the direction of the movie television drama with the come-back of the positive energy.

In 2017, the Group has also acquired the right to produce the most popular expedition movie series in China, "the Tibet Code"《藏地密碼》, and will work together with the top tier cooperation partners such as Tencent Video in production. This is going to be the first of our movie series that will have global market coverage. Currently, a team of American screenwriters have been engaged to write, its plots and screenplays. This project is going to receive the Group's full support and is expected to commence shooting in 2019, aiming for release and distribution in 2020.

In the meantime, the Group strives to procure popular "IP movies/dramas", and we aim to extend our income streams to other income generated from fans' interaction, peripherals and products represented by online celebrities, other than from original box office income. The Group has invested in a world-famous movie based on Japanese true stories named《忠犬八公》(translated as "Faithful Dog Hachiko"), and is expected to commence shooting in 2018. We are in the progress of designing and commercializing peripheral products made according to the Faithful Dogs' image, and planning reality shows for pets. These strategies were to prolong the span of popularity of this IP and to maximize income generated. Furthermore, our investment in an action/adventure IP movie with famous celebrities cast crew named "Europe raiders"《歐洲攻略》is expected to be screened in 2018.

Last but not least, the Group strives to develop strategic partnerships with media companies equipped with quality resources, and we have partnered with Beijing Dadi Century Limited and Bona Film Group to co-produce the movie "Theory of Ambition"《風再起時》, a Hong Kong based crime themed movie with its storyline focusing on corruption. The movie was wrapped during mid-December 2017, and is expected to be screened during Chinese New Year 2019.

Lajin's Star Factory

Lajin's Star Factory is located in Yi Zhuang (亦莊), Beijing. Significant effort has been put in the renovation works for Lajin's Star Factory in 2016. The premises, comprising two 6-storey buildings of approximately 5,600 square metres in total has become the Group's centre for artists incubation and nurturing as well as for intelligent entertainment contents production, complete with all functions including internet entertainment contents, stars nurturing, movie and video production and master's studios, thus cited as a model of absolute advanced level in the industry.

Lajin's Star Factory owns complete independent intelligent property rights, It's is equipped with top-tier recording studios and applies the world's latest live broadcast technology, enabling compatibility and cross media interaction and unites all music and audio programs production in a single production base. With the integration of our "Lajin App", the online and offline experiences of audiences would definitely bring "closer" the distance between artists and fans, and this reinforces Lajin's core business mission. The Lajin's Star Factory is currently in use.

The Lajin's Star Factory operates in a continuous improvement model with constant progress in technology upgrading and review, so as to enhance more online-to-offline cross media contents and variety programs to be produced. Lajin's Star Factory has attracted attention from various production groups and performers from within the country and overseas for rental of its state-of-the-art facilities and performance venues for live broadcasts and production of audio-visual contents. Income derived from the intellectual property rights of these productions, rental income, production and broadcasting income would be another stable source of income anticipated in the near future. With the progress of the Group's strategy, Lajin's Star Factory is destined to demonstrate its huge strategic value.

Music

The Group has put enormous effort in conceiving the music platform "Huo Miao" (火喵), an incubation project focused on the creation of original music, which is committed to becoming the biggest original music ecosystem. "Huo Miao" (火喵) has aligned with more than a thousand young music producers, composers and lyricists, and has completed the reserve of nearly 300 pieces of original music compositions. It has signed up exclusively with over 60 musicians, producing a variety of mainstream and non-mainstream music in styles of pop, rock, classical, folk, electronic, rap, etc.

To date, the early structure of the Huo Miao new internet media platform has been set up, and has been publishing "Huomiao Music Stories" regularly, with visual, audio and text element being the "new media language", leveraging on the already established network to attract more audiences and music producers, ultimately enriching our collection of original music productions. During the period, the "Huo Miao" music platform has worked in collaboration with some large-scale entertainment programs and renowned brands, and has completed quite a number of tailor-made music productions. It also synergistically provides music contents to the Group's business operation segments. To date, the music platform has already completed quality music works for a number of our internet dramas.

The Group considers the Huo Miao music platform as an integral part of the Group's music strategy. Its copyright income will also become another major source of the Group's revenue. We will continue to expand the team's resources of the platform and increase effort in promotion to gain publicity, with an aim to becoming a well-known original music ecosystem in China.

Lajin's investment

To cope with our strategic development, the Group has actively seek for investments/projects which can create synergy effect. During the year 2017, we have placed significant effort in seeking for quality investment projects.

The Group saw significant potentials in our investment in "Moko!"(美空網, www.moko.cc). As of 31 December 2017, the Group held 7.79% equity rights in "Moko!". During the period, "Moko!" again received several rounds of funding, after the strategic investment by our Company, from parties including an investment company in Qingdao Hi-tech Zone. With strategic cooperation agreed with the management of Qingdao High-tech Zone, "Moko!" will move in to Qingdao Huanwan and become the first leading internet enterprise moving its headquarters to Qingdao Huanwan.

The Group has invested 51% stake in "大早晚集", which involves a collaboration with the Cui Yongyuan Team in producing a series of movies based on real stories to make up a repository of intellectual properties known as "Cui's collection of Stories"(崔永元故事庫). The team spent over 30 years, conducted interviews for more than 10,000 times and recorded 1,000,000 minutes of personal live history interviews. The Group will work with Cui's team in compiling and telling this collection of true stories, and engage first-rate writers, script writers and directors in creating the elements stories and incubating TV/movies intellectual property rights. Today, the shootings of a number of TV/movies productions have already commenced.

The Group entered into a comprehensive strategic partnership relationship with Liu Guang, a well-known director of detective themed movies. Full cooperation in areas including production of TV/movies dramas and artist agency will commence in 2018. With the complementary advantages of both parties, it is expected that there will be an integration of complete industry chain together with innovations and breakthroughs.

PROSPECTS AND CHALLENGES

The Group is committed to develop an integrated and cross-media entertainment platform in China, and become one of the most renowned players in the entertainment industry in the years to come. We see human capital being the most invaluable asset of the Company – Therefore, the official launch of our Lajin's Star Factory is considered the best tool for the Group to cope with such expansion, as the state-of-the-art facility is filled with huge potential to foster Lajin's future super stars.

With "Birth of the Stars" as a good head start to build our own team of artists, we have also put into practice to link up all our resources within this business ecosystem. From fostering our artists from scratch, to investment in IP rights and production of media contents, creating soundtracks with our own music App "Huo Miao", to utilizing our own online platform to promote our celebrities and peripheral products, we are dedicated to perfect each segment of our assets and we strive to follow this model within this business ecosystem for our future projects to come. The project, "Bad Together"《太子書院》, being the very first prototype internet movie which we have put forth a great deal of effort in pulling and linking up our in-house resources, is set to provide a guidance in measuring our potential returns for other similar projects applying such business model. We are confident that our strategy will greatly reduce the cost of production and will maximize profitability for our future projects to come.

However, due to the depth of our investment spectrum which requires heavy capital injection, we foresee that the continuing expansion of the group would require significant capital to be raised. The Company will continue to monitor our budget and will carry out fund raising activities when required.

Furthermore, increasing cost of production, keen competition and regulatory environment remains our core challenges during the year, as stringent limitations were imposed over the contents of movies and origins of media programmes for various reasons. Furthermore, tighter controls were implemented over the internet by government policies, these created immense burden to implement some of our innovative ideas. We must therefore carefully set our strategy right for the market, control our cost and be close enough to follow the everchanging policies.

EVENT AFTER THE REPORTING PERIOD

Termination of the Deed and the Master Services Agreement with Ms. Shang

Reference is made to the voluntary announcement dated 9 February 2018 and the circular of the Company dated 23 December 2015, capitalized terms used herein shall have the same meaning as defined in the above mentioned documents.

Pursuant to the Shareholders' Agreement, Lajin and the JV Partners (wholly-owned by Ms. Shang Na) had formed the JV Company and Lajin and the JV Partners respectively held 51% and 49% of the JV Company. The JV Company had been accounted for as a subsidiary of the Company and was engaged in the investment of movies and other media contents. Pursuant to the Deed, upon satisfaction of certain conditions, including that the accumulated net profit for the JV Company for the period up to 31 December 2018 being not less than RMB50 million, or the Accumulated Profit being not less than RMB150 million, the JV Partner could exercise the Shang Put Option for the Option Price, whereby the Company would then issue Consideration Shares for such settlement. A maximum of 228,438,228 Consideration Shares would be issued if the conditions could be met.

The management had reviewed the latest development of the business of the JV Company and had also discussed its prospect with Ms. Shang. As it was not expected that the profit of the JV Company could reach at least RMB50 million, it was considered that neither the Shang Put Option could be, nor the Company Call Option would be exercised before the expiry of such options. Therefore, Ms. Shang and the Company had mutually agreed to terminate the Deed and the Master Services Agreement and Ms. Shang resigned from all position from the JV Company and the Group ("Termination"). The Termination gave the market a clear message that no Consideration Shares would be issued in the future. Accordingly the recognised share-based payment expenses was reversed, giving rise to a credit to the profit and loss account. As the Deed was terminated, the JV Partner had agreed to dispose of its 49% of the JV Company for a consideration of HK$1 to Lajin. The Shareholders' Agreement ceased to have effect accordingly.

ACQUISITION OF SUBSIDIARY AND SET UP OF JV COMPANY

In April 2017, Lajin Hu Yu (an indirect wholly-owned subsidiary of the Company) has entered into the Sale and Purchase Agreements in relation to the acquisition of a further 38% of the registered share capital in Xin Mei Xing Xiu for a total consideration of RMB3,040,000. Before the acquisition, Lajin Hu Yu already owned 32% of the registered share capital in Xin Mei Xing Xiu and after the acquisition, Xin Mei Xing Xiu became a 70% owned subsidiary of the Group.

Xin Mei Xing Xiu is a PRC incorporated company principally engaged in artists management, advertising and promotion, event management and production & etc. Its management team has extensive experience in the industry and has access to an abundant amount of resources including song and film producers, directors, artists, stylists, models and dancers. The Board considers that the consideration and the terms for the acquisition are fair and reasonable, and is in the interests of the Company and its shareholders as a whole.

In April 2017, Lajin Hu Yu entered into a joint venture agreement with Mr. Cui Yong Yuan and Ms. Lin Wei, whom are both famous media persons in mainland China, in relation to the formation of a joint venture through Lajin Hu Yu for the investment of our new project – Power of "Truth" based on "Cui's Collection of Stories"（崔永元故事庫）. The joint venture is owned as to 51% , 44% and 5% respectively by the Group's variable interest entity (Lajin Hu Yu), Mr. Cui and Ms. Lin. The Group has agreed to invest RMB15,000,000 for the joint venture, and other joint venture partners will contribute their technical knowhow in production and the sources of the stories to be filmed. The joint venture will focus on the production of films and internet dramas based on Cui's collection of true stories, and it was also agreed that a certain portion of the future profit (if any) would be donated to charitable organisations, as a means to give back to the communities in which we operate.

FINANCIAL REVIEW

The revenue of the Group was approximately HK$65,126,000 for the year ended 31 December 2017 (2016: HK$24,143,000). It was mainly generated from the provision of artists management and investment in movies, TV programmes and internet contents, representing an increase of 169.8% as compared to the same period last year. The increase was mainly attributable to the increase in revenue from the Group's Movies, TV programmes and internet content business.

Cost of sales for the year ended 31 December 2017 decreased to approximately HK$55,813,000 (2016: HK$111,688,000), which was mainly attributed from the cost of film and TV programme rights to approximately HK$54,539,000 (2016: HK$111,448,000)

During the year, loss for the period attributable to owners of the parent was approximately HK$79,853,000 (2016: loss of HK$224,239,000). The reduction in loss was primarily due to the increase in revenue, the decline in operating and administrative expenses and the decrease in share-based compensation costs.

Movies, TV programmes and internet contents

During the year under review, the revenue contributed by such segment was approximately HK$63,928,000 (2016: HK$23,843,000), representing the sales of film rights owned by the Group, licensing income from the internet drama named "Solaso Bistro"《問題餐廳》and《我才不會被女孩子欺負呢》(*hereby translated as "I am so not Going to be Bullied by Girls", and the remaining advertising income from our flagship project — the "Birth of the Stars".

Artists Management

During the year under review, the revenue contributed by such segment was approximately HK$1,198,000 (2016: HK$300,000), which derived from the newly signed artists management contracts.

Administrative expenses

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the year under review. Administrative expenses decreased by 16.8% to approximately HK$80,417,000 from approximately HK$96,616,000 in prior year due to the cost control of the Group. Salary and allowances amounted to approximately HK$39,873,000 (2016: HK$47,703,000) was recorded, representing an decrease of 16.4%.

Liquidity and Financial Resources

At 31 December 2017, the Group had total assets of approximately HK$975,352,000 (2016: HK$962,256,000), including cash and cash equivalents of approximately HK$298,481,000 (2016: HK$493,128,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities.

CONTRACTUAL ARRANGEMENTS UNDER THE STRUCTURED CONTRACTS

The Group has been using the Structured Contracts arrangements to indirectly own and control companies engaged in production and distribution of media contents in the PRC.

PRC rules and regulations

On 25 December 2001, the State Council promulgated the Regulations on the Administration of Films (《電影管理條例》), which came into force on 1 February 2002. Pursuant to the Regulations on the Administration of Films, foreign organizations or individuals are prohibited to engage in the film production within the territory of the PRC without a PRC partner.

On 6 July 2005, the Ministry of Culture (the "MOC"), the State Administration of Radio, Film and Television (國家廣播電影電視總局) (as one of the predecessors for the State Administration of Press, Publication, Radio, Film and Television (the "SARFT") ***國家新聞出版廣電總局***), the General Administration of Press and Publication (新聞出版總署) (the "GAPP", which is one of the predecessors for the SARFT), the National Development and Reform Commission (the "NDRC") and the Ministry of Commerce (the "MOFCOM") jointly promulgated the Several Opinions on Introduction of Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》), which came into force on 6 July 2005. Pursuant to such opinions, foreign investment is prohibited to establish and operate companies for production and broadcast of radio and television programme, film production, and film import and distribution.

On 10 March 2015, the NDRC and the MOFCOM jointly promulgated the Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂》) (the "Catalogue"), which came into force on 10 April 2015. Pursuant to the Catalogue, (i) the foreign investment is restricted to engage in the production of radio and television programmes and the film production by way of cooperation with domestic investors; (ii) the companies for production and operation of radio and television programmes are prohibited from foreign investment; (iii) the foreign investment is not allowed in film production, film distribution and film theater.

To operate the Group's media contents business in the PRC, The Group has established controls over 3 entities by contractual arrangements under the structural contracts, which are:

1. Beijing Lajin Huyu Wenhua Chuanmei Company Limited (北京拉近互娛文化傳媒有限公司) ("OPCO1");

2. Jiaxuan Huanqiu Yingye Company Limited (稼軒環球影業有限公司) ("OPCO2"); and

3. Beijing Lajin Yingye Company Limited (北京拉近影業有限公司) ("OPCO3").

"OPCOs" below shall mean any or all of the above entities.

The registered owners of the OPCOs are two employees of the Group ("Registered Owner"). The OPCOs, Registered Owners have respectively entered into the relevant structured contracts (the "Structural Contracts") with Beijing Lajin Hudong Chuanmei Keji Company Limited (北京拉近互動傳媒科技有限公司)(the "WFOE", an indirect wholly-owned subsidiary of the Company). The Structural Contracts are designed to provide the Company with an effective control over and the right to enjoy the economic benefits and risks in and/or assets of OPCOs. Through the Structural Contracts, the control and economic benefits and risks from the business of OPCOs will flow to WFOE. For accounting purposes, OPCOs are regarded as indirect wholly owned subsidiaries of the Company.

Major terms of the Structural Contracts

Under the Structural Contracts, WFOE has an irrecoverable and exclusive priority right to acquire directly and/or through one or more nominees, the equity interests held by the Registered Owners in OPCOs, as permitted by applicable PRC laws and regulations. Further, each agreement under the Structural Contracts includes a provision that each such agreement is binding on the legal assignees or heirs of the parties to each such agreement. In the event of death, bankruptcy or divorce of any of the Registered Owners, WFOE may exercise its option to replace the relevant shareholders and the newly appointed nominee shareholders will still be subject to the Structural Contracts.

Ms. Wu Li, an executive director of the Company was appointed as director of the OPCOs to oversee the daily operation of the OPCOs. Each of the Registered Owners and their respective ultimate beneficial owners is not an officer or a director of the Company and its subsidiaries. The Directors consider that the possibility of material potential conflicts of interest between the Company and the Registered Owners is remote. In case of any material potential conflicts of interest between the Company and the Registered Owners, the Board will ensure that any material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when the Company becomes aware of such potential conflict. The Board will review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions where necessary.

