



# Media Asia Group Holdings Limited 寰亞傳媒集團有限公司

(Stock Code 股份代號 : 8075)



## ANNUAL REPORT 年度報告

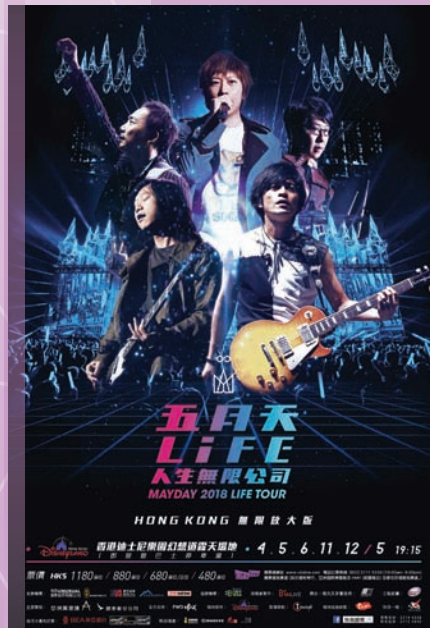
Year ended 31 July 2018  
二零一八年七月三十一日止



**Media Asia 寰亞**

Media Asia expands into China's media and entertainment markets, aiming to bring to the audience with ever-wider, more exuberant choice in entertainment experiences.

寰亞傳媒全面拓展中國大陸傳媒及娛樂市場，為廣大觀眾帶來更豐富、更全面的娛樂享受。



## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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# CORPORATE INFORMATION

## PLACE OF INCORPORATION

Incorporated in the Cayman Islands and continued in Bermuda

## BOARD OF DIRECTORS

### *Executive Directors*

Lam Kin Ngok, Peter (*Chairman*)  
Chan Chi Kwong  
Lui Siu Tsuen, Richard  
Yip Chai Tuck

### *Independent Non-executive Directors*

Chan Chi Yuen  
Ng Chi Ho, Dennis  
Zhang Xi

## AUDIT COMMITTEE

Chan Chi Yuen (*Chairman*)  
Ng Chi Ho, Dennis  
Zhang Xi

## NOMINATION COMMITTEE

Zhang Xi (*Chairman*)  
Chan Chi Yuen  
Lui Siu Tsuen, Richard  
Ng Chi Ho, Dennis  
Yip Chai Tuck

## REMUNERATION COMMITTEE

Chan Chi Yuen (*Chairman*)  
Lui Siu Tsuen, Richard  
Ng Chi Ho, Dennis  
Yip Chai Tuck  
Zhang Xi

## AUTHORISED REPRESENTATIVES

Lui Siu Tsuen, Richard  
Lau Siu Mui

## COMPLIANCE OFFICER

Lui Siu Tsuen, Richard

## COMPANY SECRETARY

Lau Siu Mui

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## PRINCIPAL PLACE OF BUSINESS

11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## INDEPENDENT AUDITOR

Ernst & Young  
*Certified Public Accountants*

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited

## LISTING INFORMATION

### *Place of Listing*

GEM of The Stock Exchange of Hong Kong Limited

### *Stock Code*

8075

### *Board Lot*

4,000 shares

## WEBSITE

[www.mediaasia.com](http://www.mediaasia.com)

## INVESTOR RELATIONS

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Fax: (852) 2743 8459  
E-mail: [cosec@mediaasia.com](mailto:cosec@mediaasia.com)

# CORPORATE PROFILE

Media Asia Group Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 29 February 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company’s domicile was changed to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda on 3 December 2009. The Company’s issued ordinary shares of HK\$0.01 each have been listed and traded on GEM of The Stock Exchange of Hong Kong Limited since 31 May 2001.

The following is a corporate chart of the Company and its principal subsidiaries (collectively, the “**Group**”) as at the date of this annual report. The Group’s principal activities include film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

## THE COMPANY



# FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company and its subsidiaries (the “Group”) for the last five financial years, as extracted from the published audited financial statements of the Group, is set out below:

## RESULTS

	<b>2018</b> <b>HK\$'000</b>	<b>Year ended 31 July</b>			
		2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Turnover	<b>489,931</b>	562,913	520,443	712,418	456,950
Profit/(loss) before tax	<b>(282,420)</b>	(176,048)	(99,655)	29,501	(147,713)
Income tax expense	<b>(1,781)</b>	(2,413)	(2,582)	(4,883)	(5,510)
Profit/(loss) for the year attributable to owners of the Company and non-controlling interests	<b>(284,201)</b>	(178,461)	(102,237)	24,618	(153,223)

## ASSETS AND LIABILITIES

	<b>2018</b> <b>HK\$'000</b>	<b>As at 31 July</b>			
		2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	<b>1,176,892</b>	1,274,744	1,432,223	1,502,479	927,662
Total liabilities	<b>(831,126)</b>	(647,128)	(621,674)	(607,663)	(373,159)
Net assets	<b>345,766</b>	627,616	810,549	894,816	554,503

# CHAIRMAN'S STATEMENT



**Dr. LAM Kin Ngok, Peter**  
Chairman

## OVERVIEW OF RESULTS

During the year ended 31 July 2018, the Company and its subsidiaries (the “**Group**”) recorded a turnover of approximately HK\$489,931,000, representing a decrease of 13% from turnover of approximately HK\$562,913,000 for the year ended 31 July 2017. The Group recorded a loss after tax of approximately HK\$284,201,000 (2017: approximately HK\$178,461,000) and a loss attributable to owners of the Company of approximately HK\$273,503,000 (2017: approximately HK\$169,955,000) during the year. The significant increase in loss attributable to owners of the Company was primarily attributable to unsatisfactory performance of the Group’s films released in the first quarter of the financial year ended 31 July 2018.

As at 31 July 2018, the Group’s equity attributable to owners of the Company amounted to approximately HK\$364,534,000 (2017: approximately HK\$638,309,000) and the net asset value per share attributable to owners of the Company was HK17.1 cents (2017: HK29.9 cents).

## DIVIDEND

The board of the directors of the Company (the “**Board**”) does not recommend the payment of any dividend for the year ended 31 July 2018 (2017: Nil).

## PROSPECTS

Targeting at the PRC film market, the Group continues to invest in original production of quality films with Chinese themes. “When Robbers Meet The Monster”, an action comedy film featuring Louis Koo, Zhou Dongyu and Cheney Chen with director Andrew Lau, “Bodies At Rest”, an action crime film by director Renny Harlin casting Nick Cheung and Richie Jen, “Fagara in Mara”, a romance film produced by Ann Hui featuring Sammi Cheng, and “I’m Living It”, a feature film produced by Cheang Pou Soi with Aaron Kwok and Miriam Yeung, are under post-production. Projects under development include an action film “Knockout” by director Roy Chow featuring Han Geng and a romance comedy film “The Calling of a Bus Driver” with Ivana Wong and director Patrick Kong.



## CHAIRMAN'S STATEMENT

The drama series "Shadow of Justice" started broadcasting in Alibaba's Youku and Viu TV since September and have generated satisfactory viewership for the two platforms. The latest titles in our TV production pipelines include "New Horizon", a 50 episode romance drama series starring Zheng Kai and Chen Chiao-en, and we are discussing with various Chinese portals and video web sites for new project development.

On top of our existing distribution license with Warner Music, during the year we have entered into an exclusive PRC distribution license of our music products with Tencent Music Entertainment (Shenzhen) Co., Ltd and these licenses have been providing stable income contribution to the Group.

The Group is actively looking for new talent in Greater China and further co-operation with Asian artistes with an aim to build up a strong artiste roster.

The recent "JJ Lin Sanctuary World Tour Hong Kong" has earned good reputation and public praises. The Group will continue to work with prominent local and Asian artistes for concert promotion. In addition to our investment in coming "Andy Lau My Love World Tour Hong Kong 2018", we are planning to organise concerts for a number of artistes in 2019.

Looking forward, we believe that the Group's integrated media platform comprising movies, TV programs, music, new media, artiste management and live entertainment put us in a strong position to capture the opportunities of China entertainment market by a balanced and synergistic approach and we will continue to explore cooperation and investment opportunities to enrich our portfolio, broaden our income stream and maximise value for our shareholders.

### SHAREHOLDERS AND STAFF

Looking back on this financial year, I would like to thank my Board colleagues, the senior management team, our partners and everyone who worked with us during the year for their loyalty, support and outstanding teamwork.

I firmly believe that the concerted efforts of our staff and stakeholders will continue to propel the growth momentum of our Group going forward.

**Lam Kin Ngok, Peter**

*Chairman*

Hong Kong, 25 October 2018

# MANAGEMENT DISCUSSION AND ANALYSIS



## FINANCIAL REVIEW

During the year ended 31 July 2018, the Company and its subsidiaries (the “Group”) recorded a turnover of approximately HK\$489,931,000, representing a decrease of 13% from turnover of approximately HK\$562,913,000 for the year ended 31 July 2017. The decrease in the turnover of the Group was mainly due to the decrease in revenue from the Group’s film and TV program businesses.

Cost of sales for the year ended 31 July 2018 increased to approximately HK\$473,913,000 from approximately HK\$461,797,000 for the previous financial year. Marketing expenses for the year ended 31 July 2018 was approximately HK\$86,987,000 (2017: approximately HK\$104,423,000). Administrative expenses for the year ended 31 July 2018 was approximately HK\$161,112,000 (2017: approximately HK\$125,773,000). The increase in the administrative expenses was mainly due to nil staff costs have been capitalised in films and TV programs under production in current year (2017: approximately HK\$31,939,000). The administrative expenses are under strict control by the Company’s management. Other operating expenses increased to approximately HK\$24,290,000 (2017: approximately HK\$2,887,000). Other operating expenses for the year ended 31 July 2018 mainly included impairment of advances and other receivables and exchange losses arising from depreciation in Renminbi.

Finance costs increased to approximately HK\$24,921,000 for the year ended 31 July 2018 from approximately HK\$24,338,000 for the year ended 31 July 2017. Finance costs mainly included the interest expenses arising from the TFN Convertible Notes and Specific Mandate Convertible Notes issued on 13 May 2015 and 3 July 2015 respectively.

The Group recorded a loss after tax of approximately HK\$284,201,000 (2017: approximately HK\$178,461,000) and a loss attributable to owners of the Company of approximately HK\$273,503,000 (2017: approximately HK\$169,955,000) during

the year. The significant increase in loss attributable to owners of the Company was primarily attributable to unsatisfactory performance of the Group’s films released in the first quarter of the financial year ended 31 July 2018.

