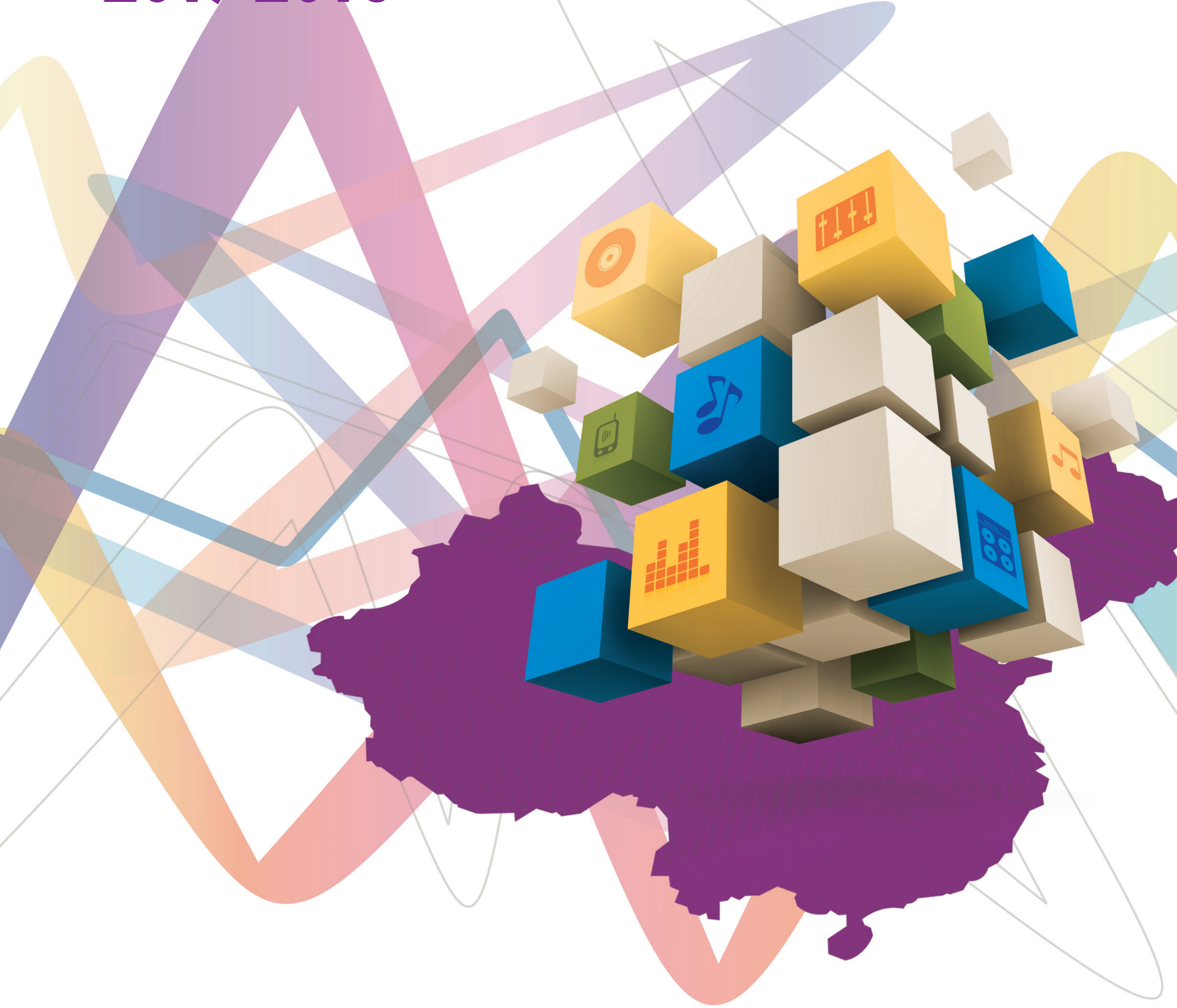
Annual Report 2017-2018



hmv 數碼中國集團 Digital China Group

HMV Digital China Group Limited

(Incorporated in Bermuda with limited liability)

(GEM Stock Code : 8078)

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This report, for which the Directors of HMV Digital China Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Financial Summary

Annual financial results and positions for the five years from 2014.

Results

	For the year ended 30 June				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000
Revenue	**608,251**	561,388	311,619	111,176	199,717
Profit/(loss) before taxation	**1,747**	14,819	(183,479)	(96,594)	(15,672)
Income tax credit/(expense)	**4,316**	6,590	3,131	(36)	–
Profit/(loss) for the year	**6,063**	21,409	(180,348)	(96,630)	(15,672)
Attributable to:					
Owners of the Company	**6,372**	22,665	(181,913)	(97,094)	(15,664)
Non-controlling interests	**(309)**	(1,256)	1,565	464	(8)
	6,063	21,409	(180,348)	(96,630)	(15,672)

Assets and Liabilities

	As at 30 June				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000
Total assets	**3,760,769**	3,055,320	556,435	421,002	415,102
Total liabilities	**(1,282,524)**	(474,151)	(265,043)	(143,599)	(146,926)
	2,478,245	2,581,169	291,392	277,403	268,176
Owners of the Company	**2,478,627**	2,581,242	289,630	278,017	267,691
Non-controlling interests	**(382)**	(73)	1,762	(614)	485
	2,478,245	2,581,169	291,392	277,403	268,176

Corporate Information

Directors

Executive Directors

Shiu Stephen Junior *(Chairman)*
Li Mau *(Co-Chairman)*
Sun Lap Key, Christopher
Lee Wing Ho, Albert
Cheung Hung Lui

Independent Non-executive Directors

Kam Tik Lun
Chan Chi Ho
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*
Yang Yusi *(appointed on 9 February 2018)*

Company Secretary

To Chi

Compliance Officer

Lee Wing Ho, Albert

Authorised Representatives

Shiu Stephen Junior
Lee Wing Ho, Albert

Audit Committee

Kam Tik Lun *(Chairman)*
Chan Chi Ho
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*
Yang Yusi *(appointed on 9 February 2018)*

Remuneration Committee

Kam Tik Lun *(Chairman)*
Shiu Stephen Junior
Chan Chi Ho
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*
Yang Yusi *(appointed on 9 February 2018)*

Nomination Committee

Shiu Stephen Junior *(Chairman)*
Kam Tik Lun
Chan Chi Ho
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*
Yang Yusi *(appointed on 9 February 2018)*

Auditor

ZHONGHUI ANDA CPA Limited
Units 701-3 & 8
Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office

Units B-D, 8/F, D2 Place Two
No. 15 Cheung Shun Street
Cheung Sha Wan, Kowloon
Hong Kong

Registrar *(in Bermuda)*

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

Principal Registrar

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

Banker

DBS Bank (Hong Kong) Limited
G/F, The Center
99 Queen's Road Central
Central, Hong Kong

Website

http://www.china3d8078.com

GEM Stock Code

8078

Chairman's Statement

On behalf of the Board of Directors of the Company (the "Board" or the "Directors"), I am hereby pleased to present to the shareholders the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2018.

REVIEW OF OPERATIONS

Established in 2010, the Group has been taking a leading position in the cultural and entertainment industry in Hong Kong and the Regions with vertically-integrated business chains, whose main businesses comprise up-stream business of movie production, mid-stream business of movie distribution, cinema operations, artiste management, down-stream new-retail-concept HMV stores and over-the-top HMVOD business.

And each of the business chain operated well and provided strong synergy among the Group.

PROSPECTS

The Board is of the view that Hong Kong remains as a major market to develop and revitalize the "HMV" brand, and a strategic bridgehead to tap into the Asia-Pacific market, especially The People's Republic of China (the "PRC"), in the foreseeable future.

The Group is consolidating the market presence of "HMV" in Hong Kong and PRC, which can further enhance the brand value of "HMV" and help to gain immediate access to the well-established retail network in Hong Kong, a market which the "HMV" brand has over twenty (20) years of operating history.

The Group will continue to develop its existing business such as artists and model management, entertainment and money lending. In addition, the Group will maintain a continuous production and launch of movies, and acquires more movie distribution rights in the market. To cope with the fast changing market, the Group will put more focus on the newly developed filmed entertainment and new media exploitations.

APPRECIATION

Finally, on behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to the Company's shareholders for their continuing support and the Board members and staff for their dedication and contributions. The Group will further strengthen its core businesses and explore potential business opportunities relating to its entertainment and culture business to create long-term value for shareholders.

Shiu Stephen Junior
Chairman

Hong Kong
28 September 2018

Management Discussion and Analysis

REVIEW OF OPERATIONS

The Group reported the total revenue of approximately HK$608.3 million for the year ended 30 June 2018 (the "Year"), compared with approximately HK$561.4 million for the year ended 30 June 2017. For the year ended 30 June 2018, a profit approximately HK$6.1 million was recorded whilst in the last year, a profit approximately HK$21.4 million was recorded.

During the period, artiste management's segment contributed a revenue of approximately HK$142.9 million (2017: HK$108.1 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK$179.9 million (2017: HK$218.1 million). The revenue from cinema operation segment was approximately HK$40.2 million (2017: HK$37.2 million). The revenue from the money lending business was approximately HK$29.5 million (2017: HK$16.7 million). The revenue from the HMV business was approximately HK$215.8 million (2017: HK$181.4 million).

MARKET OVERVIEW

China's film industry enters a golden era and is now the second-largest film market in the world. According to the latest annual report issued by the Motion Picture Association of America, global cinema box office sales reached a record high of US$40.6 billion in 2017, in large part due to the growth in China (US$7.9 billion) whereas US/Canada box office accounted for US$11.1 billion and maintain the champion position in the world.

In the first quarter of 2018, China's box office even beat North America's for the first time. China raked in more than US$3.08 billion compared with North America's US$2.9 billion. This underlines the growing popularity of cinemas and lays a solid foundation for the sustained growth of China's film industry.

BUSINESS OVERVIEW AND PROSPECTS

Distribution and production of films, television programs and music production

Achieved top 10 highest box office in Hong Kong

According to the Hong Kong Box Office Limited, three of our films are the top 10 highest box office films in Hong Kong for the calendar year ended 31 December 2017, namely "The Yuppie Fantasia 3" (Chinese name: "小男人週記3之吾家有喜", Total Hong Kong box office: HK$16 million), "29+1" (same name in Chinese, Total Hong Kong box office: HK$15 million) and "The Sinking City From the Space Capsule" (Chinese name: "西謊極落：太爆.太子.太空艙", Total Hong Kong box office: HK$10 million).

We kept up the good work and produced films attractive to movie-goers. According to the Hong Kong Box Office Limited, some of our films won the top 10 highest box office films in Hong Kong for the six months ended 30 June 2018, for example, "Agent Mr. Chan" (Chinese name: "棟篤特工", the highest ranking film with Hong Kong box office: HK$44.7 million).

BUSINESS OVERVIEW AND PROSPECTS *(CONTINUED)*

Distribution and production of films, television programs and music production (continued)

Won international film awards

Furthermore, our film quality is recognized by worldwide market practitioners, our film “29+1” has won various important movie awards and nominations, some representative awards include:

- “Bill Muller Excellence in Screenwriting Award” presented at the 2017 Sedona International Film Festival;
- “Audience Award” presented at 2017 Osaka Asian Film Festival;
- “Best Director of a Foreign Language Film” presented at 2017 Nice International Film Festival;
- “Best New Director” presented at 2017 Hong Kong Film Awards

New income source – Royalties-by-Views (“RBV”) (“網絡大電影平台”)

In 2017, major Chinese Over-The-Top (“OTT”) video operators, such as iQIYI (Chinese OTT market leader), Tencent, Youku, Sohu, launched a new business model, called “Royalties-by-Views” (“RBV”). Chinese OTT operators would like to enhance their content libraries by paying royalties to film right owners base on number of valid views of their subscribers.

We established contractual relationship with iQIYI on film production (please refer to our announcement dated 9 May 2016) and film distribution (please refer to our announcement dated 22 March 2017). We further enhanced our cooperation in the field of RBV and we became one of the first batch companies participating in the RBV program.

RBV brings significant benefits to our Group: (1) we generate new income via RBV on our past films which did not release on Chinese cinemas; (2) reduce films’ marketing and promotion costs which will be responsible by iQIYI; (3) increase the number of the Group’s production on small budget films (less than HK$10 million for each film) because RBV reduces considerable business risks on small budget films.

We expect to increase the number of productions on small scale films which grow our movie libraries, number of exclusive movie rights and more jobs for inhouse artists.

Artiste Management Services

We demonstrated solid experience on promoting less popular artists to a higher profile and some key artists are shown in the following:

Mr. Julian Cheung

Mr. Cheung joined the Group in 2011. With the assistance of the Group, Mr. Cheung was getting more popular in Mainland China by participating in various variety shows. In 2014, he held concerts “Crazy Hours” in Hong Kong and various major cities in China, US and Canada. Mr. Cheung is one of the main casts in a Hollywood film called “Final Score”, which will be released in 2018.

Ms. Celine Tam

Our 10-year-old artist, Ms. Celine Tam, joined the Group in 2014. In 2017, she joined the “America’s Got Talent” (“AGT”) show and won the “Golden Bluzzer” award. She is the first Asian to win this award. After AGT, Ms. Tam was invited by the famous singer, Ms. Celine Dion, as a guest singer in Dion’s concert at Las Vegas. Ms. Tam has shown her talent to the world by performing in various international events, including Miss World 2017 Final Contest and the popular Ellen show.

During this financial year, the Group has completed recruitment of new artists, including but not limited to Mr. Louis Cheung, Mr. Patrick Tang and Mr. Suet Lam.

BUSINESS OVERVIEW AND PROSPECTS *(CONTINUED)*

HMV Retail Business

Founded in 1921 in London, HMV has been the pioneer and trendsetter in mass entertainment. Over the years, it has promoted many musicians and artists, and is known as the endorser of ***Beatles*** in 1960s. Owned more than 320 stores worldwide, HMV was undisputedly world's largest and most influential "Entertainment Store" in its prime.

By integrating the existing entertainment business segments (movies, artiste management, cinema and OTT) and HMV Retail Business, the Group has then turned into one of the leading pan-entertainment companies in Asia.

During this financial year, we opened one additional store in Mongkok (the "Forest") and a kid-themed store at Lai Chi Kok of Hong Kong. We operate eight physical stores in Hong Kong with a total gross area approximately 60,000 square feet.

In recent years, the Chinese Government put emphasis on "Consumption-driven GDP Growth". Some worldwide online retail giants, such as Alibaba and Amazon, opened some physical retail stores, i.e. HEMA "New Retail" supermarkets, Amazon Go. These macro trends support HMV to further expand its retail business into China.

Owing to the exaggerated rental expense environment in Hong Kong, retail business is not profitable in general. However, the concept of HMV being lifestyle and family entertainment-oriented retail is overwhelmingly welcome by Chinese property developers and shopping mall operators. Furthermore, the concrete operation of HMV has increased its business partners' confidence in multi spectrum collaboration, including intellectual property licensing advantages.

HMVOD

The video streaming market in Hong Kong far lags behind from other markets, especially Mainland China and the US. The Group possessed absolute advantages on producing exclusive, high quality and movie-graded video contents.

Relationship between HMVOD and CSL/1010

HMVOD and CSL/1010, one of the largest telecommunication companies in Hong Kong with over 3.5 million customers, formed strategic alliance and jointly promoted HMVOD mobile app. HMVOD offered CSL/1010 customers "head start contents", which is exclusive with their customers.

HMVOD Drama Series

On 1 March 2018, HMVOD announced the release of two online drama series, namely "*Hong Kong West Side Stories*" and "*Sexy Central*". For promotion purposes, HMVOD released 2 episodes of "Hong Kong West Side Stories" and offered free views to the public. The accumulated online views hit more than 400,000 in the first two days after the release.

Over the past year, the development of HMVOD exceeded the management's expectations. HMVOD achieved operational breakeven. The number of paid subscribers reached over 100,000 in August 2018.

The management considers OTT video streaming as the future of Hong Kong television market. The launch of HMVOD drama series could keep HMV in-house artists active and support the future expansion of the Artiste Management Segment. HMVOD will be one of the growth drivers of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, total borrowing of the Group (excluding payables) amounted to approximately HK$908.4 million (2017: HK$180.4 million). The Group's gearing ratio (expressed as a percentage of total borrowing over total assets) was 24.15% in 2018 and 5.91% (restated) in 2017.

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations, fund raising and the borrowings (mainly including other borrowings, convertible bonds, promissory note payable and finance lease payables), to finance its operation. The promissory note payable is denominated in Hong Kong dollars, unsecured, interest-free and has a fixed repayment term.

Other than disclosed above, the Group has no other external borrowings. The Group's bank and cash held on hand were mainly denominated in Hong Kong dollars. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and would take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the Year.

BUSINESS REVIEW

Acquisitions of Panorama Corporation Limited and Parkway Licensing Company Limited

The Panorama Acquisition

On 9 January 2017, the Company entered into the Sale and Purchase Agreement ("Panorama Agreement") with Mr. Fung Yu Hing Allan (the "Panorama Vendor") in relation to the acquisition of 70% of the issued share capital of Panorama Corporation Limited at a consideration of HK$31,500,000, which shall be satisfied by the issue and allotment of 86,896,551 shares at the issue price of HK$0.3625 by the Company to the Panorama Vendor.

The Parkway Acquisition

On 9 January 2017, the Company entered into the Sale and Purchase Agreement ("Parkway Agreement") with Mr. Fung Yu Hing Allan, Mr. Wong Wing Kwong Kelvin and Ingate International Company Limited (the "Parkway Vendors") in relation to the acquisition of 70% of the issued share capital of Parkway Licensing Limited at a consideration of HK$7,000,000 which shall be satisfied by cash and issue and allotment of aggregate 16,551,723 shares by the Company to the Parkway Vendors.

Details of the acquisitions were disclosed in the announcement and circular dated 9 January 2017, 4 August 2017 and 3 September 2018 respectively.

The resolutions for approval of the acquisitions of Panorama Corporation Limited and Parkway Licensing Company Limited were approved by the shareholders of the Company on 18 September 2018 and the acquisitions to be completed on or before 30 September 2018.

BUSINESS REVIEW *(CONTINUED)*

Acquisition of Vantage Metro Limited

On 16 June 2017, the Company, Brilliant Fullway Limited, a wholly-owned subsidiary of the Company (the "Purchaser"), Redsox Investment Co., Ltd., an independent third party, beneficially interested in 2,258,270 shares in Vantage Metro Limited (the "Target Company") representing approximately 32.26% of the entire issued share capital of the Target Company (the "Vendor A"); and Wealth Synergy Limited, an independent third party, beneficially interested in 1,835,097 shares in the Target Company, representing approximately 26.21% of the entire issued share capital of the Target Company (the "Vendor B"); (collectively the "Vendors") entered into the share purchase agreement, pursuant to which the Vendors had agreed to sell (and to procure 27 other shareholders (the "Minority Shareholders") of the Target Company holding in aggregate 2,906,633 shares in the Target Company, representing approximately 41.53% of the entire issued share capital of the Target Company to sell) and the Purchaser had agreed to purchase 100% interest in the Target Company (the "Sale Shares"), representing the entire issued share capital of the Target Company ("Acquisition").

The aggregate consideration of the Acquisition may be up to approximately HK$713,418,220 (equivalent to USD91,699,000) subject to the cap of the aggregate of the consideration shares (the "Consideration Shares") to be issued and allotted by the Company in connection with the Acquisition, being 15% of the enlarged issued share capital of the Company.

The Consideration Shares to be issued and allotted by the Company to the Vendors and Minority Shareholders for the Acquisition at the issue price of HK$0.30 per share upon completion.

Details of the Acquisition was disclosed in the announcement dated 16 June 2017. The Acquisition was not yet completed.

Disposal of the entire issued share capital of Fore Head Limited

On 30 June 2018, First Digital Group Limited, a wholly-owned subsidiary of the Company (the "Vendor") and Fortune Access International Investment Limited (the "Purchaser") entered into the Agreement for disposal of the entire issued share capital of Fore Head Limited, a wholly-owned subsidiary of the Company at an aggregate consideration of approximately US$34,820,000 (equivalent to approximately HK$273.34 million), which comprises of the cash portion of the consideration (being US$13,800,000) and the non-cash portion of the consideration (being US$21,020,000 (equivalent to approximately HK$165.03 million, 81% of the valuation of IP Rights which will assign to Sky Sparkle Limited (a subsidiary of the Company) upon completion of the assignment of the IP Right pursuant to the Assignment Deed and Transfer Documents). Upon completion, Fore Head will cease to be a subsidiary of the Company.