The Contractual Arrangements comprised of (a) Exclusive Business Cooperation Agreements, (b) Exclusive Option Agreement, (c) Powers of Attorney of the registered owners, (d) Equity Pledge Agreements and (e) Spouse Undertaking . Key provisions of the Contractual Arrangements are as follows:

Exclusive Business Cooperation Agreements (獨家業務合作協定)

Given the aforementioned prohibition/restriction of foreign investments in the production and distribution of media contents in the PRC, the WFOE entered into contractual arrangements with the OPCOs, pursuant to which WFOE shall provide to OPCOs consultancy services, including but not limited to management consultation, technology support and marketing strategies.

At the discretion of WFOE, WFOE can assign the rights and novate the obligations under the services agreement to any company nominated by WFOE without the consent of OPCOs and the Registered Owners.

The initial term of the services agreement is a fixed term of 10 years from the date of the execution of the services agreement. Upon expiry of the services agreement, WFOE has the sole discretion to renew the services agreement for further extensions of the terms once every 10 years. OPCOs are not allowed to refuse the renewal of the services agreement.

In consideration for the provision of the aforesaid consultancy services and subject to compliance with PRC laws and regulations, the OPCOs shall pay WFOE a service fee every year equivalent to 100% of the pre-tax profit of the OPCOs during such period.

Exclusive Option Agreement (獨家購買權合同)

The respective Registered Owners of the OPCOs have granted to WFOE (or its designated nominee(s)), to the extent permitted under the laws of the PRC, (i) an irrevocable option to acquire all or part of their respective equity interests in the OPCOs; and (ii) an irrevocable option to acquire all or part of the assets of the OPCOs.

The exercise price in respect of each of the above options shall be the minimum price as required by PRC laws and regulations at the time of exercising such options. The respective registered shareholders of the OPCOs and/or the respective OPCOs shall convey any proceeds which they will receive upon the exercise of the aforesaid options in a gratuitous manner to the WFOE or the person as designated by the WFOE.

Powers of Attorney of the registered owners (授權委託書)

Each of the Registered Owners has executed a power of attorney in favour of WFOE to irrevocably appoint WFOE as his/its exclusive agent to exercise, inter alia, all his/its rights as shareholder of OPCOs and to execute any documents necessary for giving effect to the Structural Contracts.

Equity Pledge Agreements (股權質押協議)

The Registered Owner of the OPCOs have pledged all of their respective equity interests in the OPCOs to WFOE, as security for the performance of their obligations and/or that of the OPCOs under the Exclusive Option Agreements, Exclusive Business Cooperation Agreements, the Shareholder's Entrustment Letters and such other agreements as concluded to supplement the abovementioned agreements.

Spouse Undertaking (配偶同意函)

A spouse undertaking signed by the spouse of each of the Registered Owners, in favor of WFOE, acknowledging and consenting the signing of the Structured Contracts by registered owners.

There were no material changes to the Structured Contracts and/or the circumstances under which they were adopted, nor was there any unwinding of them or of a failure to do the same due to the restrictions that led to their adoption being removed.

OPCOs' Business activities

OPCOs are companies established in the PRC with limited liability which are principally engaged in the production and distribution of cartoon or television programmes (other than production of political news and other relevant radio and television programmes) and other related business. OPCOs hold some key requisite PRC permits, licenses and approvals for our business operations, including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), the Commercial Performance License(營業性演出許可證). Some of our intellectual property rights, including copyrights, trademarks, and domain names, are also held by the PRC contractual Entities. OPCOs are also used as the investment vehicle to invest in movies or other companies which give rise to business collaboration with the OPCOs.

Under the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證) dated 11 May 2016, 2 September 2016 and 23 June 2015 issued to OPCOs by Beijing Municipal bureau of Press, Publication, Radio, Film and Television (北京市新聞出版廣電局), OPCOs are allowed to engage in the provision and distribution of Cartoon or Television Programmes (other than production of political news and relevant radio and television programmes) and other related business permitted under the relevant PRC rules for a period of two years. Under the Commercial Performance License(營業性演出許可證) dated 14 April 2016 issued to OPCO1 by Beijing Municipal Bureau Of Culture (北京市文化局), OPCO1 is allowed to engage in business of performance brokerage and artists management for a period from 14 April 2016 to 13 April 2018.

The Group has consolidated the financial results of OPCOs and its subsidiaries in its consolidated financial statements in accordance with HKFRSs. For the year ended 31 December 2016 and 2017, the financial results of OPCOs are as below:

	Revenue				Total Assets			
		2017		2016		**As at 31 Dec 2017**		As at 31 Dec 2016
	HK$'000	**%**	*HK$'000*	%	*HK$'000*	**%**	*HK$'000*	%
OPCO1	1,198	**1.8**	142	0.6	53,693	**5.5**	27,374	2.8
OPCO2	Nil	**Nil**	Nil	Nil	125,533	**12.9**	89,354	9.3
OPCO3	63,369	**97.3**	12,837	53.2	180,127	**18.5**	45,361	4.7

Risk relating to the Structural Contracts

The following risks are associated with the Structural Contracts:

– the PRC Government may determine that the Structural Contracts do not comply with applicable PRC laws and regulations;

– the Structural Contracts may not provide control as effective as direct ownership;

– failure by the Registered Owners to perform their obligations under the Structural Contracts;

– the Company may lose the ability to use and enjoy assets held by OPCOs if those companies declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;

– the shareholders of OPCOs may have potential conflicts of interest with the Company;

– the Company's ability to acquire the entire equity interests and/or assets of OPCOs through WFOE may be subject to various limitations; and

– the Structural Contracts may be challenged by the PRC tax authorities.

Despite the above, as advised by the PRC legal advisers to the Company, the contractual arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the contractual arrangement and will take all necessary actions to protect the Company's interest in the Structured Entities.

CAPITAL STRUCTURE

As at 31 December 2017, the Company has in issue a total of 4,209,131,046 ordinary shares.

During the year, all Preferred Shares in issue which have been fully paid-up were converted into ordinary shares of the Company on 20 January 2017. Accordingly, 1,394,329,124 ordinary shares of the Company were issued as a result of the exercise of the conversion rights attached thereto. The Subscribers have been granted a whitewash waiver, waiving the obligation of the Subscribers to make a general offer under Rule 26 of the Takeovers Code upon conversion of such preferred shares.

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities excluding deferred tax liabilities over total equity attributable to owners of the parent, was approximately 8.3% (2016: 1.9%). The change in gearing ratio was mainly derived from the increase of current liabilities in accruals and other payables from approximately HK$11,967,000 to HK$71,791,000 as compared with that in prior year. At the same time, the increase of trade payable from HK$2,773,000 to HK$2,981,000 and the decrease of amount due to a shareholder from HK$3,133,000 to HK$31,000 also contributed to the change in the Company's gearing ratio.

CHARGES ON THE GROUP'S ASSETS

At 31 December 2017, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

Most of the income and expense of the Group are determined in RMB. The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management closely monitors the exposures and will consider hedging the exposures should the need arise.

COMMITMENTS

At 31 December 2017, the Group had capital commitments of approximately HK$96,019,000 (2016: HK$126,013,000).

CONTINGENT LIABILITIES

At 31 December 2017, the Group had no contingent liabilities (2016: Nil).

EMPLOYEES

At at 31 December 2017, the Group had 142 employees, including approximately 133 employees in PRC and 9 employees in Hong Kong and Korea. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performances, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

PROVISION OF INFORMATION IN RESPECT OF AND BY DIRECTORS

Updated information with regard to the change in other directorships of the Directors of the Company is as set out below:

- Mr. Chan Kam Kwan Jason has been appointed as the independent non-executive director of 1957 & Co. (Hospitality) Limited (Stock Code: 8495) since November 2017.

- Mr. Ng Wai Hung has been appointed as the independent non-executive director of 1957 & Co. (Hospitality) Limited (Stock Code: 8495) since November 2017; and Mr. Ng has been appointed as a non-executive director of Coolpad Group Limited (Stock Code: 2369) since January 2018.

Mr. Ng has resigned as the independent non-executive directors of the following listed companies during the year:

Companies	**Stock Code**	**Effective**
Fortune Sun (China) Holdings Limited	352.hk	September 2017
GOME Retail Holdings Limited	493.hk	May 2017
Kingbo Strike Limited	1421.hk	June 2017
On Time Logistics Holdings Limited	6123.hk	December 2017
Sustainable Forest Holdings Limited	723.hk	December 2017
Tech Pro Technology Development Limited	3823.hk	March 2017
Trigiant Group Limited	1300.hk	August 2017

CONNECTED TRANSACTION

Details of connected transaction can be referenced to page 43 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the best knowledge of the management, the Group has complied with the relevant standards, laws and regulations that have a significant impact to our businesses. At the same time, the Group always maintains a safe working environment for staff in accordance with relevant safety policies.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that human resources is the most important asset for the Group's sustainable development. We offer competitive remuneration packages and high quality working environment for our employees. It is our customs to respect each other and to ensure that fairness is applied to everyone. From time to time, we provide relevant on-the-job trainings to enhance employees' professional knowledge. The Group also organises different leisure events and frequent group discussions for the participation of employees to enhance the bonding of the employees and communications with management.

Due to the nature of our businesses, we do not rely on single suppliers or customers. Having said that, we are always trying to build up long term relationships with our existing and potential customers and suppliers and we are not aware of any unresolved disputes with any of the customers and suppliers during the year.

REMUNERATION POLICY

The Group's compensation strategy is to cultivate a pay-for-performance culture to reward employee performance that will maximize shareholder value in the long run. The Group from time to time reviews remuneration packages provided to its employees to ensure that the total compensation is internally equitable, externally competitive and supports the Group's business strategy.

PROFILES OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Wu Li

Ms. Wu Li, aged 38, graduated from the University of Electronic Science and Technology of China((中國)電子科技大學)with a bachelor's degree in English for Science and Technology and has completed the Postgraduate Diploma in Integrated Marketing Communications (IMC) in Institute for China Business of The University of Hong Kong School of Professional and Continuing Education. She currently also serves the Company as executive director, authorised representative and compliance officer. Ms. Wu has over 14 years of experience in cultural and media sector and has extensive marketing experience. She was a senior officer in Jingwen Records Co., Ltd. ("Jingwen") responsible for the production, promotion and copyrights management of audio and video products from 2000 to 2006. She joined Beijing Hwellso Pharmaceutical Co., Ltd.(北京華素製藥股份有限公司) in 2006 and was the Brand Director and an assistant to the chairman of the company when she left the company in 2013.

Mr. Chan Kam Kwan, Jason

Mr. Chan Kam Kwan, Jason, aged 44, currently also serves as the Company Secretary and authorised representative of the Company. Mr. Chan graduated from the University of British Columbia in Canada with a Bachelor of Commerce degree and he holds a certificate of Certified Public Accountant issued by the Washington State Board of Accountancy in the United States. Mr. Chan is currently an executive director and company secretary of Brockman Mining Limited (stock code: 159), as well as the company secretary of both Frontier Services Group Limited (stock code: 500) ("Frontier") and Concord New Energy Group Limited (stock code: 182). He is currently an independent non-executive director of Canvest Environmental Protection Group Company Limited (stock code: 1381), and 1957 & Co. (Hospitality) Limited (Stock code: 8495). Mr. Chan has extensive experience in corporate finance and accounting.

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun

Mr. Zou Xiao Chun, aged 48, graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University)(南昌大學(原江西大學)法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate(中國律師資格證書) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate(中國税務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination(國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer for 20 years and has practiced in legal areas relating to capital markets in the PRC for 10 years. Mr. Zou is currently a member of the remuneration committee of the Company. In June 2006, Mr. Zou founded Beijing John & Law Firm(北京市中逸律師事務所) and he still serves as a founding partner of this firm. Between 2001 and 2011, Mr. Zou has been acting as the retainer legal adviser for Beijing Eagle Investment Co. Ltd(北京鵬潤投資有限公司) and Beijing Gome Electrical Appliance Co., Ltd(北京國美電器有限公司), both of which are owned or controlled by Mr. Wong Kwong Yu. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited(北京中關村科技發展(控股)股份有限公司) (a company listed on the Shenzhen Stock Exchange) and since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited(國美控股集團有限公司), a company owned or controlled by Mr. Wong Kwong Yu. Between June 2011 and June 2014, Mr. Zou was a director and vice chairman of Sanlian Commercial Co., Limited(三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange). Since December 2010, Mr. Zou has been an executive director of GOME Retail Holdings Limited (together with its subsidiaries, the "GOME Group"), a company listed on the main board of the Stock Exchange and controlled by Mr. Wong Kwong Yu. From December 2010 to December 2013, Mr. Zou also served as the Vice President and then the Senior Vice President of the GOME Group. Since December 2013, Mr. Zou became the director and chairman of YouWan Technology (Beijing) Co., Limited（優萬科技（北京）股份有限公司）(a company listed on National Equities Exchange and Quotations). Mr. Zou was appointed as the executive director of Beijing YiPing Capital Management Co., Limited and the chairman of Jian Dao Zhong Chuang Investment Co., Limited in August 2014. From March 2015, Mr. Zou has been appointed as the independent non-executive director of the Company.

Mr. Zhou Ya Fei

Mr. Zhou Ya Fei, aged 50, graduated from the Beijing Institute of Technology with a master's degree. Prior to joining the Group, he was the Chief Financial Officer of GOME Appliance Co., Ltd. from 2000 to 2004, and subsequently remained his position as the Chief Financial Officer for GOME Retail Holdings Limited (Stock Code: 493) from 2004 to 2008 after the asset injection, and has been the executive vice president of GOME Holding Group Company Limited (incorporated in Beijing) since 2009. Mr. Zhou has over 20 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practising) and a registered tax agent (non-practising) in the PRC. Currently, Mr. Zhou serves as member of both audit committee and nomination committee of the Company.

Mr. Luo Ning

Mr. Luo Ning, aged 58, is currently the assistant to the president of CITIC Group Corporation (a major shareholder of the Company), deputy chairman of CITIC Guoan Group Company Limited, chairman and general manager of CITIC Networks Company Limited, and chairman of CITIC Guoan Information Industry Company Limited (a company listed on the Shenzhen Stock Exchange Limited in the PRC). He is also a non-executive director of Asia Satellite Telecommunications Holdings Limited (stock code: 1135) and an executive director of CITIC Telecom International Holdings Limited (stock code:1883) and Frontier Services Group Limited (stock code: 500) (all the companies are listed on the main board of the Stock Exchange). He also holds the position of director of a number of subsidiaries of CITIC Group Corporation. Mr. Luo was previously the vice chairman of CITIC 21CN Company Limited (now being "Alibaba Health Information Technology Limited") from 2002 to 2014. Mr. Luo possesses extensive experience in the communication industry and holds a bachelor degree in communication from The Wuhan People's Liberation Army Institute of Communication Command.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung

Mr. Ng Wai Hung, aged 54, is a practising solicitor and a partner in Iu, Lai & Li, Hong Kong. Mr. Ng has been admitted as a Hong Kong solicitor since 1992. Currently, Mr. Ng serves as the chairman of the nomination committee, and member of both audit committee and remuneration committee of the Company. Mr. Ng has been an independent non-executive director of Sustainable Forest Holdings Limited since February 2013, On Time Logistics Holdings Limited since June 2014, Xinyi Automobile Glass Hong Kong Enterprises Limited since July 2016 and 1957 & Co. (Hospitality) Limited since November 2017, all being companies listed on the Stock Exchange. Mr. Ng has been a non-executive director of Coolpad Group Limited (a main board listed Company in HK) since January 2018. Mr. Ng was also an independent non-executive director of HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from January 2008 to September 2014, Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) from September 2008 to February 2010, Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited) from January 2013 to August 2014, HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from 10 January 2008 to 27 September 2014, Tech Pro Technology Development Limited from 8 April 2011 to 17 March 2017 Fortune Sun (China) Holdings Limited from June 2006 to September 2017, GOME Retail Holdings Limited from June 2011 to May 2017, Trigiant Group Limited from August 2011 to March 2017 and Kingbo Strike Limited from June 2015 to June 2017 all being companies listed on the Stock Exchange.