As at 31 July 2018, the Group’s equity attributable to owners of the Company amounted to approximately HK\$364,534,000 (2017: approximately HK\$638,309,000) and the net asset value per share attributable to owners of the Company was HK17.1 cents (2017: HK29.9 cents).



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Media and Entertainment Segment

#### Events management

During the year under review, the Group organised and invested in 97 (2017: 112) shows by popular local, Asian and internationally renowned artistes, including Miriam Yeung, Grasshopper, C AllStar, at17, Ivana Wong and Hins Cheung, Liza Wang, Vivian Chow, Wanna One, MayDay and Rene Liu. The total revenue from these businesses amounted to approximately HK\$194,306,000.

#### Music

During the year under review, the Group released 12 (2017: 11) albums, including titles by Miriam Yeung, C AllStar, Tang Siu Hau, at17, Cherry Ngan and Michael Lai. Turnover from music publishing and recording was approximately HK\$31,155,000.

#### Artiste management

During the year under review, the Group recorded a turnover of approximately HK\$24,270,000 from artiste management. The Group currently has 32 artistes under its management.

### Film and TV Program Segment

#### Film production and distribution

During the year under review, a total of 5 films produced/invested by the Group were theatrically released, including “Legend of the Naga Pearls”, “The Adventurers”, “Manhunt” and “Girls vs Gangsters”. Turnover from the licence fee income and distribution commission income of films was approximately HK\$228,721,000.

#### TV program production and distribution

During the year under review, the Group has recorded a turnover of approximately HK\$11,479,000 from TV program licence fee and distribution commission.



## MANAGEMENT DISCUSSION AND ANALYSIS



### CAPITAL STRUCTURE

As at 31 July 2018, the Group's equity attributable to owners of the Company decreased by 43% to approximately HK\$364,534,000 (as at 31 July 2017: approximately HK\$638,309,000). Total assets amounted to approximately HK\$1,176,892,000 (as at 31 July 2017: approximately HK\$1,274,744,000) included current assets amounting to approximately HK\$1,066,319,000 (as at 31 July 2017: approximately HK\$1,104,563,000). Current liabilities were approximately HK\$531,126,000 (as at 31 July 2017: approximately HK\$647,128,000). Net asset value per share attributable to owners of the Company as at 31 July 2018 was approximately HK17.1 cents (as at 31 July 2017: approximately HK29.9 cents). Current ratio was approximately 2.0 (as at 31 July 2017: approximately 1.7).

### LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations with internal resource, convertible notes, loan from the ultimate holding company and loan from a related party. During the year, TFN Convertible Notes with a principal amount of HK\$130,000,000 and Specific Mandate Convertible Notes with an aggregate principal amount of HK\$166,840,000 were redeemed upon maturity on 14 May 2018 and 3 July 2018 respectively. As at 31 July 2018, the Group has unsecured and interest-bearing loans from the ultimate holding company and a related party with an outstanding principal amount of HK\$100,000,000 and HK\$200,000,000 respectively. As at 31 July 2018, the Group had no unutilised letter of credit facility (as at 31 July 2017: Nil).



As at 31 July 2018, the Group's cash and cash equivalents increased to approximately HK\$429,983,000 (as at 31 July 2017: approximately HK\$402,451,000) of which around 28% was denominated in Hong Kong dollar, around 68% was denominated in Renminbi ("RMB") and around 4% was denominated in United States dollar and Korean Won currencies. The RMB denominated balances were placed with licensed banks. The conversion of these RMB balances into foreign currencies and the remittance

of such foreign currencies balances, are subject to the rules and regulation of foreign exchange control promulgated by the PRC government. Save for the aforesaid, as at 31 July 2018, the Group did not have any bank loans, overdrafts or any other borrowing. No interests have been capitalised during the year ended 31 July 2018.

As at 31 July 2018, the gearing ratio of the Group, being the total borrowings to shareholders' equity attributable to the owners of the Company, was approximately 82% (as at 31 July 2017: approximately 43%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's exposures to foreign currencies mainly arises from trade receipts from overseas customers and its investment in foreign subsidiaries which are financed internally. In order to mitigate the potential impact of currency fluctuations, the Group closely monitors its foreign currency exposures and uses suitable hedging instruments against significant foreign currency exposures, where necessary. No foreign currency hedge contract was entered into by the Group during the year. As at 31 July 2018, the Group had no outstanding foreign currency hedge contracts (as at 31 July 2017: Nil).

### MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group had no material acquisitions or disposals of subsidiaries during the year.

### CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 July 2018 (as at 31 July 2017: Nil).

### EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 July 2018, the Group had 174 (as at 31 July 2017: 210) employees. Staff costs, including directors' emoluments for the year ended 31 July 2018, amounted to approximately HK\$100,655,000 (2017: approximately HK\$98,705,000). The Group's remuneration policy is basically determined by the performance of individual employees. In general, salary review is conducted annually. Staff benefits, including medical coverage and provident funds, are also provided to employees.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company issues its second Environmental, Social and Governance (“**ESG**”) report which discloses the management approach, strategies and performance of the Company in accordance with the ESG Reporting Guide published by The Stock Exchange of Hong Kong Limited. Unless otherwise specified, this report covers ESG performance of the Company and its subsidiaries (the “**Group**”) for the year ended 31 July 2018. This report has been approved and confirmed by the management team and by the board of directors of the Company.

The scope of this report is defined with reference to the businesses relevant to the Group’s corporate structure. Due to the diversified nature of the businesses, separate management teams with expertise in the environmental, health and safety issues of each business sector oversee the formulation of ESG policies and procedures and review relevant ESG risks for that business sector.

## STAKEHOLDER ENGAGEMENT

In addition to utilising the regular communication channels during its daily operations, the Company has previously engaged an independent consultant to conduct stakeholder engagement online surveys to understand stakeholders’ perspectives and priorities of ESG issues relevant to the business. ESG topics are prioritised in accordance with the materiality results from stakeholders’ perspectives and the importance of relevant ESG topics to business development.

## MATERIALITY ANALYSIS

Materiality of ESG issues are assessed through stakeholder engagement exercises, management reviews and industry analysis. While the Group attends to all ESG issues which affect its businesses and stakeholders, two most material issues in each ESG aspect relevant to its business with additional focus have been identified. There is no material change in the Group’s business operations during the reporting year, the Group continues to adopt the material issues identified last year in this reporting year and are indicated in the following table.

ESG Aspects		ESG Issues	The Company
Environmental		Emissions	✓
		Use of resources	✓
		Environmental and natural resources	
Social	Employment and labour practices	Employment	✓
		Health and safety	
		Development and training	
		Labour standards	✓
	Operating practices	Supply chain management	
		Product responsibility	✓
		Intellectual property rights	✓
		Anti-corruption	
	Community	Community investment	✓

## OVERALL ENVIRONMENTAL MANAGEMENT APPROACH

The Group endeavours to minimise negative environmental impact of its business operations and has therefore established environmental management policies to manage and control output in emissions and waste, energy usage and environmental impact. All relevant laws and regulations on environmental protection are observed and are important references for environmental management strategies. During the reporting year, the Group has no recordable non-compliance cases in relevant laws and regulations, as illustrated in the following sections.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OVERALL ENVIRONMENTAL MANAGEMENT APPROACH *(continued)*

### *Environmental Management and Air Emissions*

Air emissions may be generated in moderate amounts through some processes of the businesses of the Group. Where applicable, the Group takes a proactive approach in managing emissions through abatement procedures or by minimising emissions at source. There are no non-compliance cases in Cap 611 Motor Vehicle Idling (Fixed Penalty) Ordinance during the reporting year.

### *Waste Management*

A waste management plan is in place as a means to manage and minimise waste generated in the daily operations. For easier management and to encourage recycling, waste are separated into different categories depending on the nature and recycling bins are located in office areas where applicable and feasible. The Group supports reuse of resources in the operations where feasible while unrecyclable waste are handled by qualified waste management companies. Electronic waste or other hazardous waste are disposed of according to local requirements. There are no non-compliance cases in Cap 603 Product Eco-responsibility Ordinance during the reporting year.

### *Resources Management and Conservation*

Conscious use of resources and recycling initiatives are generally supported within the Group. All business sectors are encouraged to be conscious in the use and management of natural resources such as electricity, fuel and water sources.

### *Co-existence with the Natural Environment*

To strive the balance of businesses development and associated environmental impacts, the Group outlined a set of policies and guidelines to minimise negative impacts of its businesses to the environment.

## OVERALL APPROACH ON EMPLOYMENT

### *Employment*

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. Across all business sectors in Hong Kong, the Group complies with Cap 57 Employment Ordinance, Cap 282 Employees' Compensation Ordinance and Cap 608 Minimum Wage Ordinance and in Mainland China, it complies with the Labour Law of the People's Republic of China and Labour Contract Law of the People's Republic of China and has outlined relevant terms and conditions of employment in the staff handbook. The Company has signed the Good Employer Charter of the Labour Department as a commitment to be employee-oriented and to adopt progressive human resource management practice for a better



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## OVERALL APPROACH ON EMPLOYMENT

*(continued)*

### *Employment (continued)*

working environment. With the aim to promote a harmonious and respectful workplace, employees' rights and benefits, including compensation and dismissal, recruitment, working hours, leave management, prevention on sexual harassment and the Group's expectations to employees' conduct and behaviour are also stipulated in the staff handbook.

Employees' benefits within the Company include mandatory provident fund, enrollment to medical or commercial insurance scheme for respective eligible employees, social security and housing fund, etc. Employees who have over twelve months of service with the Group are eligible to participate in a tuition scheme to receive subsidy and sponsorship for training and development course in the respective region.



The Group has also complied with Cap 480 Sex Discrimination Ordinance, Cap 487 Disability Discrimination Ordinance, Cap 527 Family Status Discrimination Ordinance and Cap 602 Race Discrimination Ordinance (collectively as the "**Ordinances**") to ensure that there are minimal risk of discrimination and harassment case in the workplace. As a demonstration of its commitment in this aspect, the Group has established policy in accordance with the Ordinances to ensure that employees are aware of the issue. All complaints regarding harassment in the workplace are addressed and handled in a confidential yet

professional manner in order to protect the rights of the victims.

There are no non-compliance cases in the aforementioned employment laws and regulations during the reporting year.

### *Health and Safety*

The Group endeavours to minimise health and safety related risks in various business sectors and ensures that necessary safety precautionary arrangements are in place. The management teams across various business sectors continuously seek to manage and control the health and safety risks which the employees are exposed to during their work, while ensuring that the health and safety issues present at the premises are fully addressed. The Group will continue to monitor potential risks in its operations and will maintain zero tolerance to work-related incidents and fatalities.