The IP Right which is a patented technique of digital resolution conversion for movie production, to be used for reducing visual interferences and imperfections in motion pictures, making it possible to carry out other forms of enhancement and refinement the content, such as removing dirt and scratches, reducing flickers and sharpening the quality of the existing images.

Details of the disposal was disclosed in the announcement dated 13 July 2018 and the disposal was not yet completed.

BUSINESS REVIEW *(CONTINUED)*

Issue of Convertible Bonds under General Mandate

On 17 November 2017, the Company and Wan Tai Investments Limited (the "Subscriber") entered into a subscription agreement, pursuant to which the Company had conditionally agreed to issue, and the Subscriber had conditionally agreed to subscribe for, (i) the convertible bonds in the aggregate principal amount of HK$150,000,000 ("Convertible Bonds") and (ii) the notes in the aggregate principal amount of HK$150,000,000 ("Notes"). The net proceeds from the Convertible Bonds and the Notes to be used for the Group to develop its principal businesses and to seize investment or business opportunities for the purposes of diversifying business portfolio. The intended use of the proceeds are the purposes of providing general working capital for the business of the Group; and/or funding investments by the Group into potential business opportunities.

Upon full conversion of the Convertible Bonds at the conversion price of HK$0.273 per conversion share, a total of 549,450,549 conversion shares would be allotted and issued. The closing price per share as quoted on the Stock Exchange on 17 November 2017 was HK$0.249.

The issue of the Convertible Bonds and Notes had been completed on 2 January 2018 and 22 March 2018 respectively. The net proceeds arising from the issue of the Convertible Bonds and Notes, after deducting expenses, was approximately HK$295 million which were applied as approximately (i) HK$35 million for the production and distribution of movies; (ii) HK$173 million for money lending business, (iii) HK$19 million for cinemas operation; (iv) HK$9 million for HMV mall; (v) HK$9 million for OTT business and (vi) HK$50 million for general working capital of the Group.

Details of the issue of Convertible Bonds and Notes were disclosed in the announcement dated 17 November 2017, 2 January 2018 and 22 March 2018 respectively.

The Placing and Subscription of Notes

On 12 June 2018, the Company entered into the placing and subscription agreement with Haitong International Securities Company Limited (the "Placing Agent"), and the Investors, pursuant to which the Placing Agent had conditionally agreed to procure, the placees to subscribe for the notes up to an aggregate principal amount of up to US$25,000,000 ("Notes"), and each of Haitong Global Investment SPC III (the "Investor A"), and Haitong International Investment Fund SPC (the "Investor B"), had conditionally agreed to subscribe for the Notes of up to US$13,000,000 and up to US$12,000,000, respectively.

Completion of the placing and subscription was taken place on 14 June 2018 in accordance with the terms and conditions of the placing and subscription agreement. Accordingly, The Notes in an aggregate principal amount of US$25,000,000 had been placed by the Placing Agent, to the Investors, and each of Investor A, and Investor B, had subscribed for the Notes of US$13,000,000 and US$12,000,000, respectively. The net proceeds from the placing and subscription was US$23,874,000, which was intended to be used for investment and general working capital for the ordinary business operation of the Group.

CHARGES ON GROUP'S ASSET

As at 30 June 2018, except for the pledged bank deposits of approximately HK$3.7 million to secure a guarantee granted by a bank. The Group has no other asset pledged to bank to secure the bank borrowing granted to the Group (2017: HK$15.1 million).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 418 (2017: 374) full-time and part-time employees. The total employee remuneration, including that of the Directors, for the year ended 30 June 2018 amounted to approximately HK$63.7 million (2017: approximately HK$41.2 million). The Group remunerates its employees based on their performance, experience and the prevailing commercial practice. To provide incentives or rewards to the employees, the Company has adopted a new share option scheme on 9 July 2014. No option was outstanding during the Year.

CAPITAL STRUCTURE

During the Year, the capital structure of the Company has changed as follows:

Conversion of Convertible Bond under General Mandate

On 9 January 2018, the bondholder exercised its conversion rights of the convertible bond to convert balance of principal amount of HK$3,500,000 at the conversion price of HK$0.181 per share. A total of 19,337,017 ordinary shares had been issued. The number of shares in issue had been increased from 13,475,783,680 shares to 13,495,120,697 shares.

COMMITMENTS

Total commitments of the Group as at 30 June 2018 was approximately HK$782.9 million (2017: approximately HK$724.8 million).

CONTINGENT LIABILITIES

On 20 October 2015, a new tenancy agreement was jointly entered into by Mark Glory International Enterprise Limited ("Mark Glory"), an indirectly wholly-owned subsidiary of the Company and Top Euro Limited ("Top Euro"), an indirect wholly-owned subsidiary of Easy Repay Finance & Investment Limited (stock code: 8079) with Wit Way Enterprises Limited in relation to the lease of the premises. The duration of the tenancy agreements is for two years commencing from 1 November 2015 to 31 October 2017 with a monthly rental of HK$325,000 inclusive of management charges (equivalent to HK$3,900,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by Mark Glory and Top Euro in equal shares.

If either party fails to fulfill their leasing obligations under the agreement, the other party will obligate to pay the other party's outstanding contingent rental liability amounting to HK$1,950,000 per annum. The taking up of the contingent rental liability constitutes a provision of financial assistance under the GEM Listing Rules.

The lease agreement expired on 31 October 2017.

LITIGATION

A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015

A writ of summons (the "Writ") was issued against the Company by Green Giant Investments Limited ("Green Giant") on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the "Note") or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant.

Green Giant claims the principal amount of the Note of HK$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The claim was settled by both parties at an agreed amount of HK$12,800,000 in July 2018.

Biographies of Directors and Senior Executives

EXECUTIVE DIRECTOR (CHAIRMAN)

SHIU STEPHEN JUNIOR, aged 43, joined the Company in July 2010. Mr. Shiu is the Chairman of the Company and the Nomination Committee and the member of Remuneration Committee of the Company. Mr. Shiu has over 18 years' experience in entertainment, advertising, promotion and communication, film distribution and movies production. Currently, Mr. Shiu is also a director of various private companies which are engaged in the business of entertainment and movies production.

EXECUTIVE DIRECTOR (CO-CHAIRMAN)

LI MAU, aged 40, joined the Company in October 2016. She is the founder and the chief executive officer of HMV Cultural F&B Group Limited ("HMV F&B Group"), a food and beverage group jointly owned by Hainan Airline Group and Ms Li. Ms. Li oversees the management, businesses and strategic direction of the HMV F&B Group. In addition to the internal management, Ms. Li also manages the business development globally. Ms. Li is the founder and chairman of i-Future Teens International Foundation Limited, a registered charitable organization in Hong Kong, providing developmental opportunities and exposures to children and youth from under resourced neighbourhoods in Hong Kong to inspire them to identify their own talents and dreams. Ms. Li has accumulated extensive experience in investment and business management through her working experience in difference business segments in Asia and Europe. She is currently holding the position of chairman at HMV Asia Limited, and venture partner at AID Partners Capital Limited, a private equity firm based in Hong Kong.

EXECUTIVE DIRECTOR AND COMPLIANCE OFFICER

LEE WING HO, ALBERT, aged 48, joined the Company in February 2011. Mr. Lee holds a Bachelor of Arts from Trinity Western University, Canada, and a Master of Business Administration from South Eastern University, United States of America. Mr. Lee is a Certified Facility Manager and is a member of International Facility Management Association and The Hong Kong Institute of Real Estate. Mr. Lee has over 24 years of experience in real estate and leasing management, cinemas consultancy as well as in the fields of movie production and distribution in Hong Kong and the PRC.

EXECUTIVE DIRECTOR

SUN LAP KEY, CHRISTOPHER, aged 51, joined the Company in October 2011. Mr. Sun holds a Master of Arts in Film and TV Fiction from The Northern Media School of Sheffield Hallam University, Sheffield, United Kingdom. Mr. Sun has more than 30 years' experience in the fields of media, TV commercials and film production. Mr. Sun had been acting as the Chief Editor of the "Automobile" of SCMP Magazines Publishing (HK) Limited, Creative Director of "FM104" Metro Finance Channel of Metro Broadcast Corporation Limited, Senior Producer of Chinese Channel, Satellite Television Asian Region Limited as well as a director of the world's first category feature film in 3-D "3D Sex and Zen Extreme Ecstasy". Currently, Mr. Sun is a Film Director of HD Mobile Broadcast of Video Channel Productions Limited. Mr. Sun is a course tutor in Hong Kong Baptist University.

EXECUTIVE DIRECTOR

CHEUNG HUNG LUI, aged 64, joined the Company in June 2017. He has extensive experience in business development and corporate management. He is the chairman of Century.com Holdings Limited since 1997. Prior to that, Mr Cheung has worked in a company listed on The Stock Exchange of Hong Kong Limited, responsible for their business development in the People's Republic of China (the "PRC"). He has also worked in various teaching positions in PRC.

Biographies of Directors and Senior Executives (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTOR

CHAN CHI HO, aged 42, joined the Company in July 2010. Mr. Chan is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan holds a Bachelor of Engineer in Civil Engineering from The University of Hong Kong and a Bachelor of Law from The University of London. Mr. Chan is a member of Hong Kong Institute of Engineers. Mr. Chan was a project engineer of Maunsell AECOM and has more than 18 years' experience in the planning, design and project management of infrastructure facilities in Hong Kong, Mainland China and overseas. Currently, Mr. Chan is also a managing director of EDM Construction Limited with vast experience in managing interior fitting out and decoration construction projects in different aspects such as residential, commercial, hotel and institutional.

INDEPENDENT NON-EXECUTIVE DIRECTOR

KAM TIK LUN, aged 42, joined the Company in July 2010. Mr. Kam is the Chairman of the Audit Committee and the Remuneration Committee and the member of Nomination Committee of the Company. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Postgraduate Diploma in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom and a Master of Laws in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom. Mr. Kam is a fellow of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Kam has over 15 years' experience in the financial markets. Mr. Kam has vast experience in providing business consultancy, business valuation services, financial analysis and corporate advisory. Mr. Kam is also an independent non-executive director of Easy Repay Finance & Investment Limited and Chinese Food and Beverage Group Limited, both companies are listed on the GEM Board of The Stock Exchange of Hong Kong Limited.

INDEPENDENT NON-EXECUTIVE DIRECTOR

YANG YUSI, aged 33, joined the Company in February 2018. Ms. Yang is the member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Ms. Yang, is a professional violinist and has over 10 years' experiences in violin performance. She received her Bachelor, Master degree on violin performance and doctoral degree in philosophy in University Mozarteum Salzburg in Austria in 2012. She was a member of Jugend Phiharmonic Salzburg, Alpe Adria Chamber Orchestra, Hochschulerorchestra Mozarteum, World Youth Chamber Orchestra, Sinfonietta da Camara Salzburg and DomOrchestra Salzburg. Currently Ms. Yang is a fixed member in Hong Kong Sinfonietta as since 2010 and also she is founder and principle of Moz Conservatory. Ms. Yang is the member of Guangzhou City Huangpu District committee of the Chinese People's Political Consultative Conference.

Directors' Report

The Board presents their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2018 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particular of the Company's subsidiaries are set out in note 45 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Company is as set out in the section of "Management Discussion and Analysis" on pages 6 to 13 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 41.

The Directors do not recommend the payment of any dividend for the Year (2017: Nil).

FINANCIAL SUMMARY

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years is set out on page 2.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the Year are set out in note 15 to the consolidated financial statements.

PARTICULARS OF PROPERTY INTERESTS

Particulars of property interests held by the Group as at 30 June 2018 is as follows:

Location	**Use**	**Attributable interest of the Group**
Town House No. 6, together with Patio and Fore Court, No. 25 Black's Link, Hong Kong	Investment Property	100%

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 45 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 38 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on pages 44 to 45 and note 39 to the consolidated financial statements respectively.

CONVERTIBLE BOND

Details of the movements in the Company's convertible bond during the Year are set out in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the movements in distributable reserves of the Company during the Year are set out in note 39 to the consolidated financial statements respectively.

DONATION

During the Year, no donation has been made (2017: Nil).

DIRECTORS

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

Executive Directors:

Mr. Shiu Stephen Junior *(Chairman)*
Ms. Li Mau *(Co-Chairman)*
Mr. Sun Lap Key, Christopher
Mr. Lee Wing Ho, Albert
Mr. Cheung Hung Lui

Independent Non-executive Directors:

Mr. Kam Tik Lun
Mr. Chan Chi Ho
Mr. Tam Kwok Ming, Banny *(resigned on 9 February 2018)*
Ms. Yang Yusi *(appointed on 9 February 2018)*

Subject to the service agreements/letters of appointment hereinafter mentioned, the term of office of each Director, including the Independent Non-executive Directors, is the period up to his/her retirement by rotation in accordance with the Bye-laws of the Company.

In accordance with Bye-law 87(1) and 87(2) of the Company's Bye-Laws, Mr. Shiu Stephen Junior and Mr. Chan Chi Ho shall retire at the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election at the AGM.

DIRECTORS' SERVICES CONTRACTS

Each of Mr. Shiu Stephen Junior, Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert, Ms. Li Mau and Mr. Cheung Hung Lui has entered a service agreement with the Company to serve as an Executive Director for an initial term of two years commencing from their date of appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Each of the current Independent Non-executive Directors has entered a letter of appointment with the Company for a term of two years commencing on the following dates respectively, with all the term being renewed automatically for successive term of one year each commencing from the date next after the expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party:

Name of Directors	**Commencing date**
Mr. Chan Chi Ho	2 July 2010
Mr. Kam Tik Lun	13 July 2010
Ms. Yang Yusi	9 February 2018

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

Directors' interests in contracts

Save as disclosed in note 42 to the consolidated financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of the subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

EMOLUMENT POLICY

A remuneration committee of the Company was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of 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 as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Mr. Shiu Stephen Junior *(note 1)*	Beneficial owner	1,114,883,840	8.26%
Ms. Li Mau *(note 2)*	Family interest	518,213,964	3.84%
Mr. Cheung Hung Lui	Beneficial owner	40,000	0%

Note:

1. Mr. Shiu Stephen Junior is the Chairman and executive Director of the Company. 1,110,000,000 shares were pledged to Wan Tai Investments Limited, a subsidiary of CCB International Group Holdings Limited on 2 January 2018.

2. Ms. Li Mau ("Ms. Li") is the executive Director of the Company. AID Partners Urban Development Company Limited ("AID Partners") indirectly holds 518,213,964 shares. 60% of the issued share capital of AID Partners are held by Mr. Wu King Shiu Kelvin ("Mr. Wu"). Accordingly, Mr. Wu is deemed to be interested in the shares held by AID Partners. Ms. Li is the spouse of Mr. Wu. Ms. Li is also deemed to be interested in the shares held by AID Partners.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME, DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the special general meeting of the Company held on 9 July 2014, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 9 July 2014 and is valid for the next ten years.

No option was outstanding as at the Year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Save as disclosed below, so far as known to the Directors, as at 30 June 2018, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any interests or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(i) Interests in the Shares

Name	No. of shares	Percentage
AID Treasure Investment Ltd *(Note 1)*	2,876,438,356 shares	21.31%

Note:

1. AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Life Science Holdings Limited, a listed company on GEM (Stock code: 8088).

(ii) Interests in the Convertible Bonds

Name	Conversion Price HK$	No. of Underlying Shares	Percentage
AID Treasure Investment Ltd *(Note 1)*	0.305	163,934,426	1.21%
Wan Tai Investments Limited *(Note 2)*	0.273	549,450,549	4.07%

Notes:

1. AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Life Science Holdings Limited, a listed company on GEM (Stock code: 8088). The conversion price was adjusted with effect from 12 June 2017.

2. Wan Tai Investments Limited is a limited liability business company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned special purpose vehicle of CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is wholly-owned by China Construction Bank Corporation, a joint stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 30.48% of the Group's turnover for the year ended 30 June 2018. The Group's largest customer accounted for approximately 12% of the Group's turnover for the year ended 30 June 2018.

The five largest suppliers of the Group accounted for approximately 36.31% of its cost of sale for the year ended 30 June 2018. The largest supplier of the Group accounted for approximately 22.89% of its cost of sale for the year ended 30 June 2018.

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers stated above.

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

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

CONNECTED TRANSACTIONS

Saved as disclosed in note 42 to the consolidated financial statements, no other connected transactions were entered by the Group under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

As of the date of this report, Mr. Shiu Stephen Junior ("Mr. Shiu"), the Chairman and Executive Director of the Company, holds directorship in One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold directly as to 60% equity interests in ODMP. The business of ODMP may constitute competition with the business of the Group.

Save as disclosed above, the Directors believe that none of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Year.

As of the date of this report, the Board of Directors of the Company comprises Executive Directors who are Mr. Shiu Stephen Junior, Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert, Ms. Li Mau, Mr. Cheung Hung Lui; and Independent Non-executive Directors who are Mr. Chan Chi Ho, Mr. Kam Tik Lun and Ms. Yang Yusi.

CORPORATE GOVERNANCE

The Company has complied with most of the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules ("Code") throughout the Year. Please refer to the Corporate Governance Report on pages 22 to 29 of this annual report for details.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company maintained the prescribed public float under the GEM Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to the GEM Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Except for those disclosed on pages 114 to 116, there was no material acquisition or disposal of subsidiaries during the Year.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions during the Year were mainly denominated in Renminbi, HK Dollars and US Dollars. Risk on exposure to fluctuation in exchange rates was insignificant to the Group.

CONTRACTS OF SIGNIFICANCE

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

AUDITOR

The consolidated financial statements for the years ended 30 June 2018, 2017 and 2016 were audited by ZHONGHUI ANDA CPA Limited whose term of office will expire upon the annual general meeting. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company for the subsequent year will be proposed at the forthcoming annual general meeting.

On behalf of the Board
HMV Digital China Group Limited

Shiu Stephen Junior
Chairman

Hong Kong
28 September 2018

Corporate Governance Report

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

The Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of its corporate governance policy. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

THE BOARD

The Board is entrusted with the overall responsibility for promoting the success of the Company by directing and supervising the Company's business and affairs. The ultimate responsibility for the day to day management of the Company is delegated to the Chairman and the senior management of the Company. In practice, the Board takes responsibilities for decision making in all major matters of the Company. The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the Group and the Board has the full support of them to discharge its responsibilities.

As at 30 June 2018, the Board comprised eight Directors (five Executive Directors and three Independent Non-executive Directors). The biographies of the current Directors are set out on pages 14 to 15 of this report under the "Biographies of Directors and Senior Executives" section.

All Directors should participate in continuing professional development to develop and refresh their skills to ensure that they have appropriate understanding of the business and operations of the Group and that they are sufficiently aware of their responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

The existing Directors are continually updated with legal and regulatory developments, the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development for Directors will be arranged where necessary.

The Company has also continually updated Directors on the latest development regarding the GEM Listing Rules and other regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Company Secretary of the Company (the "Company Secretary") would ensure all Board members work effectively and provided timely, reliable and sufficient information on issues to be discussed at Board meetings. Company Secretary is also responsible for setting the agenda for each Board meeting, taking into account any matters proposed by the Directors. The Board members are properly briefed about the issues discussed and the meeting material is dispatched to the Directors before the meetings.

The experienced management team implements the decisions from the Board and proposes management and investment proposals for the Board to approve. The team assumes full accountability to the Board for all operations of the Group.

THE BOARD *(CONTINUED)*

The Independent Non-executive Directors who bring in strong expertise, contribute a more impartial view and make independent judgement on issues to be discussed at Board meetings.

The Company has received a confirmation of independence from each of the Independent Non-executive Directors. The Board considers each of them to be independent by reference to the factors stated in the GEM Listing Rules. The Independent Non-executive Directors have been expressly identified as such in all corporate communications of the Company that disclose the names of Directors.

Appointment and Succession Planning of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Bye-laws.