PROFILES OF DIRECTORS AND MANAGEMENT

Mr. Lam Cheung Shing, Richard

Mr. Lam Cheung Shing, Richard, aged 59, is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently, Mr. Lam serves as the chairman of both the audit committee and the remuneration committee, and as a member of the nomination committee of the Company. Mr. Lam was admitted to the master's Degree of Business Administration in The Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm, and promoted to be a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Mr. Lam was admitted as an Executive Director of Everchina Int'l. Holdings Company Limited ("Everchina"), a company listed on the Stock Exchange, since September 2001, and is the deputy chairman and chief executive officer of Everchina since June 2009. Prior to joining Everchina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also an independent non-executive director of Eagle Legend Asia Limited from May 2013 to December 2014, an executive director of Kai Yuan Holdings Limited from December 2001 to July 2008 and re-designated as a non-executive director from July 2008 to November 2008, and an executive director of China Pipe Group Limited from June 2007 to February 2009, all being companies listed on the Stock Exchange.

Mr. Wang Ju

Mr. Wang Ju, aged 64, received his education from the Beijing Broadcasting Institute 北京廣播學院 (currently known as the Communication University of China（中國傳媒大學）) with a vocal major in the School of Television and Film Art. Mr. Wang is the chief secretary and the vice president of the China Audio-Video and Digital Publishing Association（中國音像與數字出版協會）. Prior to that, he was an associate chairperson of the judging panel of the China Gold Record Award（中國金唱片獎）and a member of the judging panel of PRC Outstanding Publication Award（中華優秀出版物評獎）, and actively participated in the judging panel of various award programmes. He was also a member of the National Technical Committee on Press and Publication Information of Standardization Administration of China（全國新聞出版標準化技術委員）under the Committee Panel of the Standardization Administration of the PRC（國家標準化管理委員會）and a member of a special committee of the National Copyright Administration of the PRC（國家版權局）, involved in the editing of the Copyright Law of the People's Republic of China（中華人民共和國著作權法）and other copyright laws. He is also an expert of the authority in the PRC approving the imported audio and video products from 2010 onwards.

SENIOR MANAGEMENT

Mr. Xu Zhongmin – Chief Strategist

Mr. Xu Zhongmin has extensive business connections and network in the entertainment industry in the PRC. He was the founder of Jingwen. Jingwen was a music producer and was one of the largest music album distributors in the PRC which has fostered a number of famous artists including Han Hong（韓紅）, Cui Jian（崔健）and Wang Feng（汪峰）. It published and distributed albums of Mao Yamin（毛阿敏）, Li Yundi（李雲迪）, Lang Lang（郎朗）and other famous artists in the PRC. While Jingwen was developing the local original music, it introduced music albums and video contents from international producers and distributors including Warner Bros. Records, EMI, Universal Music, Universal Picture, Discovery Channel and National Geographic Channel. It extended its business to publication of books and investment in multi-media educational materials. Mr. Xu was also actively involved in the investment in TV programmes and artists management business and has been involved in producing concerts in the PRC and performance show PANDA! in Las Vegas, the United States of America.

Mr. Hu Qinggang – Vice President of Lajin Group, CEO of Lajin Picture

Mr. Hu Qinggang has extensive experience in the finance field and had worked in the Finance Department of CITIC Group Corporation, a substantial shareholder of the Company, as the deputy director of the Finance and Planning Division. Mr. Hu holds a bachelor's degree in Economics from the Beijing University of Technology and a master's degree in Economics from the University of International Business and Economics in the PRC. Mr. Hu is an executive director of Frontier Services Group Limited.

Mr. Qian Zhongyuan – CEO of Jiaxuan Global Picture

Mr. Qian Zhongyuan joined the Group since 2016. He is equipped with a broad spectrum of experience in various fields within the entertainment industry, covering areas on project development, production, sales and distribution, supply chain management and investment and management. As a seasoned movie producer, he has produced various famous films, and TV soap opera series and has participated in the production of over 40 films and TV Programmes such as Wolf Totem《狼圖騰》、Where the Wind Settles《對風說愛你》、Tiny Times 1.0《小時代》、Tiny Times 2《小時代青木時代》、Bait in 3D《大海嘯鯊口逃生》、The Mood《楊善洲》、Major Secretary《第一書記》、Full Circle《飛躍老人院》、I Do《我願意》、Love for Life《最愛》、The Swordman Dream《嘻遊記》、Far From Home《我的美麗鄉愁》and TV series such as《神機妙算劉伯溫》、Ju Zi《菊子》、《少年康熙》and many others. As a producer, he has won many domestic/international awards from various organisations, such as awards from the Shanghai International Film Festival, the Best Works Award, the Huabiao Award, the Golden Rooster Award etc.

From 1997 to 2015, he has served Beijing Forbidden City Pictures Co., Ltd. as the assistant general manager, and he has also worked in Xian Zijincheng Entertainment Co., Ltd. as general manager, and in Beijing Forbidden City Sanlian Distribution Co., Ltd. as director.

Mr. Qian's social contribution to the media and entertainment community includes his undertaking as member of the film selection committee for the Beijing International Film Festival, and he has also served as the supervisor for the committee of producers for the Beijing Film Association.

GENERAL

The Directors are pleased to present the Environmental, Social and Governance Report for the year ended 31 December 2017 in compliance with the applicable code provision of the Environmental, Social and Governance Reporting Guide as set out in the Appendix 20 to the Growth Enterprise Market ("GEM") Listing Rules.

A. Environmental

A1: Emissions

The principal activities of the Group are the provision of artists management services, and investment in movies, TV programmes and Internet contents. The management believes that emissions and wastes generated by the operation have insignificant impact on the environment.

The Group has been encouraging and conducting business in an environmentally responsible manner and has integrated environmental protection awareness into our daily operations. For example, we had issued instructions to employees to educate them on pollution and waste reduction especially during outdoor filming, for example, behaviors which destroy the natural environment and national heritage are strictly prohibited and approvals must be obtained from respective governmental departments before outdoor filming at national heritage or conservation areas. The Group has also promoted initiatives to mitigate environmental impacts among the Group by using energy-efficient products such as equipment carrying Energy Labels issued by the Electrical and Mechanical Services Department ("EMSD").

Greenhouse gases ("GHG") emissions are mainly generated from electricity consumption in the "Lajin's Star Factory" and office premises during operation. The key performance indicators of emissions for 2017 are as follows:

Purchased Electricity Consumption	424,848 (kWh)
Carbon Dioxide Emission from the Generation of Purchased Electricity	421,978 (kg)
Carbon Dioxide Emission Intensity per Office and Factory Premises Area	54 (kg/square meter)

A2: Use of Resources

Due to the nature of the Group's operational activities, the use of resource are mainly related to the consumption of electricity and paper in the "Lajin's Star Factory" and office premises respectively. Water consumption and packaging material used are relatively low to the Group.

At the office, the Group has placed great emphasis on the "green office" concept and have promoted the 3R's concept – "Reduce, Reuse and Recycle" throughout daily operations. We will remind our employees to switch off all idle lights, computers, air-conditioners and other office equipment, to print and photocopy on both sides of paper, to promote paperless office which encourages them to send documents electronically, and using equipment carrying Energy Label issued by the EMSD.

For the year ended 31 December 2017, the energy consumption and its intensity of the Group are disclosed in the following table:

	Hong Kong	Beijing	Total
Energy Consumption			
Purchases Electricity Consumption (kWh)	7,707	417,141	424,848
Paper Consumption (piece)	27,188	180,000	207,188
Area of Office and Factory Premises			
Office Premises (square meter)	165	1,984	2,149
Factory Premise (square meter)	—	5,694	5,694
Total (square meter)	165	7,678	7,843
Intensity			
Purchases Electricity Consumption Intensity (kWh/ square meter)	47	54	54
Water Consumption Intensity (piece/square meter)	165	23	26

A3: The Environment and Natural Resources

The existing businesses and media projects of the Group are not expected to pose a material impact on the environment, especially during outdoor filming, no damages shall be made to the environment. Throughout our planning of business activities, we have performed comprehensive assessments and considered minimizing potential impacts on the environment as one of our key assessment criteria. For example, we will consider the potential impacts caused to the environment during the selection of filming locations, no filming shall take place near any conservation areas which may bring negative impacts to them. As our attempt to raise the environmental protection awareness of our business partners (including media production outsourcing contractors, suppliers, production teams), we have shared our views with them on aspects of environmental protection such as efficient use of resources. The Group hopes that continuous improvement will make a contribution to the global ecological environment.

During the reporting period, the Group has complied with all local laws and regulations related to environmental protection. No incidents where fines and penalties were paid for non-compliance of local environmental regulations were imposed upon the Group.

B. Social

(i) Employment and Labour Practices

B1: Employment

The Group aims to provide employees a comfortable and healthy working environment and ensure that their rights and interests are protected. The Group has established a sound system of human resources management covering various aspects of employment.

Recruitment

During our recruitment process, employees are hired based on consideration of their experience, qualifications and knowledge. All employees have entered into written employment contracts prior to employment to ensure job title, job duties, working hours, holidays, remuneration, termination process and benefits are agreed.

Promotion, compensation and dismissal

We motivate employees by promotion and salary increments based on results of regular performance appraisals. Staff dismissals are based on the Hong Kong Employment Ordinance or relevant local laws and regulations, as well as the requirements stipulated in the employment contracts.

Working hours, rest periods and benefits

Five-days work week arrangement is adopted to facilitate work-life balance. In addition to all rest days and statutory holidays as specified in local laws and regulations, employees are entitled to paid annual leaves, maternity leaves, paternity leaves, marriage leaves and compassionate leaves. Employees are also entitled to benefits such as medical benefits, MPF scheme contributions and other benefits subject to the Group's human resources policies.

Equal opportunity, diversity and anti-discrimination

In accordance with our human resources policies and regulations, no discrimination on the grounds of age, gender, marital status, family status, sexual orientation, disability, race, nationality or religion, etc. shall be considered in any of our decision-making processes and during our daily operations. We believe that our employees should be treated equally and our employees or job applicants during the recruitment process should not be subject to any form of discrimination.

Human resources policies have been established to ensure the Group has strictly complied with all applicable laws and regulations of labor practices, particularly the Hong Kong Employment Ordinance.

As at 31 December 2017, the Group had a total of 142 employees. During the year ended 31 December 2017, 135 employees resigned. Their gender, composition and region are demonstrated below:

Staff under employment:

Gender Distribution:

Gender	**Number of staff**
Female	61
Male	81
Total	**142**

Staff Composition:

Employment types	Number of staff
Regular staff	130
Trainee	6
Labor	6
Total	**142**

Region Distribution:

Regions	Number of staff
Beijing	131
Xian	1
Hong Kong	7
Wenzhou	1
Korea	2
Total	**142**

Staff resigned:

Gender Distribution:

Gender	Number of staff
Female	77
Male	58
Total	**135**

Region Distribution:

Regions	Number of staff
Beijing	130
Hong Kong	1
Korea	4
Total	**135**

B2: Health and Safety

During our daily operations, one of our major concerns is to ensure health and safety of our employees, actors and production crews, we believe that a safe working environment can uphold the adherence to our people-oriented principles, and to protect our employees from any occupational diseases or injuries. During the reporting period, the Group did not encounter any lost days due to occupational diseases, injuries or work-related fatalities.

At the office and filming locations safety guides for preventing employees/actors from occupational hazards have been placed in observable area or made available to stand-in actors in the work places to address health and safety issues, especially during dangerous shooting scenes. Besides, we encourage our contractors and business partners to place a strong emphasis on employees' health and safety issues, in terms of occupational hazards.

During the reporting period, the Group ensures full compliance with relevant occupational health and safety legislations of Hong Kong, the PRC, and other relevant legislations. The Group has maintained a healthy and safe working environment with no occurrence of work-related fatalities or work injury. As the Group is principally engaged in cultural and entertainment-related businesses, we believe that the occupational hazards are relatively low.

B3: Development and Training

Apart from providing reading materials for directors to ensure that they keep updated with the latest regulatory requirements and corporate governance practices, employees are also recommended to participate in the continuous learning activities. Subsidies are offered to our employees for attending training courses or seminars organized by professional institutions to enhance their professional and technical skills. Further, we always provide opportunities to our employees with learning experience gained through work assignments so as to build up their on-going job skills and soft skills which benefit their career development.

The Group provides appropriate training according to the requirements and needs of various departments to staff, including skills training to senior management, system and quality training to all staff.

B4: Labour Standards

Child labour and forced labour are strictly prohibited within the Company, laws and regulations regarding the hiring of child actors are strictly followed if necessary. Recruitment requirements, especially regarding the recruitment of child and forced labour are set out in our human resources policies. During the recruitment process, review of job applicant's identity information is required, background checks and reference checks of potential employees may also be conducted. Applicants who fail to meet the legal requirements would not be hired.

Besides, we will give our major contractors, especially outsourced contractors and production crews, a gentle reminder regarding the prohibition of child labour and forced labour. If reporting of such cases are noted, we will conduct detail investigations.

The Group ensures full compliance with relevant labour legislations of Hong Kong and the PRC. During the reporting period, we did not employ child labour and did not receive any complaints or reporting of child labour or forced labour.

(ii) Operating Practices

B5: Supply Chain Management

During business activities, we encourage our contractors and business partners to uphold a high standard of morality that is similar to us. During selection phases of our business partners, assessments are based on a variety of criteria, other than the quality of services, criteria such as attitude towards environmental and social issues are also considered in evaluating the moral standards of our potential contractors and business partners. Priority will be given to potential business partners who are actively fulfilling environmental and social responsibilities. In the meantime, Management oversees the on-going business projects with due care in pursuit of preventing and mitigating any environmental and social impacts.

B6: Product Responsibility

The Group emphasizes the importance of proper advertising and compliance with relevant requirements of media advertisements, such as posters, trailers, online advertising material and the timely response from audiences or the public. During the reporting period, the Group has not received any complaints from audiences or the public or encountered any litigation regarding the movies released. The Group strictly comply with all relevant regulations regarding the movie advertisements as well as the released movie itself.

Besides, we stress the importance of safeguarding and protecting our intellectual property rights, i.e. movies copyright. Confidentiality is strictly protected by signing confidential agreements with all contractors and business partners, whereby relevant confidentiality terms such as clauses regarding the prohibition of the unauthorised use of the movie's copyright is also included in such agreements.

B7: Anti-corruption

The Group is committed to and prohibits any form of corruption such as bribery, money laundering, extortion and fraud. We believe that our employees, contractors and business partners have maintained a strong ethical conduct during operations. Terms have been included in employment or service contracts to ensure that all parties act in accordance with our requirements on anti-corruption. Training has also been provided for employees and directors to discourage any form of corruption.

During the reporting period, we have strictly adhered to relevant laws and regulations, no litigation nor complaints regarding corruption, bribery, money laundering, extortion and fraud.

(iii) Community

B8: Community Investment

We provide opportunities for our employees to be a part of our local communities. We encourage our employees to actively participate in public conventions, conferences, exhibitions and events, with a particular focus on promoting the development of media industries and community investment. During 2017, our artists participated in the 10th Cultural and Arts Opening Ceremony organized by the Beijing Economic-Technological Development Area to promote the arts and culture.

We mobilise our employees to volunteer their time and skills in contributing to the society at the same time enriching their knowledge of environmental and social issues, moreover, to prevent and mitigate any potential and actual negative impacts on the community.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The board of Directors (the "Board") and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

Throughout the financial year ended 31 December 2017, the Group has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules save for certain deviations, details of which will be explained in the relevant paragraphs in this report. The Board has, since the amendments to the GEM Listing Rules regarding corporate governance practices were first proposed by the Stock Exchange, continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Group to ensure awareness to issues regarding corporate governance practices.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management 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 executives and the Board has the full support of them to discharge its responsibilities. The statement of the auditor of the Company in relation to their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on pages 45 to 48 of this annual report.

Composition

As at 31 December 2017, the Board comprises eight Directors: including two executive Directors, namely, Ms. Wu Li and Mr. Chan Kam Kwan Jason, three non-executive Directors, namely, Mr. Zhou Ya Fei, Mr. Zou Xiao Chun, and Mr. Luo Ning and three independent non-executive directors, namely Mr. Wang Ju, Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard.

At least one of the independent non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise. The number of independent non-executive Directors is more than one-third of the Board.

Biographical details of the Directors are set out in the section of Profiles of Directors and Management on pages 16 to 19.

The presence of six non-executive Directors (including 3 independent non-executive Directors) is considered by the Board to be a reasonable balance between executive and non-executive Directors. All of the non-executive directors are appointed for a renewable term of 3-year. The Board is of the opinion that the ratio of executive to non-executive Directors is reasonable and such balance can provide adequate checks and balances for safeguarding the interests of shareholders and of the Group. The non-executive Directors provide to the Group with a wide range of expertise and experience so that independent judgement can effectively be exercised as well as ensuring that the interests of all shareholders are taken into account. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on audit committee, remuneration committee and nomination committee, scrutinising the Group's performance and reporting. Through their active participation, they provide their valuable skills, expertise and experience to the Board and the committees on which they serve so that the management process can be critically reviewed and controlled. The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the directors give sufficient time and attention to the Company's affairs.