There are no non-compliance cases in Cap 509 Occupational Safety and Health Ordinance in Hong Kong operation, Work Safety Law of the People's Republic of China and Law of the People's Republic of China on the Prevention and Control of Occupational Diseases in Mainland China during the reporting year.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OVERALL APPROACH ON EMPLOYMENT *(continued)*

### *Development and Training*

Employees are important assets for the growth of an enterprise, and hence the Company arranges numerous internal and external development programs to meet the needs of its operational development and employee career advancement. Regardless of business sector, employees who have over twelve months of services with the Company of respective location are entitled to apply for the tuition scheme, where sponsorship of the tuition fee are granted for further trainings and development courses suitable for the employees' position and scope of work. The Company seeks to enhance employees' training with subsidised courses and to assist them in achieving professional and personal goals.

### *Labour Standards*

The Group considers it imperative to safeguarding the rights of its employees. Improper use of labour in the form of child labour and forced labour is strictly prohibited in all business sectors. For operations in Hong Kong, the Group ensures full compliance with relevant regulations and refers to Cap 57B Employment of Children Regulations and Cap 57C Employment of Young Persons (Industry) Regulations.

For the Group's operations in Mainland China, it ensures full compliance with relevant laws and regulations in the Labour Law of the People's Republic of China and Provisions on the Prohibition of Using Child Labour which stipulate the prevention of the use of child labour of ages under 16 and any unlawful way of forced labour. Labour rights are protected and there are no forced overtime work. Should overtime work be required, workers are paid according to relevant legal requirements.

The Group has equally stringent requirements for its contractors who are required to observe and comply with the same applicable regulations at relevant jurisdictions.

There are no non-compliance cases in the aforementioned laws and regulations in Hong Kong and Mainland China during the reporting year.

### *Employee Welfare*

With employees as its valued assets, the Group strives to enhance employee relations through provision of staff benefits and caring for their well-being. To enhance the relationships among its employees and encourage a work-life balanced lifestyle, the Company organises regular activities for its staff, including "Lunch Talk" sessions on a monthly basis, talks on various topics, such as knowledge on MPF investment, occupational safety and health talks, and numerous interest classes.

The Company also organises large-scale annual events for its employees, including annual dinner party and one-day leisure tour. In general, these activities are well-received and the Company believes that its employees benefit from the activities, which are also great opportunities for teambuilding and bonding with other colleagues.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OVERALL APPROACH ON MANAGING OPERATING PRACTICES

### *Data Protection and Privacy*

The Group is dedicated to protecting privacy rights and complies with Cap 486 Personal Data (Privacy) Ordinance.

Collection of personal data from employees, suppliers, clients and artists are strictly limited to processes where such information are essentially required. Where copies of documents containing personal data are to be obtained, personal data collection statements are provided to the data providers to ensure that the data are used with consent.

There are no non-compliance cases in the aforementioned laws and regulations in Hong Kong during the reporting year.

### *Service Excellence*

The Group strives its best in providing quality cultural and entertainment products and events to its customers. It puts great effort in ensuring the quality of its films, television programs and music productions for its audiences and customers. Project management also monitor the process for live shows to provide the best live experience to its audiences.

The Group is also aware of the product description. The Group observes and complies with Cap 362 Trade Descriptions Ordinance and Cap 392 Film Censorship Ordinance. There are no non-compliance cases in these laws and regulations in Hong Kong during the reporting year.

### *Intellectual Property Rights*

The Group respects and protects intellectual property rights and ensures that appropriate security measures and confidentiality agreements are observed. Agreements on collaborations with third parties are reviewed by its legal team to minimise incidence of infringement.

The Group is committed to protecting the intellectual property rights of creative works and complies with all applicable intellectual property laws and regulations, including but not limited to Cap 559 Trade Marks Ordinance, Cap 528 Copyright Ordinance and Cap 544 Prevention of Copyright Piracy Ordinance. Its producers and team of films, television programs and music productions are aware of the procedures to clear the rights for any creative works prior to using or referencing such in the Group's productions. In case there is any perceived infringement, the Group will take immediate actions to clear the rights or address relevant issues. There are no non-compliance cases in the aforementioned laws and regulations during the reporting year.

### *Integrity and Discipline*

Integrity, fairness and discipline are the Group's core values. The Group expects high level of ethics and integrity from its employees and requests strict adherence to rules and procedures developed in accordance with Cap 201 Prevention of Bribery Ordinance in Hong Kong and Criminal Law of the People's Republic of China and Law of the People's Republic of China on Anti-Corruption and Bribery in Mainland China. The Group makes it a priority to ensure that no cases of fraud or corruption are present in any of its business segments. There are no non-compliance cases in the aforementioned laws and regulations during the reporting year.

In order to steer clear from potential risks for corruption, the Group provides employees with clear definition of "advantages" which needs to be declared and outlines clear procedures for its employees to handle any presents or gifts involved in the business. Anyone in violation of the policy and procedures would be penalised, while those who violate relevant government ordinances would be subject to legal consequences.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OVERALL APPROACH ON MANAGING OPERATING PRACTICES *(continued)*

### *Integrity and Discipline (continued)*

The Group has a whistleblowing procedure as a monitoring process to maintain integrity and discipline within all levels of its organisation. People who discover any inappropriate act or violation of the Prevention of Bribery Ordinance are encouraged to report to the management for immediate investigation into the case.

## OVERALL APPROACH ON COMMUNITY DEVELOPMENT

The Group values the concept of giving back to the society and seeks to utilise resources within its business to give back to the society. It focuses on helping with local employment, youth education and providing assistance to the disabled. It also fully supports its employees and artists to participate in community development activities and encourages its artists to participate in charitable causes as spokespersons or to be personally involved in community activities in order to draw attention and support to charitable causes.

During festive seasons the Group purchases festive food products for its employees from social enterprises, such as the Fair Taste mooncakes of a Fair Trade brand, which is the Group's efforts in supporting to protect the environment, to create local employment opportunities and to encourage the utilisation of neighbourhood craftsmanship.

The Group also supports Yuen Long District Secondary School Students Summer Internship Programme by providing internship placements for secondary school students of Yuen Long District. Students joining the Group were not only provided work experience which helps them to build self-confidence and enhance their generic skills. The Group also arranged career talks and classes on office manner and job search skills for students to prepare for their future career planning and development.

## SUMMARY OF ENVIRONMENTAL PERFORMANCE NOTE 1

Reporting Scope	Unit	Total
Greenhouse gas emissions in total and, where appropriate, intensity		
Direct GHG emissions (Scope 1) <small>Note 2</small>	tonnes CO <sub>2</sub>	16.03
Indirect GHG emissions (Scope 2) <small>Note 3</small>	tonnes CO <sub>2</sub>	87.83
<b>Total GHG emissions</b>	<b>tonnes CO<sub>2</sub></b>	<b>103.86</b>
<b>Total GHG emissions intensity</b>	<b>tonnes CO<sub>2</sub>/m<sup>2</sup></b>	<b>0.0057</b>
Direct and/or indirect energy consumption by type in total and intensity		
Electricity Consumption	kWh	172,215
Gasoline consumption for transportation	L	5,920
<b>Total energy consumption</b>	<b>kWh</b>	<b>224,660</b>
<b>Total energy consumption intensity</b>	<b>kWh/m<sup>2</sup></b>	<b>12.39</b>

Note 1: The reporting scope of the summary of environmental performance includes the Group's major office in Wyler Centre. The total hazardous waste, non-hazardous waste and water consumption is managed by the central property management of the office building, and thus, they are not applicable for this report. The total packaging material used for finished products is not material for the Group, and thus, it is not applicable for this report.

Note 2: CO<sub>2</sub>e emission from fuel is calculated based on the default factors provided by the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 edition).

Note 3: CO<sub>2</sub>e emission from electricity is calculated based on the default factors provided by the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 edition).

# CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures for compliance with the principles and code provisions set out from time to time in Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 15 to the Rules Governing the Listing of Securities on GEM (the “**GEM Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 July 2018 (the “**Year**”) save for the following deviation:

*Under code provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.*

Due to other pre-arranged business commitments, Dr. Lam Kin Ngok, Peter, the chairman of the board of directors of the Company (the “**Board**”), had not attended the annual general meeting of the Company held on 15 December 2017. However, Mr. Lui Siu Tsuen, Richard, an executive director of the Company present at that meeting, took the chair pursuant to bye-law 63 of the bye-laws of the Company to ensure effective communication with the shareholders of the Company (the “**Shareholders**”) thereat.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the “**Securities Code**”) on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all directors of the Company (the “**Directors**”) who have confirmed in writing their compliance with the required standard set out in the Securities Code during the Year.

## BOARD OF DIRECTORS

### (1) *Composition of the Board*

As at the date of this report, the Board comprises four executive Directors, namely Dr. Lam Kin Ngok, Peter (Chairman), Mr. Chan Chi Kwong, Mr. Lui Siu Tsuen, Richard and Mr. Yip Chai Tuck and three independent non-executive Directors (the “**INEDs**”), namely Mr. Chan Chi Yuen, Mr. Ng Chi Ho, Dennis and Mr. Zhang Xi. The brief biographical particulars of the Directors are set out in “Biographical Details of Directors” of this annual report.

Save as disclosed in “Biographical Details of Directors” of this annual report, none of the Directors has any financial, business, family or other material/relevant relationships with one another.

**BOARD OF DIRECTORS** (continued)**(2) Attendance at Meetings**

The attendance of each Director at Board meetings, Audit Committee meetings, Nomination Committee meeting, Remuneration Committee meeting and general meeting held during the Year is set out in the following table:

	<b>Board meeting</b>	<b>Audit Committee meeting</b>	<b>Nomination Committee meeting</b>	<b>Remuneration Committee meeting</b>	<b>General meeting</b>
Number of meetings held during the Year	10	4	1	1	1

<b>Name of Directors</b>	<b>Number of meetings attended/Number of meetings entitled to attend</b>				
<b>Executive Directors</b>					
Lam Kin Ngok, Peter	10/10	—	—	—	0/1
Chan Chi Kwong	10/10	—	—	—	1/1
Lui Siu Tsuen, Richard	10/10	—	1/1	1/1	1/1
Yip Chai Tuck	10/10	—	1/1	1/1	1/1
<b>Independent Non-executive Directors</b>					
Chan Chi Yuen	10/10	4/4	1/1	1/1	1/1
Ng Chi Ho, Dennis	10/10	4/4	1/1	1/1	1/1
Zhang Xi	10/10	4/4	1/1	1/1	1/1

**(3) Responsibilities and Delegation**

The Board oversees the overall management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Executive Committee. The Company has also established a Management Committee comprising of the executive Directors and certain key department heads. Specific responsibilities have been delegated to the above committees.