Code A.4.1 stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election and Code A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

All Independent Non-executive Directors are appointed and entered a letter of appointment with the Company for a term of two years and renewable automatically for successive terms of one year unless terminated by three-month notice in writing served by either party. Pursuant to the Company's Bye–laws, all Directors of the Company, regardless of his/her term of appointment, if any, are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy is subject to re-election by shareholders at the first general meeting after his/her appointment. The Company in practice will observe Code A.4.2 and will ensure that any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment.

Chairman and Chief Executive Officer

Code A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual.

Mr. Shiu Stephen Junior is the Chairman and Chief Executive Officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and department heads, the Board considers that vesting the roles of both Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It is in the best interest of the Group to maintain the current practice for continuous efficient operations and development of the Group.

The Board has set up the Audit Committee, Remuneration Committee and Nomination Committee on 30 September 2004, 20 June 2005 and 1 April 2012 respectively. The Committees comprise a majority of Independent Non-executive Directors and have clear written terms of reference. Details of these three Committees are set out in the paragraphs "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

THE BOARD *(CONTINUED)*

The Board held seven meetings during the Year with the attendance of each Director as follows:

Name of Directors	**Attendance/Number of board meetings held during the Year**	**Attendance/Number of general meetings held during the Year**
Executive Directors:		
Shiu Stephen Junior	7/7	1/1
Sun Lap Key, Christopher	7/7	0/1
Lee Wing Ho, Albert	5/7	0/1
Li Mau	4/7	0/1
Cheung Hung Lui	6/7	–
Independent Non-executive Directors:		
Chan Chi Ho	7/7	1/1
Kam Tik Lun	6/7	1/1
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*	3/7	N/A
Yang Yusi *(appointed on 9 February 2018)*	3/7	1/1

There was 11 additional Board meetings held for normal course of business during the Year.

Directors have access to the advice and services of the Company Secretary for ensuring that the Board procedures and all applicable rules and regulations are followed. Draft and final versions of the minutes of Board meetings and Board committee meetings, drafted in sufficient details by the secretary of the meetings, were circulated to the Directors for their comment and record respectively. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Directors. There is a procedure agreed by the Board to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Model Code for Securities Transactions

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 (the "Required Standard of Dealings") of the GEM Listing Rules.

Upon the specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Year.

The Company also has established written guidelines on no less exacting terms than the Required Standard of Dealings (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of any unpublished inside information of the Company.

AUDIT COMMITTEE

The Audit Committee now consists of three Independent Non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Ms. Yang Yusi. They possess accounting and other professional expertise. The Board has adopted a revised terms of reference on 26 March 2012 as to conform to the amended GEM Listing Rules and are posted on the websites of the Company and the Stock Exchange. The major responsibility of the Audit Committee include: (i) to review the financial information of the Group such as annual, half-year and quarterly results prior to recommending to the Board's approval; (ii) review and monitor financial reporting principles and practices: (iii) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of external auditor; and (iv) to oversee the financial reporting system and internal control procedures of the Group.

The Audit Committee convened four meetings during the Year with the attendance of each member as follows:

Name of Committee members	**Date of Nomination**	**Director's Attendance**
Kam Tik Lun *(Chairman)*	13 July 2010	4/4
Chan Chi Ho	2 July 2010	4/4
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*	15 November 2011	3/4
Yang Yusi *(appointed on 9 February 2018)*	9 February 2018	1/4

REMUNERATION COMMITTEE

The Remuneration Committee now consists of four members, namely Mr. Shiu Stephen Junior, an Executive Director and the Chairman of the Company, Mr. Kam Tik Lun, Mr. Chan Chi Ho and Ms. Yang Yusi, Independent Non-executive Directors of the Company. The Remuneration Committee is chaired by Mr. Kam Tik Lun. The major responsibilities of the Remuneration Committee include: (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors' and senior management and on the establishment of a formal and transparent procedure for developing such remuneration policy; (ii) to review and determine the remuneration packages of the executive directors and senior management and to ensure that no director is involved in deciding his own remuneration; and (iii) to review and make recommendations to the Board about the overall remuneration policy of the Company.

Details of the remuneration of each of the Directors for the Year are set out in note 12(a) to the consolidated financial statements.

The Remuneration Committee convened two meetings during the Year with the attendance of each member as follows:

Name of Committee members	**Director's Attendance**
Kam Tik Lun *(Chairman)*	2/2
Shiu Stephen Junior	2/2
Chan Chi Ho	2/2
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*	2/2
Yang Yusi *(appointed on 9 February 2018)*	N/A

NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012 and has adopted the terms of reference of Nomination Committee in full compliance with the provisions set out in the Code.

The Nomination Committee currently comprises four members, namely Mr. Shiu Stephen Junior (Chairman), Executive Director of the Company, Mr. Kam Tik Lun, Mr. Chan Chi Ho and Ms. Yang Yusi, Independent Non-executive Directors of the Company.

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will base the priority of the criteria in the procedure (such as appropriate experience, personal skills and time commitment, etc) to identify and recommend proposed candidates to the Board.

The Nomination Committee convened two meetings during the Year with the attendance of each member as follows:

Name of Committee members	**Director's Attendance**
Shiu Stephen Junior *(Chairman)*	2/2
Kam Tik Lun	2/2
Chan Chi Ho	2/2
Tam Kwok Ming, Banny *(resigned on 9 February 2018)*	2/2
Yang Yusi *(appointed on 9 February 2018)*	N/A

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the Year.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 37 to 40.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board emphasises the importance of a sound internal control system which is also indispensable for mitigating the Group's key risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives. The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and shareholders' interests. For the year ended 30 June 2018, the Company has reviewed the risk management and internal control system of the Group and has provided written reports to the Audit Committee. No significant areas of concern that might affect shareholders were identified. Accordingly, the Company considered that the risk management and internal control systems of the Group are effective and adequate.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

The board provides direction to senior management by setting the organization's risk appetite. It also seeks to identify the principal risks facing the organization. Thereafter, the board assures itself on an ongoing basis that senior management is responding appropriately to these risks. The Group has adopted three lines of defence to identify, assess and manage different types of risks. As the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks. The second line of defence, consists of the compliance officer, financial controller, company secretary, IT department and all department heads, monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organization. It ensures that risks are within acceptable range and that the first line of defence is effective. As the final line of defense, the independent consultant assists the Audit Committee to review the first and second lines of defense. The independent consultant will, through a risk-based approach to their work, provide assurance to the Board of directors and Audit committee. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Group does not have an in-house internal audit function. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and business of the Group, it would be more cost effective to appoint an independent third-party internal control consultant to, on an annual basis, review and provide recommendations on improving its internal control system in order to manage our business risks and to ensure our smooth operation. The review covered certain operational procedures. No significant control failings or weakness have been identified by the consultant during the review. The Board and the Audit Committee would review the need for an internal audit function on an annual basis.

The internal controls should provide reasonable but not absolute assurance against material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting and ensure effective compliance with the Listing Rules and all other applicable laws and regulations.

Inside information

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

LIABILITY INSURANCE FOR THE DIRECTORS

The Company has in force appropriate insurance coverage on Director's and officer's liabilities arising from the Group's business. The Company reviews the extent of insurance coverage on an annual basis.

SHAREHOLDERS' RIGHTS

The Company maintains an on-going dialogue with its shareholders through various channels including announcements and annual, interim and quarterly reports published on its website at www.china3d8078.com and the Company's general meetings. All shareholders are encouraged to attend general meetings and they may put to the Board any enquiries about the Group through its website at www.china3d8078.com or in writing sent to the principal office of the Company at Units B-D, 8/F, D2 Place Two, No. 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

The directors, company secretary or other appropriate members of senior management respond to enquiries from shareholders promptly. The Chairman, chairman of board committees (or their respective delegates) and external auditor attend the annual general meeting and are available to answer questions raised by shareholders. Shareholders may also access the Company's corporate website for the Group's information.

Pursuant to Bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business (including any proposals) specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner. Voting of general meetings are by way of a poll. Details of poll voting procedures are explained to shareholders at general meetings to ensure that shareholders are familiar with such procedures.

Under code provision A.6.7, independent non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

RELATIONSHIP AMONG MEMBERS OF THE BOARD

There is no relationship among members of the Board in respect of financial, business, family or other material/ relevant relationship.

INVESTOR RELATIONS

The Company maintains a website at www.china3d8078.com where information and updates on the Company's business developments and operations, list of Directors and their role and function, constitutional documents, terms of reference of the Board and its committees, procedures for nomination of directors for election, shareholders' rights and communication policy, corporate governance practices, announcements, circulars and reports released to the Stock Exchange and other information are posted. Information on the Company's website will be updated from time to time.

There was no significant change in the Company's constitutional documents during the Year.

ENVIRONMENTAL ISSUES

The Company is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental policies to ensure its projects meet the required standards and ethics in respect of environmental protection.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the accounts of the Company. As at the Year, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditor on financial reporting are set out in the Independent Auditor's Report attached to the Company's Financial Statements for the Year.

The Board has regularly reviewed the effectiveness of the Company's internal control system with an aim to safeguard the shareholders' interests and the Company's assets. The purpose is to provide reasonable, but not absolute, assurance against material misstatements, errors, losses or fraud, and to manage rather than eliminate risks of failure in achieving the Company's business objectives.

AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the consolidated financial statements. Members of the Committee are of the view that the Company's auditor, ZHONGHUI ANDA CPA Limited is independent and recommended to the Board to re-appoint it as the Company's external auditor at the forthcoming annual general meeting.

ZHONGHUI ANDA CPA Limited has rendered audit services and certain non-audit services to the Company for the Year and the remuneration paid/payable to it by the Company is set out as follows:

	Fee	
	HK$'000	HK$'000
Statutory audit services:		
– Current		1,450
Non-statutory audit services:		
– Tax advisory services	178	
– Others	45	223
Total		1,673

COMPANY SECRETARY

Mr. To Chi is the company secretary of the Company. Mr. To has confirmed that he had received no less than 15 hours of relevant professional training for the year ended 30 June 2018, in compliance with Rule 5.15 of the GEM Listing Rules.

Environmental, Social and Governance Report

This year's environmental, social and governance (the "ESG") report is prepared by the Group to disclose information in relation to the ESG issues. In spite of this report is not comprehensive nor exhaustive, it is the endeavours of the Group to get as close as possible in compliance with the requirements under Appendix 20 of the GEM Listing Rules. All information and data disclosed herein were based on formal documents and internal statistics of the Group.

The Board understand that it is important to involve itself in preparing this ESG report and it has extended its full support to the secretary of the Company, who is responsible for the task of compiling this ESG report and is reporting directly to the Board.

During the year ended 30 June 2018, the Group is principally engaged in artiste management services and music production, distribution and production of films and television programmes, money lending business, operation of cinemas, HMV business and securities and bonds investment. The geographical location of the Group's businesses situated in Hong Kong and PRC.

STAKEHOLDER ENGAGEMENT

The Company consistently values the stakeholders that are influenced by the Group's operational activities including clients, employees, community groups and government bodies, etc. We communicate irregularly through various communication channels with each other in order to build up a mutual understanding of each other's vision and expectation on environmental and social responsibility. With reference of these, the Company develops a designated environmental and social responsibility framework and sets long-term objectives for the sustainable development of the Company.

ENVIRONMENTAL ASPECTS

A1 EMISSION

As the Group is principally engaged in artiste management services and music production, distribution and production of films and television programmes, money lending business, operation of cinemas, HMV business and securities and bonds investment, no material direct impact to the environment and we do not generate hazardous waste. The biggest contributor to the Group's carbon footprint is the indirect greenhouse gas ("GHG") emission from electricity consumption, which is mainly attributed to the electricity consumption in office, air flight during business trip.

The Group sets up annual target in environmental protection by providing an environmentally friendly environment in the business operation. The Group also encourages responsible departments to participate in external environmental seminars to raise their awareness about the environment and strive for environmental awards.

Group reminds employees to practice photocopying wisely; encouraging the employees to use both sides of paper; separating the paper waste from other waste for easier recycling; and placing boxes and trays beside photocopiers as containers to collect single-sided paper for reuse purpose.

To achieve environment protection, the Group has adopted various measures to lower waste and consumption levels in our office and other facilities:

– Electronic equipment, such as: computers and photocopiers, are equipped with power saving mode;

– Limit air-conditioning hours and maintain suitable indoor temperature;

– Unplug all equipment chargers and adapters when they are not in use so as to reduce power consumption;

– Clean regularly the air conditioning and ventilation system; and

– Tele-conference systems are installed to reduce business travel.

ENVIRONMENTAL ASPECTS *(CONTINUED)*

A1 EMISSION *(CONTINUED)*

The Group strictly complies with relevant environmental laws. During the reporting period, there was no legal complaint for violating environmental laws.

As minimum environment impact results from the Group's operation, KPIs A1.4 and A1.6 are immaterial to the Group's operation and have not been disclosed in this report. In addition, as there is no substantial hazardous waste produced from the Group's operation, KPI A1.3 is not applicable to the Group and has not been disclosed too.

EMISSION

A1.1 Emissions from Vehicles	**Year ended 30 June 2018**
NO_x emission by Private car (g)	around 8,600 g
PM emission by Private car (g)	around 600 g
Unit of petrol consumed by vehicles (in litres)	around 9,800 litres
Unit of diesel oil consumed by vehicles (in litres)	around 21,060 litres
SO_x emission by petrol (g)	around 150 g
SO_x emission by diesel (g)	around 340 g

A1.2 Greenhouse gas emission	**Year ended 30 June 2018**
Scope 1 – direct emission – CO_2 emissions from vehicle (petrol)	around 23 tonnes
Scope 1 – direct emission – CO_2 emissions from vehicle (diesel oil)	around 55 tonnes
Scope 2 – indirect emission – CO_2	around 284 tonnes
Scope 3 – other indirect emission – business air travel	around 14 tonnes
Total greenhouse gas emission – CO_2	around 376 tonnes
Total greenhouse gas emission – CO_2 (per employee)	around 0.90 tonnes

A2 USE OF RESOURCES

The Group is deeply aware that fair use of resources is an indispensable aspect of sustainable development. The following measures are implemented in order to reduce the use of resources:

1. Electricity consumption reduction

   – Switch off copy machine, computers, lights and fax machine before the last staff leaves the office;

   – Replace the traditional bulbs by LED energy-saving bulbs in the offices;

   – Keep the office equipment clean (such as refrigerator, air-conditioner, paper shredder, etc.) to ensure that they run efficiently; and

   – Adopt more energy-saving and electricity-saving mechanical equipment.

ENVIRONMENTAL ASPECTS *(CONTINUED)*

A2 USE OF RESOURCES *(CONTINUED)*

2. Paper reduction

   – To use both side: set computer defaults to print double-sided when possible;

   – Use paper printed on only one-side for draft documents or as scratch paper;

   – Avoid using paper cup; and

   – Replace unnecessary paper forms by electronic systems.

The Group will continue to seek opportunities to reduce further wastes and make efficient use of resources.

USE OF RESOURCES **ENERGY CONSUMPTION – Electricity**	**Year ended 30 June 2018**
Total Electricity consumption (kWh)	around 452,000 kWh
Total Electricity consumption per employee (kWh)	around 1,081 kWh

ENERGY CONSUMPTION	**Year ended 30 June 2018**
Total energy consumption – Electricity (MJ)	around 1.6 million MJ
Total energy consumption per employee (MJ)	around 3,827 MJ

PAPER CONSUMPTION	**Year ended 30 June 2018**
Total office paper consumption (kg)	around 1,866 kg
Total office paper consumption per employee (kg)	around 4.46 kg

A3 THE ENVIRONMENT AND NATURAL RESOURCES

Due to the nature of the Group's business, daily operations of our business have no significant adverse impact on the environment. The Group has complied with relevant laws and regulations and did not find any cases of breach of regulations relating to emissions and the environment. Looking ahead, the Group will continue to assess environmental risks in our business operations to formulate responsive measures and regularly review and update our environmental protection policies.

The Group promotes environmental awareness among our employees and encourages them to work in an environmentally responsible manner. To further promote environmentally friendly office conditions, the following methods are used:

1. All used printer cartridges are returned to the supplier for recycling;

2. Employees are encouraged to print double-sided documents to reduce paper usage;

3. Make sure its business operation comply with the environmental law in HK and its operating locations;

SOCIAL

B1 EMPLOYMENT

During the year ended 30 June, 2018, the Group employed 418 staff (2017: 374). The Group's remuneration policy is built on principle of equality, motivating, performance oriented and market-competitiveness. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits included provident fund contributions and performance related discretionary bonuses. A share option scheme is established to reward and motivate the employees of the Group as well.

Staff activities were organized for employees, including annual dinner and Christmas party. The sense of belonging of employees was enhanced and they have strong bonding with each other.

By offering competitive remuneration packages and fringe benefits to our employees, our staff turnover rate remains stable, while job performance and productivity are maintained at satisfactory levels.

The Group ensures our human resources policies in compliance with all applicable domestic and local laws and with reference to the general practice and benchmark of the industry.

The Group aims to nurture a discrimination-free culture and protect our staff from discrimination by sex, age, race, disability, marital and family status. All employees share fair and adequate opportunities in respect of recruitment, career development and promotion. In addition, the Company has adopted the board diversity policy as included in the terms of reference in the Nomination Committee to consider bringing to the board of directors capable people regardless of gender, nationality or races.

During the Reporting Period, the Group is not aware of any non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

B2 HEALTH AND SAFETY

The Company is committed to providing a healthy and safe workplace for all its employees. Policies and procedures have been in place to address work safety to reduce the chances of accident.

The Group always emphasises the importance of occupational health and safety. Assessments on these policies are conducted regularly so as to keep our standards update and practical. The measures taken to protect and improve the working environment are listed below:

- Prohibit smoking and drinking liquor in the workplace;
- Carry out periodical cleaning in offices, including disinfection treatment of carpets and cleaning of air-conditioning systems and water dispensers;
- Conduct emergency response drills regularly;
- Set up safety warning signs, banners and slogans in the work sites;
- Establish different Medical And Dental Insurance Scheme/Employees' Compensation Insurance Scheme/Business Travel Insurance Scheme;
- First-aid box is set up in the office

During the Reporting Period, there were no material accidents in the course of our business operation which gave rise to any claims and compensation paid to our employees and the Group is not aware of any noncompliance with relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

SOCIAL *(CONTINUED)*

B2 HEALTH AND SAFETY *(CONTINUED)*

HEALTH AND SAFETY INDICATORS	Year ended 30 June 2018
Number of reportable injuries[1]	0
Injury rate[2]	0
Number of reportable occupational diseases	0
Occupational disease rate[3]	0
Number of lost days[4]	0
Lost day rate[5]	0

1 Reportable injuries refer to work-related accidents to employees resulting in incapacity for a period exceeding three days in HK.

2 The injury rate is calculated based on the number of injuries per 200,000 hours worked (100 employees working 40 hours per week for 50 weeks).

3 The occupational disease rate is calculated based on the number of occupational diseases per 200,000 hours worked.

4 Lost days refer to the days that could not be worked as a consequence of a worker being unable to perform their usual work because an occupational accident or disease.

5 The lost days rate is calculated based on the number of lost days per 200,000 hours worked.

B3 DEVELOPMENT AND TRAINING

The Group has committed to provide on-the-job education and training of its employees in order to enhance their knowledge and skills. All employees are encouraged to enhance their skills and knowledge at every opportunity in order to perform their current job more efficiently and effectively and to be better prepared for career opportunities which may arise. During the Year 2018, staff have participated in trainings such as orientation training, technical training and quality training.

Recognising the value in the skill and experience of the staff, the Group has adopted a policy that any promotions will be considered internally first before hiring any outside staff. It is the Group's policy to select the most suitable candidate for appointment to a higher rank based on merit, rather than on the seniority of the candidates.

B4 LABOUR STANDARDS

The Group fully understands that the exploitation of child and forced labour are universally prohibited, and therefore take the responsibility against child and forced labour very seriously. The Group strictly complies with all laws and regulations against child labour and forced labour. Our suppliers' are also not allowed to engage any employee who is younger than the minimum employment age of the relevant country, or the maximum age of compulsory education, whichever is higher. Not under any circumstance should workers be younger than 16 years of age. All works should be voluntary and not performed under threat of penalty or coercion. Forced labour is prohibited.