The Board as a whole is responsible for the appointment of new director and nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's bye-laws, the Board may from time to time appoint a director either to fill a vacancy or as an addition to the Board. Any new director appointed to fill a casual vacancy shall hold office until the first general meeting after his appointment and shall then be eligible for re-election at the next following annual general meeting. Any new director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Pursuant to Article 87(1) of the Bye-laws, Mr. Zhou Ya Fei, Mr. Ng Wai Hung and Mr. Wang Ju will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

INDEPENDENCE

The Company has three independent non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. The Group has received from each independent non-executive Directors an annual confirmation of his independence. The Company considers these Directors to be independent under the guidelines set out in Rule 5.09 of the GEM Listing Rules.

All independent non-executive Directors are identified as such in all corporate communications containing the names of the directors. In addition, there is no material relationship among members of the Board.

DEVIATION FROM THE CG CODE

Throughout the year ended 31 December 2017, the Company complied with the CG Code in Appendix 15 to the GEM Listing Rules, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (Directors attending general meetings).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As of the date of this report, both of the positions of Chairman and Chief Executive Officer at the Group level were still left vacant. However, the Company has appointed a number of Chief Executive Officers at subsidiary level for each business segments, who will be held responsible for the oversight of each business segments' operations. The Company will continue to look for the appropriate candidate to fill the vacancy as chairman and the chief executive officer where appropriate.

(b) Non-executive Directors attending general meeting

Under the CG Code provision A.6.7, non-executive Directors should attend general meetings. During the year, due to directors' other commitments and travels, not all of the non-executive directors of the Company attended all general meetings.

BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

The Board regularly meets in person or through other means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 14 days' notice of regular Board meeting are given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides directors information on activities and development of the businesses of the Group. The company secretary assists the chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations in connection with the meetings are observed and complied with. The company secretary also takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings.

During the year under review, seven board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Board Meetings Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meetings Attended/ Eligible to attend	General Meetings Attended/ Eligible to attend
Ms. Wu Li	7/7	N/A	N/A	N/A	0/1
Mr. Chan Kam Kwan, Jason	7/7	N/A	N/A	N/A	1/1
Mr. Zhou Ya Fei	7/7	4/4	N/A	1/1	0/1
Mr. Zou Xiao Chun	7/7	N/A	1/1	N/A	0/1
Mr. Luo Ning	7/7	N/A	N/A	N/A	0/1
Mr. Ng Wai Hung	7/7	4/4	1/1	1/1	1/1
Mr. Lam Cheung Shing, Richard	7/7	4/4	1/1	1/1	1/1
Mr. Wang Ju	7/7	N/A	N/A	N/A	0/0

During regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual, interim and quarterly results, set annual budgets, as well as discuss and decide on other significant matters. The execution of daily operational matters is delegated to management of the Group. Monthly updates on the Companies' performances is prepared by management to the Board so as to enable directors to discharge their duties.

The company secretary records the proceedings of each board meeting in detail by keeping minutes, including the record of all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any director.

All Directors have access to relevant and timely information at all times as the chairman ensures that the management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information.

They also have unrestricted access to the advice and services of the company secretary, who is held responsible for providing Directors with board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered necessary and appropriate by the Directors, they may retain the service of independent professional advisers at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a Director, such matter will be discussed in a physical meeting and will not be dealt with by way of written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Independent non-executive directors and other non-executive directors will make positive contribution to the strategy and policies of the Company through independent, constructive and informed comments.

The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with the shareholders and for shareholders' participation. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings.

During the year ended 31 December 2017, apart from the annual general meeting held on 23 May 2017, the Company did not hold any other general meetings.

TRAINING AND SUPPORT FOR DIRECTORS

The Group provides a comprehensive and formal induction to each newly appointed director upon his/her appointment. Briefings and orientations are provided and organised to ensure that the new directors are familiar with the role of the Board, their legal and other duties as a director as well as the business and governance practices of the Group. Such programmes are tailored to each individual Director taking into account their background and expertise. The company secretary and compliance officer will continuously update all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all Directors.

Pursuant to Code provision A.6.5, all Directors should participate in continuous professional development, including reading of relevant materials or attending relevant seminars to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training or read relevant materials in order to develop and refresh their knowledge and skills. The Company has received from each Director a confirmation of their participation in continuous professional development.

Each Director will, upon his/her first appointment and thereafter on a yearly basis, disclose to the Group the number and nature of offices held by such director in public companies and organizations and other significant commitments.

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. As at 31 December 2017, the remuneration committee consists of two independent non-executive Directors, namely, Mr. Lam Cheung Shing, Richard, Mr. Ng Wai Hung, and one non-executive Director, Mr. Zou Xiao Chun. Mr. Lam Cheung Shing, Richard is the chairman of the committee.

The remuneration committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive Directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues, and ensure that no director or any of his associates is involved in deciding his own remuneration and has access to professional advice if deemed necessary. The remuneration committee is also provided with other resources enabling it to discharge its duties.

The specific terms of reference of the remuneration committee are posted on the Company's website. The remuneration committee meets at least once a year.

During the year under review, the remuneration committee held one meeting to determine the remuneration package for the executive Directors, non-executive Directors and independent non-executive Directors, and approving the terms of executive Director's service contracts.

Remuneration (including share-based payment) of senior management other than directors for the full year of 2017.

TOTAL REMUNERATION BANDS	NUMBER OF EXECUTIVES
HK$1,000,001 to HK$1,500,000	2
HK$2,000,001 to HK$2,500,000	1

NOMINATION COMMITTEE

A nomination committee was formed with specific written terms of reference on 26 March 2012. As at 31 December 2017, the nomination committee consists of two independent non-executive Directors, namely, Mr. Ng Wai Hung, Mr. Lam Cheung Shing, Richard, and one non-executive director, Mr. Zhou Ya Fei. Mr. Ng Wai Hung is the chairman of the nomination committee.

The duties of the nomination committee include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The nomination committee assesses and considers the relevant experiences, skills and qualification, and independence (applicable to independent directors) in its nomination procedure to select and recommend candidates for directorship.

The specific terms of reference of the nomination committee are posted on the Company's website. The nomination committee meets at least once a year.

During the year under review, the nomination committee held one meeting to review and recommend the appointment and re-appointment of directors.

The nomination committee is in the process of formulating its policy concerning diversity of Board members, subject to finalisation and board approval for adoption.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive Directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise. The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the compliance officer or external auditor before submission to the board.

(b) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Other duties of the audit committee are set out in its specific terms of reference which are posted on the Company's website. The audit committee is provided with sufficient resources enabling it to discharge its duties.

As at 31 December 2017, the audit committee has three members, namely Mr. Lam Cheung Shing, Richard (chairman of the audit committee), Mr. Zhou Ya Fei and Mr. Ng Wai Hung, all being independent non-executive Directors except for Mr. Zhou Ya Fei who is a non-executive director of the Company. Mr. Lam Cheung Shing, Richard is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountant. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports.

The audit committee has also reviewed the financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditor. There is no material uncertainty relating to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditor.

The Company's annual report for the year ended 31 December 2017 has been reviewed by the audit committee. The accounts for the year were audited by Ernst & Young whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that Ernst & Young be nominated for appointment as the auditor of the Company at the forthcoming annual general meeting.

The company secretary keeps full minutes of all audit committee meetings. In line with practices consistent with Board meetings and other committee meetings, draft and final versions of audit committee meeting minutes are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the remuneration in respect of audit services provided by the auditor, Ernst & Young, amounted to HK$800,000 (2016: HK$800,000). For non-audit services, the fees paid amounted to HK$56,000 (2016: Nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditor is responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established and the Board will therefore be responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance to the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the financial year ended 31 December 2017, the Board has reviewed the Company's policies and practices on corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

In order to comply with applicable code provisions set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules, The Board acknowledges their overall responsibility for overseeing the Management in the design, implementation and monitoring of the risk management and internal control systems of the Group with a view to ascertaining the effectiveness of its operations. The Board has delegated such responsibility to the Management of the Group, under the supervision of the Board, the Management has established policies and procedures for daily operations and continuously improving such internal controls of the Group.

The Group established the risk management and internal control systems with aims to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities. For risk management, the Management has established a risk management policy and risk reporting mechanism. The Board, the Audit Committee, and the Management have reviewed the Group's financial, operation, compliance and strategic aspects and identified certain risk areas.

The Group has its internal protocal on handing and dissemination of inside information that set out the procedures in handling inside information in an accurate and secure manner and to avoid possible mishandling of inside information within the Group.

During the year, the Board has engaged an independent professional firm with an aim to set up and maintain an effective internal audit function to facilitate the Board in assessing its risk management and internal controls. The Group has established an internal audit charter, conducted an annual risk assessment and devised a continuous three-year audit plan under a risk-based approach. An annual internal control review was performed according to the audit plan with a view to assisting the Board and the Audit Committee to evaluate the effectiveness of the Group's risk management and internal control mechanism.

The Audit Committee and the Board have conducted an ongoing review and monitoring of the effectiveness of the risk management, reviewed and discussed the internal control review reports submitted by the independent professional firm. The Audit Committee and the Board considered that the systems of internal control and risk management were effectively and satisfactorily operated in general and would serve to protect the interest of the shareholders and safeguard the assets of the Group during the year ended 31 December 2017.

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. The company secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The company secretary is also responsible for advising the Board on governance matters. All Directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committee. Mr. Chan Kam Kwan Jason was appointed as the company secretary effective from 26 March 2015 and was later appointed as an executive director on 23 November 2015. The biographical details of Mr. Chan are set out in the section of Profiles of Directors and Management on page 16 of this report. Mr. Chan has undertaken not less than 15 hours of relevant professional training to update his skills and knowledge in 2017.

DELEGATION BY THE BOARD

The Board is responsible for decisions in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management of the Group.

All committees, namely the audit committee, the remuneration committee and the nomination committee, have specific terms of reference clearly defining the authorities and responsibilities of the respective committees. All committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board review, on a yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Company as a whole.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover has been taken out for Directors' and Officers' Liability to provide adequate cover, as determined by the Board, in respect of the Board members and senior management members of the Company.

SHAREHOLDERS RELATIONS

The Company is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The commitment to fair disclosure and comprehensive and transparent reporting of the Company's activities can be reflected in many aspects.

In endeavouring to maintain an on-going dialogue with shareholders, the annual general meeting provides a useful forum for shareholders to exchange views with the Board.

The proceedings of the annual general meeting are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. The annual general meeting circular, which is circulated to all shareholders at least 21 clear days or 20 clear business days (whichever is longer) prior to the holding of the annual general meeting, sets out the details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information and notice of at least 14 clear days or 10 clear business days (whichever is longer) shall be given to shareholders for all other general meetings. At the Company annual general meeting, all the resolutions were put to the vote by poll and the Company's Hong Kong Branch Share Registrar, was engaged as scrutineer to ensure the votes were properly counted. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meeting are contained in the Company's Bye-laws.

The Company also communicates to its shareholders through its annual, interim and quarterly reports. The Directors, company secretary or other appropriate members of senior management also respond promptly to inquiries from shareholders and investors.

SHAREHOLDERS' RIGHTS

According to the Bye-Laws, any one or more shareholder holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business of Hong Kong.

As regards proposing a person for election as a director, please refer to the procedures as set out in the Bye-Laws on the GEM website and the Company's website at http://www.irasia.com/listco/hk/lajin/index.htm.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at Unit 4203, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

INVESTOR RELATIONS

The Company is committed to a policy of open and timely disclosure of corporate information to shareholders and investors. The Company updates shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports and notices, announcements and circulars. The Company's website (http:// www.irasia.com/listco/hk/lajin/index.htm) provides a communication platform to the public and the shareholders.

To strengthen its relationship with investors, the Company regularly meets with analysts and holds interviews with reporters and columnists of the press and other economic journals.

During the year ended 31 December 2017, there were no significant changes to the Company's constitutional documents.

CONCLUSION

The Company believes that good corporate governance is significant in maintaining investor confidence and attracting investment. The management will devote considerable effort to strengthen and improve the standards of the corporate governance of the Group.

REPORT OF DIRECTORS

The Directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2017.

BUSINESS REVIEW

The business review of the Company is as set out in the section of "Management Discussion and Analysis" on page 4 to 15 of this annual report.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

An analysis of the Group's revenue for the year by geographic segment is set out in note 4 to the consolidated financial statement.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 49 of this annual report.

The Directors do not recommend the payment of any final dividend in respect of the year.

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 121 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 52 of this annual report and in note 31 to the consolidated financial statements respectively.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2017 amounting to HK$814,475,000 (2016: HK$1,065,709,000).

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the balance sheet date are set out in page 8 and note 39 to the consolidated financial statements.

PUBLIC FLOAT

At the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

DIRECTORS

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

Executive Directors

Mr. Chan Kam Kwan, Jason
Ms. Wu Li

Non-Executive Directors

Mr. Zou Xiao Chun
Mr. Zhou Ya Fei
Mr. Luo Ning

Independent Non-Executive Directors

Mr. Ng Wai Hung
Mr. Lam Cheung Shing, Richard
Mr. Wang Ju

Pursuant to Article 87(1) of the Bye-laws, Mr. Zhou Ya Fei, Mr. Ng Wai Hung and Mr. Wang Ju shall retire at the annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2017 the interests and short positions of the Directors and chief executives and their respective associates 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")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

(i) Long positions in the ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Number of share options held	Approximate percentage of the issued share capital of the Company
Ms. Wu Li	Beneficial owner	—	8,000,000	0.19%
Mr. Chan Kam Kwan, Jason	Beneficial owner	—	12,000,000	0.29%
Mr. Zhou Ya Fei	Beneficial owner	—	1,000,000	0.02%
Mr. Zou Xiao Chun	Beneficial owner	—	1,000,000	0.02%
Mr. Ng Wai Hung	Beneficial owner	—	1,000,000	0.02%
Mr. Lam Cheung Shing, Richard	Beneficial owner	—	1,000,000	0.02%
Mr. Wang Ju	Beneficial owner	—	1,000,000	0.02%

Save as disclosed above, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2017.

SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme ("Share Option Scheme") and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants ("Participants") in order to recognise and motivate the contribution of the Participants to the Group. The Share Option Scheme is effective for 10 years and will be expired in June 2024.

Details of the options outstanding as at 31 December 2017 which have been granted to directors or chief executives under the Share Option Scheme are as follows:

		Number of share options				
	Option type	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Outstanding at 31 December 2017
Directors						
Mr. Chan Kam Kwan Jason	2015A	12,000,000	—	—	—	12,000,000
Ms. Wu Li	2015A	8,000,000	—	—	—	8,000,000
Mr. Zhou Ya Fei	2015A	1,000,000	—	—	—	1,000,000
Mr. Zou Xiao Chun	2015A	1,000,000	—	—	—	1,000,000
Mr. Ng Wai Hung	2015A	1,000,000	—	—	—	1,000,000
Mr. Lam Cheung Shing Richard	2015A	1,000,000	—	—	—	1,000,000
Mr. Wang Ju	2015A	1,000,000	—	—	—	1,000,000
		25,000,000	—	—	—	25,000,000
Other employees	2015A, 2016A	38,000,000	—	—	(4,000,000)	34,000,000
		63,000,000	—	—	(4,000,000)	59,000,000
Exercisable at the end of the reporting period at HK$1.088 each						**59,000,000**
Weighted average exercise price		HK$1.088	HK$1.088	—	HK$1.088	HK$1.088

Details of the specific categories of options are as follows:

Option type	Date of grant	Closing price of shares immediately before the date of grant	Vesting period	Exercise Period	Exercise Price
2015A	16 November 2015	HK$0.99	16 November 2015 to 15 November 2016	16 November 2016 to 16 November 2018	HK$1.088
2016A	21 January 2016	HK$0.80	21 January 2016 to 20 January 2017	21 January 2017 to 21 January 2019	HK$1.088

During the period, no options were granted or exercised, and a total of 4,000,000 options were forfeited under the Share Option Scheme. There are a total of 59,000,000 options outstanding as at 31 December 2017.