The day-to-day management of the Company's business has been vested with the management, the Management Committee and the Executive Committee whilst the Board focuses its attention on matters affecting the Company's long-term objectives and plans for achieving these objectives, the overall business and commercial strategy of the Company and its subsidiaries (the "Group") as well as overall policies and guidelines.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** *(continued)*

### **(3) Responsibilities and Delegation** *(continued)*

Decisions relating to any acquisition or disposal of businesses, investments, or transactions or commitments of any kind where the actual or potential liability or value exceeds the threshold for discloseable transactions (as defined in the GEM Listing Rules from time to time) for the Company are reserved for the Board. Decisions regarding matters set out in the terms of reference of the Executive Committee are delegated to the Executive Committee and those not specifically reserved for the Board, including overseeing and monitoring the development and progress of individual projects and reviewing and approving high budget items, are entrusted to the management and the Management Committee.

The Board meets at least four times a year with meeting dates scheduled prior to the beginning of the year. Additional board meetings will be held when warranted. Directors also participate in consideration and approval of matters of the Company by way of written resolutions circulated to Directors together with supporting explanatory materials as and when required.

All Directors have been provided, on a monthly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects in sufficient detail to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the GEM Listing Rules.

### **(4) Independent Non-executive Directors**

The Company has complied with the requirements under Rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules that (a) the Board must include at least three INEDs; (b) at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise; and (c) the Company must appoint INEDs representing at least one-third of the Board. All INEDs also meet the guidelines for assessing their independence set out in Rule 5.09 of the GEM Listing Rules.

## **DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT**

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the GEM Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the GEM Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditor and/or law firms in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, the Directors are provided with written training materials to develop and refresh their professional skills; the Group's Legal and Company Secretarial Departments also organise and arrange seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the Year, the Company arranged for the Directors to attend seminars organised by other organisations and professional bodies.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

(continued)

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the CG Code's requirement on continuous professional development during the Year:

<b>Name of Directors</b>	<b>Legal and Regulatory</b>	<b>Corporate Governance</b>	<b>Finance and Management</b>
<b>Executive Directors</b>			
Lam Kin Ngok, Peter	✓	✓	✓
Chan Chi Kwong	✓	✓	✓
Lui Siu Tsuen, Richard	✓	✓	✓
Yip Chai Tuck	✓	✓	✓
<b>Independent Non-executive Directors</b>			
Chan Chi Yuen	✓	✓	✓
Ng Chi Ho, Dennis	✓	✓	✓
Zhang Xi	✓	✓	✓

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provides that the roles of the chairman and the chief executive officer be separated and not be performed by the same individual.

Dr. Lam Kin Ngok, Peter was the chairman of the Board throughout the Year. The office of chief executive officer of the Company remains vacant since 15 September 2012. During the Year, the responsibilities of the chief executive officer were shared amongst other executive Directors.

## NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors was appointed for a term of two years.

## BOARD COMMITTEES

The Executive Committee comprising members appointed by the Board amongst the executive Directors was established on 19 August 2011 with written terms of reference to assist the Board in monitoring the on-going management of the Company's business and in implementing the Company's objectives in accordance with the strategy and policies approved by the Board. The Board has also delegated its authority to the following committees to assist it in the implementation of its functions:

### (1) *Audit Committee*

On 21 May 2001, the Board established an Audit Committee which currently comprises three INEDs, namely Mr. Chan Chi Yuen (Chairman), Mr. Ng Chi Ho, Dennis and Mr. Zhang Xi.

The Company has complied with Rule 5.28 of the GEM Listing Rules which requires that the Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise and the Audit Committee must be chaired by an INED.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(continued)*

### (1) *Audit Committee (continued)*

The Audit Committee is principally responsible for the monitoring of the integrity of periodical financial statements of the Company, the review of significant financial reporting judgements contained in them before submission to the Board for approval, the review of the Company's financial controls, risk management and internal control systems, and the review and monitoring of the auditor's independence and objectivity as well as the effectiveness of the audit process. The Audit Committee is also responsible for performing corporate governance functions which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management; (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 applicable to employees and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. The terms of reference setting out the Audit Committee's authorities, duties and responsibilities are available on the websites of the Company and GEM of the Stock Exchange ("**GEM**").

The Audit Committee held four meetings during the Year. It reviewed the audited annual results of the Group for the year ended 31 July 2017, the unaudited quarterly and interim results of the Group for the Year and other matters related to the financial and accounting policies and practice. It also reviewed the internal control review reports on the Company prepared by an independent professional advisor and put forward relevant recommendations to the Board.

On 24 October 2018, the Audit Committee reviewed the draft audited consolidated financial statements of the Company as well as the accounting principles and policies for the Year with the Company's management in the presence of the representatives of the independent auditor of the Company (the "**Independent Auditor**"). It also reviewed this corporate governance report, and the reports on risk management and internal control on the Company prepared by an independent professional advisor.

### (2) *Nomination Committee*

On 16 October 2012, the Board established a Nomination Committee which currently comprises three INEDs, namely Mr. Zhang Xi (Chairman), Mr. Chan Chi Yuen and Mr. Ng Chi Ho, Dennis and two executive Directors, namely Mr. Lui Siu Tsuen, Richard and Mr. Yip Chai Tuck.

The main duties of the Nomination Committee include to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to identify individuals suitably qualified to become the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of the INEDs, and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The terms of reference of the Nomination Committee setting out its authorities, duties and responsibilities are available on the websites of the Company and GEM.



## BOARD COMMITTEES *(continued)*

### (2) *Nomination Committee (continued)*

During the Year, the Nomination Committee held one meeting. It reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, assessed the independence of the INEDs and recommended the re-election of the retired Directors at the 2017 annual general meeting. On 24 October 2018, the Nomination Committee also reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and recommended the re-election of the retired Directors at the 2018 annual general meeting.

The Company has adopted a board diversity policy (the “**Policy**”) on 27 August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including professional qualifications and experience, cultural and educational background, race and ethnicity, gender, age and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

On recommendation from the executive Directors, the Board will set measurable objectives (in terms of gender, skills and experience) to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The executive Directors will review the Policy, as appropriate, to ensure its continued effectiveness from time to time.

A copy of the Policy has been published on the Company’s website for public information.

### (3) *Remuneration Committee*

On 23 October 2006, the Board established a Remuneration Committee which currently comprises three INEDs, namely Mr. Chan Chi Yuen (Chairman), Mr. Ng Chi Ho, Dennis and Mr. Zhang Xi and two executive Directors, namely Mr. Lui Siu Tsuen, Richard and Mr. Yip Chai Tuck.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on an appropriate policy and structure for all aspects of remuneration of all Directors and senior management, including but not limited to Directors’ fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully. The Remuneration Committee, with delegated responsibility, is responsible for determining remuneration package of individual executive Directors and senior management. The terms of reference of the Remuneration Committee setting out its authorities, duties and responsibilities are available on the websites of the Company and GEM.

The Remuneration Committee held one meeting during the Year to consider and review the Group’s overall remuneration practices and scale and other remuneration-related matters. It also deliberated on matters relating to the payment of discretionary bonuses to and the review of the remuneration packages of certain executive Directors.

# CORPORATE GOVERNANCE REPORT

## INDEPENDENT AUDITOR'S REMUNERATION

The remuneration in respect of the audit and non-audit services provided by the Independent Auditor, Ernst & Young, to the Group for the Year amounted to HK\$2,146,000 and HK\$595,000 respectively. The non-audit services mainly consisted of tax compliance and advisory, review and other reporting services.

## RESPONSIBILITIES ON FINANCIAL REPORTING

The Directors acknowledge that they are responsible for overseeing the preparation of the financial statements which give a true and fair view of the results and financial position of the Group. In doing so, the Directors select suitable accounting policies and apply them consistently and make accounting estimates that are appropriate in the circumstances. With the assistance of the accounting and finance staff, the Directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards.

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

## RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the risk management taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted risk management policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the risk management taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. The design and implementation of internal controls are to identify weakness for improvement. The independent professional advisor reports to the Audit Committee for identified weakness and proposed recommendation on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control review report are submitted to the Audit Committee and the Board at least once a year. The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the GEM Listing Rules. The Board considers the Group's risk management and internal control systems are effective.

## **RISK MANAGEMENT AND INTERNAL CONTROL** *(continued)*

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

### *Procedures and Internal Controls for the Handling and Dissemination of Inside Information*

The Group complies with the requirements of Securities and Futures Ordinance (the “SFO”) and the GEM Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

## **COMPANY SECRETARY**

During the Year, the company secretary of the Company has complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

## **SHAREHOLDERS' RIGHTS**

### *(1) Procedures for the Shareholders to Convene a Special General Meeting*

Pursuant to the bye-laws of the Company, Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may by a written requisition require the Company to convene a special general meeting. The requisition must state the purpose of the meeting, and must be signed by the requisitionists and deposited at the registered office or the principal place of business of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not proceed duly to convene a special general meeting within twenty-one days from the deposit of the requisition, the requisitionists (or any of them representing more than one half of the total voting rights of all of them) may themselves convene a meeting provided it is held within three months from the date of deposit of the requisition. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly convene a meeting shall be repaid to the requisitionists by the Company.

### *(2) Procedures for Putting Enquiries to the Board*

Shareholders may at any time send their enquiries to the Board in writing through the company secretary of the Company whose contact details are as follows:

11th Floor, Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

Fax: (852) 2743 8459  
E-mail: cosec@mediaasia.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS *(continued)*

### (3) *Procedures for Putting Forward Proposals at a Shareholders' Meeting*

Pursuant to the Bermuda Companies Act 1981, Shareholders holding not less than one-twentieth of the total voting rights of all the Shareholders having a right to vote at the meeting, or not less than one hundred Shareholders, may submit to the Company a written request (a) to give to the Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; or (b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A copy of such written requisition signed by the requisitionists together with a sum reasonably sufficient to meet the Company's relevant expenses must be deposited at the registered office or the principal place of business of the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or one week before the meeting in the case of any other requisition.