All employees of the Group are entitled to have sick leave, injury leave and maternity leave with medical proof in accordance with the Labour Legislation of Hong Kong. In addition, all employees are advised to not encouraged to work overtime.

The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact relating to preventing child or forced labour on the Group during the Year 2018. In addition, no non-compliance with relevant laws and regulations that resulted in significant fines or sanctions had been reported in the Year 2018.

SOCIAL *(CONTINUED)*

B5 SUPPLY CHAIN MANAGEMENT

The Group through its subsidiaries has communicated with its suppliers on the Company's vision and mission and policies and procedures in respect of ESG. To be a responsible supplier, the Group has registered as a food importer/ food distributor under the Food Safety Ordinance.

The Group has established procurement policy to maintain high level of ethical standards for choosing the right supplier through careful selection and continuous measurement. The Group conducts review on key suppliers annually so as to provide an opportunity to suppliers to enhance their services and products quality, which improves both the suppliers and our procurement management effectively.

The Group always observes the local laws, rules and regulations at where its businesses located, as such, the Group applied and was granted and renewed, a money lenders licence in Hong Kong to carry on business as a money lender for a period of twelve (12) months from 31 January 2018.

B6 PRODUCT RESPONSIBILITY

A high priority for the Group is to ensure customer satisfaction in terms of our products and services. Strenuous efforts are made to ensure compliance with the relevant laws and regulations relating to product health and safety, advertising, labelling and privacy matters of the jurisdictions in which the Group operates. The Group's code of conduct requires its employees to comply with applicable governmental and regulatory laws, rules, codes and regulations.

Any misrepresentation in marketing materials or exaggeration of offerings is strictly prohibited. The Group has issued internal guidelines to ensure the sales and marketing department of the Group are providing accurate and precise product descriptions and information to the customers.

Besides, the Group owes a contractual obligation of confidentiality to the clients in terms of their information, and therefore treats the transaction record and personal information of the clients and former clients as private and confidential, subject to disclosure requirements under the relevant laws, rules and regulations that the group is required to comply with. Information collected would only be used for the purpose for which it has been collected and clients would be told about how the data collected would be used. The Group prohibits the provision of consumer information to a third party without authorisation from the clients.

If there is complaint from customers, the Group will work out specific solutions and reply the customers. The Group attaches great importance to complaint handling as it strengthens product and service quality, which will in turn help it to maintain the competitiveness in the market.

The Group is not aware of any non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, intellectual property rights, advertising, labelling and privacy matters relating to services provided and methods of redress.

B7 ANTI-CORRUPTION

The Group maintains a high standard of business integrity throughout the operations and tolerates no corruption or bribery in any form. A comprehensive system of internal control and stringent policies are effectively implemented for anti-corruption and anti-fraud.

The Group is committed to adhering the highest ethical standards. During the year, the Group has not received any bribery, extortion, fraud or money-laundering case related to corruption. The Group will continue to comply with the relevant laws and regulations.

SOCIAL *(CONTINUED)*

B8 COMMUNITY INVESTMENT

In pursuit of business development, the Group also encourages the active participation of its employees in charitable activities to help the disadvantaged groups and contribute to the community. The Group will continue to explore more opportunities in contributing to community services.

YOUR FEEDBACK

The Group will continue to adopt measures for the benefit of ESG in its operations.

Stakeholders' feedback is valuable and can help us to improve our operational, environmental, social and governance policies and procedures. Please feel free to share your feedback on our performance via any of the following channels:

Address: Units B-D, 8/F., D2 Place Two, 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong
Telephone: (852) 2892 7807
Email: info@china3d8078.com

中汇 ZHONGHUI

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
HMV DIGITAL CHINA GROUP LIMITED
(incorporated in Bermuda with limited liability)

Qualified Opinion

We have audited the consolidated financial statements of HMV Digital China Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 120, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements, of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

(a) *Trade receivables*

We have been unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of trade receivables of approximately HK$75,555,000 as at 30 June 2018. There were no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balance was fairly stated as at 30 June 2018.

(b) *Loans receivables*

We have been unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of loans receivables of approximately HK$10,205,000 as at 30 June 2018. There were no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balance was fairly stated as at 30 June 2018.

(c) *Other receivables*

We have been unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of other receivables of approximately HK$63,545,000 as at 30 June 2018. There were no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balance was fairly stated as at 30 June 2018.

Any adjustments to the above figures might have consequential effects on the consolidated financial performance for the year and the consolidated financial position as at 30 June 2018.

(d) *Events after the reporting period*

Subsequent to the year end date, the Group has made payments of approximately HK$63,600,000 to and obtained receipts of approximately HK$63,600,000 from several third parties. We have been unable to obtain sufficient appropriate audit evidence to ascertain the nature of these payments and receipts.

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 qualified 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. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The recoverable amount of HMV M&E Limited ("HMV M&E")

Refer to Note 15, Note 17, Note 18 to the consolidated financial statements.

The Group is required to annually test the amount of goodwill and trademarks of HMV M&E for impairment. In addition, the Group tests the amount of property, plant and equipment of HMV M&E for impairment. These impairment tests are significant to our audit because HMV M&E's balance of goodwill, trademarks and property, plant and equipment of HK$1,050,455,000, HK$236,500,000 and HK$42,767,000 respectively as at 30 June 2018 is material to the consolidated financial statements. In addition, the Group's impairment tests involve application of judgement and are based on assumptions and estimates.

Our audit procedures included, among others:

– Assessing the identification of the related cash generating units;

– Assessing the competence, independence and integrity of the external valuer engaged by the Company; and

– Obtaining the external valuation report and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

– Assessing the arithmetical accuracy of the fair value less costs of disposal calculations;

– Comparing the actual cash flows with the cash flow projections;

– Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates);

– Checking key assumptions and input data in the valuation model to supporting evidence;

– The significant portion of cash flow projections of HMV M&E is based on the assumption that the revenue of the next 9 years are guaranteed by a business partner (the "Business Partner");

– Understanding the background and assessing the financial ability and creditability of the Business Partner;

We consider that the Group's impairment tests for HMV M&E are supported by the available evidence.

Film rights and films production in progress (the "FR and FPIP")

Refer to Note 23 to the consolidated financial statements.

The Group tests the amount of FR and FPIP for impairment. This impairment test is significant to our audit because the balance of FR and FPIP of HK$386,954,000 as at 30 June 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

– Assessing the arithmetical accuracy of the value-in-use calculations;

– Comparing the actual cash flows with the cash flow projections;

– Assessing the reasonableness of the key assumptions (including revenue and discount rates);

– Checking input data to supporting evidence;

– Assessing the competence, independence and integrity of the external valuer engaged by the Company; and

– Obtaining the external valuation report and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

We consider that the Group's impairment test for FR and FPIP is supported by the available evidence.

Loans receivables

Refer to Note 24 to the consolidated financial statements.

The Group tests the amount of loans receivables for impairment. This impairment test is significant to our audit because the balance of loans receivables of HK$505,749,000 (excluding the amount stated in the Basis for Qualified Opinion section of our report) as at 30 June 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

– Assessing the Group's procedures on granting credit limits and credit periods to customers;

– Assessing the Group's relationship and transaction history with the customers;

– Evaluating the Group's impairment assessment;

– Assessing ageing of the loans receivables;

– Assessing creditworthiness of the customers;

– Checking subsequent settlements from the customers;

– Assessing the value of the collateral for the loans receivables;

– Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements;

We consider that the Group's impairment test for loans receivables is supported by the available evidence.

Other Information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the trade receivables, loans receivables and other receivables. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Responsibilities of Directors for the Consolidated Financial Statements

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

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

Auditor's responsibilities for the Audit of the Consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084

Hong Kong, 28 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	7	**608,251**	561,388
Other income	8	**40,213**	9,505
Cost of distribution and production of films, television programmes and music production		**(131,184)**	(105,603)
Cost of artiste management services		**(122,766)**	(96,711)
Cost of cinema operation		**(19,634)**	(22,179)
Cost of retail business		**(140,417)**	(131,325)
Selling and distribution costs		**(101,299)**	(67,936)
Administrative expenses		**(168,363)**	(139,915)
Finance costs	9	**(41,809)**	(13,978)
Change in fair value of an investment property	16	**25,029**	–
(Loss)/gain on disposal of subsidiaries	43(b)	**(6,705)**	17,089
Loss on disposal of associates		**–**	(3,449)
Change in fair value of investments at fair value through profit or loss		**15,613**	484
Change in fair value of derivative financial instruments		**43,934**	6,917
Share of results of associates		**886**	533
Share of results of a joint venture		**(2)**	(1)
Profit before taxation	10	**1,747**	14,819
Income tax credit	12	**4,316**	6,590
Profit for the year		**6,063**	21,409
Other comprehensive loss:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(632)**	(179)
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of investments at fair value through other comprehensive loss		**(113,168)**	(805)
Total other comprehensive loss for the year, net of tax		**(113,800)**	(984)
Total comprehensive (loss)/income for the year		**(107,737)**	20,425
Profit for the year attributable to:			
Owners of the Company		**6,372**	22,665
Non-controlling interests		**(309)**	(1,256)
		6,063	21,409
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(107,428)**	21,681
Non-controlling interests		**(309)**	(1,256)
		(107,737)	20,425
Earnings/(loss) per share	14		
Basic		**HK0.05 cent**	HK0.21 cent
Diluted		**HK(0.15) cent**	HK0.16 cent

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	15	**97,916**	91,076
Investment property	16	**298,000**	–
Intangible assets	17	**247,473**	263,969
Goodwill	18	**1,050,455**	1,072,986
Interests in associates	19	**33,801**	16,255
Interest in a joint venture	20	**107**	109
Investments at fair value through other comprehensive income	21	**131,130**	358,497
Prepayments, deposits and other receivables	22	**237,081**	265,368
Film rights and films production in progress	23	**386,954**	209,434
Loans receivables	24	**70,633**	51,489
Deferred tax assets	25	**7,218**	16,650
		2,560,768	2,345,833
Current assets			
Investments at fair value through other comprehensive income	21	**167,789**	–
Prepayments, deposits and other receivables	22	**205,154**	314,063
Loans receivables	24	**445,321**	59,906
Inventories	26	**21,709**	28,629
Trade receivables	27	**206,983**	123,557
Investments at fair value through profit or loss	28	**23,444**	21,184
Pledged bank deposits	29	**3,674**	15,070
Bank and cash balances	29	**125,927**	147,078
		1,200,001	709,487
Current liabilities			
Trade payables	30	**70,223**	62,589
Accruals, deposits received and other payables	31	**237,633**	170,286
Other borrowings	32	**314,169**	84,251
Convertible bonds	33	**151,185**	5,311
Promissory note payables	34	**188,214**	14,160
Finance lease payables	35	**133**	104
Provision for asset retirement	36	**–**	983
Derivative financial instruments	37	**8,624**	2,319
		970,181	340,003
Net current assets		**229,820**	369,484
Total assets less current liabilities		**2,790,588**	2,715,317

Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred tax liabilities	25	**27,251**	29,677
Accruals, deposits received and other payables	31	**22,106**	17,568
Promissory note payables	34	**191,347**	–
Convertible bonds	33	**44,825**	40,408
Finance lease payables	35	**1,740**	1,825
Provision for asset retirement	36	**16,960**	12,613
Derivative financial instruments	37	**8,114**	32,057
		312,343	134,148
NET ASSETS		**2,478,245**	2,581,169
Capital and reserves			
Share capital	38	**134,951**	134,758
Reserves		**2,343,676**	2,446,484
Equity attributable to owners of the Company		**2,478,627**	2,581,242
Non-controlling interests		**(382)**	(73)
TOTAL EQUITY		**2,478,245**	2,581,169

The consolidated financial statements on pages 41 to 120 were approved and authorised for issue by the board of directors on 28 September 2018 and are signed on its behalf by:

Approved by:	**Shiu Stephen Junior** *Director*	**Lee Wing Ho, Albert** *Director*

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Notes	Share capital HK$'000	Share premium* HK$'000	Investment revaluation reserve* HK$'000	Foreign currency translation reserve* HK$'000	Accumulated losses* HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
		Attributable to owners of the Company							
At 30 June 2016 and 1 July 2016, as restated		38,328	342,305	(59,863)	(1,833)	(29,307)	289,630	1,762	291,392
Total comprehensive income for the year		–	–	(805)	(179)	22,665	21,681	(1,256)	20,425
Issue of shares upon placing	38	24,156	579,744	–	–	–	603,900	–	603,900
Issue of shares upon conversion of convertible bonds	33, 38	94	6,936	–	–	–	7,030	–	7,030
Issue of shares for acquisition of investment at fair value through other comprehensive income		2,591	261,698	–	–	–	264,289	–	264,289
Transaction cost attributable to issue of shares		–	(5,374)	–	–	–	(5,374)	–	(5,374)
Bonus issue	38	54,711	(54,711)	–	–	–	–	–	–
Issue of shares upon acquisition of subsidiaries	38	14,878	1,388,021	–	–	–	1,402,899	–	1,402,899
Acquisition of partial interest in a subsidiary and disposal of partial interest in an associate		–	–	–	–	(2,813)	(2,813)	(579)	(3,392)
At 30 June 2017		134,758	2,518,619	(60,668)	(2,012)	(9,455)	2,581,242	(73)	2,581,169
Total comprehensive loss/(income) for the year		–	–	(113,168)	(632)	6,372	(107,428)	(309)	(107,737)
Issue of shares upon conversion of convertible bonds	38	193	4,620	–	–	–	4,813	–	4,813
At 30 June 2018		134,951	2,523,239	(173,836)	(2,644)	(3,083)	2,478,627	(382)	2,478,245

Note:

* These reserve accounts comprise the consolidated reserve of approximately HK$2,343,676,000 (2017: approximately HK$2,446,484,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 30 June 2018

Share Premium

According to the Bermuda Companies Act 1981, the funds in the share premium account of the Company are not distributable to the shareholders of the Company. The share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; or in writing off the preliminary expenses of the Company, or the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; or in providing for the premiums payable on redemption of any shares or of any debentures of the Company.

Investment Revaluation Reserve

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of investments at fair value through other comprehensive income. This amount will not be reclassified to profit or loss.

Foreign Currency Translation Reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income. Accumulated foreign currency translation reserve is reclassified to profit or loss upon the disposal of the foreign operations.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Cash flows from operating activities			
Profit before tax		**1,747**	14,819
Adjustments for:			
Amortisation of film rights		**34,360**	22,526
Amortisation of intangible assets		**2,694**	1,797
Depreciation of property, plant and equipment		**19,484**	22,097
Finance costs		**41,809**	13,978
Impairment loss of film rights		**19,607**	–
Impairment loss of property, plant and equipment		**3,361**	–
Written off of loan receivables		**611**	–
Impairment loss of inventories		**2,347**	–
Written off of inventories		**–**	1,660
Written off of trade receivables		**1,423**	112
Written off of prepayments and other receivables		**17,161**	133
Written off of property, plant and equipment		**86**	28
Loss on issue of convertible bonds		**16,186**	–
Gain on settlement of promissory note		**(1,360)**	–
Bank interest income		**(85)**	(17)
Fair value gain on investment property		**(25,029)**	–
Loan interest income		**(764)**	(188)
Interest income from pledged bank deposits		**(35)**	(192)
Loss/(gain) on disposal of subsidiaries	43(b)	**6,705**	(17,089)
Loss on disposal of associates		**–**	3,449
Gain on disposal of film right		**(24,493)**	–
Change in fair value of derivative financial instruments		**(43,934)**	(6,917)
Share of results of associates		**(886)**	(533)
Share of results of a joint venture		**2**	1
Operating profit before working capital change		**70,997**	55,664
Change in inventories		**4,573**	3,593
Change in loan receivables		**(454,406)**	(69,957)
Change in trade receivables		**(85,252)**	(65,551)
Change in prepayments, deposits and other receivables		**152,426**	(293,715)
Change in trade payables		**9,214**	(8,116)
Change in investments at fair value through profit or loss		**(2,260)**	6,544
Change in accruals, deposits received and other payables		**75,065**	65,021
Cash used in operations		**(229,643)**	(306,517)
Net cash used in operating activities		**(229,643)**	(306,517)

Consolidated Statement of Cash Flows (Continued)

For the year ended 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Additional costs incurred in and prepayment for film rights and films production in progress		**(230,917)**	(214,164)
Disposal of a film right		**–**	1,150
Purchase of property, plant and equipment		**(25,826)**	(8,736)
Acquisition of investments at fair value through other comprehensive income		**(31,914)**	(28,774)
Disposal of subsidiaries	43(b)	**(73)**	(1,562)
Disposal of associates		**–**	3,000
Acquisition of subsidiaries	43(a)	**(22,839)**	76,204
Bank interest received		**85**	17
Loan interest received		**–**	188
Interest income from pledged bank deposits		**35**	192
Revenue in pledged bank deposits		**11,396**	15
Net cash used in investing activities		**(300,053)**	(172,470)
Cash flows from financing activities			
Proceeds from other borrowings		**176,485**	23,592
Repayment of other borrowings		**(121,703)**	(30,853)
Repayment of finance lease payables		**(549)**	(638)
Proceeds from issuance of convertible bonds	33	**148,720**	–
Proceeds from issue of shares, net of transaction costs		**–**	598,526
Proceeds from issue of promissory notes		**337,115**	–
Repayment of promissory notes		**(12,800)**	–
Interest paid		**(17,005)**	(11,651)
Net cash generated from financing activities		**510,263**	578,976
Net (decrease)/increase in cash and cash equivalents		**(19,433)**	99,989
Effect of changes in foreign exchange rate		**(1,718)**	981
Cash and cash equivalents at beginning of year		**147,078**	46,108
Analysis of cash and cash equivalents			
Bank and cash balances		**125,927**	147,078

Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

1. GENERAL INFORMATION

The Company is incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. Its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is Units B-D, 8/F., D2 Place Two, 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

The Company is an investment holding company.

The principal activities of the Company and its subsidiaries (the "Group") are set out in the segment information in note 6 and note 45 to the consolidated financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 July 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective except for the early adoption of HKFRS 9 (2009) in the year ended 30 June 2015. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by revaluation of investment properties and certain financial instruments which are carried at their fair values. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 4 to these financial statements.

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

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Consolidation (continued)

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

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

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

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

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Business combination and goodwill

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

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

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combination and goodwill (continued)

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Associates

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

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

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Joint arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. 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. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

Foreign currency translation

(a) *Functional and presentation currency*

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currency translation (continued)

(b) *Transactions and balances in each entity's financial statements (continued)*

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

(c) *Translation on consolidation*

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

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

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

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lifes and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates are as follows:

Leasehold improvements	Over the shorter of unexpired lease term or 10%
Computer equipment	33.33%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property (including property that is being constructed or developed for future use as investment property) is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

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

Film rights and films production in progress

Film rights include the unamortised cost of completed theatrical films and television episodes, rights acquired or licensed from outsiders for exhibition and other exploitation of the films.

Film rights are stated at cost less subsequent accumulated amortisation and accumulated impairment loss.

Amortization of film rights is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are one to five years.

Films production in progress represents theatrical films and television services in production and is stated at cost incurred to date, less any identified impairment losses. Costs included all direct costs associated with the production of films. Costs are transferred to film rights upon completion.

An impairment loss is made when there has been a change in the estimate used to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

Leases

(i) *Operating leases*

The Group as lessee

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

(ii) *Finance leases*

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

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

Assets under finance leases are depreciated over the shorter of the lease term and their estimated useful lifes.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Club membership and trademarks

Club membership and trademarks with indefinite useful life are stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership and trademarks have suffered an impairment loss.

Intangible assets

Intangible assets acquired separately with finite useful lifes are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lifes is provided on a straight-line basis over their estimated useful lifes. The principal annual rates are as follows:

Management contract	Over the unexpired contract period of 3 years
Online music streaming application	10 years
Trademarks	Indefinite life

Inventories

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

Financial assets

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

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost

– Investments at fair value through profit or loss

– Investments at fair value through other comprehensive income

(i) *Financial assets at amortised cost*

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less any impairment. An allowance for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of assets. The amount of the allowance is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets (continued)

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the assets at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition as described below.