The total number of shares of the Company available for issue under the Share Option Scheme amounts to 156,967,477 shares as at the date of this report, representing 3.73% of the issued share capital outstanding. Details of the movement of the share option are set out in note 28 to the financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive 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 none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

DIRECTORS' INTEREST IN CONTRACTS

During the year, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company against all losses and liabilities & etc which they may incur or sustain by reason about the execution of their duties, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the directors. The Company has also arranged appropriate directors' and liability insurance coverage for the directors and officers of the Group.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2017, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of substantial shareholder	Capacity	*Notes*	Interest in shares	Interest in underlying shares	Approximate percentage of the Company's issued share capital
Jiaxuan Group Company Limited ("Jiaxuan")	Beneficial owner	*(i)*	1,982,561,725	—	47.10%
Eagle King Investment Holding Limited	Interest of controlled corporation	*(i)*	1,982,561,725	—	47.10%
Mr. Wong Kwong Yu	Interest of controlled corporation	*(i)*	1,982,561,725	—	47.10%
Great Majestic Global Holdings Limited	Interest of controlled corporation	*(i)*	1,982,561,725	—	47.10%
Mr. Xu Zhong Min	Interest of controlled corporation	*(i)*	1,982,561,725	—	47.10%
CITIC Group Corporation	Interest of controlled corporation	*(ii)*	459,934,954	—	10.93%
CITIC Limited	Interest of controlled corporation	*(ii)*	459,934,954	—	10.93%
Famous Peak Investments Limited	Beneficial owner	*(ii)*	459,934,954	—	10.93%
Vision Path Limited	Beneficial owner	*(iii)*	424,834,655	—	10.10%
Ms. Yu Nan	Interest of controlled corporation	*(iii)*	424,834,655	—	10.10%
First Charm Investments Limited	Beneficial owner	*(iv)*	311,545,414	—	7.40%
Mr. Ko Chun Shun Johnson	Interest of controlled corporation	*(iv)*	311,545,414	—	7.40%
Best of Us Company Limited	Beneficial owner	*(v)*	—	228,438,228	5.43%
Ms. Shang Na	Interest of controlled corporation	*(v)*	—	228,438,228	5.43%

Notes:

(i) Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited ("Eagle King") and as to 45% by Great Majestic Global Holdings Limited ("Great Majestic"). Mr. Wong Kwong Yu owns 100% of Eagle King and Mr. Xu Zhong Min owns 100% of Great Majestic.

(ii) Famous Peak Investments Limited is a wholly-owned subsidiary of CITIC Investment (HK) Limited, being one of the wholly-owned subsidiaries of CITIC Limited. CITIC Group Corporation is the holding company of the CITIC Limited.

(iii) Ms. Yu Nan owns 100% of Vision Path.

(iv) Mr. Ko Chun Shun, Johnson owns 100% of First Charm.

(v) Pursuant to the Shareholders' Agreement entered into between the Company and Ms. Shang Na, the Company has agreed to subscribe for 51% interest in a joint venture company, Young Film Company Limited, and the rest 49% interest (the "JV Shares") is agreed to be held by Best of Us Company Limited (the "JV Partner"), a wholly-owned company by Ms. Shang. The joint venture shall engage in the business of sourcing and production of media contents. The Company has also entered into the Deed in relation to the granting of the Shang Put Option and the Company Call Option entitling (i) the JV Partner to require the Company to purchase the JV Shares beneficially held by it at the Option Price; or (ii) the Company to require the JV Partner to sell the JV Shares beneficially held by it to the Company at the Option Price (as applicable). The Option Price shall be settled by the allotment and issuance of the Consideration Shares in batches, in accordance with the formula and manner as set out in the Deed. The 228,438,228 ordinary shares disclosed above is the maximum number of Consideration Shares to be issued by the Company, with the Option Price being calculated on the basis of an estimated accumulated profit of RMB150 million. Ms. Shang owns 100% of Best of Us Company Limited. Details of this transaction, please refer to the circular of the Company dated 23 December 2015. Subsequent to the financial year end, the transaction has been terminated. Therefore, the interest in underlying shares as disclosed ceased to exist.

Save as disclosed above, at 31 December 2017, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	83.9%
— five largest customers combined	97.7%

Purchases

— the largest supplier	73.0%
— five largest suppliers combined	80.7%

At no time during the year did the Directors, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers noted above.

CONNECTED TRANSACTION

Continuing Connected Transaction

Reference is made to the announcements dated 21 December 2015 and 28 August 2015 in relation to the continuing connected transaction constituted by entering into the Master Services Agreement and the subscription of new shares in JV Company. Capitalised terms contained herein shall have the same meanings as set out in the announcement, and the circular in relation to the Shang Put Option dated 23 December 2015.

Having regard to the potential implications of the draft PRC Foreign Investment Law proposed by the Ministry of Commerce and after further negotiations among the parties, in lieu of the structured contracts arrangements as disclosed in the announcement dated 28 August 2015, on 21 December 2015 (after trading hours), Young Film Culture Media Company Limited ("Young Film") (a wholly-owned subsidiary of Young Film Company Limited ("the JV Company") and the 青島年青時候影視文化傳媒有限公司 (Qingdao Young Times Video Cultural Media Company Limited) (the "Media Company") entered into the Master Services Agreements pursuant to which the Media Company shall provide to Young Film services including the production and promotion of movies, TV dramas and programmes as requested by the Group for a term of three years from the date of the Master Services Agreement.

During the term of the Master Services Agreement, the Media Company shall provide to the Group services including production and promotion of movies, TV dramas and programmes as requested by the Group. The Group shall provide to the Media Company a shareholders' loan (subject to annual caps as detailed below) for its production. The services under the Master Services Agreement shall be charged on cost basis (as incurred by the Media Company). With regard to each production planned by the Group, the Media Company shall prepare a budget for which the Group shall prepay the budgeted amount to the Media Company. Following completion of the production, the parties shall ascertain the actual costs of production and settle outstanding amounts where appropriate.

	Annual Caps *RMB in millions*
From the period commencing from the date of the Master Services Agreement to 31 December 2015	19.8
For the year ended 31 December 2016	190.9
For the year ended 31 December 2017	182.6
For the year ended 31 December 2018	247.1

Following Completion of the Subscription, Ms. Shang has become a substantial shareholder of the JV Company which is a subsidiary of the Company and therefore is a connected person to the Company at the subsidiary level. The Media Company is an associate of Ms. Shang and the entering into of the Master Services Agreement between Young Film (an indirect subsidiary of the Company) and the Media Company constitutes a continuing connected transaction for the Company. As the Master Services Agreement was entered into on normal commercial terms or better, and Ms. Shang is a connected person of the Company at subsidiary level, the entering into of the Master Services Agreement is exempted from the circular, independent financial advice and shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules. The transactions contemplated under the Master Services Agreement is subject to the annual review requirements under Rules 20.53 to 20.57 of the GEM Listing Rules.

For the year ended 31 December 2017, films/TV related services provided to Young Film by the Media Company amounted to approximately HK$8,765,000 (RMB7,300,000).

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with GEM Listing Rule 20.54. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The independent non-executive director of the Company also reviewed the transaction under the Master Services Agreement during the year and have confirmed that such transaction are in compliance with GEM Listing Rules 20.53.

Save as disclosed above, during the year ended 31 December 2017, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements thereunder.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent.

CHANGE IN AUDITORS IN THE PRECEDING 3 YEARS

A resolution was passed at the AGM of the Company dated 28 June 2016 to appoint Ernst & Young as external auditor of the Company following the retirement of HLB Hodgson Impey Cheng Limited ("HLB"). HLB retired as the external auditor of the Company with effect from the conclusion of the AGM of the Company dated 28 June 2016.

AUDITOR

The account for the year ended 31 December 2017 were audited by Ernst & Young whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of Ernst & Young as the auditor of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Kam Kwan, Jason
Director

Hong Kong, 27 March 2018

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Lajin Entertainment Network Group Limited
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Lajin Entertainment Network Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 120, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other 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 consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of film rights and films and TV programmes under production	
As at 31 December 2017, the Group had film rights and films and TV programmes under production with a carrying amount of approximately HK$300.0 million stated at cost less accumulated amortisation and any impairment losses. At the end of each reporting period, both internal and external market information is considered to assess whether there is any indication that film rights and films and TV programmes under production are impaired. An impairment loss is recognised to reduce an asset to its estimated recoverable amount. Management's assessment process for the impairment of film rights and films and TV programmes under production is complex, highly judgemental and is based on assumptions, which are affected by the expected future film market and customers' demand. Relevant disclosures are included in notes 3 and 20 to the financial statements.	We reviewed and assessed management's provisioning policy and the rationale for recording the specific impairment. Our audit procedures included inquiring management on the method used in the impairment assessment, reviewing management's analysis of the main artists and directors' recent works of the films/programmes and the targeted markets of the films/programmes, evaluating the methodologies, assumptions and parameters used by management. We also evaluated management's business plans with reference to the market situation.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 scepticism throughout the audit. We also:

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 *HK$'000*	2016 *HK$'000*
Revenue	5	**65,126**	24,143
Cost of sales		**(55,813)**	(111,688)
Gross profit/(loss)		**9,313**	(87,545)
Other income and gains	5	**6,258**	11,888
Selling and distribution expenses		**(4,994)**	(4,220)
Administrative expenses		**(80,417)**	(96,616)
Share-based compensation costs	28	**14,216**	(32,984)
Other expenses		**(7,033)**	(12,504)
Share of losses of:			
Associates		**(10,035)**	(2,182)
A joint venture		**(8,262)**	—
Loss before tax	6	**(80,954)**	(224,163)
Income tax expense	9	**38**	(93)
Loss for the year		**(80,916)**	(224,256)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**35,185**	(30,692)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**35,185**	(30,692)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(45,731)**	(254,948)
Loss for the year attributable to:			
Owners of the parent		**(79,853)**	(224,239)
Non-controlling interests		**(1,063)**	(17)
		(80,916)	(224,256)
Total comprehensive loss for the year attributable to:			
Owners of the parent		**(44,656)**	(254,931)
Non-controlling interests		**(1,075)**	(17)
		(45,731)	(254,948)
Loss per share attributable to ordinary equity holders of the parent			
Basic and diluted	11	**HK(1.93) cents**	HK(7.97) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**135,376**	25,400
Convertible notes receivable	13	**5,925**	5,427
Conversion options embedded in convertible notes receivable	13	**530**	886
Investments in associates	14	**46,432**	39,671
Investment in a joint venture	15	**17,418**	—
Available-for-sale financial assets	16	**24,954**	19,857
Goodwill	17	**4,879**	—
Other assets		**7,132**	—
Deposits paid for acquisition of property, plant and equipment	18	**—**	39,971
Total non-current assets		**242,646**	131,212
Current assets			
Trade receivables	19	**38**	14,775
Film rights and films and TV programmes under production	20	**299,973**	219,596
Investments in film	21	**1,981**	16,750
Amounts due from related companies	22,32(b)	**2,172**	47,460
Prepayments, deposits and other receivables	23	**130,061**	39,335
Cash and cash equivalents	24	**298,481**	493,128
Total current assets		**732,706**	831,044
LIABILITIES			
Current liabilities			
Trade payables	25	**2,981**	2,773
Amount due to a shareholder	32(b)	**31**	3,133
Other payables and accruals		**71,791**	11,967
Total current liabilities		**74,803**	17,873
Net current assets		**657,903**	813,171
Total assets less current liabilities		**900,549**	944,383
Non current liabilities			
Deferred tax liabilities	26	**878**	—
Net assets		**899,671**	944,383

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
EQUITY			
Share capital — ordinary shares	27	**42,090**	28,147
Share capital — preferred shares	27	**—**	13,246
Reserves		**857,324**	902,417
Equity attributable to owners of the parent		**899,414**	943,810
Non-controlling interests		**257**	573
Total equity		**899,671**	944,383

Wu Li
Director

Chan Kam Kwan, Jason
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent										
	Notes	Share capital-ordinary shares HK$'000	Share capital-preferred shares HK$'000	Share premium HK$'000 (Note i)	Share-based payment reserve HK$'000 (Note ii)	Contributed surplus HK$'000 (Note iii)	Other reserve HK$'000 (Note iv)	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016		28,147	13,246	1,013,768	2,256	28,294	—	(2,043)	(43,749)	1,039,919	(34)	1,039,885
Loss for the year		—	—	—	—	—	—	—	(224,239)	(224,239)	(17)	(224,256)
Other comprehensive loss for the year		—	—	—	—	—	—	(30,692)	—	(30,692)	—	(30,692)
Total comprehensive loss for the year		—	—	—	—	—	—	(30,692)	(224,239)	(254,931)	(17)	(254,948)
Settlement of share subscription price of preferred shares		—	—	125,838	—	—	—	—	—	125,838	—	125,838
Capital contribution from non-controlling shareholders		—	—	—	—	—	—	—	—	—	624	624
Recognition of equity-settled share-based payments	28	—	—	—	32,984	—	—	—	—	32,984	—	32,984
At 31 December 2016 and at 1 January 2017		28,147	13,246	1,139,606*	35,240*	28,294*	—*	(32,735)*	(267,988)*	943,810	573	944,383
Loss for the year		—	—	—	—	—	—	—	(79,853)	(79,853)	(1,063)	(80,916)
Other comprehensive income for the year		—	—	—	—	—	—	35,197	—	35,197	(12)	35,185
Total comprehensive income for the year		—	—	—	—	—	—	35,197	(79,853)	(44,656)	(1,075)	(45,731)
Acquisition of a subsidiary	30	—	—	—	—	—	—	—	—	—	759	759
Reversal of equity-settled share-based payments	28	—	—	—	(14,216)	—	—	—	—	(14,216)	—	(14,216)
Share of reserves of joint venture and associate		—	—	—	—	—	14,476	—	—	14,476	—	14,476
Issue of ordinary shares upon conversion of preferred shares	27	13,943	(13,246)	(697)	—	—	—	—	—	—	—	—
At 31 December 2017		**42,090**	**—**	**1,138,909***	**21,024***	**28,294***	**14,476***	**2,462***	**(347,841)***	**899,414**	**257**	**899,671**

* There reserve accounts comprise the consolidated reserves of HK$857,324,000 (2016: HK$902,417,000) in aggregate in the consolidated statement of financial position.

Notes:

(i) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used for paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(ii) The share-based payment reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at the grant periods date. The amount for each period is determined by spreading the fair value of the share options over the relevant vesting period (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

(iii) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year ended 31 December 2010. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(iv) The other reserves mainly represent the proportion of share of reserves of the Group's joint-venture and associates.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(80,954)**	(224,163)
Adjustments for:			
Bank interest income	5	**(2,035)**	(1,440)
Share of losses of associates and a joint venture		**18,297**	2,182
Gain on deemed disposal of an associate	5	**(791)**	(875)
Depreciation of property, plant and equipment	6	**6,500**	2,861
Amortisation of other assets	6	**733**	—
Impairment loss on available-for-sales	6	**1,153**	—
Loss on disposal of property, plant and equipment	6	**766**	37
Impairment loss recognised in respect of films and TV programmes under production	6	**5,799**	6,004
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	5	**356**	1,700
Impairment loss recognised in respect of other receivables, net	6	**7**	6,500
Imputed interest income on convertible notes receivable	5	**(498)**	(456)
Interest income on film investment	5	**(2,115)**	(1,982)
Shared-based payment costs	28	**(14,216)**	32,984
		(66,998)	(176,648)
Decrease/(increase) in trade receivables		**15,251**	(14,775)
Increase in prepayments, deposits and other receivables		**(61,732)**	(17,432)
Decrease/(increase) in amounts due from related companies		**46,146**	(23,460)
Increase in film rights and films and TV programmes under production		**(95,474)**	(198,284)
Increase in trade payables		**—**	2,773
(Decrease)/increase in other payables and accruals		**(2,519)**	2,193
Decrease in amount due to a shareholder		**(3,207)**	(21,291)
Decrease in amount due to a related company		**—**	(602)
Decrease in amount due to a joint venture		**—**	(3)
Cash used in operations		**(168,533)**	(447,529)
Bank interest received		**1,971**	1,278
Income tax paid		**—**	(93)
Net cash flows used in operating activities		**(166,562)**	(446,344)

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(26,582)**	(22,258)
Investment in a joint venture		**(11,534)**	—
Investments in associates		**(5,923)**	(38,650)
Investments in available-for-sale financial assets		**(4,614)**	(1,117)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	30	**(3,179)**	—
Acquisition of other assets		**(1,173)**	—
Investments in film		**19,468**	(16,750)
Proceeds from disposal of items of property, plant and equipment		**20**	3
Deposit paid for acquisition of property, plant and equipment		**—**	(3,350)
Increase in time deposits with original maturity of over three months		**—**	(2,292)
Proceeds from disposal of an associate		**—**	5,524
Net cash flows used in investing activities		**(33,517)**	(78,890)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of the preferred shares consideration		**—**	125,838
Capital contribution from non-controlling shareholders		**—**	624
Net cash flows from financing activities		**—**	126,462
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(200,079)**	(398,772)
Cash and cash equivalents at beginning of year		**490,836**	905,836
Effect of foreign exchange rate changes, net		**5,384**	(16,228)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**296,141**	490,836
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**115,411**	190,563
Non-pledged time deposits with original maturity of less then three months		**180,730**	300,273
Cash and cash equivalents as stated in the statement of cash flows	24	**296,141**	490,836

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. 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") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 4203, Far East Finance Centre,16 Harcourt Road, Admiralty, Hong Kong, respectively.