## COMMUNICATION WITH SHAREHOLDERS

On 12 June 2012, the Board adopted a Shareholders' communication policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. It will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining on-going dialogue with the Shareholders as follows:

- (a) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued in printed form and are available on the GEM website at [www.hkgem.com](http://www.hkgem.com) and the Company's website at [www.mediaasia.com](http://www.mediaasia.com);
- (b) periodic announcements are made through the Stock Exchange and published on the respective websites of GEM and the Company;
- (c) corporate information is made available on the Company's website;
- (d) annual and special general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and
- (e) the Company's share registrars serve the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

Each of the executive directors of the Company named below holds directorship in a number of subsidiaries of the Company and certain of the Company's listed affiliates, namely Lai Sun Garment (International) Limited ("**LSG**"), Lai Sun Development Company Limited ("**LSD**"), eSun Holdings Limited ("**eSun**") and Lai Fung Holdings Limited ("**Lai Fung**"), and their subsidiaries. The issued shares of LSG, LSD, eSun and Lai Fung are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). LSG is the ultimate holding company of the Company and Lai Fung while both eSun and LSD are the intermediate holding companies of the Company and Lai Fung.

**Dr. Lam Kin Ngok, Peter**, *GBS*, aged 61, was appointed an executive director and the Chairman of the Company with effect from 16 June 2011. He is also the deputy chairman and executive director of LSG, the chairman and executive director of LSD and an executive director of Crocodile Garments Limited, the shares of which are listed and traded on the Main Board of the Stock Exchange. Dr. Lam was an executive director of eSun from 15 October 1996 to 13 February 2014 and the chairman and executive director of Lai Fung from 25 November 1993 to 31 October 2012. He has extensive experience in the property development and investment, hospitality, media and entertainment businesses. Dr. Lam holds an Honorary Doctorate from The Hong Kong Academy for Performing Arts.

Currently, Dr. Lam is the chairman of the Hong Kong Tourism Board and an ex officio member of the Hong Kong Trade Development Council (and was also appointed the chairman of its Entertainment Industry Advisory Committee for a term of two years from 1 April 2018 to 31 March 2020). He is also a standing committee member of the 13th National Committee of the Chinese People's Political Consultative Conference. In addition, Dr. Lam is the chairman of Hong Kong Chamber of Films Limited, life honorable president of Hong Kong Motion Picture Industry Association Limited, a director of The Real Estate Developers Association of Hong Kong, a trustee of The Better Hong Kong Foundation, a member of Friends of Hong Kong Association Limited, a director of Hong Kong-Vietnam Chamber of Commerce Limited, an honorary chairman of Federation of HK Jiangsu Community Organisations, the president of Hong Kong Association of Cultural Industries Limited, the chairman of Hong Kong Cultural Development Research Institute Limited, a member of Aviation Development and Three-runway System Advisory Committee, a non-official member of each of the Trade and Industry Advisory Board and the Lantau Development Advisory Committee.

**Mr. Chan Chi Kwong**, aged 58, was appointed an executive director of the Company with effect from 16 June 2011 and is in charge of media and entertainment operations of the Company and its subsidiaries (the "**Group**"). Mr. Chan is a member of the Executive Committee of the Company. He was elected to become the chairman of International Federation of the Phonographic Industry (Hong Kong Group) Limited since 31 October 2016. Mr. Chan graduated from the University of Warwick in England with a Bachelor of Science degree in Management Sciences. He has over 27 years of experience in various media and entertainment fields in the PRC and Hong Kong. Prior to joining the Company, Mr. Chan was the managing director of Warner Music Hong Kong Limited and had served as senior executives of the companies like EMI Hong Kong Limited and SCMP.com Limited.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### EXECUTIVE DIRECTORS *(continued)*

**Mr. Lui Siu Tsuen, Richard**, aged 62, was appointed an executive director of the Company with effect from 16 June 2011. He is also a member of the Executive Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Lui is currently an executive director and the chief executive officer of eSun and was an executive director of LSG, LSD and Lai Fung respectively from 1 January 2011 to 31 October 2012. In addition, Mr. Lui has been appointed the convenor of Multi-media and Cultural Creation Industrial Committee of The Chinese Manufacturers' Association of Hong Kong for a term of three years up to 31 December 2020.

Mr. Lui is currently an independent non-executive director of Prosperity Investment Holdings Limited (the issued shares of which are listed and traded on the Stock Exchange). Prior to joining the Company, Mr. Lui had held senior executive positions in a few Hong Kong and overseas listed companies.

Mr. Lui has over 32 years of experience in property investment, corporate finance and media and entertainment businesses. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants, United Kingdom. He holds a Master of Business Administration degree from The University of Adelaide in Australia.

The Company and Mr. Lui have entered into a service contract with no fixed term but such contract is determinable by either the Company or Mr. Lui serving the other party not less than three months' written notice or payment in lieu thereof. In accordance with the provisions of the bye-laws of the Company, Mr. Lui will be subject to retirement from office as a director by rotation once every three years if re-elected at the forthcoming annual general meeting (the "**AGM**") and will also be eligible for re-election at future AGMs. Mr. Lui presently receives a director's fee of HK\$10,000 per month from the Company which is determined by the board of directors of the Company (the "**Board**") from time to time with reference to the performance of the Company, his duties and responsibilities and time allocated to the Company as well as the prevailing market conditions.

Saved as disclosed above, Mr. Lui has not held any other directorships in listed public companies in the last three years and does not have any relationships with other directors, senior management, substantial shareholders or controlling shareholders of the Company. As at the date of this annual report, Mr. Lui does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**").

For the purpose of Mr. Lui's re-election as a director at the forthcoming AGM, save as disclosed above, there are no other matters which need to be brought to the attention of the shareholders of the Company, and there is no other information that needs to be disclosed pursuant to the requirements of Rule 17.50(2) of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**").

**Mr. Yip Chai Tuck**, aged 44, was appointed an executive director of the Company on 21 July 2014. He is a member of the Executive Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also the chief executive officer of LSG and an executive director of eSun. He has extensive experience in corporate advisory, business development and investment banking. Prior to joining the Company, Mr. Yip was a managing director and head of mergers and acquisitions for China of Goldman Sachs. He had also worked for PCCW Limited, a Hong Kong listed company, as vice president of ventures and mergers and acquisitions, responsible for strategic investments and mergers and acquisitions transactions.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### **EXECUTIVE DIRECTORS** *(continued)*

Mr. Yip graduated from Macquarie University, Australia with a Bachelor of Economics and obtained a Master Degree in Applied Finance and Investments from the Financial Services Institute of Australia, where he is also a fellow member.

The Company and Mr. Yip have entered into a service contract with no fixed term but such contract is determinable by either the Company or Mr. Yip serving the other party not less than three months' written notice or payment in lieu thereof. In accordance with the provisions of the bye-laws of the Company, Mr. Yip will be subject to retirement from office as a director by rotation once every three years if re-elected at the forthcoming AGM and will also be eligible for re-election at future AGMs. Mr. Yip presently receives a salary of HK\$94,710 per month from the Group and such other remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, his duties and responsibilities and time allocated to the Company as well as the prevailing market conditions.

Save as disclosed above, Mr. Yip has not held any other directorships in listed public companies in the last three years and does not have any relationships with other directors, senior management, substantial shareholders or controlling shareholders of the Company. As at the date of this annual report, Mr. Yip does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

For the purpose of Mr. Yip's re-election as a director at the forthcoming AGM, save as disclosed above, there are no other matters which need to be brought to the attention of the shareholders of the Company, and there is no other information that needs to be disclosed pursuant to the requirements of Rule 17.50(2) of the GEM Listing Rules.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. Chan Chi Yuen**, aged 51, was appointed an independent non-executive director of the Company in September 2009. Mr. Chan is the chairman of both the Audit Committee and the Remuneration Committee of the Company and a member of the Nomination Committee of the Company. He holds a Bachelor degree with honours in Business Administration and a Master of Science degree in Corporate Governance and Directorship. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants in the United Kingdom and an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practising certified public accountant and has extensive experience in financial management, corporate finance and corporate governance.

Mr. Chan is currently an executive director of Great Wall Belt & Road Holdings Limited (formerly known as e-Kong Group Limited), Noble Century Investment Holdings Limited and Royal Century Resources Holdings Limited, an independent non-executive director of Asia Energy Logistics Group Limited, China Baoli Technologies Holdings Limited, Leyou Technologies Holdings Limited and New Times Energy Corporation Limited. Mr. Chan was an independent non-executive director of Jun Yang Financial Holdings Limited (currently known as Power Financial Group Limited from January 2005 to October 2017), U-RIGHT International Holdings Limited (currently known as Fullsun International Holdings Group Co., Limited from November 2010 to December 2017) and Affluent Partners Holdings Limited (from December 2016 to September 2018). The issued shares of all the aforesaid companies are listed and traded on the Stock Exchange.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

**Mr. Ng Chi Ho, Dennis**, aged 60, was appointed an independent non-executive director of the Company with effect from 3 October 2011. Mr. Ng is a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Ng holds a Bachelor of Commerce degree from The University of New South Wales, Australia and is a chartered accountant of The Chartered Accountants Australia and New Zealand and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a practising certified public accountant and has extensive experience in auditing, accounting, financial management and corporate affairs.

Mr. Ng is currently an independent non-executive director of China City Infrastructure Group Limited and Kirin Group Holdings Limited, and the company secretary of MEIGU Technology Holding Group Limited. The issued shares of all the aforesaid companies are listed and traded on the Stock Exchange.

There is a service contract between the Company and Mr. Ng which is renewed on a biennial basis and is determinable by either the Company or Mr. Ng serving the other party not less than one month's written notice. In accordance with the provisions of the bye-laws of the Company, Mr. Ng will be subject to retirement from office as a director by rotation once every three years if re-elected at the forthcoming AGM and will also be eligible for re-election at future AGMs. Mr. Ng is entitled to receive a director's fee of HK\$12,500 per month which is determined by the Board from time to time with reference to the performance of the Company, his duties and responsibilities and time allocated to the Company as well as the prevailing market conditions.

Saved as disclosed above, Mr. Ng has not held any other directorships in listed public companies in the last three years and does not have any relationships with other directors, senior management, substantial shareholders or controlling shareholders of the Company. As at the date of this annual report, Mr. Ng does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

For the purpose of Mr. Ng's re-election as a director at the forthcoming AGM, save as disclosed above, there are no other matters which need to be brought to the attention of the shareholders of the Company, and there is no other information that needs to be disclosed pursuant to the requirements of Rule 17.50(2) of the GEM Listing Rules.

**Mr. Zhang Xi**, aged 49, was appointed an independent non-executive director of the Company in September 2009. He is a member of both the Audit Committee and the Remuneration Committee of the Company and the chairman of the Nomination Committee of the Company. Mr. Zhang graduated with a Bachelor's degree in Science (Electrical Engineering) from Shanghai Jiao Tong University in July 1991 and obtained an International Master degree in Business Administration from York University in Canada in 1998. Mr. Zhang is currently a Chartered Financial Analyst (CFA) charterholder. He has over 16 years of experience in the financial sector.