Investments at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Interest income and dividend income is recognised in profit or loss.

(iii) Investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that is not held for trading as at fair value through other comprehensive income.

Investments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. On derecognition of an investment, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Borrowings

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Convertible bonds

(a) *Compound instrument*

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

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

(b) *Combined instrument*

Convertible bond which entitles the holder to convert the bond into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and derivative components. At the date of issue, the fair values of the derivative components are determined using an option pricing model. The remainder of the fair value of the convertible bond is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

Trade and other payables

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

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

(a) Artiste management services fee income and marketing income are recognised when services are rendered or substantially performed in accordance with the terms of the contract.

(b) Income from film production and licensing of corresponding rights is recognised when the production is completed and released and the amount can be measured reliably.

(c) Income from the distribution of films is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.

(d) Income from box office takings is recognised when the services have been rendered to the buyers.

(e) Income from sales of goods is recognised, net of discounts and returns, on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customers.

(f) Income from sales of food and beverage is recognised, net of discounts, in profit or loss at the point of sale to customers.

(g) Concession stores income is accrued as earned on the basis of the terms of relevant concession agreements, which is on the basis of a minimum payment and a variable amount based on turnover.

(h) Interest income from a financial asset (including money lending) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(i) Handling charge income is recognised when earned.

(j) Royalty income is recognised on an accrual basis in accordance with the terms and conditions of the royalty agreement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

(a) *Employee leave entitlements*

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

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

(b) *Pension obligations*

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

The Group also participates in a defined contribution retirement scheme organized by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

(c) *Termination benefits*

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

Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to and assess the performance of the Group's various lines of business in different geographical locations.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investment properties, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

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

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

Events after the reporting period

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

4. KEY ESTIMATES AND CRITICAL JUDGEMENTS

Key sources of estimation uncertainty

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

(a) *Impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use or fair value less cost of disposal of the cash-generating units ("CGUs") to which goodwill and the intangible assets have been allocated. The value in use or fair value less costs of disposal calculations require the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Details of the recoverable amount calculation and impairment loss made for the year are disclosed in note 17 and note 18.

(b) *Impairment loss in respect of films production in progress*

The management of the Group reviews an aging analysis at each end of the reporting period, and identifies the slow-moving films production in progress that is no longer suitable for use in production. The management estimates the net realisable value for such films production in progress based primarily on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at the end of the reporting period and makes allowances for any films production in progress that production is no longer proceeded.

(c) *Amortisation and impairment on film rights*

The Group determines the estimated useful lives, residual values and related amortisation charges for the Group's film rights. This estimate is based on the historical experience of the actual useful lives and residual values of film rights. The Group will revise the amortisation charge where useful lives and residual values are different to those previously estimated. The Group tests annually whether the film rights have suffered any impairment. The recoverable amount of the film rights has been determined on the basis of fair value using discounted cash flow method.

(d) *Fair values of investments at fair value through other comprehensive income*

The Group appointed an independent professional valuer to assess the fair values of the investments at fair value through other comprehensive income which quoted prices are not available. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

In the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's investments at fair value through other comprehensive income, details of which are set out in note 21 to the consolidated financial statements, by considering information from a variety of sources, including the latest financial information, the historical data on market volatility as well as the price and industry and sector performance of the investments at fair value through other comprehensive income.

4. KEY ESTIMATES AND CRITICAL JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty (continued)

(e) Impairment loss in respect of trade receivables and loans receivables

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

(f) Useful lives of property, plant and equipment

In accordance with HKAS 16 "Property, Plant and Equipment", the Group estimates the useful lives of property, plant and equipment to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

(g) Asset retirement obligations

The Group evaluates and recognises, on a regular basis, the present value of the obligations which arise from future reinstatement of leased premises use as cinema upon the end of lease terms. To establish the present value of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate.

(h) Fair value of derivative component

Derivative component of the convertible bonds

As disclosed in note 37 to the financial statements, the fair values of the derivative component of the convertible bonds at the date of issue and the end of the reporting period were determined using option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative component in the period in which such determination is made.

4. KEY ESTIMATES AND CRITICAL JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty (continued)

(i) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

(j) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment property. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(a) Artiste management services fee income

Certain artiste contracts for services are contracted for a period and include general terms which artistes are required to comply during the contract periods. In the opinion of Directors, it is not probable that the artistes will breach the general terms. As such, revenue is recognised when the artistes provide the services.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as part of its business transactions, assets and liabilities are principally denominated in United States dollars ("US$") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

As Hong Kong dollars is pegged to US$, the currency risk associated with US$ and HK$ is considered minimal. The Directors of the Company are of the opinion that the Group's exposures to currency risk associated with US$ is minimal. Accordingly, no sensitivity analysis is presented.

The Group mainly exposes to the effect of fluctuation in HK$ against RMB.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Foreign currency risk (continued)

Sensitivity analysis (continued)

The following table details the group entities sensitivity to a 5% increase and decrease in functional currency of the relevant group entities against the relevant foreign currencies. 5% 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 reporting date on a 5% change in foreign currency rates. A positive number below indicates an increase in profit (2017: increase in profit) where functional currency of the relevant group entities weakens 5% against the relevant foreign currency. For a 5% strengthen of functional currency of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the loss or profit, and the balance below would be negative.

	2018 HK$'000	2017 HK$'000
RMB	**2,162**	2,444

(b) Interest rate risk

The Group's other borrowings, bank deposits, loan receivables, finance lease payables, promissory notes and convertible bonds bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its other borrowings and bank deposits. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2018, if interest rates at that date had been 50 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$855,000 (2017: approximately HK$735,000) higher (2017: higher), arising mainly as a result of lower interest expenses on other borrowing (2017: higher interest income on bank deposits). If interest rates had been 50 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$235,000 (2017: approximately HK$8,000) lower (2017: lower), arising mainly as a result of higher interest expenses on other borrowing (2017: lower interest income on bank deposits).

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(c) Price risk

The Group's investments classified as investments at fair value through other comprehensive income and investments at fair value through profit or loss are measured at fair value at the end of each reporting period and expose the Group to price risk. The management of the Group manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risk of the listed investments at the end of the reporting period.

If prices had been 5% higher/lower, the Group's consolidated profit (2017: profit) after tax for the year would increase/decrease (2017: increase/decrease) by HK$979,000 (2017: HK$884,000) as the price of investments at fair value through profit or loss of HK$23,444,000 (2017: HK$21,184,000) had been 5% higher/lower. The consolidated other comprehensive loss (2017: loss) would decrease/increase (2017: decrease/increase) approximately HK$6,207,000 (2017: approximately HK$4,710,000) as the price of investments at fair value through other comprehensive income of approximately HK$124,130,000 (2017: approximately HK$94,208,000) had been 5% higher/lower.

(d) Credit risk

The carrying amount of the loans receivables, trade and other receivables, investments and cash and bank balances included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

At 30 June 2018, 35% (2017: 30%) and 91% (2017: 89%) of the total trade receivables were due from the Group's largest customer and the five largest customers at 30 June 2018, respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on investments and cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2018 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables and loan receivables. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(e) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 month or repayable on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	Total: Undiscounted cash flows HK$'000	Total: Carrying amount HK$'000
At 30 June 2018									
Trade payables	**70,223**	**–**	**–**	**–**	**–**	**–**	**–**	**70,223**	**70,223**
Accruals and other payables	**78,401**	**–**	**–**	**–**	**79**	**370**	**21,657**	**100,507**	**100,507**
Other borrowings	**72,234**	**3,787**	**248,681**	**–**	**–**	**–**	**–**	**324,702**	**314,169**
Convertible bonds	**2,000**	**–**	**162,000**	**–**	**60,000**	**–**	**–**	**224,000**	**196,010**
Promissory note payables	**5,920**	**–**	**207,408**	**224,563**	**–**	**–**	**–**	**437,891**	**379,561**
Finance lease payables	**50**	**100**	**450**	**600**	**600**	**1,199**	**1,049**	**4,048**	**1,873**
	228,828	**3,887**	**618,539**	**225,163**	**60,679**	**1,569**	**22,706**	**1,161,371**	**1,062,343**

	Less than 1 month or repayable on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	Total: Undiscounted cash flows HK$'000	Total: Carrying amount HK$'000
At 30 June 2017									
Trade payables	62,589	–	–	–	–	–	–	62,589	62,589
Accruals and other payables	64,629	–	–	–	–	28	17,540	82,197	82,197
Other borrowings	26,843	464	59,454	–	–	–	–	86,761	84,251
Convertible bonds	2,000	–	3,500	–	–	50,000	–	55,500	45,719
Promissory note payables	14,160	–	–	–	–	–	–	14,160	14,160
Finance lease payables	50	97	438	584	584	1,169	1,607	4,529	1,929
	170,271	561	63,392	584	584	51,197	19,147	305,736	290,845

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(f) Categories of financial instruments

	At 30 June	
	2018	2017
	HK$'000	HK$'000
Financial assets:		
Investments at fair value through profit or loss	**23,444**	21,184
Investments at fair value through other comprehensive income	**298,919**	358,497
Financial assets at amortised cost (including bank and cash balances)	**1,060,282**	728,622
Financial liabilities:		
Derivative financial instruments	**16,738**	34,376
Financial liabilities at amortised costs	**1,060,470**	288,916

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(g) Fair values (continued)

(a) Disclosures of level in fair value hierarchy

	Fair value measurements using:			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
At 30 June 2018				
Recurring fair value measurements:				
Investments at fair value through other comprehensive income				
Listed equity securities in Hong Kong	**124,130**	**–**	**–**	**124,130**
Private equity investments	**–**	**–**	**174,789**	**174,789**
Investments at fair value through profit or loss				
Listed equity securities in Hong Kong	**23,444**	**–**	**–**	**23,444**
Derivative financial instruments	**–**	**16,738**	**–**	**16,738**
Investment properties				
Residential – Hong Kong	**–**	**298,000**	**–**	**298,000**
	147,574	**314,738**	**174,789**	**637,101**

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 30 June 2017				
Recurring fair value measurements:				
Investments at fair value through other comprehensive income				
Listed equity securities in Hong Kong	94,208	–	–	94,208
Private equity investments	–	–	264,289	264,289
Investments at fair value through profit or loss				
Listed equity securities in Hong Kong	21,184	–	–	21,184
Derivative financial instruments	–	34,376	–	34,376
	115,392	34,376	264,289	414,057

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(g) Fair values (continued)

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Financial assets at fair value through other comprehensive income Equity investments HK$'000
At 1 July 2016	–
Purchases	264,289
At 30 June 2017	264,289
Total gains or losses recognised in other comprehensive income	(111,177)
Purchases	21,677
At 30 June 2018	174,789

The total gains or losses recognised in other comprehensive income are presented in change in fair value of investments at fair value through other comprehensive income.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(g) Fair values (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

At 30 June 2018

Description	**Valuation technique**	**Inputs**	**Fair value** HK$'000
Derivative financial instruments	Binominal model	Expected Volatility	16,738
		Discount rate	
		Expected dividend yield	
Investment property	Market comparable approach	Price per square feet	298,000

At 30 June 2017

Description	**Valuation technique**	**Inputs**	**Fair value** HK$'000
Derivative financial instruments	Binominal model	Expected Volatility	34,376
		Discount rate	
		Expected dividend yield	

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(g) Fair values (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements

At 30 June 2018

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK$'000
Private equity investments classified as financial assets at fair value through other comprehensive income	Forward price-to-earnings approach	Forward price-to-earnings multiple	32.4	Increase	167,789
Private equity investments classified as financial assets at fair value through other comprehensive income	Discounted cash flow	Weighted average cost of capital	20%	Decrease	5,000
		Terminal growth rate	3%	Increase	
		Discount for lack of marketability	25%	Decrease	
		Discount for lack of control	25%	Decrease	
Private equity investments classified as financial assets at fair value through other comprehensive income	Discounted cash flow	Weighted average cost of capital	16%	Decrease	2,000
		Terminal growth rate	3%	Increase	
		Discount for lack of marketability	25%	Decrease	
		Discount for lack of control	25%	Decrease	

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(g) Fair values (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements (continued)

At 30 June 2017

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value
					HK$'000
Private equity investments classified as financial assets at fair value through other comprehensive income	Discounted cash flow	Weighted average cost of capital	15%	Decrease	264,289
		Terminal growth rate	3%	Increase	
		Discount for lack of marketability	10%	Decrease	
Derivatives financial liabilities	Discounted cash flow	Expected amount of the guarantee paid estimated by the management of the Group	–	Increase	–

During the year, there was no changes in the valuation techniques used except valuation for a private equity investment classified as financial assets at fair value through other comprehensive income changed from discounted cash flow (Level 3) to price-to-earnings approach (Level 3).

6. SEGMENT INFORMATION

The Group has six reportable segments as follows:

- Artiste management services
- Distribution and production of films, television programmes and music production
- Money lending
- Operation of cinemas
- Securities and bonds investment
- Sales of good, food and beverage under the brand name of HMV ("HMV business")

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different expertises and marketing strategies. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" ("CODM") to make decisions about resource allocation to the segments and assess their performance.

For the year ended 30 June 2018

6. SEGMENT INFORMATION *(CONTINUED)*

Information regarding the above segment is reported below.

(a) Segment revenue and results

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

	Artiste management services		Distribution and production of films, television programmes and music production		Money lending		Operation of cinemas		Securities and bonds investment		HMV business		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
REVENUE:														
Revenue from external customers	**142,900**	108,125	**179,942**	218,060	**29,456**	16,653	**40,170**	37,162	**-**	–	**215,783**	181,388	**608,251**	561,388
RESULTS:														
Segment profit/(loss)	**319**	(6,181)	**36,722**	77,711	**45,430**	13,295	**(31,146)**	(24,924)	**15,626**	7,401	**(18,952)**	(28,068)	**47,999**	39,234
Bank interest income													**85**	17
Interests income from pledged bank deposits													**35**	192
Loan interest income													**764**	188
Unallocated corporate expenses													**(24,535)**	(25,006)
Finance costs													**(41,809)**	(13,978)
Change in fair value of an investment property													**25,029**	-
(Loss)/gain on disposal of subsidiaries													**(6,705)**	17,089
Loss on disposal of associates													**-**	(3,449)
Share of results of associates													**886**	533
Share of results of a joint venture													**(2)**	(1)
Profit before taxation													**1,747**	14,819
Income tax credit													**4,316**	6,590
Profit for the year													**6,063**	21,409

The accounting policies on segment reporting are the same as the Group's accounting policies. Segment results represent the profit earned by or loss incurred from each segment without allocation of unallocated corporate expenses, bank interest income, interest income from pledged bank deposits, loan interest income, finance costs, loss on disposal of subsidiaries and gain on disposal of associates, share of results of associates and share of results of a joint venture and taxation. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

6. SEGMENT INFORMATION *(CONTINUED)*

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Artiste management services		Distribution and production of films, television programmes and music production		Money lending		Operation of cinemas		Securities and bonds investment		HMV business		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS:														
Segment assets	**39,256**	21,651	**1,041,364**	646,099	**361,938**	102,028	**71,036**	75,359	**147,573**	379,681	**1,468,912**	1,401,931	**3,130,079**	2,626,749
Interest in a joint venture													**107**	109
Interests in associates													**33,801**	16,255
Unallocated corporate assets													**596,782**	412,207
Total assets													**3,760,769**	3,055,320
LIABILITIES:														
Segment liabilities	**18,240**	16,451	**226,474**	156,981	**13,146**	13,276	**37,423**	31,830	**38,284**	898	**48,538**	65,413	**382,105**	284,849
Unallocated corporate liabilities													**900,419**	189,302
Total liabilities													**1,282,524**	474,151

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

– all assets are allocated to reportable segments other than other non-current financial asset, and unallocated head office and corporate assets as these assets are managed on a group basis; and

– all liabilities are allocated to reportable segments other than current tax liabilities, convertible bonds, promissory note, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

For the year ended 30 June 2018

6. SEGMENT INFORMATION *(CONTINUED)*

(c) Other segment information

The following is an analysis of the Group's other segment information for the current and prior year:

	Artiste management services		Distribution and production of films, television programmes and music production		Money lending		Operation of cinemas		Securities and bonds investment		HMV business		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditure	**12**	39	**65**	3,277	**–**	–	**18,118**	915	**–**	–	**5,210**	6,522	**23,405**	10,753
Depreciation of property, plant and equipment	**225**	224	**100**	1,238	**–**	–	**7,752**	11,900	**–**	–	**9,484**	8,735	**17,561**	22,097
Amortisation of film rights	**–**	–	**34,360**	22,526	**–**	–	**–**	–	**–**	–	**–**	–	**34,360**	22,526
Amortisation of intangible assets	**244**	244	**2,450**	1,553	**–**	–	**–**	–	**–**	–	**–**	–	**2,694**	1,797
Impairment loss of inventories	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2,347**	–	**2,347**	–
Impairment loss of film rights	**–**	–	**19,607**	–	**–**	–	**–**	–	**–**	–	**–**	–	**19,607**	–
Impairment loss of property, plant and equipment	**–**	–	**–**	–	**–**	–	**3,361**	–	**–**	–	**–**	–	**3,361**	–
Written off of loan receivables	**–**	–	**–**	–	**611**	–	**–**	–	**–**	–	**–**	–	**611**	–
Written off of inventories	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1,660	**–**	1,660
Written off of property, plant and equipment	**–**	–	**–**	–	**–**	–	**86**	28	**–**	–	**–**	–	**86**	28
Written off of prepayments and other receivables	**2,444**	–	**14,586**	133	**–**	–	**–**	–	**–**	–	**–**	–	**17,030**	133
Written off of trade receivable	**–**	–	**1,423**	112	**–**	–	**–**	–	**–**	–	**–**	–	**1,423**	112

6. SEGMENT INFORMATION *(CONTINUED)*

(d) Geographical information

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

The Group's revenue from external customers classified in accordance with geographical location of customers during the reporting period and information about the non-current assets, except deferred tax assets and investments at fair value through other comprehensive income, classified in accordance with geographical location of the assets at the end of the reporting period are detailed below.

	Revenue from customers		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**378,084**	435,320	**2,355,787**	1,917,108
The PRC	**227,553**	117,839	**66,633**	53,578
Taiwan	**252**	1,539	**–**	–
Japan	**58**	–	**–**	–
Other Asian countries *(note (a))*	**2,124**	2,377	**–**	–
North America *(note (b))*	**25**	–	**–**	–
European countries *(note (c))*	**–**	4,035	**–**	–
Other areas	**155**	278	**–**	–
	608,251	561,388	**2,422,420**	1,970,686

Notes:

(a) Other Asian countries mainly included Brunei, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, Russia and Laos.

(b) North America included the United States and Canada.

(c) European countries mainly included Italy, the United Kingdom, Germany, France, Switzerland, Poland, Netherlands and Belgium.

(e) Information about major customers

Revenue from one (2017: one) customer under distribution and production of films, television programmes and music production (2017: distribution and production of films, television programmes and music production) contributing over 10% of the total revenue of the Group for the year ended 30 June 2018 which amounted to approximately HK$73,000,000 (2017: HK$87,008,000) respectively.

7. REVENUE

	2018 HK$'000	2017 HK$'000
Artiste management services fee income	**142,900**	108,125
Distribution and production of films, television programmes and music production	**179,942**	218,060
Interest income and handling charge income from money lending	**29,456**	16,653
Cinema operation income	**40,170**	37,162
Sales of goods	**174,328**	174,564
Sales of food and beverage	**1,309**	6,439
Concession stores income	**146**	385
Royalty income	**40,000**	–
	608,251	561,388

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Bank interest income	**85**	17
Interest income from pledged bank deposits	**35**	192
Loan interest income	**764**	188
Income from IT system	**–**	969
Event and commission income	**62**	327
Marketing income	**2,444**	2,969
License fee income from HMV café	**3,178**	1,703
Government grants	**–**	1,107
Gain on settlement of promissory note	**1,360**	–
Waiver of other payable	**4,749**	–
Gain on disposal of film right	**24,493**	–
Others	**3,043**	2,033
	40,213	9,505

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on other borrowings	**15,228**	11,768
Interest on bank overdraft	**3,913**	1,025
Interest on convertible bonds	**16,494**	1,352
Finance cost on asset retirement obligations	**217**	147
Finance cost on finance lease liabilities	**493**	502
Imputed interest on promissory note	**7,550**	–
Total finance costs	**43,895**	14,794
Amount capitalised	**(2,086)**	(816)
	41,809	13,978

Borrowing costs on funds borrowed generally are capitalised at a rate of 5% (2017: 9%) per annum.