During the year, the Group was involved in the following principal activities:

- Artists management service; and
- Movies, TV programmes and internet contents services.

Particulars of the Company's principal subsidiaries are set out in note 38 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for conversion options embedded in convertible notes receivable which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of the above revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Appling HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contract*[3]
HKAS 28	*Long-term Interest in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet a employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of the Group's financial assets and impairment model on financial assets.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to the contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustments to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15. Based on the current contract terms, the Group does not expect that the adoption of HKFRS 15 will have a material impact.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the 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's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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;
- (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); and
- (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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Artists management services income is recognised when the services are rendered.

Revenue from the sale of film rights is recognised when the master films are delivered and the file title has passed perpetually.

Film production and distribution income is recognised when the Group's entitlement to such payments has been established when the notice of delivery is served to the customer.

TV and internet programme revenue is recognised when the significant risks and rewards of ownership have been transferred to the purchasers, i.e., when the relevant TV and internet programmes have been completed, delivered to the purchasers and collectability of related receivables is reasonably assured.

Income from investments in film production is recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements.

Service income is recognised when services are provided.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, binomial model and its variants for share options. Further details of the fair values of share options are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is 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 in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to 1 June 2014). The Group's contributions to the scheme are expensed as incurred and are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The employees employed by the Group's subsidiaries in the People's Republic of China (the "PRC") are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the government of the PRC is to make the specified contributions under the schemes.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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 for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any 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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Computer equipment	33⅓%
Furniture and equipment	20% – 25%
Motor vehicles	25%
Buildings	2.4% – 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Film rights and films and TV programmes under production

Film rights

Film rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). The Group amortises costs of film rights in the same ratio that current period actual revenue in the current period bears to estimated total projected revenue. The Group begins to amortise the capitalised costs of film rights when a film is released and it begins to recognise revenue from that film.

The Group reviews and revises estimates of total projected revenue and total production costs of film rights at the end of each reporting period. If estimates are revised, the Group adjusts the amount of total projected revenue from the period when such changes in estimates take place and re-calculates the ratio for the amortisation of film rights. The effect from changes in estimates is recognised on a prospective basis.

At the end of each reporting period, both internal and external market information is considered when assessing whether there is any indication that film rights are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the asset to its estimated recoverable amounts. Such impairment losses are recognised in profit or loss.

Films and TV programmes under production

Films and TV programmes under production represent films, televisions drama series and TV programmes under production and are stated at cost at the date incurred, less any identified impairment losses. Costs include all costs associated with the production of films and TV programmes. Films and TV programmes under production are transferred to film rights when the permit of public screening is received.

At the end of each reporting period, both internal and external market information is considered when assessing whether there is any indication that films and TV programmes under production are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the assets to their recoverable amounts. Such impairment losses are recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Borrowing costs

Borrowing costs 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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of the Group's certain overseas subsidiaries, joint venture and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive and negative net changes in fair value presented as other income and gains in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and some of its subsidiaries do not hold any equity interests in certain of their subsidiaries. Nevertheless, under the contractual agreements entered into between the Group and the shareholders who are the registered owners of those subsidiaries, the directors of the Company determine that the Group has the power to govern the financial and operating policies of those subsidiaries so as to obtain benefits from their activities. As such, those subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately HK$64,567,000 (2016: HK$12,979,000) for the year ended 31 December 2017. At 31 December 2017, total assets and total liabilities of these entities amounted to approximately HK$359,353,000 (2016: HK$162,089,000) and HK5,801,000 (2016: HK$4,193,000), respectively.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Accounting for film rights and films and TV programmes under production

The costs of film rights and films and TV programmes under production, less residual values, are amortised in proportion to the estimated projected revenues over the economic beneficial period. Additional amortisation is made if estimated projected revenues are materially different from the previous estimation.

Management bases its estimates of total projected revenues of each film and TV programme on the historical performance of similar films and TV programmes, incorporating factors such as the past box office record of the leading actors and actresses, the genre of the film, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales.

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of films, management reviews and revises, when necessary, the estimated projected revenues at regular intervals. Such change in revenue projections or estimations may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to recoverable amount. This could have an impact on the Group's results of operations. The carrying amounts of film rights and films and TV programmes under production are disclosed in note 20 to the financial statements.

At the end of each reporting period, both internal and external market information are considered when assessing whether there is any indication that film rights and films and TV programmes under production are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the asset to its estimated recoverable amounts. Such impairment losses are recognised in profit or loss.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. 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 future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$4,879,000 (2016: Nil). Further details are given in note 17.

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant estimate is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the artists management segment comprises the provision of artists management services;

(b) the movies, TV programmes and internet contents segment comprises investment, production and distribution of movies, TV programmes and investment in internet contents.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that share-based compensation costs, impairment loss recognised in respect of other receivables, loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable, share of loss of a joint venture, share of losses of associates as well as head office and corporate income and expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

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

	Artists management		Movies, TV programmes and internet contents		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue to external customers	**1,198**	300	**63,928**	23,843	**65,126**	24,143
Segment results	**(6,825)**	13	**(54,773)**	(115,251)	**(61,598)**	(115,238)
Reconciliation:						
Unallocated other income					**2,499**	1,844
Corporate and other unallocated expenses					**(17,411)**	(67,403)
Share-based compensation costs					**14,216**	(32,984)
Impairment loss recognised in respect of other receivables, net					**(7)**	(6,500)
Loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable					**(356)**	(1,700)
Share of loss of a joint venture					**(8,262)**	—
Share of losses of associates					**(10,035)**	(2,182)
Loss before tax					**(80,954)**	(224,163)

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

4. OPERATING SEGMENT INFORMATION *(continued)*

(b) Other segment information

	Artists management		Movies, TV programmes and internet contents		Unallocated		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of property, plant and equipment	**129**	2	**5,834**	80	**537**	2,779	**6,500**	2,861
Impairment loss recognised in respect of films and TV programmes under production	**—**	—	**5,799**	6,004	**—**	—	**5,799**	6,004
Impairment loss recognised in respect of other receivables, net	**—**	—	**—**	—	**7**	6,500	**7**	6,500
Investments in associates	**—**	—	**34,385**	39,671	**12,047**	—	**46,432**	39,671
Investment in a joint venture	**—**	—	**17,418**	—	**—**	—	**17,418**	—
Capital expenditure*	**1,143**	—	**109,973**	18,804	**—**	3,454	**111,116**	22,258

* Capital expenditure consists of additions to property, plant and equipment and assets from acquisition of a subsidiary during the year.

(c) Geographical information

In determining the Group's geographical information, revenue information is based on the locations of the customers, and asset information is based on the locations of the assets.

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

	Revenue from external customers		Non-current assets*	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**65,089**	23,045	**176,007**	66,175
Hong Kong	**—**	1,098	**616**	1,053
Korea	**—**	—	**34,614**	37,814
Japan	**37**	—	**—**	—
	65,126	24,143	**211,237**	105,042

* Non-current assets represent property, plant and equipment, investments in associates, investment in a joint venture, goodwill and other assets.

4. OPERATING SEGMENT INFORMATION *(continued)*

(d) Information about major customers

Revenue from customers for the years ended 31 December 2017 and 2016 contributing to over 10% of the total revenue of the Group is as follows:

	Reporting segment	2017 HK$'000	2016 HK$'000
Customer A	Movies, TV programmes and internet contents	**54,656**	—
Customer B	Movies, TV programmes and internet contents	**4,222**	12,837
Customer C	Movies, TV programmes and internet contents	**—**	6,650
Customer D	Movies, TV programmes and internet contents	**—**	1,637

5. REVENUE, OTHER INCOME AND GAINS

	2017 HK$'000	2016 HK$'000
Revenue		
TV and internet programme	**61,586**	12,837
Film distribution	**6**	9,215
Sales of film rights	**2,231**	1,637
Artists management	**1,198**	300
Others	**105**	154
	65,126	24,143
Other income		
Interest income on film investment	**2,115**	1,982
Bank interest income	**2,035**	1,440
Consultancy service income	**1,088**	—
Rental income	**983**	—
Imputed interest income on convertible notes receivable *(note 13)*	**498**	456
Others	**35**	14
	6,754	3,892
Gains		
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable *(note 13)*	**(356)**	(1,700)
Loss on disposal of property, plant and equipment	**(766)**	(37)
Gain on deemed disposal of an associate	**791**	875
Exchange differences, net	**(242)**	7,689
Others	**77**	1,169
	(496)	7,996
	6,258	11,888

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2017 *HK$'000*	2016 *HK$'000*
Cost of film and TV programme rights		**54,539**	111,448
Cost of artists management services		**1,274**	240
Total cost of sales		**55,813**	111,688
Auditor's remuneration		**874**	910
Depreciation of property, plant and equipment	*12*	**6,500**	2,861
Amortisation of other assets		**733**	—
Impairment loss on available-for-sale financial assets*	*16*	**1,153**	—
Loss on disposal of property, plant and equipment	*5*	**766**	37
Impairment loss recognised in respect of films and TV programmes under production*	*20*	**5,799**	6,004
Impairment loss recognised in respect of other receivables, net*	*23*	**7**	6,500
Operating lease rentals in respect of rented premises		**9,178**	9,167
Staff costs (excluding directors' remuneration):			
— Salaries and allowances		**39,873**	47,703
— Pension scheme contributions**		**3,675**	4,484
— Share-based payment expenses		**(14,216)**	25,424
		29,332	77,611

* These items are included in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

** As at 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2016: Nil).

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the applicable GEM Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

For the year ended 31 December 2017:

	Fees	Salaries and allowances	Pension scheme contributions	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ms. Wu Li	—	720	16	—	736
Mr. Chan Kam Kwan, Jason	—	1,440	18	—	1,458
Non-executive directors					
Mr. Zou Xiao Chun	—	—	—	—	—
Mr. Zhou Ya Fei	—	—	—	—	—
Mr. Luo Ning	—	—	—	—	—
Independent non-executive directors					
Mr. Lam Cheung Shing Richard	240	—	—	—	240
Mr. Ng Wai Hung	240	—	—	—	240
Mr. Wang Ju	240	—	—	—	240
Total	720	2,160	34	—	2,914

7. DIRECTORS' REMUNERATION *(continued)*

For the year ended 31 December 2016:

	Fees	Salaries and allowances	Pension scheme contributions	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ms. Wu Li	—	719	16	2,832	3,567
Mr. Chan Kam Kwan, Jason	—	1,800	11	2,958	4,769
Non-executive directors					
Mr. Zou Xiao Chun	—	—	—	354	354
Mr. Zhou Ya Fei	—	—	—	354	354
Mr. Luo Ning	—	—	—	—	—
Independent non-executive directors					
Mr. Lam Cheung Shing Richard	240	—	—	354	594
Mr. Ng Wai Hung	240	—	—	354	594
Mr. Wang Ju	240	—	—	354	594
Total	720	2,519	27	7,560	10,826

In prior year, certain directors were granted share options in respect of their services to the group, further details of which are included in the note 28 to the consolidated financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the prior year is included in the above directors' remuneration disclosures.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

8. FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Among the five individuals with the highest emoluments, two (2016: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2016: three) individuals is as follows:

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Salaries and allowances	**4,690**	4,521
Pension scheme contributions	**74**	87
Share-based payment expenses	**141**	5,417
	4,905	10,025

The emoluments of the three (2016: three) individuals with the highest emoluments are within the following bands:

	2017	2016
		(Restated)
HK$1,000,001 to HK$1,500,000	**2**	—
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**1**	—
HK$3,500,001 to HK$4,000,000	**—**	1
HK$4,000,001 to HK$4,500,000	**—**	1
	3	3

In prior years, two non-director highest paid employees were granted share options in respect of their services to the Group, further details of which are included in the note 28 to the consolidated financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the prior year is included in the above five individuals with highest emolument disclosures.

For the purpose of the disclosures of the non-director highest paid employees, the share-based payment expenses related to Shang Na Options, as defined in note 28, for a key management personal were excluded and the related disclosure are restated.

9. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits arising in Hong Kong during the year. The subsidiaries operated in Mainland China are subject to the PRC corporate income tax at 25% (2016: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**—**	93
Deferred	**(38)**	—
Total tax charge/(credit) for the year	**(38)**	93

No provision for Hong Kong profits tax and Korea corporate income tax have been made for both years as the Group did not generate any assessable profits arising in Hong Kong and Korea.

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

	2017	2016
	HK$'000	*HK$'000*
Loss before tax	**(80,954)**	(224,163)
Tax at the statutory tax rates	**(18,830)**	(47,079)
Losses attributable to a joint venture and associates	**4,350**	437
Expenses not deductible for tax	**2,430**	20,454
Income not subject to tax	**(3,079)**	(4,261)
Tax losses not recognised	**15,091**	30,547
Tax losses utilised from previous periods	**—**	(5)
Tax charge/(credit) for the year	**(38)**	93

10. DIVIDEND

No dividend was paid or proposed during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$79,853,000 (2016: HK$224,239,000), and the weighted average number of ordinary shares of 4,136,550,000 (2016: 2,814,801,000) in issue during the year.

As the Company's share options and preferred shares where applicable had an anti-dilutive effect on the basic loss per share calculation for the years ended 31 December 2017 and 2016, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improve-ments	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:							
At 1 January 2016	—	5,323	1,543	1,646	—	—	8,512
Additions	—	631	204	1,428	1,438	18,557	22,258
Disposals	—	—	—	(60)	—	—	(60)
Exchange alignment	—	(267)	(72)	(164)	(64)	(831)	(1,398)
At 31 December 2016 and at 1 January 2017	—	5,687	1,675	2,850	1,374	17,726	29,312
Additions	84,404	—	2,499	1,448	—	22,635	110,986
Acquisition of a subsidiary *(note 30)*	—	—	—	130	—	—	130
Transfer	27,856	—	11,727	1,144	—	(40,727)	—
Disposals	—	(827)	(16)	(31)	—	(218)	(1,092)
Exchange alignment	4,602	339	702	324	103	584	6,654
At 31 December 2017	116,862	5,199	16,587	5,865	1,477	—	145,990
Accumulated depreciation:							
At 1 January 2016	—	934	137	174	—	—	1,245
Charged for the year	—	1,736	324	801	—	—	2,861
Disposals	—	—	—	(20)	—	—	(20)
Exchange alignment	—	(114)	(15)	(45)	—	—	(174)
At 31 December 2016 and at 1 January 2017	—	2,556	446	910	—	—	3,912
Charged for the year	2,070	1,644	800	1,631	355	—	6,500
Disposals	—	(289)	(6)	(11)	—	—	(306)
Exchange alignment	85	214	63	132	14	—	508
At 31 December 2017	2,155	4,125	1,303	2,662	369	—	10,614
Net carrying amount:							
At 31 December 2017	114,707	1,074	15,284	3,203	1,108	—	135,376
At 31 December 2016	—	3,131	1,229	1,940	1,374	17,726	25,400

As at 31 December 2017, certificate of ownership in respect of a building of the Group in Mainland China with carrying amount of HK$114,707,000 (2016: Nil) has not been issued by the relevant PRC authority.

13. CONVERTIBLE NOTES RECEIVABLE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE

On 7 October 2015, the Group subscribed for a 5-year interest-free convertible notes issued by a company located in Korea, with a principal amount of approximately HK$7,549,000. The convertible notes can be converted at any time from the date of issue to the maturity date. The fair values at initial recognition of the debt component and conversion options component, which amounted to approximately HK$4,866,000 and HK$2,683,000 respectively, are determined based on the valuation provided by a firm of independent professional qualified valuers which is not connected with the Group.

The movements of the Group's convertible notes receivable and conversion options embedded in convertible notes receivable are as follows:

	Convertible notes receivable	**Conversion options embedded in convertible notes receivable**
	HK$'000	***HK$'000***
31 December 2017		
At 1 January 2017	**5,427**	**886**
Imputed interest income	**498**	**—**
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	**—**	**(356)**
At 31 December 2017	**5,925**	**530**

	Convertible notes receivable	Conversion options embedded in convertible notes receivable
	HK$'000	*HK$'000*
31 December 2016		
At 1 January 2016	4,971	2,586
Imputed interest income	456	—
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	—	(1,700)
At 31 December 2016	5,427	886

13. CONVERTIBLE NOTES RECEIVABLE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE *(continued)*

Debt component

The debt component of the convertible notes is measured at amortised cost and has an effective interest rate of 9.2% per annum.