Mr. Zhang is currently an executive director of China Investment Fund International Holdings Limited and was an independent non-executive director of Asia Energy Logistics Group Limited (from March 2006 to July 2016). The issued shares of the aforesaid companies are listed and traded on the Stock Exchange.



# REPORT OF THE DIRECTORS

The directors of the Company (the “**Directors**”) present their report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31 July 2018 (the “**Year**”).

## PRINCIPAL ACTIVITIES

During the Year, the Company acted as an investment holding company. The principal activities of its subsidiaries included film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

Particulars of the Company’s principal subsidiaries as at 31 July 2018 are set out in note 37 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

Details of the results of the Group for the Year and the financial position of the Group as at 31 July 2018 are set out in the consolidated financial statements and their accompanying notes on pages 46 to 116.

The board of Directors (the “**Board**”) does not recommend the payment of any dividend for the Year (2017: Nil).

## DIRECTORS

The Directors who were in office during the Year and up to the date of this report were:

### *Executive Directors*

Dr. Lam Kin Ngok, Peter (*Chairman*)  
Mr. Chan Chi Kwong  
Mr. Lui Siu Tsuen, Richard  
Mr. Yip Chai Tuck

### *Independent Non-executive Directors (“INEDs”)*

Mr. Chan Chi Yuen  
Mr. Ng Chi Ho, Dennis  
Mr. Zhang Xi

In accordance with bye-law 84 of the bye-laws of the Company (the “**Bye-laws**”), Mr. Lui Siu Tsuen, Richard (“**Mr. Lui**”), Mr. Yip Chai Tuck (“**Mr. Yip**”) and Mr. Ng Chi Ho, Dennis will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company (the “**AGM**”).

Details of the retiring Directors proposed for re-election at the AGM required to be disclosed under Rule 17.50(2) of the Rules Governing the Listing of Securities on GEM (the “**GEM Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) are set out in the “Biographical Details of Directors” on pages 27 to 30 of this annual report and the section headed “Directors’ Interests in Securities” in this report.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical particulars of the existing Directors are set out on pages 27 to 30 of this annual report. Directors’ other particulars are contained elsewhere in this report.

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the AGM has a service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

Each of the INEDs is appointed for a period of two years.

### PERMITTED INDEMNITY PROVISION

Pursuant to bye-law 164(1) of the Bye-laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they might incur or sustain by in connection with the execution of their duty. The Company has arranged directors' and officers' liability insurance policy of the Company during the Year.

### DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 32 to the consolidated financial statements, during the Year, no Directors or an entity connected with a Director had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

### INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this report, eSun Holdings Limited ("**eSun**") and four executive Directors, namely, Dr. Lam Kin Ngok, Peter ("**Dr. Lam**"), Mr. Chan Chi Kwong ("**Mr. Chan**"), Mr. Lui and Mr. Yip (the "**Interested Directors**") are considered to have interests in businesses which compete or may compete with the businesses of the Group pursuant to the GEM Listing Rules.

The Interested Directors held shareholding interests and/or other interests and/or directorships in companies/entities in the group of eSun which engage in the businesses including the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programs, films and video format products and cinema operation.

However, the Board is independent from the boards of directors/governing committees of the aforesaid companies/entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and the shareholders of the Company (the "**Shareholders**") as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

Saved as disclosed above, none of the Directors, the controlling Shareholder and their respective close associates competes or may compete with the business of the Group and has or may have any other conflict of interest with the Group.

### ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' Interests in Securities" and "Share Option Scheme" in this report and in note 29 to the consolidated financial statements, at no time during the Year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 July 2018, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

### (1) Interests in the Company

Name of Directors	Long positions in the shares of the Company			Approximate percentage of issued shares (Note 1)
	Number of shares		Total	
	Corporate interests	Personal interests		
Lam Kin Ngok, Peter	1,443,156,837 (Note 2)	—	1,443,156,837	67.56%
Chan Chi Yuen	—	172,500	172,500	0.01%

### (2) Interests in Associated Corporations

#### (a) eSun

Name of Directors	Long positions in shares and underlying shares of eSun			Total	Approximate percentage of issued shares
	Number of shares		Share options		
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	795,884,619 (Note 3)	2,794,443	1,243,212 (Note 4)	799,922,274	53.62%
Chan Chi Kwong	—	—	1,500,000 (Note 5)	1,500,000	0.10%
Lui Siu Tsuen, Richard	—	—	3,729,636 (Note 6)	3,729,636	0.25%

#### (b) Lai Fung Holdings Limited (“Lai Fung”)

Name of Director	Long positions in shares and underlying shares of Lai Fung			Total	Approximate percentage of issued shares
	Number of shares		Share options		
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	165,485,406 (Note 7)	—	321,918 (Note 8)	165,807,324	50.70%

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SECURITIES *(continued)*

Notes:

- (1) *The number of issued shares of the Company (the “Shares”) as at 31 July 2018 (that is, 2,136,056,825 Shares) has been used for the calculation of the approximate percentage.*
- (2) *The Shares were owned by Perfect Sky Holdings Limited (“Perfect Sky”), a wholly-owned subsidiary of eSun. 1,415,132,837 Shares were pledged as security under a share mortgage dated 21 September 2016 and a second letter agreement dated 21 November 2017 pursuant to a facility agreement of eSun.*

*As at 31 July 2018, eSun was indirectly owned as to approximately 53.35% by Lai Sun Development Company Limited (“LSD”). LSD was approximately 56.10% directly and indirectly owned by Lai Sun Garment (International) Limited (“LSG”). LSG was approximately 12.49% (excluding share option) owned by Dr. Lam and approximately 29.37% owned by Wisdoman Limited which was in turn 100% beneficially owned by Dr. Lam. Therefore, Dr. Lam was deemed to be interested in the Shares owned indirectly by eSun as shown in the section headed “Substantial Shareholders’ Interests in Securities” below pursuant to Part XV of the SFO.*

- (3) *By virtue of his deemed controlling shareholding interests in LSD as described in Note (2) above, Dr. Lam was deemed to be interested in such eSun shares owned indirectly by LSD.*
- (4) *On 18 January 2013, Dr. Lam was granted share options by eSun to subscribe for 1,243,212 eSun shares at a subscription price of HK\$1.612 per share during the period from 18 January 2013 to 17 January 2023. Pursuant to the terms of the share option schemes of eSun, such share options of Dr. Lam had lapsed on 22 August 2018 upon the close of the offer by Transtrend Holdings Limited (“Transtrend”, a wholly-owned subsidiary of LSD) for shares in eSun (the “eSun Share Offer”).*
- (5) *On 18 January 2013, Mr. Chan was granted share options by eSun to subscribe for 1,500,000 eSun shares at a subscription price of HK\$1.612 per share during the period from 18 January 2013 to 17 January 2023. Pursuant to the terms of the share option schemes of eSun, such share options of Mr. Chan had lapsed on 22 August 2018 upon the close of the eSun Share Offer.*
- (6) *On 18 January 2013, Mr. Lui was granted share options by eSun to subscribe for 3,729,636 eSun shares at a subscription price of HK\$1.612 per share during the period from 18 January 2013 to 17 January 2023. As Mr. Lui tendered acceptances to the offer by Transtrend to cancel all his outstanding share options on 31 July 2018, such share options of Mr. Lui had been cancelled on 8 August 2018.*
- (7) *By virtue of his deemed controlling shareholding interests in eSun as described in Note (2) above, Dr. Lam was deemed to be interested in such Lai Fung shares owned indirectly by eSun.*
- (8) *On 18 January 2013, Dr. Lam was granted share options by Lai Fung to subscribe for 16,095,912 Lai Fung shares at a subscription price of HK\$0.228 per share during the period from 18 January 2013 to 17 January 2023. Following the completion of share consolidation of Lai Fung, the exercise price and number of option shares were adjusted to HK\$11.4 per consolidated share and 321,918 consolidated shares respectively on 15 August 2017.*

Save as disclosed above, as at 31 July 2018, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## SHARE OPTION SCHEME

On 18 December 2012, the Company adopted a share option scheme (the “**Share Option Scheme**”) which will remain in force for 10 years commencing from the adoption date, details of which are set out in note 29 to the consolidated financial statements.

In compliance with Chapter 23 of the GEM Listing Rules, the Shareholders resolved at the annual general meeting of the Company held on 11 December 2015 to refresh the scheme limit under the Share Option Scheme, allowing the Company to grant options to subscribe for up to a total of 213,605,682 Shares, representing 10% of the number of the issued Shares at the date of passing the relevant resolution. The refreshment of the scheme limit was also approved by the shareholders of eSun at the annual general meeting of eSun held on 11 December 2015 pursuant to the requirements of Rule 17.01(4) of the Rules Governing the Listing of Securities on the Stock Exchange and Rule 23.01(4) of the GEM Listing Rules.

No share options had been granted under the Share Option Scheme since its adoption. As at the date of this report, the Company might grant options under the Share Option Scheme to subscribe for a maximum of 213,605,682 Shares, representing 10% of the number of the issued Shares.

## CONTROLLING SHAREHOLDER’S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in the section headed “Continuing Connected Transactions” of this report and note 32 to the consolidated financial statements, at no time during the Year had the Company or any of its subsidiaries, and the controlling Shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SECURITIES

As at 31 July 2018, the interests and short positions of the persons, other than Directors, in the Shares and underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long Position in the Shares

Name of Shareholders	Capacity in which interests are held	Number of Shares	Approximate percentage of issued Shares <i>(Note 1)</i>
Lai Sun Garment (International) Limited	Interest of controlled corporations	1,443,156,837 <i>(Note 2)</i>	67.56%
Lai Sun Development Company Limited	Interest of controlled corporations	1,443,156,837 <i>(Note 2)</i>	67.56%
eSun Holdings Limited	Interest of controlled corporation	1,443,156,837 <i>(Note 2)</i>	67.56%

Notes:

- (1) The number of issued Shares as at 31 July 2018 (that is, 2,136,056,825 Shares) has been used for the calculation of the approximate percentage.
- (2) LSG, LSD and eSun were deemed to be interested in the same 1,443,156,837 Shares held by Perfect Sky. Please refer to Note (2) as shown in the section headed “Directors’ Interests in Securities” above for further details.