10. PROFIT BEFORE TAXATION

The Group's profit before taxation is stated after charging/(crediting):

	2018 HK$'000	2017 HK$'000
Staff costs (including Directors' remuneration):		
Salaries, allowances and other benefits in kind	**59,987**	38,112
Retirement benefits scheme contributions	**3,740**	3,039
Total staff costs	**63,727**	41,151
Auditors' remuneration	**1,450**	1,000
Amortisation of film rights*	**34,360**	22,526
Amortisation of intangible assets	**2,694**	1,797
Cost of inventories recognised as expenses**	**140,934**	113,509
Depreciation of property, plant and equipment	**19,484**	22,097
Impairment loss of property, plant and equipment	**3,361**	–
Impairment loss of film rights*	**19,607**	–
Impairment loss of inventories	**2,347**	–
Written off of loan receivables	**611**	–
Written off of inventories	**–**	1,660
Written off of trade receivables	**1,423**	112
Written off of prepayments and other receivables (Note)	**17,161**	133
Written off of property, plant and equipment	**86**	28
Minimum lease payments under operating leases:		
– Land and building	**68,604**	60,291
Exchange loss	**533**	2,746
Loss on issue of convertible bonds	**16,186**	–
Gain on disposal of film right	**(24,493)**	–
Gain on settlement of promissory note	**(1,360)**	–
Change in fair value of investments at fair value through profit or loss	**(15,613)**	(484)
Change in fair value of an investment property	**(25,029)**	–
Change in fair value of derivative financial instruments	**(43,934)**	(6,917)

* Included in "Cost of distribution and production of films, television programmes and music production" of the consolidated statement of profit or loss.

** Included in "Cost of cinema operation" and "Cost of retail business" of the consolidated statement of profit or loss.

Note: As at 30 June 2018, written off of prepayment, deposits and other receivables of approximately HK$17,161,000 included impairment of prepayment of approximately HK$9,984,000 because the Group withdrew investments in certain films or decided not to proceed certain films production.

11. DIRECTORS', SENIOR MANAGEMENTS' AND EMPLOYEES' REMUNERATION

(a) Directors' emoluments

	Notes	For the year ended 30 June 2018 Fees HK$'000	Salaries HK$'000	Retirement benefits scheme HK$'000	Total emoluments HK$'000
Executive Directors:					
Shiu Stephen Junior ("Mr. Shiu")#		–	2,700	18	2,718
Sun Lap Key, Christopher		150	650	18	818
Lee Wing Ho, Albert		150	488	18	656
Li Mau	(i)	240	–	–	240
Cheung Hung Lui	(ii)	240	–	–	240
Independent Non-executive Directors:					
Chan Chi Ho		150	–	–	150
Kam Tik Lun		150	–	–	150
Tam Kwok Ming, Banny	(iii)	91	–	–	91
Yang Yusi	(iv)	59	–	–	59
		1,230	3,838	54	5,122

	Notes	For the year ended 30 June 2017 Fees HK$'000	Salaries HK$'000	Retirement benefits scheme HK$'000	Total emoluments HK$'000
Executive Directors:					
Shiu Stephen Junior#		–	3,100	18	3,118
Sun Lap Key, Christopher		150	650	18	818
Lee Wing Ho, Albert		150	488	18	656
Ho Gilbert Chi Hang	(v)	365	–	–	365
Li Mau	(i)	368	–	–	368
Cheung Hung Lui	(ii)	2	–	–	2
Non-executive Director:					
Wu King Shiu, Kelvin	(vi)	109	–	–	109
Independent Non-executive Directors:					
Chan Chi Ho		150	–	–	150
Kam Tik Lun		150	–	–	150
Tam Kwok Ming, Banny		150	–	–	150
		1,594	4,238	54	5,886

Chief executive of the Company

No directors waived any remuneration during the year (2017: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year (2017: Nil).

11. DIRECTORS', SENIOR MANAGEMENTS' AND EMPLOYEES' REMUNERATION *(CONTINUED)*

(a) Directors' emoluments (continued)

Notes:

(i) Appointed as an executive director on 7 October 2016

(ii) Appointed as an executive director on 28 June 2017

(iii) Resigned as an independent non-executive director on 9 February 2018

(iv) Appointed as an independent non-executive director on 9 February 2018

(v) Appointed as an executive director on 7 October 2016 and resigned on 28 June 2017

(vi) Resigned as an non-executive director on 28 June 2017

(b) Employees' emoluments

The five highest paid individuals for the year included one director (2017: two) whose emoluments are set out in (a) above. The emoluments of the four (2017: three) individuals of which four (2017: three) are senior management are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**3,672**	2,734
Retirement benefits scheme contributions	**69**	54
	3,741	2,788

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2018	2017
Nil – HK$1,000,000	**3**	3
HK$1,000,001 – HK$1,500,000	**1**	–
	4	3

During the year, no emoluments (2017: Nil) were paid by the Group to the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX CREDIT

	2018 **HK$'000**	2017 HK$'000
Deferred tax *(note 25)*	**(4,316)**	(6,590)

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**1,747**	14,819
Hong Kong Profits Tax at 16.5% (2017: 16.5%)	**288**	2,445
Tax effect of share of results of a joint venture	**–**	–
Tax effect of share of results of associates	**(146)**	(88)
Tax effect of expenses non-deductible for tax purpose	**13,325**	2,703
Tax effect of income not taxable for tax purpose	**(18,142)**	(4,676)
Tax effect of tax losses not recognised	**17,880**	10,894
Tax effect of utilisation of tax losses previously not recognised	**(14,761)**	(15,512)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(1,942)**	(1,971)
Tax effect of other temporary differences not recognised	**(818)**	(385)
Tax credit for the year	**(4,316)**	(6,590)

13. DIVIDEND

The Directors of the Company did not recommend the payment of any dividend for the years ended 30 June 2018 and 2017.

14. EARNINGS/(LOSS) PER SHARE

Basic earnings per share

The calculation of the basic earnings per share attributable to owners is based on the profit for the year attributable to owners of the Company of approximately HK$6,372,000 (2017: HK$22,665,000) and the weighted average number of 13,484,948,896 (2017: 10,922,791,598) ordinary shares of the Company in issue during the year.

Diluted (loss)/earnings per share

The calculation of the basic and diluted earnings per share is based on the following:

	2018 HK$'000	2017 HK$'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	**6,372**	22,665
Finance costs saving on conversion of convertible loans outstanding	**16,494**	1,352
Derivative changes on conversion of convertible loans outstanding	**(43,934)**	(6,917)
Earnings for the purpose of calculating diluted earnings per share	**(21,068)**	17,100
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**13,484,949**	10,922,792
Effect of dilutive potential ordinary shares arising from convertible loans outstanding	**445,068**	59,051
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**13,930,017**	10,981,843

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST:						
At 1 July 2016	37,251	1,980	14,477	9,355	1,768	64,831
Exchange realignment	(787)	(3)	(330)	(140)	–	(1,260)
Acquisition of subsidiaries	40,896	2,809	1,565	4,136	–	49,406
Disposal of subsidiaries	–	–	–	(137)	–	(137)
Additions	4,088	3,987	1,594	1,084	–	10,753
Written off	–	–	(37)	–	–	(37)
At 30 June 2017	81,448	8,773	17,269	14,298	1,768	123,556
Exchange realignment	787	19	330	140	–	1,276
Additions	21,715	1,087	1,569	4,525	–	28,896
Disposal of subsidiaries *(note 43 (b)(i))*	–	(55)	–	(14)	–	(69)
Written off	(324)	–	–	–	–	(324)
At 30 June 2018	103,626	9,824	19,168	18,949	1,768	153,335
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 July 2016	5,099	890	1,884	2,144	496	10,513
Exchange realignment	(68)	(1)	(24)	(12)	–	(105)
Provided during the year	12,711	1,921	3,279	3,832	354	22,097
Disposal of subsidiaries	–	–	–	(16)	–	(16)
Written off	–	–	(9)	–	–	(9)
At 30 June 2017	17,742	2,810	5,130	5,948	850	32,480
Exchange realignment	227	6	86	53	–	372
Provided during the year	10,443	2,193	2,597	3,898	353	19,484
Impairment loss recognised	3,361	–	–	–	–	3,361
Disposal of subsidiaries *(note 43 (b)(i))*	–	(31)	–	(9)	–	(40)
Written off	(238)	–	–	–	–	(238)
At 30 June 2018	31,535	4,978	7,813	9,890	1,203	55,419
CARRYING AMOUNTS:						
At 30 June 2018	72,091	4,846	11,355	9,059	565	97,916
At 30 June 2017	63,706	5,963	12,139	8,350	918	91,076

16. INVESTMENT PROPERTY

	HK$'000
At 1 July 2017	–
Acquisition of subsidiaries *(note 43 (a)(i))*	272,971
Increase in fair value change	25,029
At 30 June 2018	298,000

Investment properties were revalued at 30 June 2018 on the open market value basis by reference to market evidence of recent transactions for similar properties by Norton Appraisals Holdings Limited, an independent firm of chartered surveyors.

At 30 June 2018, the carrying amount of investment properties amount to HK$298,000,000 pledged as security for the Group's other borrowings amounted to HK$213,000,000.

17. INTANGIBLE ASSETS

	Contract backlog	**Online music Streaming application**	**Trademarks**	**Club membership**	**Management contract**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		Note (a)	*Note (b)*	*Note (c)*		
Cost:						
At 1 July 2016	–	–	–	2,930	731	3,661
Acquisition of subsidiaries	34,345	24,500	236,500	–	–	295,345
Disposal of subsidiaries	(34,345)	–	–	–	–	(34,345)
At 30 June 2017	–	24,500	236,500	2,930	731	264,661
Acquisition of subsidiaries *(note 43 (a)(ii))*	–	–	7,840	–	–	7,840
Disposal of subsidiaries *(note 43 (b)(i))*	–	(24,500)	–	–	–	(24,500)
At 30 June 2018	–	–	244,340	2,930	731	248,001
Accumulated amortization and impairment:						
At 1 July 2016	–	–	–	–	40	40
Charged for the year	1,145	408	–	–	244	1,797
Disposal of subsidiaries	(1,145)	–	–	–	–	(1,145)
At 30 June 2017	–	408	–	–	284	692
Charged for the year	–	2,450	–	–	244	2,694
Disposal of subsidiaries *(note 43 (b)(i))*	–	(2,858)	–	–	–	(2,858)
At 30 June 2018	–	–	–	–	528	528
Carrying amounts:						
At 30 June 2018	–	–	244,340	2,930	203	247,473
At 30 June 2017	–	24,092	236,500	2,930	447	263,969

17. INTANGIBLE ASSETS *(CONTINUED)*

Notes:

(a) Online music streaming application (the "APP") arose from the acquisition of Time Edge Limited on 25 April 2017. The APP represents the mobile application for providing online music streaming services. The average remaining amortisation period of the APP is 10 years.

The Group carried out reviews of the recoverable amount of the APP in 2017. The APP is used in the Group's distribution and production of films, television programmes and music production. The recoverable amount of the APP has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 15.2%.

(b) Trademarks of HK$236,500,000 arose from the acquisition of HMV M&E Limited ("HMV M&E") on 3 August 2016. Trademarks represent the rights to use the name "HMV", the various HMV trademarks and trade mark applications, and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through retail stores selling music, movies and television series related contents and products located in Hong Kong and any other business to be conducted in the PRC, Hong Kong and Singapore. The average remaining amortisation period of the patents and trademarks has indefinite useful life.

Trademarks of HK$7,840,000 ("The Trademark II") arose from the acquisition of Glory Horizon Limited (note 43(a)(ii)) on 9 February 2018. Trademarks represent the rights to use the name "HMV", the various HMV trademarks and trade mark applications, and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through retail stores selling music, movies and television series related contents and products located in Taiwan and Macau. The average remaining amortisation period of the patents and trademarks has indefinite useful life.

The recoverable amounts of HMV M&E and the Trademark II are determined on the basis of fair value less costs of disposal using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the HMV M&E and the Trademark II. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the HMV M&E and the Trademark II operate. Budgeted gross margin and revenue are based on past practices and expectations on market development. The discount rate for HMV M&E and the Trademark II were 15.8% and 20% respectively (2017: 16%).

The Group prepares cash flow forecasts for HMV M&E and Trademark II derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2017:3%). This rate does not exceed the average long-term growth rate for the relevant markets.

(c) The Group's club membership of approximately HK$2,930,000 (2017: HK$2,930,000) at 30 June 2018 is assessed as having indefinite useful life because there is no time limit that the Group can enjoy the services provided by that club.

The recoverable amounts of the club membership is determined on the basis of fair value less costs of disposal by reference to market price as at 30 June 2018 and 2017 (level 2 fair value measurements).

18. GOODWILL

	Total HK$'000
Cost:	
At 1 July 2016	3,664
Arising on acquisition of subsidiaries	1,118,054
Disposal of subsidiaries	(45,068)
At 30 June 2017	1,076,650
Disposal of a subsidiary *(note 43 (b)(i))*	(22,531)
At 30 June 2018	1,054,119
Accumulated impairment losses:	
At 1 July 2016, 30 June 2017, 1 July 2017 and 30 June 2018	3,664
Carrying amounts:	
At 30 June 2018	1,050,455
At 30 June 2017	1,072,986

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2018 HK$'000	2017 HK$'000
HMV Business		
HMV M&E	**1,050,455**	1,050,455
Distribution of film rights		
Time Edge Limited ("Time Edge")	**–**	22,531
	1,050,455	1,072,986

In 2017, the Group signed an operation agreement with an independent third party (the "Business Partner"), a PRC company principally engaged in property and shopping mall management, to develop not less than 20 shopping malls with HMV brand in 5 years starting from 2018. The Business Partner provides profit guarantee (the "Profit Guarantee") to the Group in this year and the next 9 years. The revenue for this year and the next 9 years shall be no less than HK$40,000,000 and approximately HK$3,909,000,000. The significant portion of discounted cash flows of HMV M&E is based on the Profit Guarantee.

18. GOODWILL *(CONTINUED)*

The recoverable amounts of HMV M&E and Time Edge are determined on the basis of fair value less costs of disposal and value in use respectively using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts for HMV M&E derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2017: 3%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows of HMV M&E is 15.8% (2017:16%).

19. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Unlisted investments:		
Share of net assets	**4,533**	5,722
Goodwill	**29,268**	10,533
	33,801	16,255

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2018 HK$'000	2017 HK$'000
At 30 June:		
Group's share of carrying amount of interests	**33,801**	16,255
Year ended 30 June:		
Profit from operations	**886**	533
Profit and total comprehensive income for the year	**886**	533

Notes:

(a) Disposal of 15% interest in Starz

On 3 October 2016, One Cool Group Limited, an independent third party of the Group, and Double Spirit, a wholly-owned subsidiary of the Company, entered into an agreement in relation to the disposal of 15% of the issued share capital of Starz by Double Spirit which was satisfied by cash consideration of HK$5,100,000. The Group holds 25% interest in Starz after disposal of 15% interest in Starz.

(b) Disposal of 55% interest in GME Holding Limited ("GME H") as a consideration for acquisition of 20% of HMV(BVI)

On 20 February 2017, the Group disposed 55% equity interest in GME H to two independent third parties of the Group, at a consideration of 20% of the equity interest in HMV Artiste Management (BVI) Limited (formerly known as GME China Entertainment Limited) ("HMV(BVI)"), a non wholly-owned subsidiary of the Company.

(c) Disposal of 51% interest in Mystery Apex Limited ("Mystery Apex")

On 28 June 2018, the Group disposed 51% equity interest in Mystery Apex, a former wholly owned subsidiary, to an independent third party of the Group, at a consideration of HK$28,050,000. Mystery Apex becomes an associate of the Group after the disposal.

20. INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Unlisted investments in Hong Kong:		
Share of net assets	**107**	109

Details of the Group's joint venture at 30 June 2018 and 2017 are as follows:

The summarised financial information in respect of the Group's joint venture which is accounted for using equity method is set out below:

Name	**Principal place of business and country of incorporation**	**Percentage of ownership interests**		**Principal activities**
		2018	2017	
Mustard Seed Entertainment Company Limited	Hong Kong	**50%**	50%	Provision for consultancy services

	2018 HK$'000	2017 HK$'000
At 30 June:		
Carrying amount of interest	**107**	109
Year ended 30 June:		
Revenue	**–**	–
Loss and total comprehensive income for the year	**(4)**	(2)

21. INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	2018 HK$'000	2017 HK$'000
Listed securities			
– Equity securities listed in Hong Kong, at fair value	(a)	**124,130**	94,208
Unlisted securities, at fair value	(b)	**174,789**	264,289
		298,919	358,497
Analysed as:			
Non-current assets		**131,130**	358,497
Current assets	(c)	**167,789**	–
		298,919	358,497

Notes:

(a) These investments are designated as at fair value through other comprehensive income in order to avoid volatility to the profit or loss arising from the changes in fair values of the investments.

The fair values of listed securities are based on current bid prices.

(b) During the year ended 30 June 2018, Creative Projects Company Limited ("Creative Projects"), a wholly-owned subsidiary of the Company, acquired 12% interests in GME H at a cash consideration of 2,000,000 and 10% interests on Touchbase Tech. Inc. at a cash consideration of approximately HK$19,700,000.

(c) During the year ended 30 June 2017, Horizon Coast Limited ("Horizon Coast"), a wholly-owned subsidiary of the Company, acquired 4% interests in Prime Focus World N.V ("Prime Focus") at a share consideration of 259,106,982 shares of the Group. The fair value of 259,106,982 shares of the Group on the date of acquisition was approximately HK$264,289,000.

Before the reporting date, the Company signed a sales and purchase agreement with an independent third party to dispose 4% interests in Prime Focus at a consideration of US$34,820,000 (equivalent to approximately HK$273.34 million) which comprises of cash of US$13,800,000 (equivalent to approximately HK$108,331,000) and 81% of the intellectual property right ("IP right") upon the completion of the assignment of the IP right. As at 30 June 2018, the IP right has fair value of approximately HK$60,000,000. As at 30 June 2018, the Company classified the investment in 4% interest in Prime Focus as current asset as the disposal will complete within one year.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Prepayments	(a)	**234,491**	247,909
Deposits and other receivables	(d)	**207,744**	331,522
		442,235	579,431

The amounts of prepayments, deposits and other receivables are analysed for reporting purpose as follow:

	Notes	2018 HK$'000	2017 HK$'000
Non-current portions			
Prepayments	(a)	**204,834**	236,522
Deposits	(b)	**32,247**	27,793
Other receivable	(d)	**–**	1,053
		237,081	265,368
Current portions			
Prepayments	(a)	**29,657**	11,387
Deposits	(c)	**6,811**	241,163
Other receivables	(d), (e), (f), (g), (h)	**168,686**	61,513
		205,154	314,063
		442,235	579,431

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Notes:

(a) Prepayments mainly represent upfront payments for film productions, distribution rights and prepaid administrative expenses. As at 30 June 2018 and 2017, the amounts of prepayments, deposits and other receivables that were expected to be released within twelve months from the end of the reporting period were classified as current assets. The remaining balances were classified as non-current assets.

Non-current portion of prepayments mainly comprised of prepayments for film production costs.

The amounts of prepayments at the end of the reporting period are analysed for reporting purpose as follows:

	2018 HK$'000	2017 HK$'000
Prepayments, net of impairment loss for:		
Acquisition of film distribution rights	**7,963**	63,965
Acquisition of song distribution rights	**–**	1,394
Film and television programmes production costs	**183,964**	131,953
Film promotion costs	**2,197**	11,656
Artiste fee	**28,438**	6,285
Opening of cinemas	**3,359**	9,342
Proposed acquisition of investments	**6,760**	21,677
Others	**1,810**	1,637
	234,491	247,909
Less: Non-current portion	**(204,834)**	(236,522)
Current portion	**29,657**	11,387

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of prepayments, deposits and other receivables mentioned above. The Group does not hold any collateral over these balances.