Conversion option component

The conversion option component is measured at fair value using a binomial option pricing model at the end of each reporting period.

The inputs to the model at 31 December 2017 and 2016, being the subscription date, are as follows:

	At 31 December 2017	At 31 December 2016
Stock price	KRW22,381.00	KRW21,957.00
Conversion price	KRW40,635.00	KRW40,635.00
Expected volatility	42%	47%
Dividend yield	0%	0%
Option life	2.8 years	3.8 years
Risk free rate	2.1%	1.7%

14. INVESTMENTS IN ASSOCIATES

	2017	2016
	HK$'000	*HK$'000*
Share of net assets	**36,266**	28,103
Goodwill on acquisition	**10,166**	11,568
	46,432	39,671

The Group's associates are all held through wholly-owned subsidiaries of the Company.

14. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017	2016
	HK$'000	*HK$'000*
Share of the associates' losses and total comprehensive losses for the year	(10,035)	(2,182)
Aggregate carrying amount of the Group's investments in the associates	46,432	39,671

15. INVESTMENT IN A JOINT VENTURE

	2017	2016
	HK$'000	*HK$'000*
Share of net assets	17,418	—

The following table illustrates the financial information of the Group's joint venture:

	2017	2016
	HK$'000	*HK$'000*
Share of a joint venture's loss and total comprehensive loss for the year	(8,262)	—
Carrying amount of the Group's investment in a joint venture	17,418	—

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	*HK$'000*
Unlisted investments at cost:		
— Equity securities outside Hong Kong	**26,107**	19,857
Impairment:	**(1,153)**	—
	24,954	19,857

As at 31 December 2017, the Group's unlisted equity investments which have no fixed maturity date or coupon rate, with a carrying amount of HK$24,954,000 (2016: HK$19,857,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

17. GOODWILL

	Note	*HK$'000*
Cost:		
At 31 December 2016 and 1 January 2017		—
Acquisition of a subsidiary	*30*	4,686
Exchange alignment		193
At 31 December 2017		4,879
Accumulated impairment:		
At 31 December 2016, 1 January 2017 and 31 December 2017		—
Net carrying amount:		
At 31 December 2017		4,879
At 31 December 2016		—

As at 31 December 2017, the carrying amount of goodwill amounting to HK$4,879,000 (2016: Nil) had been allocated to the cash-generating unit relating to the Group's artists management service.

As at 31 December 2017, the recoverable amount of the cash-generating unit of artists management service has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 3-year period approved by senior management. The after tax discount rate applied to the cash flow projections is 18%. The growth rate used to extrapolate the cash flows of the artists management service beyond the 3-year period is 3%.

Assumptions were used in the value in use calculation of the artists management service cash-generating units for 31 December 2017. The following describe each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margin and revenue – The basis used to determine the value assigned to the budgeted gross margins is past practices and expectations associated with artists management service business.

Discount rates – The discount rates used are after tax and reflect risks specific to artists management service business.

18. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

On 17 December 2015, 北京拉近互動傳媒科技有限公司(“北京拉近”), a wholly-owned subsidiary of the Company, as a purchaser, had entered into sale and purchase agreements, pursuant to which the 北京拉近 agreed to buy, and the vendor agreed to sell, the entire interests in the properties at a total consideration of approximately RMB68,323,000. 北京拉近 had paid approximately RMB32,795,000 (equivalent to HK$36,621,000 at 31 December 2016) during the year ended 31 December 2015 as a deposit. Thus, the deposit paid for acquisition of property, plant and equipment was classified as a non-current asset as at 31 December 2016. Details of the acquisition are set out in the Company's announcement dated 17 December 2015. The deposit of RMB32,795,000 was reclassified to the cost of property, plant and equipment during the year ended 31 December 2017.

19. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**38**	14,775

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months to 6 months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 3 months	**38**	12,998
3 to 6 months	**—**	1,777
	38	14,775

As at 31 December 2017, the Group's trade receivables were neither past due nor impaired and relate to customers for whom there was no recent history of default.

20. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Film and TV programme rights HK$'000	Films and TV programmes under production HK$'000	Total HK$'000
31 December 2017			
Cost:			
At 31 December 2016 and 1 January 2017	98,130	225,352	323,482
Additions	—	150,547	150,547
Disposals	—	(26,009)	(26,009)
Transfer to film and TV programme rights	135,386	(135,386)	—
Exchange realignment	9,773	13,509	23,282
At 31 December 2017	243,289	228,013	471,302
Accumulated amortisation and impairment:			
At 31 December 2016 and 1 January 2017	(98,130)	(5,756)	(103,886)
Amortisation	(54,496)	—	(54,496)
Impairment	—	(5,799)	(5,799)
Exchange realignment	(6,512)	(636)	(7,148)
At 31 December 2017	(159,138)	(12,191)	(171,329)
Carrying amount	84,151	215,822	299,973

	Film and TV programme rights HK$'000	Films and TV programmes under production HK$'000	Total HK$'000
31 December 2016			
Cost:			
At 31 December 2015 and 1 January 2016	36,316	2,483	38,799
Additions	—	298,406	298,406
Disposals	(1,545)	(88)	(1,633)
Transfer to film and TV programme rights	66,058	(66,058)	—
Exchange realignment	(2,699)	(9,391)	(12,090)
At 31 December 2016	98,130	225,352	323,482
Accumulated amortisation and impairment:			
At 31 December 2015 and 1 January 2016	—	—	—
Amortisation	(100,816)	—	(100,816)
Impairment	—	(6,004)	(6,004)
Exchange realignment	2,686	248	2,934
At 31 December 2016	(98,130)	(5,756)	(103,886)
Carrying amount	—	219,596	219,596

20. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION *(continued)*

For the purpose of impairment testing, film rights have been allocated to the cash-generating unit of movies, TV programmes and internet contents operation.

In light of the circumstances of the film industry, the Group regularly reviewed its library of film rights to assess the marketability of film rights and the corresponding recoverable amounts.

At 31 December 2017 and 2016, the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amounts would not cause the carrying amounts of the film and TV programme rights exceed the aggregate recoverable amounts.

During the year ended 31 December 2017, there is an impairment loss of approximately HK$5,799,000 (2016: HK$6,004,000) recognised in respect of films and TV programmes under production, based on contractual cash flows less cost to sell which solely related to the Group's TV programmes under production based in Mainland China.

21. INVESTMENTS IN FILM

During the year ended 31 December 2017, the Group has one (2016: one) film investment agreement at a total contract amount of HK$1,981,000 (2016: HK$16,750,000). The investment is governed by the relevant agreement entered into between the Group and the production house whereby the Group is entitled to 30% of the net income agreed with the production house in 2017 (2016: a fixed rate of return at 15% per annum or the principal amount).

22. AMOUNTS DUE FROM RELATED COMPANIES

On 21 December 2015, Young Film Culture Media Company Limited ("Young Film"), a subsidiary of the Company, entered into a master services agreement (the "Master Services Agreement") with 青島年青時候影視文化傳媒有限公司 (Qingdao Young Times Video Cultural Media Company Limited) ("Qingdao Young Times") which is controlled by Ms. Shang Na, the then key management personnel of the Group, pursuant to which Qingdao Young Times shall provide to Young Film services including the production and promotion of movies, TV dramas and programmes as requested by the Group for a term of three years from the date of the Master Services Agreement. The services under the Master Services Agreement shall be charged on a cost basis (as incurred by Qingdao Young Times). For more details of the Master Services Agreement, please refer to the announcement of the Company dated 21 December 2015.

As at 31 December 2016, included in amounts due from related companies was an amount of approximately HK$45,440,000 advanced by the Group to Qingdao Young Times for the services under the Master Services Agreement.

During the year ended 31 December 2017, the Group and Qingdao Young Times entered into settlement agreements, pursuant to which, the Group agreed to acquire certain movies, TV dramas and programmes from Qingdao Young Times with a consideration of approximately HK$45,440,000, and the such consideration is used to offset with the amount advanced by the Group to Qingdao Young Times.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Deposits	**5,870**	5,718
Prepayments	**54,920**	20,793
Other receivables	**75,852**	19,198
Impairment	**(6,581)**	(6,374)
	130,061	39,335

As at 31 December 2017, except for fully impaired other receivables of HK$6,581,000 (2016: HK$6,374,000), none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairment of other receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**6,374**	—
Impairment losses recognised	**81**	6,500
Impairment losses reversed	**(74)**	—
Exchange realignment	**200**	(126)
At 31 December	**6,581**	6,374

24. CASH AND CASH EQUIVALENTS

	2017	2016
	HK$'000	*HK$'000*
Cash and bank balances	**115,411**	190,563
Non-pledged time deposits with original maturity of less than three months when acquired	**180,730**	300,273
	296,141	490,836
Non-pledged time deposits with original maturity of over three months when acquired	**2,340**	2,292
Cash and cash equivalents	**298,481**	493,128

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in United State Dollars ("USD"), South Korea Won ("KRW") and Renminbi ("RMB") amounted to approximately HK$4,535,000 (2016: HK$6,873,000), HK$311,000 (2016: HK$7,000) and HK$87,252,000 (2016: HK$36,370,000), respectively.

24. CASH AND CASH EQUIVALENTS *(continued)*

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 3 months	**—**	2,773
Over 3 months	**2,981**	—
	2,981	2,773

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

26. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

	2017 Fair value adjustments arising from acquisition of a subsidiary	Total
	HK$'000	*HK$'000*
At 1 January 2017	**—**	—
Acquisition of a subsidiary *(note 30)*	**882**	882
Deferred tax credited to the statement of profit or loss during the year *(note 9)*	**(38)**	(38)
Exchange differences	**34**	34
Net deferred tax liabilities at 31 December 2017	**878**	878

26. DEFERRED TAX *(continued)*

As at 31 December 2017, the group had estimated unused tax losses of approximately HK$162,023,000 (2016: approximately HK$139,550,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and estimated unused tax losses of approximately HK$167,264,000(2016: HK$124,224,000) that are available for offsetting against future taxable profits of the PRC companies in five years. No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams and the unrecognised tax losses could be carried forward.

27. SHARE CAPITAL

	2017 Number of shares	**2017 Share capital**	2016 Number of shares	2016 Share capital
	'000	***HK$'000***	*'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**8,000,000**	**80,000**	8,000,000	80,000
Issued and fully paid:				
At 1 January	**2,814,801**	**28,147**	2,814,801	28,147
Conversion into ordinary shares *(Note i)*	**1,394,329**	**13,943**	—	—
At 31 December	**4,209,130**	**42,090**	2,814,801	28,147
Preferred shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**2,000,000**	**20,000**	2,000,000	20,000
Issued and fully paid:				
At 1 January	**1,324,613**	**13,246**	1,324,613	13,246
Conversion into ordinary shares *(Note i)*	**(1,324,613)**	**(13,246)**	—	—
At 31 December	**—**	**—**	1,324,613	13,246

Note:

(i) On 20 January 2017, all the outstanding preferred shares at 31 December 2016 were converted into 1,394,329,124 ordinary shares of the Company at HK$0.19 per share.

28. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

Pursuant to a resolution passed at the annual general meeting of the Company held on 10 June 2014, a share option scheme ("Option Scheme") was adopted by the Company.

The major terms of the Option Scheme are summarised as follows:

(i) The purpose is to enable the Company to grant options to the participants in order to recognise and motivate the contributions of the participants of the Group.

(ii) The eligible participants include full time or part time employees of the Group (including any directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any Invested Entity or any person who, in the sole discretion of the board of directors, has contributed or may contribute to the Group.

(iii) The total number of shares in respect of which share options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The total number of shares issued and to be issued upon exercise of the share options granted to each participant or grantee (including exercised, cancelled and outstanding share options) in any 12-month period shall not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

(v) The total number of shares issued and to be issued upon exercise of the share options granted to each substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of its respective associates or an independent non-executive director or any of his associates (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such grant shall not: (a) represent in aggregate over 0.1% of the shares in issue; and (b) have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, unless the same is approved by the shareholders.

(vi) The exercise period should be determined by the board of directors upon grant of the share options but in any event should not exceed 10 years from the date of offer for grant.

(vii) Save as determined by the board of directors provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

(viii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

28. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Share option scheme *(continued)*

(ix) The subscription price of a share option must be the highest of:

a. the closing price of a share of the Company on the Stock Exchange on the date of offer;

b. the average closing price of a share of the Company from the five business days immediately preceding the date of offer; and

c. the nominal value of a share of the Company on the date of offer.

(x) The Option Scheme is effective for 10 years from the date of adoption.

All the outstanding share options are vested one year after the grant date.

The movements of the share options outstanding as at the end of the reporting period are as follows:

	Number of share options				
	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Outstanding at 31 December 2017
Directors					
Mr. Chan Kam Kwan Jason	12,000,000	—	—	—	12,000,000
Ms. Wu Li	8,000,000	—	—	—	8,000,000
Mr. Zhou Ya Fei	1,000,000	—	—	—	1,000,000
Mr. Zou Xiao Chun	1,000,000	—	—	—	1,000,000
Mr. Ng Wai Hung	1,000,000	—	—	—	1,000,000
Mr. Lam Cheung Shing Richard	1,000,000	—	—	—	1,000,000
Mr. Wang Ju	1,000,000	—	—	—	1,000,000
	25,000,000	—	—	—	25,000,000
Other employees	38,000,000	—	—	(4,000,000)	34,000,000
	63,000,000	—	—	(4,000,000)	59,000,000

28. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Share option scheme *(continued)*

Details of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options	Date of grant	Vesting period	Exercise period	Exercise price per share
44,000,000	16 November 2015	16 November 2015 to 15 November 2016	16 November 2016 to 16 November 2018	HK$1.088
15,000,000	21 January 2016	21 January 2016 to 20 January 2017	21 January 2017 to 21 January 2019	HK$1.088
59,000,000				

2016

Number of options	Date of grant	Vesting period	Exercise period	Exercise price per share
48,000,000	16 November 2015	16 November 2015 to 15 November 2016	16 November 2016 to 16 November 2018	HK$1.088
15,000,000	21 January 2016	21 January 2016 to 20 January 2017	21 January 2017 to 21 January 2019	HK$1.088
63,000,000				

28. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Share option scheme *(continued)*

The fair value was calculated by using the Binomial Tree method. The inputs in the method were as follows:

	Options granted on	
	21 January 2016	**16 November 2015**
Share price on grant date *(HK$)*	0.800	0.990
Exercise price *(HK$)*	1.088	1.088
Expected volatility *(%)*	68.544%	66.659%
Expected life *(years)*	3 years	3 years
Risk-free rate *(%)*	1.45%	0.806%
Expected dividend yield	—	—

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural consideration.

The fair value of the share options granted in 2016 was HK$3,074,000, of which the Group recognised a share-based payment expense of HK$176,000 (2016: HK$18,592,000) during the year ended 31 December 2017.

The Binomial Tree method has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of directors' of the Company. The value of an option varies with different variables of certain subjective assumptions.

Shang Na Option

Young Film Company Limited (the "JV Company") was incorporated in the British Virgin Islands on 6 August 2015 and has issued share capital of US$490 divided into 490 shares, wholly owned by Best of Us Company Limited (the "JV Partner"), which is wholly-owned by Ms. Shang Na.

On 28 August 2015, Lajin Film Co., Limited, the JV Partner and Ms. Shang Na entered into a shareholders' agreement pursuant to which Lajin Film Co., Limited has agreed to subscribe for 510 new shares of the JV Company, representing 51% of the issued capital of the JV Company at an aggregate subscription price of US$510 (equivalent to approximately HK$4,000). The JV Partner holds the rest of 49% of the issued capital of the JV Company (the "JV Shares"). The subscription has been completed around 31 August 2015, because the renewed share register has been issued on 28 August 2015 and the new register of directors has been issued on 2 September 2015.

On the same date, the Company, the JV Partner and Ms. Shang Na entered into a deed (the "Deed") in relation to the granting to Ms. Shang Na a put option ("Shang Na Option") and the Company a call option (the "Company's Call Option") entitling (subject to satisfaction of certain conditions (the "Pre-determined Conditions") set out in the Deed) (i) the JV Partner to require the Company to purchase the JV Shares beneficially held by it at a consideration determined based on a formula (the "Option Price"); or (ii) the Company to require the JV Partner to sell the JV Shares beneficially held by it to the Company at the Option Price. The Option Price shall be settled by the allotment and issuance of the consideration shares of the Company, in accordance with the formula and manner as set out in the Deed.

28. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Shang Na Option *(continued)*

The transaction above was duly passed by the shareholders by the way of poll at a special general meeting held on 14 January 2016.

The arrangement is an equity-settled share-based payment transaction.