## REPORT OF THE DIRECTORS

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES** *(continued)*

Save as disclosed above, as at 31 July 2018, no other persons (other than the Directors) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **CONTINUING CONNECTED TRANSACTIONS**

During the Year, the Group had entered into the following transactions which constituted continuing connected transactions of the Company (the “**CCTs**”) under Chapter 20 of the GEM Listing Rules. Brief particulars of each of the CCTs are set out as follows:

#### *(1) Music Catalogue Distribution Agreement*

On 13 December 2017, the Company (as licensee) entered into the music catalogue distribution agreement (the “**Music Catalogue Distribution Agreement**”) with Capital Artists Limited (“**CAL**”), East Asia Music (Holdings) Limited (“**EAM**”) and Fortunate Sound Limited (“**FSL**”) (as licensors), pursuant to which the Company was appointed as the distributor of and licensed with the rights to distribute the Works and the Karaoke Music Videos (as defined in the Music Catalogue Distribution Agreement) in the PRC for a period of three years from 1 April 2018 to 31 March 2021.

In consideration of the Company providing the services to the licensors in accordance with the terms contained in the Music Catalogue Distribution Agreement, the Company will be entitled to retain 15% of the gross revenue as the distribution fee.

eSun is a controlling Shareholder and each of CAL, EAM and FSL is a wholly-owned subsidiary of eSun and therefore each of them is a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Music Catalogue Distribution Agreement constituted CCTs of the Company under the GEM Listing Rules.

The annual cap and the aggregate amount of the CCTs under the Music Catalogue Distribution Agreement for the Year were HK\$2,600,000 and approximately HK\$2,447,000 respectively.

#### *(2) Memorandum of Agreement regarding Letting and/or Licensing of Premises*

On 31 July 2017, LSG, LSD, eSun, Lai Fung and the Company entered into a memorandum of agreement (the “**Memorandum of Agreement**”) to record the basis for governing the transactions with regard to the letting and/or licensing of premises (the “**Letting Transactions**”) for a period of three years commenced on 1 August 2017 and expiring on 31 July 2020.

Pursuant to the Memorandum of Agreement, each of the Letting Transactions shall be governed by a written agreement on normal commercial terms and the rental or fees payable and/or receivable shall be fixed by reference to the prevailing market or comparable rental or fees, including property management fees.

### CONTINUING CONNECTED TRANSACTIONS *(continued)*

#### (2) *Memorandum of Agreement regarding Letting and/or Licensing of Premises (continued)*

Dr. Lam is the chairman and an executive director of the Company and hence a connected person of the Company under the GEM Listing Rules. LSG and LSD are associates of Dr. Lam as he is the controlling shareholder of LSG and LSD is a subsidiary of LSG. LSG and LSD are therefore connected persons of the Company. Accordingly, the Letting Transactions between the Group, the LSG group and the LSD group constituted CCTs of the Company.

The Company had adopted a cap amount of HK\$5,500,000 for the Year in respect of the Letting Transactions with the LSG group and LSD group. Rental and management fee paid or payable to LSD group for the Year was approximately HK\$3,347,000.

#### (3) *Film Library Licence Agreements*

On 28 July 2017, the Company (as licensee) and eSun entered into the supplemental agreements with each of Media Asia Distribution Ltd. (“**MAD(BVI)**”) and Media Asia Distribution (HK) Limited (“**MAD(HK)**”) as the licensors to renew and supplement two film library licence agreements (collectively the “**Film Library Licence Agreements**”), both dated 31 July 2014 and entered into among the said parties, for a period of three years from 1 August 2017 to 31 July 2020 with similar terms.

Pursuant to the Film Library Licence Agreements (as supplemented), the respective licensors have agreed that, subject to any third party rights in certain films which are subsisting at the commencement of the Film Library Licence Agreements, the Company is granted with the exclusive right to exploit in the territory specified of any rights owned by, acquired by or exclusively licensed to MAD(BVI) and MAD(HK) in any film listed in the schedules of the Film Library Licence Agreements (as supplemented).

The Company shall pay to eSun as the designated representative of the licensors 100% of the net receipts as royalties on a quarterly basis. The net receipts are determined by deducting from the gross receipts received by the Company from the exploitation of the rights granted: (a) 15% of the gross receipts, being the commission retained by the Company; (b) costs and disbursements actually incurred by the Company; and (c) all taxes, costs and expenses incurred by the Company in connection with the gross receipts or for the transmission of payments.

eSun is a controlling Shareholder and each of MAD(BVI) and MAD(HK) is a subsidiary of eSun and therefore each of them is a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Film Library Licence Agreements (as supplemented) constituted CCTs of the Company under the GEM Listing Rules.

The annual cap and the aggregate amount paid and payable to eSun under the Film Library Licence Agreements (as supplemented) for the Year were HK\$21,000,000 and approximately HK\$15,325,000 respectively.

## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS *(continued)*

#### (4) *Theatrical Film Distribution Agreement*

On 25 July 2016, Media Asia Film Distribution (HK) Limited (“**MAFD**”), a wholly-owned subsidiary of the Company, entered into the theatrical film distribution agreement (the “**Theatrical Film Distribution Agreement**”) with Intercontinental Film Distributors (H.K.) Limited (“**IFDL**”) and Perfect Advertising & Production Company Limited (“**PAPC**”). Pursuant to the Theatrical Film Distribution Agreement, MAFD shall grant to IFDL an exclusive licence to exploit the theatrical rights in the Pictures (as defined in the Theatrical Film Distribution Agreement) in cinemas and other places of exhibition (including cinemas operated by Multiplex Cinema Limited, a non-wholly owned subsidiary of eSun) in Hong Kong and Macau; and IFDL shall use PAPC for promotion and advertising services on terms and conditions set out in the Theatrical Film Distribution Agreement.

The term of the Theatrical Film Distribution Agreement commenced on 1 August 2016 and will continue until 31 July 2019. Film rental for each picture will be paid to MAFD after (a) paying IFDL the distribution fee, being 10% of the film rental; (b) reimbursing IFDL the distribution costs approved by MAFD and actually incurred; and (c) paying PAPC the promotion and advertising fee, being 7% of the eventual promotion and advertising costs as approved by MAFD. If the film rental of a picture is insufficient to pay the distribution costs and/or the promotion and advertising fee for that picture, MAFD shall reimburse IFDL of such shortfall.

Each of IFDL and PAPC is indirectly owned as to 85% by eSun, a controlling Shareholder, and therefore is a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Theatrical Film Distribution Agreement constituted CCTs of the Company under the GEM Listing Rules.

The annual cap under the Theatrical Film Distribution Agreement for the Year was HK\$10,438,000. The aggregate amount of the CCTs under the Theatrical Film Distribution Agreement for the Year was approximately HK\$761,000.

The INEDs have reviewed the CCTs listed above and confirmed that they have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better; and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Ernst & Young, the Company’s independent auditor, was engaged to report on the CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued a letter to the Board in accordance with Rule 20.54 of the GEM Listing Rules confirming that nothing has come to its attention that causes it to believe the CCTs listed above:

- (a) have not been approved by the Board;
- (b) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- (c) have exceeded the annual caps as set by the Company.



## BUSINESS REVIEW

A fair review of the business of the Group during the Year, including an analysis of the Group's development, performance and position using financial key performance indicators, a discussion on the Group's future development, principal risks and uncertainties that the Group may be facing and the important events affecting the Group that have occurred since the Year end are provided in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 6 to 7 and pages 8 to 11 of this annual report respectively. Details about the Group's financial risk management are set out in note 35 to the consolidated financial statements.

Discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the "Environmental, Social and Governance Report" and "Corporate Governance Report" on pages 12 to 17 and pages 18 to 26 of this annual report respectively.

The above discussions form part of this report.

## CONVERTIBLE NOTES

Details of the convertible notes issued by the Company are set out in note 24 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme set out in note 29 to the consolidated financial statements and the convertible notes set out in note 24 to the consolidated financial statements, the Group has not entered into any equity-linked agreements during the Year.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 28 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is available for distribution to the Shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate amount of its liabilities and its issued Shares and share premium account.

At 31 July 2018, the Company did not have reserves available for distribution. However, the Company's share premium account, in the amount of HK\$633,661,000, may be applied to pay up unissued shares to be issued to the Shareholders as fully paid bonus shares.

## DONATIONS

During the Year, the Group made no donations for charitable or other purposes.

## REPORT OF THE DIRECTORS

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the “Financial Summary” of this annual report on page 5.

### MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group’s five largest customers accounted for approximately 40.8% of the Group’s total revenue and revenue from the largest customer included therein amounted to approximately 13.2%.

Purchase from the Group’s five largest suppliers accounted for approximately 41.6% of the Group’s total purchases for the Year and purchases from the largest supplier included herein amounted to approximately 19.8%.

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company’s issued Shares) had an interest in the five largest customers or suppliers of the Group.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Year.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules during the Year and up to the date of this annual report.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the INEDs in writing an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the INEDs to be independent.

### INDEPENDENT AUDITOR

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the AGM. Having approved by the Board upon the recommendation of the Audit Committee of the Company, a resolution for the re-appointment of Ernst & Young as independent auditor of the Company for the ensuing year will be proposed at the AGM for Shareholders’ approval.

On behalf of the Board

**Lam Kin Ngok, Peter**

*Chairman*

Hong Kong, 25 October 2018

# INDEPENDENT AUDITOR'S REPORT



## To the shareholders of Media Asia Group Holdings Limited

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

### OPINION

We have audited the consolidated financial statements of Media Asia Group Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 46 to 116, which comprise the consolidated statement of financial position as at 31 July 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 July 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 (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

### KEY AUDIT MATTERS

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

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Amortisation and impairment of film and TV program products and films and TV programs under production</i></b></p> <p>As at 31 July 2018, the Group had films and TV programs under production and film and TV program products of approximately HK\$469,611,000 and HK\$40,453,000, respectively. Films and TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses. Upon completion and release, these films and TV programs under production are reclassified as film and TV program products. Film and TV program products are stated at cost less accumulated amortisation and any impairment losses. Film and TV program products, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues.</p> <p>The accounting for the rate of amortisation and/or impairment of films and TV programs under production and film and TV program products requires significant management judgement and are directly affected by management's estimates of projected revenues as further detailed in note 3(a) to the financial statements. Based on the information available on the results of films and TV programs under production and film and TV program products, management reviews and updates the estimated projected revenues and related cash flows at least at the end of each reporting period. Any change in estimations may result in a change in the rate of amortisation and/or the impairment of the carrying amounts of the assets to their recoverable amounts. This could have a significant impact on the Group's financial performance.</p> <p>Related disclosures are included in notes 2.3, 3, 14 and 18 to the financial statements.</p>	<p><b>Amortisation of film and TV program products</b></p> <p>We evaluated management's assessment of the amortisation method for film and TV program products based on our understanding of the Group's business model and industry practice.</p> <p>We assessed management's processes for estimating projected revenues by obtaining evidence to support management's judgements and assumptions for estimating future cash flows.</p> <p><b>Impairment of film and TV program products and films and TV programs under production</b></p> <p>We evaluated management's impairment assessment for film and TV program products and films and TV programs under production at the end of the reporting period, including the identification of any impairment indicators.</p> <p>We assessed the methodology used by management in determining the recoverable amounts of film and TV program products and films and TV programs under production.</p> <p>We assessed management's processes for estimating projected revenues and related cash flows of the relevant film and TV program products and films and TV programs under production by obtaining evidence to support management's judgements and assumptions for estimating future cash flows.</p> <p>We performed a sensitivity analysis on certain key assumptions for projected revenues and related cash flows as appropriate.</p>

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<b><i>Impairment of other receivables in relation to films and TV programs</i></b>	
<p>As at 31 July 2018, the Group had other receivables in relation to films and TV programs of approximately HK\$61,235,000, which were included in the Group's prepayments, deposits and other receivables.</p> <p>The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable in relation to films and TV programs is impaired. To determine whether there is objective evidence of impairment, the Group considers factors including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be fully recovered. The identification of impairment of receivables requires the use of significant management's judgements and estimates.</p> <p>Related disclosures are included in notes 2.3, 3 and 20 to the financial statements.</p>	<p>We evaluated management's assessment of the impairment of other receivables in relation to films and TV programs including any objective evidence of impairment of these receivables.</p> <p>Our assessment included reference, for significant debtors, to the ageing of the receivables, subsequent settlements, the past collection history and the current creditworthiness of the debtors.</p>

### OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# INDEPENDENT AUDITOR'S REPORT

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kam Yee.