The movements in the provision for impairment of prepayment, deposits and other receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**–**	25,201
Written off	**–**	(25,201)
At end of year	**–**	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Notes: (continued)

(b) Non-current portion of deposits comprised of rental deposits for cinemas leased by the Group in the PRC. The anticipated lease terms of the cinema is over twelve months from the end of the reporting period.

(c) As at 30 June 2017, included in current portion of deposits is a deposit paid for proposed acquisition of Vantage Metro Limited ("Vantage"). During the year ended 30 June 2017, the Group entered into a non-binding indicative offer and supplemental offer letter ("Supplemental Offer Letter") in relation to acquisition of 100% issued share capital of Vantage ("Proposed Acquisition"). Pursuant to the Supplemental Offer Letter, the Group and Vantage jointly designate and appoint an escrow agent ("Escrow Agent") to hold in its custody a US$30 million (equivalent to approximately HK$234,000,000) bank draft (the "Escrow Document") as a recoverable deposit for the Proposed Acquisition for a period of 3 weeks. After the period of 3 weeks, the Escrow Agent shall unconditionally and irrevocably release the Escrow Document to the Group, and without the prior written consent of the Group and Vantage, the Escrow Document shall not be released to anyone else. US$30 million (equivalent to approximately HK$234,000,000) was refunded during the year ended 30 June 2018.

(d) Other receivables of approximately HK$48,513,000 (2017: HK$46,116,000) are denominated in RMB.

(e) Other receivable included approximately of HK$28,050,000 receivable from independent third parties for disposal of subsidiaries (note 43(b)(i)).

(f) Other receivable included approximately HK$29,220,000 receivable from a former wholly-owned subsidiary and approximately HK$28,450,000 receivable from an independent third party.

Other receivables also included approximately HK$5,875,000 receivable from Panorama Corporation Limited ("Panorama"). On 18 September 2018, an ordinary resolution was passed in relation to acquisition of 70% equity interest of Panorama.

(g) Other receivable included approximately HK$9,800,000 and HK$30,000,000 receivable from an independent third party in relation to disposal of prepayment for the film production and film right respectively.

(h) Other receivable included approximately HK$4,750,000 receivable from an associate. The receivable is unsecured, interest bearing at 8% per annum and repayable on 1 May 2019.

23. FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

	Film rights HK$'000	Films production in progress HK$'000	Total HK$'000
Cost:			
At 1 July 2016	218,017	146,810	364,827
Additions	9,889	49,701	59,590
Disposal of a film right	(1,150)	–	(1,150)
Transfer to film rights	40,099	(40,099)	–
At 30 June 2017	266,855	156,412	423,267
Additions	17,362	219,632	236,994
Disposal of a film right	(6,289)	–	(6,289)
Transfer to film rights	40,328	(40,328)	–
At 30 June 2018	318,256	335,716	653,972
Accumulated amortisation and impairment:			
At 1 July 2016	191,307	–	191,307
Charge for the year	22,526	–	22,526
At 30 June 2017	213,833	–	213,833
Charge for the year	34,360	–	34,360
Impairment loss recognised	19,607	–	19,607
Disposal of a film right	(782)	–	(782)
At 30 June 2018	267,018	–	267,018
Carrying values:			
At 30 June 2018	51,238	335,716	386,954
At 30 June 2017	53,022	156,412	209,434

(a) The Group carried out reviews of the recoverable amount of its film rights with average useful life of one to five years in 2018 (2017: three to five years) with regard to the market conditions of the Group's products. These assets are used in the Group's production of films and television programmes segment. The review led to the recognition of an impairment loss of approximately HK$19,607,000 (2017: nil) that have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use using discounted cash flow method (Level 3 fair value measurement). The discount rate used was 14% (2017: 17%).

(b) Film production in progress represents films under production. The Directors of the Company assess its recoverability and no impairment loss has been recognised for the years ended 30 June 2018 and 2017. The estimated recoverable amount was determined based on the best estimation of the management on expected future revenue less the relevant costs arising from the distribution and sub-licensing of the film products.

24. LOANS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Loans receivables	**515,954**	111,395
Analysed as:		
Non-current assets	**70,633**	51,489
Current assets	**445,321**	59,906
	515,954	111,395

The movements in the provision for impairment of loans receivables during the year are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**–**	3,500
Written off	**–**	(3,500)
At end of year	**–**	–

(a) As at 30 June 2018, a term loan with principal amount of HK$3,383,801 (2017: HK$6,794,759) are secured by customers' pledged properties at fair value of HK$10,900,000 (2017: HK$9,800,000).

(b) As at 30 June 2018, a term loan with principal amount of HK$6,106,075 (2017: HK$ Nil) are secured by customers' pledged vehicle at fair value of approximately HK$6,015,913 (2017: HK$ Nil).

(c) As at 30 June 2018, a term loan with principal amount of HK$125,000,000 (2017: HK$ Nil) are secured by customers' company shares.

(d) As at 30 June 2018, a term loan with principal amount of HK$148,302,000 is corporate guaranteed by a Company.

(e) All loans receivables are denominated in HK$ and carried at fixed effective interest ranging from 5% to 25% (2017: 5% to 33%) per annum and with the terms ranging from 3 months to 10 years (2017: 30 days to 20 years).

24. LOANS RECEIVABLES *(CONTINUED)*

The following is an aging analysis for the loans receivables, based on loan drawn down date, at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
0 to 30 days	**185,887**	29,572
31 to 90 days	**–**	3,468
91 to 180 days	**143,712**	12,653
181 to 365 days	**132,735**	21,416
Over 365 days	**53,620**	44,286
	515,954	111,395

At the end of the reporting period, the aging analysis of loans receivables that were neither individually nor collectively considered to be impaired is as follow:

	2018 **HK$'000**	2017 HK$'000
Neither past due nor impaired	**515,954**	111,395
Over 180 days past due	**–**	–
Over 365 days past due	**–**	–
	515,954	111,395

25. DEFERRED TAX ASSETS/(LIABILITIES)

The following are the major deferred tax liabilities and assets recognised by the Group.

	Tax losses HK$'000	**Intangible assets** HK$'000	**Deferred rent** HK$'000	**Total** HK$'000
At 30 June 2016	–	(113)	3,124	3,011
Acquisition of subsidiaries	42,205	(58,770)	–	(16,565)
Credited to consolidated profit or loss	4,321	297	1,972	6,590
Disposal of subsidiaries	(11,462)	5,478	–	(5,984)
Exchange difference	–	–	(79)	(79)
At 30 June 2017	35,064	(53,108)	5,017	(13,027)
Credited to consolidated profit or loss	3,476	445	395	4,316
Disposal of a subsidiary *(note 43 (b)(i))*	(15,048)	3,571	–	(11,477)
Exchange difference	42	–	113	155
At 30 June 2018	23,534	(49,092)	5,525	(20,033)

25. DEFERRED TAX ASSETS/(LIABILITIES) *(CONTINUED)*

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**7,218**	16,650
Deferred tax liabilities	**(27,251)**	(29,677)
	(20,033)	(13,027)

At the end of the reporting period, subject to agreement by tax authorities, the Group has unused tax losses of approximately HK$542,288,000 (2017: HK$518,114,000) available for offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future income stream. At 30 June 2018, approximately HK$34,935,000 (2017: HK$18,236,000) included in the above unused tax losses will expire in 2022. Other tax losses may be carried forward indefinitely.

26. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	**21,709**	28,629

27. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**207,506**	124,080
Less: Impairment loss	**(523)**	(523)
	206,983	123,557

(a) The Group allows credit periods of up to 1 year to its trade debtors. Based on the repayment pattern of the debtors of the Group, trade receivables which are past due but not impaired are eventually recoverable. The management of the Group closely monitors the credit quality of debtors and considers the trade receivables that are neither past due nor impaired to be of a good credit quality with reference to their repayment history. The Group does not hold any collateral over these balances.

27. TRADE RECEIVABLES *(CONTINUED)*

(b) At the end of the reporting period, the aging analysis of the trade receivables, based on invoice date and net of impairment losses, is as follows:

	2018 HK$'000	2017 HK$'000
0 to 90 days	**122,646**	36,406
91 to 180 days	**4,919**	61,497
181 days to 365 days	**771**	25,326
Over 365 days	**78,647**	328
	206,983	123,557

(c) As of 30 June 2018, trade receivables of approximately HK$6,719,000 (2017: 48,261,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Neither past due nor impaired	**200,264**	75,296
0 to 90 days past due	**2,909**	15,686
91 to 180 days past due	**278**	13,142
181 to 365 days past due	**1,839**	19,326
Over 365 days past due	**1,693**	107
	6,719	48,261
	206,983	123,557

(d) The movements in the provision for impairment of trade receivables during the year are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**523**	523
Provision for the year	**–**	–
At end of year	**523**	523

28. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Equity securities listed in Hong Kong, at fair value.	**23,444**	21,184

The fair values of the financial assets are based on current bid prices.

29. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
RMB	**5,236**	12,459
US$	**2,199**	121
HK$	**122,157**	149,559
Others	**9**	9
	129,601	162,148
Less: Pledged bank deposits	**(3,674)**	(15,070)
	125,927	147,078

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Regulations.

Bank balances carry interest at market rates of approximately 0.01% (2017: 0.01%) per annum.

At 30 June 2017, the Group pledged fixed deposit of approximately HK$8,022,000 to a bank to secure a guarantee of RMB6,453,800 provided by the bank. The deposits are in RMB and at fixed interest rate of 1.9% – 2.1% per annum and therefore are subject to foreign currency risk and fair value interest rate risk.

As at 30 June 2018, the Group had pledge bank deposits of approximately HK$3,674,000 (2017: HK$7,048,000) to a bank to secure banking facilities in relation to performance bonds in respect of tenancy agreements of certain retail stores and supplier payments.

30. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 HK$'000	2017 HK$'000
0 to 90 days	**43,959**	45,542
91 to 180 days	**5,937**	5,445
181 to 365 days	**2,677**	10,610
Over 365 days	**17,650**	992
	70,223	62,589

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	Notes	**2018 HK$'000**	2017 HK$'000
Accruals		**19,358**	37,511
Deposits received	(b)	**159,232**	105,657
Other payables		**81,149**	44,686
		259,739	187,854

The amounts of accruals, deposits received and other payables are analysed for reporting purpose as follow:

	Notes	**2018 HK$'000**	2017 HK$'000
Non-current portion			
Other payables	(a)	**22,106**	17,568
Current portion			
Accruals		**19,358**	37,511
Deposits received	(b)	**159,232**	105,657
Other payables		**59,043**	27,118
		237,633	170,286
		259,739	187,854

Notes:

(a) The amount represents accrued effective rent payables.

(b) The amount represents mainly the deposits received for film distribution and provision of artiste services. Deposits received of approximately HK$1,750,000 (2017: approximately HK$3,600,000) is guaranteed by a Director of the Company.

32. OTHER BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Secured	**279,621**	53,592
Unsecured	**34,548**	30,659
	314,169	84,251

Other borrowings of HK$279,621,000 (2017: HK$53,592,000) are secured by the followings:

	2018 **HK$'000**	2017 HK$'000
Personal guaranteed by a director	**10,000**	10,000
Personal guaranteed by a director and post dated cheques of HK$51,742,465 (2017: HK$32,375,318)	**50,000**	30,000
Equity securities listed in HK with fair value of HK$1,486,800 (2017: HK$1,402,385)	**6,621**	13,592
Pledged by a investment properties and post dated cheques of HK$40,000,000	**40,000**	–
Pledged by a investment properties and unlimited corporate guarantee from 2 companies	**173,000**	–
	279,621	53,592

Interest rate of other borrowings are as follows:

	2018 **HK$'000**	2017 HK$'000
Hong Kong Best Lending Rate + 2.75% per month	**173,000**	–
5% per annum	**–**	26,761
8% per annum	**37,930**	13,592
9% per annum	**3,000**	3,000
10% per annum	**50,000**	30,000
12% per annum	**10,239**	10,898
15% per annum	**40,000**	–
	314,169	84,251

33. CONVERTIBLE BONDS

	Notes	2018 HK$'000	2017 HK$'000
Convertible bonds classified as:			
Compound instrument	(a)	**2,000**	2,000
Combined instrument	(b), (c), (d)	**194,010**	43,719
		196,010	45,719
Analysed as:			
Current liabilities		**151,185**	5,311
Non-current liabilities		**44,825**	40,408
		196,010	45,719

The movement of the liability component of the convertible bonds for the years ended 30 June 2018 and 2017 is set out below:

	2018 HK$'000	2017 HK$'000
At beginning of year	**45,719**	7,919
Issue of convertible bonds	**137,297**	39,613
Interest charged for the year	**16,494**	1,352
Converted to shares during the year	**(3,500)**	(3,165)
At end of year	**196,010**	45,719

Notes:

(a) The bond bears interest from the date of issue at a rate of the HIBOR plus 2% per annum and matured on 20 October 2014.

The adjusted price at 20 October 2014, date of mature, was HK$0.610.

The interest charged for the year was calculated by applying an effective interest rate of 11.37% to the liability component for prior years before maturity.

(b) On 21 April 2016, the Group issued zero coupon convertible bonds with a nominal value of HK$7,000,000 ("2016 CB"). The bonds are convertible at the option of the bond holder into fully paid ordinary shares with a par value of HK$0.01 each on or after 21 April 2016 up to and including 31 December 2017. Any convertible bonds not converted will be redeemed on 31 December 2017 at the principal amount.

On 16 January 2017, 2016 CB with nominal value of HK$3,500,000 were converted into 9,370,816 ordinary shares with conversion price of HK$0.3735. The conversion price of 2016 CB adjusted from HK$0.3735 to HK$0.181 during the year ended 30 June 2017.

On 9 January 2018, 2016 CB with nominal value of HK$3,500,000 were converted into 19,337,017 ordinary shares with conversion price of HK$0.181. Approximately HK$193,000 and HK$4,620,000 were recorded in share capital and share premium respectively.

The interest charged for the year is calculated by applying an effective interest rate of 11.92% (2017:11.92%) per annum to the liability component.

As at 30 June 2017, the Directors estimated the fair values of the liability component of the convertible bonds to be approximately HK$3,312,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

33. CONVERTIBLE BONDS *(CONTINUED)*

Notes: (continued)

(c) On 25 April 2017, the Group issued 5% coupon convertible bonds with a nominal value of HK$50,000,000 ("2017 CB"). HK$25,000,000, HK$12,500,000 and HK$12,500,000 of 2017 CB are convertible at the option of the bond holders into ordinary share with a par value of HK$0.01 each on or after 25 April 2019, 25 October 2019 and 25 April 2020 respectively. Any 2017 CB not converted will be redeemed on 25 April 2021 at the principal amounts. The conversion price adjusted from HK$0.313 to HK$0.305 per share during the year ended 30 June 2017.

The issue of the convertible bonds has been split between the liability and derivative components as follows:

	2017 HK$'000
Fair value of convertible bonds	73,672
Derivative component	(34,059)
Liability component at date of issue	39,613

The interest charged for the year is calculated by applying an effective interest rate of 10.93% (2017:10.93%) per annum to the liability component.

The Directors estimate the fair values of the liability component of the convertible bonds at 30 June 2018 to be approximately HK$44,806,000 (2017: approximately HK$40,408,000). This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

(d) On 2 January 2018, the Group issued 8% coupon convertible bonds with a nominal value of HK$150,000,000 ("2018 CB"). HK$150,000,000 of 2018 CB is convertible at the option of the bond holders into ordinary share with a par value of HK$0.273 each on or after 2 January 2018 up to and including 2 January 2019. Any 2018 CB not converted will be redeemed on 2 January 2019 at the principal amounts.

During the year, the Company issued convertible bonds with principal amount of HK$150,000,000 (the "2018 CB") and promissory notes with principal amount of HK$148,000,000 (the "2018 PN"). The 2018 CB and 2018 PN are secured by (1) the charge granted by AID Treasure Investment Limited ("AID Treasure"), an indirectly wholly owned subsidiary of a shareholder of the Company, Mr. Shiu and Mr. Yuen Kwun Yan ("Mr. Yuen") (collectively the "Chargors") in favour of the holders of 2018 CB (the "Bondholders") on the default securities trading account (the "Account") with 300,000,000, 1,110,000,000 and 440,000,000 ordinary shares of the Company (collectively the "Security") respectively; and (2) personal guarantee granted by Mr. Shiu.

If, on any trading day, the ratio of the Security at the closing price on the trading day to the aggregate outstanding principal amount of the 2018 CB and the 2018 PN (the "LTV Ratio") falls below the value of 1.2 (a "Security Top-Up Triggering Event"), the Company shall procure the Chargors to jointly and severally to, within 3 days;

(a) transfer additional shares of the Company which are beneficially owned by any or each Chargor and free from encumbrance to the Account such that, the LTV Ratio will become at least 1.5; or

(b) transfer cash, which is equal to the aggregate outstanding principal amount of the 2018 CB and 2018 PN times the difference between 1.5 and the LTV Ratio on the trading day.

33. CONVERTIBLE BONDS *(CONTINUED)*

Notes: (continued)

(d) (continued)

If the average closing price for any 30 consecutive trading days falling on or after the issue date of the 2018 CB is higher than 0.3224, the Company shall be entitled to issue a conversion request notice no later than 5 business days after the last day of such 30 consecutive trading days to the Bondholders, requesting the Bondholders to exercise their conversion right (in full or in part) to convert the 2018 CB into share. After 10 business days, the Company shall redeem the portion of the 2018 CB that is not converted at the amount equal to the aggregate of (a) the aggregate outstanding principal amount of the 2018 CB; (b) accrued but unpaid interest on the 2018 CB; (c) an amount which would make up an internal rate of return of 15% on the initial aggregate principal amount of the 2018 CB calculated from (and including) the issue date until (and including) the early redemption date; (d) any interest at the default rate (20%) of interest payable; and (e) any costs and expenses related to the early redemption.

The issue of the convertible bonds has been split between the liability and derivative components as follows:

	2018 **HK$'000**
Fair value of convertible bonds	**164,908**
Derivative component	**(27,611)**
Liability component at date of issue	**137,297**

The interest charged for the year is calculated by applying an effective interest rate of 17.56% per annum to the liability component.

The Directors estimate the fair values of the liability component of the convertible bonds at 30 June 2018 to be approximately HK$154,713,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The net proceeds from the issue of the 2018 CB was approximately HK$148,720,000.

34. PROMISSORY NOTE PAYABLES

		HK$'000
At 30 June 2017 and 1 July 2017		14,160
Issuance of promissory notes	(a), (b), (c)	372,115
Imputed interest		7,550
Gain on settlement of promissory note	(d)	(1,360)
Repayment of promissory notes	(d)	(12,800)
Exchange realignment		(104)
At 30 June 2018		379,561
Current liabilities		188,214
Non-current liabilities		191,347
		379,561

(a) On 2 January 2018, the Group issued a promissory note (the "2018 PN") with a principal amount of HK$148,000,000 for cash. The promissory note is secured, interest bearing at 8% per annum and repayable on 1 January 2019. The fair value of the promissory note approximates its carrying amount. The security of the 2018 PN is same as that of the 2018 CB (note 33(d)).

The net proceeds from the issue of the 2018 PN was approximately HK$146,790,000. The 2018 PN is measured at amortised cost using effective interest rate of 8.87%.

(b) On 11 May 2018, the Group issued a promissory note with a principal amount of HK$35,000,000 as part of the consideration for the acquisition of 100% equity interests of Ocean Bridge Investments Limited ("Ocean Bridge"). The promissory note is unsecured, interest bearing at 8% per annum and repayable on 10 May 2019. The fair value of the promissory note approximates its carrying amount.

(c) Pursuant to the placing and subscription agreement dated 12 June 2018, the Group issued promissory notes for an aggregate principal amount of USD25,000,000 (equivalent to approximately HK$195,000,000) at 8% interest per annum for cash. Promissory notes has a maturity date of 2 years after the date of issue, and are secured by the followings:

1) 100% of issued share capital of a wholly-owned subsidiary;

2) Designated account (which is set up as a designated bank account to receive certain proceeds from the production and distribution of certain movie(s));

3) Mr. Shiu is irrevocably and unconditionally guaranteed the due payment of all sums to be payable by the Company under the terms and conditions of the promissory note.