The fair value was calculated by using the Black-Scholes model, binomial model and its variants. The inputs in the method were as follows:

	Options granted on 14 January 2017
Share price on grant date *(HK$)*	0.940
Expected volatility *(%)*	70%
Expected life *(years)*	3 years to 6 years
Risk-free rate *(%)*	1.04%

The fair value of Shang Na Option granted during the year was HK$35,789,000, of which the Group recognised a share-based payment expense of HK$14,392,000 during the year ended 31 December 2016.

As at 31 December 2017, the directors of the Company believe that the Pre-determined Conditions cannot be achieved and it is considered that neither the Shang Na Option can be, nor the Company's Call Option will be exercised before the expiry of such options. Accordingly, the recognised share-based payment expenses of HK$14,392,000 in 2016 were reversed during the year ended 31 December 2017.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 52 to 53 of the financial statements.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits. The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserves are converted into capital, the remaining statutory reserve balance shall be no less than 25% of the registered capital prior to the conversion.

30. ACQUISITION OF A SUBSIDIARY

On 24 April 2017, Beijing Lajin Hu Yu Wen Hua Chuan Mei Company Limited ("Lajin Hu Yu"), a wholly-owned subsidiary of the Company, has entered into sale and purchase agreements with a number of vendors, in relation to the acquisition of an additional 38% of the registered share capital in Beijing Xin Mei Xing Xiu Wen Hua Chuan Mei Company Limited ("Xin Mei Xing Xiu"), the then 32% owned associate of the Group, at a total consideration of RMB3,040,000 (equivalent to approximately HK$3,505,000). The purpose of the acquisition is to provide a synergy to the existing businesses of the Group. All the conditions precedent were fulfilled on 15 June 2017 and accordingly, the acquisition was completed and control over Xin Mei Xing Xiu was passed to the Group on the same date.

Upon completion of the Acquisition, Xin Mei Xing Xiu has become a 70% owned subsidiary of the Company.

The fair values of the identifiable assets and liabilities of Xiu Mei Xing Xiu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition
		HK$'000
Property, plant and equipment	12	130
Other assets		6,412
Trade receivables		30
Prepayments, deposits and other receivables		401
Cash and cash equivalents		326
Other payables and accruals		(3,886)
Deferred tax liabilities	26	(882)
Total identifiable net assets at fair value		2,531
Non-controlling interests		(759)
Goodwill arising on acquisition	17	4,686
		6,458
Satisfied by:		
Cash consideration paid		3,505
Fair value of previously held equity interests		2,953
		6,458
Net cash outflow on acquisition:		
Cash consideration paid		3,505
Less: cash and cash equivalents acquired		(326)
		3,179

The Group incurred no transaction cost for this acquisition.

Since the acquisition, Xin Mei Xing Xiu contributed HK$389,000 to the Group's revenue and HK$3,511,000 to the consolidated loss for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$66,282,000 and HK$82,764,000, respectively.

31. STATEMENT OF FINANCIAL POSITION AND MOVEMENTS IN RESERVES OF THE COMPANY

(a) Statement of financial position of the Company

	2017	2016
	HK$'000	*HK$'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	**250,250**	250,250
Current assets		
Prepayments, deposits and other receivables	**27,444**	5,889
Due from subsidiaries	**566,640**	471,726
Due from a shareholder	**11,658**	11,658
Cash and cash equivalents	**22,884**	403,987
Total current assets	**628,626**	893,260
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,287**	1,168
Total current liabilities	**1,287**	1,168
Net current assets	**627,339**	892,092
Total assets less current liabilities	**877,589**	1,142,342
Net assets	**877,589**	1,142,342
EQUITY		
Share capital — ordinary shares	**42,090**	28,147
Share capital — preferred shares	**—**	13,246
Reserves	**835,499**	1,100,949
Total equity	**877,589**	1,142,342

31. STATEMENT OF FINANCIAL POSITION AND MOVEMENTS IN RESERVES OF THE COMPANY *(continued)*

(b) Movements in reserves of the Company

A summary of the Company's reserves is as follows:

	Share premium HK$'000 (Note i)	Share-based payment reserve HK$'000 (Note ii)	Contributed surplus HK$'000 (Note iii)	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2016	1,013,768	2,256	28,294	(65,673)	978,645
Loss and total comprehensive loss for the year	—	—	—	(36,518)	(36,518)
Settlement of share subscription price	125,838	—	—	—	125,838
Recognition of equity-settled share-based payments	—	32,984	—	—	32,984
At 31 December 2016	1,139,606	35,240	28,294	(102,191)	1,100,949
Loss and total comprehensive loss for the year	—	—	—	(250,537)	(250,537)
Issue of ordinary shares upon conversion of preferred shares	(697)	—	—	—	(697)
Reversal of equity-settled share-based payments	—	(14,216)	—	—	(14,216)
At 31 December 2017	1,138,909	21,024	28,294	(352,728)	835,499

Notes:

(i) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used for paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(ii) The share-based payment reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at the grant date. The amount for each period is determined by spreading the fair value of the share options over the relevant vesting periods (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

31. STATEMENT OF FINANCIAL POSITION AND MOVEMENTS IN RESERVES OF THE COMPANY *(continued)*

(b) Movements in reserves of the Company *(continued)*

Notes: (continued)

(iii) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year ended 31 December 2010. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2017** **HK\$'000**	2016 *HK\$'000*
Associates:			
Service fee	*(i)*	**—**	306
Purchases of film copyrights	*(i)*	**—**	7,803
A joint venture:			
Purchase of film copyrights	*(ii)*	**109**	—
Other related parties:			
Service income	*(i)*	**1,211**	—
Service fee	*(iii)*	**8,420**	117,867
Provision of loans	*(iii)*	**—**	22,444

Notes:

(i) The transactions were carried out in accordance with terms and conditions mutually agreed by the parties involved.

(ii) The purchase from the joint venture was made according to the published prices and conditions offered by the joint venture to its major customers.

(iii) The transactions were purchases of services including production and promotion of movies, TV dramas and programmes from and providing loans to a company whose controlling shareholder is Ms. Shang Na, the Group's Vice President, pursuant to the Master Services Agreement. The services provided by the related company shall be charged on a cost basis. The Group received services of approximately HK\$8,420,000 (2016: HK\$117,867,000) from and provided interest-free loan of nil (2016: HK\$22,444,000) to the related company for the year ended 31 December 2017. For further details of the Master Services Agreement, please refer to note 22 to the financial statements.

32. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties

(i) At 31 December 2017, the Group's balances due to a shareholder are unsecured, interest-free and have no fixed terms of repayments.

(ii) The balances due to an associate and a joint venture of HK$5,841,000 (2016: Nil) and HK$6,004,000 (2016: Nil), respectively, included in the Group's other payables and accruals, are unsecured, interest-free and have no fixed terms of repayments.

(c) Compensation of key management personnel

	2017	2016
	HK$'000	HK$'000
Salaries and allowances	4,690	4,521
Pension scheme contributions	74	87
Share-based payment expenses *(note)*	(14,251)	19,809
	(9,487)	24,417

Note: The share-based payment expenses for the year ended 31 December 2017 included the reversal of share-based payment expenses of HK$14,392,000 related to Shang Na Options granted to Ms. Shang Na, which was recognised during the year ended 31 December 2016 (note 28).

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 below, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	HK$'000	HK$'000
Contracted, but not provided for:		
Property, plant and equipment	2,614	5,261
Film rights and films and TV programmes under production	93,405	120,752
	96,019	126,013

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group leases office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to three years. The Group does not have an option to purchase the leased premises at the expiry of the lease period.

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	6,322	8,681
In the second to three years, inclusive	396	6,753
	6,718	15,434

35 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2016: Nil).

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	—	—	24,954	24,954
Trade receivables	—	38	—	38
Investments in film	—	1,981	—	1,981
Financial assets included in prepayments, deposits and other receivables	—	58,780	—	58,780
Amounts due from related companies	—	2,172	—	2,172
Convertible notes receivables	—	5,925	—	5,925
Conversion options embedded in convertible notes receivable	530	—	—	530
Cash and cash equivalents	—	298,481	—	298,481
	530	367,377	24,954	392,861

36. FINANCIAL INSTRUMENTS *(continued)*

Categories of financial instruments *(continued)*

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	**2,981**
Financial liabilities included in other payables and accruals	**67,225**
Amount due to a shareholder	**31**
	70,237

2016

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	—	—	19,857	19,857
Trade receivables	—	14,775	—	14,775
Investments in film	—	16,750	—	16,750
Financial assets included in prepayments, deposits and other receivables	—	18,542	—	18,542
Amounts due from related companies	—	47,460	—	47,460
Convertible notes receivables	—	5,427	—	5,427
Conversion options embedded in convertible notes receivable	886	—	—	886
Cash and cash equivalents	—	493,128	—	493,128
	886	596,082	19,857	616,825

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	2,773
Financial liabilities included in other payables and accruals	8,696
Amount due to a shareholder	3,133
	14,602

36. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies

The main risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Foreign currency risk

The Group operates in Hong Kong, Korea and Mainland China and the majority of transactions are denominated in HK$, USD, KRW and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the relevant entity.

At the end of each reporting period, the carrying amounts of the Group's monetary assets and liabilities, which are denominated in foreign currencies, are as follows:

	Assets		**Liabilities**	
	At 31 December			
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**146,355**	86,106	**66,649**	10,473
USD	**4,577**	6,877	**—**	—
KRW	**6,236**	5,434	**32**	23

The Group is mainly exposed to the foreign currency risk of RMB, USD and KRW against HK$. Management will monitor foreign exchange exposure to mitigate the foreign currency risk.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against RMB, USD and KRW. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates.

36. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Foreign currency risk *(continued)*

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in loss before tax HK$'000
2017		
If RMB weakens against HK$	5%	3,986
If RMB strengthens against HK$	(5%)	(3,986)
If USD weakens against HK$	5%	229
If USD strengthens against HK$	(5%)	(229)
If KRW weakens against HK$	5%	310
If KRW strengthens against HK$	(5%)	(310)
2016		
If RMB weakens against HK$	5%	3,781
If RMB strengthens against HK$	(5%)	(3,781)
If USD weakens against HK$	5%	344
If USD strengthens against HK$	(5%)	(344)
If KRW weakens against HK$	5%	271
If KRW strengthens against HK$	(5%)	(271)

Management considered the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of each reporting period does not reflect the exposure during the year.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily from its bank balances with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the end of the reporting period, the Group had no significant exposures to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.

36. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial instruments and projected cash flows from operations.

The liquidity risk is under continuous monitoring by management. The management of the Company will raise bank borrowings whenever necessary.

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

	Within 1 year or on demand	Total
	HK$'000	*HK$'000*
At 31 December 2017		
Trade payables	2,981	2,981
Other payables and accruals	67,225	67,225
Amount due to a shareholder	31	31
	70,237	70,237
At 31 December 2016		
Trade payables	2,773	2,773
Other payables and accruals	8,696	8,696
Amount due to a shareholder	3,133	3,133
	14,602	14,602

36. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Credit risk

The Group's credit risk is primarily attributable to convertible notes receivable, investments in film, other receivables, trade receivables and cash and cash equivalents. At 31 December 2017, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

For convertible notes receivable, the Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any issuer. Such risk is monitored on a revolving basis and subject to periodic review.

The Group trades only with recognised and creditworthy third parties, It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group deposited its cash and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. The management of the Company monitors the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk at 31 December 2017 and at 31 December 2016 were minimal.

The Group has no other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Convertible notes receivable	**5,925**	5,427	**5,925**	5,427
Conversion options embedded in convertible notes receivable	**530**	886	**530**	886

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, amounts due from/to related parties and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

36. FINANCIAL INSTRUMENTS *(continued)*

Fair value and fair value hierarchy of financial instruments *(continued)*

The fair value of conversion options embedded in convertible notes receivable has been estimated using the binomial option pricing model. The valuation technique is based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about life of options, expected volatility, underlying equity value and risk free rate. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Conversion options embedded in convertible notes receivable	—	—	530	530

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Conversion options embedded in convertible notes receivable	—	—	886	886

The movements in fair value measurements in Level 3 during the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Conversion options embedded in convertible notes receivable:		
At 1 January	**886**	2,586
Fair value loss recognised in profit or loss *(note 5)*	**(356)**	(1,700)
At 31 December	**530**	886

36. FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017 and 2016:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Conversion options embedded in convertible notes receivable	Binomial option price method	Dividend yield	2% (2016:2%) increase in dividend yield would result in decrease in fair value by HK$66,000 (2016: HK$95,000)
		Risk-free interest rate	10% (2016:10%) increase (decrease) in risk-free rate would result in increase (decrease) in fair value by HK$5,000 (HK$11,000) (2016: HK$5,000 (HK$11,000))
		Stock volatility of of comparable companies	10% (2016:10%) increase (decrease) in stock volatility would result in increase (decrease) in fair value by HK$117,000 (HK$230,000) (2016: HK$136,000 (HK$276,000))
		Share price	10% (2016:10%) increase (decrease) in share price would result in increase (decrease) in fair value by HK$171,000 (HK$318,000) (2016: HK$186,000 (HK$359,000))

37. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the parent, comprising mainly share capital and reserve.

Management reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**2,981**	2,773
Other payables and accruals	**71,791**	11,967
Amount due to a shareholder	**31**	3,133
Total debt	**74,803**	17,873
Equity attributable to owners of the parent	**899,414**	943,810
Total debt to equity ratio (i)	**8.3%**	1.9%

Note:

(i) Total debt comprises trade payables, other payables and accruals, and an amount due to a shareholder.

38. PARTICULARS OF INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lajin Film Co., Limited (i)	British Virgin Islands	US$1	100	—	Investment holding
Lajin Sino-Korean Entertainment Holdings Limited (i)	British Virgin Islands	US$1	100	—	Investment holding
Lajin Entertainment Network (HK) Limited	Hong Kong	HK$1	100	—	Investment holding
Jiaxuan Global Pictures (HK) Limited	Hong Kong	HK$1	100	—	Investment holding
Hong Kong Xuanhe Management Limited	Hong Kong	HK$29,000,000	—	100	Artists management and investment holding
Lajin IFilm Limited (i)	Hong Kong	HK$1,560,000	—	60	Cultural and entertainment media contents
Lajin Sino-Korean Entertainment Limited (i)	Hong Kong	HK$1	—	100	Investment holding
Lajin Sports (HK) Limited	Hong Kong	HK$1	—	100	Investment holding
Lajin Picture (HK) Limited	Hong Kong	HK$1	—	100	Investment holding
Young Film Culture Media Company Limited	Hong Kong	HK$2	—	51	Sourcing and production of media contents
北京拉近互動傳媒科技有限公司 (i)(ii)	PRC/ Mainland China	RMB250,000,000	—	100	Cultural and entertainment media contents
北京拉近互娛文化傳媒有限公司 (i)(iii)	PRC/ Mainland China	RMB3,000,000	—	100	Cultural and entertainment media contents

38. PARTICULARS OF INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
稼軒環球影業有限公司(i)(iii)	PRC/ Mainland China	RMB3,000,000	—	100	Cultural and entertainment media contents
北京拉近影業有限公司(i)(iii)	PRC/ Mainland China	RMB3,000,000	—	100	Cultural and entertainment media contents
柏視數碼科技(上海)有限公司 (i)(ii)	PRC/ Mainland China	US$10,000,000	—	100	Digital technology

(i) Subsidiaries whose statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) Companies are registered as wholly-foreign-owned enterprises under PRC law.

(iii) The Company does not have legal ownership in the equity of these subsidiaries. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and services agreement) entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, these companies are treated as subsidiaries of the Company and their financial statements have been consolidated by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

39. EVENT AFTER THE REPORTING PERIOD

On 9 February 2018, Ms. Shang Na and the Company had mutually agreed to terminate the Deed and the Master Services Agreement and Ms. Shang Na resigned from all positions from the JV company and the Group.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below. This summary does not form part of the audited financial statements.

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**65,216**	24,143	5,662	5,949	15,698
Loss before tax	**(80,954)**	(224,163)	(30,380)	(2,601)	(12,829)
Income tax expense	**38**	(93)	—	—	—
Loss for the year	**(80,916)**	(224,256)	(30,380)	(2,601)	(12,829)
Loss for the year attributable to:					
Owners of the parent	**(79,853)**	(224,239)	(30,343)	(2,601)	(12,828)
Non-controlling interests	**(1,063)**	(17)	(37)	—	(1)
	(80,916)	(224,256)	(30,380)	(2,601)	(12,829)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**975,352**	962,256	1,074,689	179,021	82,902
Total liabilities	**(75,681)**	(17,873)	(34,804)	(4,235)	(8,700)
Non-controlling interests	**(257)**	(573)	34	—	(9)
	899,414	943,810	1,039,919	174,786	74,193

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