The net proceeds from the issue of the 2018 PN was approximately HK$190,325,000. The 2018 PN is measured at amortised cost using effective interest rate of 12.71%.

On the date of maturity, the amount to be paid by the Group would result in an internal rate of return of 11% per annum on the outstanding principal amount of the promissory note.

(d) On 18 January 2010, the Company issued a promissory note (the "Note") to settle part of the consideration in the acquisition of the investments in Dragonlott Holdings Limited ("DHL").

The amount is unsecured and interest free. The principal sum of HK$14,160,000 is to be repaid on the date falling five years from 18 January 2010. The fair value of HK$10,834,000 on initial recognition is measured by computing the present value of estimated future cash flows at the effective interest rate of 5.5%. The Note had fully settled at a discount of HK$12,800,000 as per the High Court case settled during the year (note 47) which resulted in gain on settlement of promissory note of HK$1,360,000.

No imputed interest was charged to the consolidated profit or loss for the years ended 2017 and 2018. The Note was fully settled on 28 June 2018 by the settlement of court case.

35. FINANCE LEASE PAYABLES

	Minimum lease payments 2018 HK$'000	Present value of minimum lease payments 2018 HK$'000	Minimum lease payments 2017 HK$'000	Present value of minimum lease payments 2017 HK$'000
Within one year	**600**	**133**	584	104
In the second to fifth years, inclusive	**2,399**	**957**	2,338	746
After five years	**1,049**	**783**	1,607	1,079
	4,048	**1,873**	4,529	1,929
Less: Future finance charges	**(2,175)**	**N/A**	(2,600)	N/A
Present value of lease obligations	**1,873**	**1,873**	1,929	1,929
Less: Amount due for settlement within 12 months (shown under current liabilities)		**(133)**		(104)
Amount due for settlement after 12 months		**1,740**		1,825

It is the Group's policy to lease certain of its equipment's under finance leases. The lease term is 10 years. At 30 June 2018, the average effective borrowing rate was 25% (2017: 25%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

36. PROVISION FOR ASSET RETIREMENT

Under the terms of the tenancy agreements signed with landlords, the Group shall vacate and re-instate the leased cinema premises at the Group's cost upon expiry of the relevant tenancy agreements in 13 to 19 years. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred. Movements of provision for asset retirement are as follows:

	2018 **HK$'000**	2017 HK$'000
At beginning of year	**13,596**	2,887
Acquisition of a subsidiary	**–**	8,619
Additions	**3,070**	2,017
Finance cost on asset retirement obligations *(note 9)*	**217**	147
Exchange realignment	**77**	(74)
At end of year	**16,960**	13,596

	2018 **HK$'000**	2017 HK$'000
Analysed as:		
Current liabilities	**–**	983
Non-current liabilities	**16,960**	12,613
	16,960	13,596

37. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 **HK$'000**	2017 HK$'000
Embedded derivatives in convertible bonds	**16,738**	34,376
Analysed as:		
Current liabilities	**8,624**	2,319
Non-current liabilities	**8,114**	32,057
	16,738	34,376

38. SHARE CAPITAL

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each (2017: HK$0.01 each)				
Authorised:				
At the beginning of the year and end of the year	**20,000,000**	20,000,000	**200,000**	200,000

Ordinary shares of HK$0.01 each (2017: HK$0.01 each)

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'000	'000	**HK$'000**	HK$'000
Issued and fully paid:				
At the beginning of the year	**13,475,783**	3,832,757	**134,758**	38,328
Issue of shares upon placing *(note (a))*	**–**	2,415,600	**–**	24,156
Bonus issue *(note (b))*	**–**	5,471,099	**–**	54,711
Issue of shares upon conversion of convertible bonds *(note (c),(g))*	**19,337**	9,371	**193**	94
Issue of shares for acquisition of investment at fair value through other comprehensive income *(note (d))*	**–**	259,107	**–**	2,591
Acquisition of subsidiaries *(note (e), (f))*	**–**	1,487,849	**–**	14,878
At the end of the year	**13,495,120**	13,475,783	**134,951**	134,758

Notes:

For the year ended 30 June 2017:

(a) On 21 March 2017, the Company completed the placing, in which 490,200,000 shares were placed to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company at HK$0.25 per share. The net proceeds of approximately HK$121,232,000 were raised from the placing.

On 12 June 2017, the Company completed the placing, in which 1,925,400,000 shares were placed to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company at HK$0.25 per share. The net proceeds of approximately HK$478,071,000 were raised from the placing.

(b) On 15 February 2017, the Company completed the bonus issue, in which, the share premium reduction for the year ended 30 June 2017 of approximately HK$54,711,000 was credited to share capital and the same amount was debited to the share premium account.

(c) On 16 January 2017, 2016 CB with nominal value of HK$3,500,000 were converted into 9,370,816 ordinary shares with conversion price of HK$0.3735 per loan note. Approximately HK$94,000 and HK$6,936,000 were recorded in share capital and share premium respectively.

38. SHARE CAPITAL *(CONTINUED)*

Notes: (continued)

For the year ended 30 June 2017: (continued)

(d) On 29 July 2016, pursuant to the acquisition of 4% equity interest in Prime Focus World N.V. ("Prime Focus"), the Company issued 259,106,982 ordinary shares of HK$0.01 each to independent third parties with a market price of HK$1.02 per share. The amounts of approximately HK$2,591,000 and HK$261,698,000 were credited to the Company's share capital and share premium account respectively for the year ended 30 June 2017.

(e) On 3 August 2016, pursuant to the acquisition of 100% equity interest in HMV M&E, the Company issued 1,369,863,013 ordinary shares of HK0.01 each to independent third parties with a market price of HK$1 per share. The amounts of HK$13,699,000 and HK$1,356,164,000 were credited to the Company's share capital and share premium account respectively for the year ended 30 June 2017.

(f) On 24 February 2017, pursuant to the acquisition of 100% equity interest in Anyplex Hong Kong Limited ("Anyplex"), the Company issued 117,985,610 ordinary shares of HK0.01 each to independent third parties with a market price of HK$0.28 per share. The amounts of HK$1,179,000 and HK$31,857,000 were debited to the Company's share capital and share premium account respectively for the year ended 30 June 2017.

For the year ended 30 June 2018:

(g) On 9 January 2018, 2016 CB with nominal value of HK$3,500,000 were converted into 19,337,017 ordinary shares with conversion price of HK$0.181. Approximately HK$193,000 and HK$4,620,000 were recorded in share capital and share premium respectively.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, retained profits and other reserves) and includes some forms of subordinated debts.

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) Statement of Financial Position of the Company

	30 June 2018 HK$'000	30 June 2017 HK$'000
Non-current assets		
Property, plant and equipment	**3,131**	3,948
Intangible asset	**2,930**	2,930
Interests in subsidiaries	**3,451**	3,451
Investments at fair value through other comprehensive income	**45,051**	43,042
Prepayments, deposits and other receivables	**2,555**	3,105
Loan receivable	**5,952**	–
Film rights and films production in progress	**–**	5,414
	63,070	61,890
Current assets		
Trade receivables	**51,444**	97,844
Inventory	**461**	–
Prepayments, deposits and other receivables	**27,636**	234,012
Investments at fair value through profit or loss	**21,029**	16,384
Loan receivable	**4,253**	6,899
Amounts due from subsidiaries	**2,625,127**	500,075
Bank and cash balances	**104,467**	121,590
	2,834,417	976,804
Current liabilities		
Trade payables	**1,463**	1,463
Accruals, deposits received and other payables	**14,362**	4,633
Amounts due to subsidiaries	**190,475**	79,960
Other borrowings	**58,845**	43,592
Convertible bonds	**151,185**	5,311
Derivative financial instruments	**8,624**	2,319
Promissory note payables	**188,214**	14,160
	613,168	151,438
Net current assets	**2,221,249**	825,366
Total assets less current liabilities	**2,284,319**	887,256
Non-current liabilities		
Derivative financial instruments	**8,114**	32,057
Promissory note payables	**191,347**	–
Convertible bonds	**44,825**	40,408
	244,286	72,465
NET ASSETS	**2,040,033**	814,791
Capital and reserves attributable to owners of the Company		
Share capital	**134,951**	134,758
Reserves	**1,905,082**	680,033
TOTAL EQUITY	**2,040,033**	814,791

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(b) Statement of reserves of the Company

	Share premium HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2016	342,305	(10,885)	(131,564)	199,856
Total comprehensive loss for the year	–	(1,218)	(1,694,919)	(1,696,137)
Issue of shares upon placing	579,744	–	–	579,744
Issue of shares upon conversion of convertible bonds	6,936	–	–	6,936
Issue of shares for the acquisition of investment at fair value through other comprehensive income	261,698	–	–	261,698
Transaction cost attributable to issue of shares	(5,374)	–	–	(5,374)
Bonus issue	(54,711)	–	–	(54,711)
Issue of shares upon acquisition of subsidiaries	1,388,021	–	–	1,388,021
At 30 June 2017	2,518,619	(12,103)	(1,826,483)	680,033
Total comprehensive loss for the year	–	(34)	1,220,463	1,220,429
Issue of shares upon conversion of convertible bonds	4,620	–	–	4,620
At 30 June 2018	2,523,239	(12,137)	(606,020)	1,905,082

40. OPERATING LEASE COMMITMENTS

The Group as lessee

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**70,443**	59,836
In the second to fifth years inclusive	**147,822**	144,396
After five years	**188,375**	203,425
	406,640	407,657

Operating lease payments represent rentals payable by the Group for certain of its offices and cinemas. Leases are negotiated for an average term of one to sixteen years (2017: one to seventeen years) and rentals are fixed over the lease terms and do not include contingent rentals.

41. OTHER COMMITMENTS

	2018 HK$'000	2017 HK$'000
Amount contracted for but not provided in the consolidated financial statements in respect of:		
Film production cost	**215,346**	244,687
Guaranteed sum to be paid under various distributors' agreements	**122,380**	68,507
Investment	**–**	3,950
Acquisition of subsidiaries	**38,500**	–
	376,226	317,144

42. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties during the year:

	2018 HK$'000	2017 HK$'000
Management fee paid to an associate *(note (i))*	**3,118**	5,957
Film production cost paid to related company *(note (ii))*	**1,500**	1,500
Film production cost paid to directors *(note (iii))*	**200**	200

The balances with related parties at the end of the reporting period are as follows:

	2018 HK$'000	2017 HK$'000
Balances with related companies		
Prepayments	**10,500**	7,500
Balances with directors		
Prepayments	**950**	550
Balances with an associate		
Other receivable	**4,835**	11

Notes:

(i) The amount mainly represents upfront payment for management fee paid to GME Holdings Limited and Starz People (HK) Limited, associates of the Company.

(ii) The amount represents upfront payment for film productions paid to a related company of the Company, of which Shiu Stephen Junior, a director of the Company, is a shareholder.

(iii) The amount represents upfront payment for film productions paid to the directors of the Company.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

(i) Acquisition of 100% interests in Ocean Bridge Investments Limited ("Ocean Bridge")

During the year ended 30 June 2018, King Universe Inc. Limited, a wholly-owned subsidiary of the Company, acquired 100% interests in Ocean Bridge from independent third parties at a total consideration of HK$100,000,000 which was satisfied by cash of HK$15,000,000, issue of promissory note of HK$35,000,000 and off set with the loan receivable of HK$50,000,000.

The transaction is acquisition of asset which does not constitute business combination.

The value of the identifiable assets and liabilities of Ocean Bridge acquired as at its date of acquisition is as follows:

	Notes	**2018 HK$'000**
Net assets acquired:		
Investment property	16	**272,971**
Prepayment, deposits and other receivables		**53**
Cash and bank balance		**1**
Other payables		**(25)**
Other borrowing		**(173,000)**
		100,000
Satisfied by:		
Cash		**15,000**
Promissory note	34(b)	**35,000**
Off set with the loan receivable		**50,000**
		100,000
Net cash outflow arising on acquisition:		
Cash consideration paid		**(15,000)**
Cash and cash equivalents acquired		**1**
		(14,999)

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

(a) Acquisition of subsidiaries (continued)

(ii) Acquisition of 100% interests in Glory Horizon Limited ("Glory Horizon")

During the year ended 30 June 2018, Certain Best Limited, a wholly-owned subsidiary of the Company, acquired 100% interests in Glory Horizon from an independent third party at a total consideration of USD1,000,000 (equivalent to approximately HK$7,840,000) which was satisfied by cash of USD1,000,000.

The transaction is acquisition of asset which does not constitute business combination.

The value of the identifiable assets and liabilities of Glory Horizon acquired as at its date of acquisition is as follows:

	Notes	**2018** **HK$'000**
Net assets acquired:		
Intangible assets	17	**7,840**
Satisfied by:		
Cash		**7,840**
Net cash outflow arising on acquisition:		
Cash consideration paid		**(7,840)**
Cash and cash equivalents acquired		**–**
		(7,840)

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

(b) Disposal of subsidiaries

(i) Disposal of 51% interests in Mystery Apex

On 28 June 2018, the Group disposed 51% of the issued share capital of Mystery Apex, a wholly-owned subsidiary of the Company, at cash consideration of HK$28,050,000.

The fair value of the identifiable assets and liabilities of Mystery Apex disposed as at its date of disposal is as follows:

	Notes	**2018 HK$'000**
Net assets at the date of disposal were as follows:		
Property, plant and equipment	15	**29**
Intangible assets	17	**21,642**
Goodwill	18	**22,531**
Deferred tax assets	25	**11,477**
Trade receivable		**403**
Prepayments, deposits and other receivables		**45**
Bank and cash balances		**73**
Trade payable		**(1,580)**
Accruals, deposits received and other payables		**(3,205)**
		51,415
Fair value of 49% equity interest in Mystery Apex		**(16,660)**
Loss on disposal of Mystery Apex		**(6,705)**
Total consideration receivable		**28,050**
Net cash inflow arising on disposal:		
Cash and cash equivalents disposed of		**73**
Cash consideration receivable		**28,050**

(c) Major non-cash transactions

(i) In addition to notes 43(a) and 43(b), the group has the followings major non-cash transaction during the years ended 30 June 2018 and 2017.

(ii) On 29 July 2016, Horizon Coast acquired 4% interests in Prime Focus at a consideration of 259,106,982 shares of the Company which had fair value of approximately HK$264,289,000 and market price per share of HK$1.02. The carrying amount of the 4% interests in Prime Focus on the date of acquisition was approximately HK$264,289,000.

44. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Other borrowings HK$'000	**Promissory note payables** HK$'000	**Convertible bonds** HK$'000	**Finance lease payables** HK$'000	**Total liabilities from financing activities** HK$'000
At 1 July 2017	84,251	14,160	45,719	1,929	146,059
Change in cash flow	37,777	324,315	148,720	(549)	510,263
Non-cash changes					
Interest charged	17,055	7,550	16,494	493	41,592
Acquisition of subsidiaries	173,000	35,000	–	–	208,000
Amount capitalised	2,086	–	–	–	2,086
Gain on settlement of promissory note	–	(1,360)	–	–	(1,360)
Loss on issue of convertible bonds	–	–	16,186	–	16,186
Conversion of convertible bonds	–	–	(3,500)	–	(3,500)
Derivative component of convertible bonds	–	–	(27,609)	–	(27,609)
Exchange difference	–	(104)	–	–	(104)
At 30 June 2018	314,169	379,561	196,010	1,873	891,613

45. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 30 June 2018 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Issued and fully paid share capital	Percentage of ownership interest	Principal activities
New Smart International Creation Limited	Hong Kong	HK$1	100%	Production and distribution of film
Champion Peak Corporation Limited	Hong Kong	HK$1	100%	Production of film
China 3D Digital Products Limited	Hong Kong	HK$1	100%	Production of film
Eastern Master Corporation Limited	Hong Kong	HK$1	100%	Production of film
Fantastic Union Limited	Hong Kong	HK$1	100%	Production of film
Good Lead Corporation Limited	Hong Kong	HK$1	100%	Production of film
Good Time Investment Limited	Hong Kong	HK$1	100%	Production of film
Joyful Excellence Limited	Hong Kong	HK$1	100%	Production of film
New Jumbo Corporation Limited	Hong Kong	HK$1	100%	Production of film
New Modern Corporation Limited	Hong Kong	HK$1	100%	Production of film
New Noble Corporation Limited	Hong Kong	HK$1	100%	Production of film
New Pioneer Corporation Limited	Hong Kong	HK$1	100%	Production of film
Cream Digital Limited	Hong Kong	HK$1	100%	Production of film
Source Hunter Corporation Limited	Hong Kong	HK$1	100%	Production of film
China 3D Digital Distribution Limited	Hong Kong	HK$1	100%	Distribution of films
Red Rich Investment Limited	Hong Kong	HK$1	100%	Distribution of films
Smooth Success Development Limited	Hong Kong	HK$1	100%	Distribution of films
CineUnited Circuits Company Limited	Hong Kong	HK$100	100%	Cinema investment in the PRC
Markwin Investment Limited	Hong Kong	HK$20	80%	Artiste management

45. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the subsidiaries as at 30 June 2018 are as follows: (continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Issued and fully paid share capital	Percentage of ownership interest	Principal activities
Quick Money Finance Limited	Hong Kong	HK$1	100%	Money lending
Beijing Hua Hao Ying An Yule Consulting Company* 北京華浩盈安娛樂咨詢有限公司	The PRC	RMB4,032,190	100%	Provision for consultancy service
Ying Lian Cinema (Chong Qing) Company Limited* 映聯影業（重慶）有限公司	The PRC	RMB16,509,617	100%	Operation of cinema in the PRC
Empire Fame Limited	Hong Kong	HK$1	100%	Production of film
Asian Rich Limited	Hong Kong	HK$1	100%	Production of film
Golden Full Corporation Limited	Hong Kong	HK$1	100%	Production of film
Smart Mega Corporation Ltd	Hong Kong	HK$1	100%	Production of film
Kingcool Inc Limited	Hong Kong	HK$1	100%	Production of film
King Universe Inc. Limited	Hong Kong	HK$1	100%	Production of film
Union Rico Limited	Hong Kong	HK$1	100%	Production of film
Creative Projects Company Limited	Hong Kong	HK$5,500,000	100%	Property investment
HMV Artiste Management (BVI) Limited	BVI	US$12,500	80%	Investment holding
HMV Artiste Management Limited	Hong Kong	HK$1	80%	Investment holding
Artery Production Limited	Hong Kong	HK$10,000	51%	Artiste management
Golden Chinny Limited	Hong Kong	HK$1	100%	Production of film
Horizon Coast Limited	Hong Kong	HK$1	100%	Production of film
Double Spirit Development Limited	Hong Kong	HK$1	100%	Production of film
Union Kingwell Limited	Hong Kong	HK$1	100%	Artiste management
Master Scene Limited	Hong Kong	HK$1	100%	Production of film

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

* *For identification purpose only*

46. CONTINGENT LIABILITIES

As at 30 June 2017, the Group had the following contingent liabilities.

On 20 October 2015, a new tenancy agreement was jointly entered into by Mark Glory International Enterprise Limited ("Mark Glory"), an indirectly wholly-owned subsidiary of the Company and Top Euro Limited ("Top Euro"), an indirect wholly-owned subsidiary of Easy Repay Finance & Investment Limited (stock code: 8079) with Wit Way Enterprises Limited in relation to the lease of the premises. The duration of the tenancy agreements is for two years commencing from 1 November 2015 to 31 October 2017 with a monthly rental of HK$325,000 inclusive of management charges (equivalent to HK$3,900,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by Mark Glory and Top Euro in equal shares.

If either party failed to fulfill their leasing obligations under the agreement, the other party would obligate to pay the other party's outstanding contingent rental liability amounting to HK$1,950,000 per annum.

As at 30 June 2018, the Group had no contingent liabilities.

47. LITIGATIONS

The Group has the following pending litigations as below and in the opinion of the Board, it is premature to predict the outcome.

A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015

A writ of summons (the "Writ") was issued against the Company by Green Giant Investments Limited ("Green Giant") on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the "Note") or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant.

Green Giant claims the principal amount of the Note of HK$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The claim was settled by both parties at an agreed amount of HK$12,800,000 in July 2018.

48. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 September 2018.