### **Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

25 October 2018

# CONSOLIDATED INCOME STATEMENT

Year ended 31 July 2018

	Notes	2018 HK\$'000	2017 HK\$'000
TURNOVER	5	<b>489,931</b>	562,913
Cost of sales		<b>(473,913)</b>	(461,797)
Gross profit		<b>16,018</b>	101,116
Other income	5	<b>11,118</b>	7,956
Marketing expenses		<b>(86,987)</b>	(104,423)
Administrative expenses		<b>(161,112)</b>	(125,773)
Other operating gains		<b>2,468</b>	4,865
Other operating expenses		<b>(24,290)</b>	(2,887)
LOSS FROM OPERATING ACTIVITIES		<b>(242,785)</b>	(119,146)
Finance costs	6	<b>(24,921)</b>	(24,338)
Share of profits and losses of joint ventures		<b>924</b>	(32,563)
Share of profit and loss of an associate		<b>(15,638)</b>	(1)
LOSS BEFORE TAX	7	<b>(282,420)</b>	(176,048)
Income tax expense	9	<b>(1,781)</b>	(2,413)
LOSS FOR THE YEAR		<b>(284,201)</b>	(178,461)
Attributable to:			
Owners of the Company		<b>(273,503)</b>	(169,955)
Non-controlling interests		<b>(10,698)</b>	(8,506)
		<b>(284,201)</b>	(178,461)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic and diluted (HK cents)		<b>(12.80)</b>	(7.96)



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 July 2018

	2018 HK\$'000	2017 HK\$'000
LOSS FOR THE YEAR	<b>(284,201)</b>	(178,461)
OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO INCOME STATEMENT IN SUBSEQUENT PERIODS		
Exchange differences on translation of foreign operations	<b>(11)</b>	(4,579)
OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO INCOME STATEMENT IN SUBSEQUENT PERIODS, NET OF TAX	<b>(11)</b>	(4,579)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<b>(284,212)</b>	(183,040)
Attributable to:		
Owners of the Company	<b>(273,775)</b>	(174,496)
Non-controlling interests	<b>(10,437)</b>	(8,544)
	<b>(284,212)</b>	(183,040)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 July 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	4,096	8,462
Film and TV program products	14	40,453	85,221
Film rights	15	1,871	2,170
Investments in joint ventures	16	14,511	12,953
Investment in an associate	17	3,705	19,343
Prepayments, deposits and other receivables	20	45,937	42,032
Total non-current assets		110,573	170,181
<b>CURRENT ASSETS</b>			
Films and TV programs under production	18	469,611	463,155
Trade receivables	19	47,943	26,581
Prepayments, deposits and other receivables	20	118,782	212,376
Cash and cash equivalents	21	429,983	402,451
Total current assets		1,066,319	1,104,563
<b>CURRENT LIABILITIES</b>			
Trade payables	22	4,975	597
Accruals and other payables	23	253,467	286,589
Deposits received		263,154	76,380
Convertible notes	24	—	274,163
Tax payable		9,530	9,399
Total current liabilities		531,126	647,128
NET CURRENT ASSETS		535,193	457,435
TOTAL ASSETS LESS CURRENT LIABILITIES		645,766	627,616
<b>NON-CURRENT LIABILITIES</b>			
Loan from the ultimate holding company	25	100,000	—
Loan from a related party	26	200,000	—
Total non-current liabilities		300,000	—
Net assets		345,766	627,616

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 July 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	28	21,361	21,361
Reserves	30	343,173	616,948
		<b>364,534</b>	638,309
<b>Non-controlling interests</b>		<b>(18,768)</b>	(10,693)
Total equity		<b>345,766</b>	627,616

**Lam Kin Ngok, Peter**  
Director

**Lui Siu Tsuen, Richard**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 July 2018

	Notes	Attributable to owners of the Company								
		Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Foreign currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 August 2016		21,361	633,661	95,191	71,454	(4,090)	(4,772)	812,805	(2,256)	810,549
Loss for the year		–	–	–	–	–	(169,955)	(169,955)	(8,506)	(178,461)
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	(4,541)	–	(4,541)	(38)	(4,579)
Total comprehensive loss for the year		–	–	–	–	(4,541)	(169,955)	(174,496)	(8,544)	(183,040)
Deemed acquisition of additional interest in a subsidiary	38	–	–	–	–	–	–	–	(3,760)	(3,760)
Capital contributions from non-controlling shareholders		–	–	–	–	–	–	–	3,867	3,867
At 31 July 2017 and 1 August 2017		<b>21,361</b>	<b>633,661<sup>#</sup></b>	<b>95,191<sup>#</sup></b>	<b>71,454<sup>#</sup></b>	<b>(8,631<sup>#</sup>)</b>	<b>(174,727<sup>#</sup>)</b>	<b>638,309</b>	<b>(10,693)</b>	<b>627,616</b>
Loss for the year		–	–	–	–	–	(273,503)	(273,503)	(10,698)	(284,201)
Other comprehensive income/(loss) for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	(272)	–	(272)	261	(11)
Total comprehensive loss for the year		–	–	–	–	(272)	(273,503)	(273,775)	(10,437)	(284,212)
Redemption of TFN Convertible Notes	24(i)	–	–	–	(30,951)	–	30,951	–	–	–
Redemption of Specific Mandate Convertible Notes	24(ii)	–	–	–	(40,503)	–	40,503	–	–	–
Capital contributions from non-controlling shareholders		–	–	–	–	–	–	–	2,362	2,362
At 31 July 2018		<b>21,361</b>	<b>633,661<sup>#</sup></b>	<b>95,191<sup>#</sup></b>	<b>–<sup>#</sup></b>	<b>(8,903<sup>#</sup>)</b>	<b>(376,776<sup>#</sup>)</b>	<b>364,534</b>	<b>(18,768)</b>	<b>345,766</b>

# These reserve accounts comprise the consolidated reserves of HK\$343,173,000 (2017: HK\$616,948,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 July 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(282,420)</b>	(176,048)
Adjustments for:			
Finance costs	6	<b>24,921</b>	24,338
Share of profits and losses of joint ventures		<b>(924)</b>	32,563
Share of profit and loss of an associate		<b>15,638</b>	1
Interest income	5	<b>(2,479)</b>	(1,756)
Gain on disposal of items of property, plant and equipment	7	<b>—</b>	(10)
Write-off of items of property, plant and equipment	7	<b>481</b>	25
Depreciation	7	<b>5,340</b>	4,300
Amortisation of film and TV program products	7	<b>320,032</b>	223,569
Amortisation of film rights	7	<b>299</b>	1,350
Impairment of film rights	7	<b>—</b>	599
Impairment of films and TV programs under production	7	<b>5,659</b>	82,754
Impairment of trade receivables	7	<b>281</b>	5
Impairment of advances and other receivables	7	<b>15,917</b>	2,857
Reversal of impairment of advances and other receivables	7	<b>(34)</b>	(1,966)
Foreign exchange differences, net	7	<b>5,825</b>	(305)
		<b>108,536</b>	192,276
Additions of films and TV programs under production	18	<b>(292,849)</b>	(318,546)
Additions of film and TV program products, net	14	<b>927</b>	(1,148)
Additions of film rights	15	<b>—</b>	(2,730)
Decrease/(increase) in trade receivables		<b>(21,643)</b>	51,936
Decrease in prepayments, deposits and other receivables		<b>73,806</b>	34,806
Increase/(decrease) in trade payables		<b>4,378</b>	(2,329)
Increase/(decrease) in accruals and other payables		<b>(35,366)</b>	50,866
Increase/(decrease) in deposits received		<b>186,774</b>	(49,237)
Cash generated from/(used in) operations		<b>24,563</b>	(44,106)
Hong Kong taxes paid		<b>(376)</b>	—
Overseas taxes paid		<b>(1,274)</b>	(597)
Net cash flows from/(used in) operating activities		<b>22,913</b>	(44,703)

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 July 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>2,479</b>	1,756
Deemed acquisition of additional interest in a subsidiary	38	—	(3,760)
Proceeds on disposal of items of property, plant and equipment		—	10
Purchases of items of property, plant and equipment	12	<b>(1,405)</b>	(2,334)
Repayment from/(advances to) joint ventures		<b>(476)</b>	1,440
Repayment from an associate		—	6
Net cash flows from/(used in) investing activities		<b>598</b>	(2,882)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions from non-controlling shareholders		<b>2,362</b>	3,867
Redemption of TFN Convertible Notes	24(i)	<b>(130,000)</b>	—
Redemption of Specific Mandate Convertible Notes	24(ii)	<b>(166,840)</b>	—
Loan from the ultimate holding company		<b>100,000</b>	—
Loan from a related party		<b>200,000</b>	—
Net cash flows from financing activities		<b>5,522</b>	3,867
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>29,033</b>	(43,718)
Cash and cash equivalents at beginning of year		<b>402,451</b>	449,973
Effect of foreign exchange rate changes		<b>(1,501)</b>	(3,804)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>429,983</b>	402,451
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	<b>429,983</b>	300,433
Time deposits with original maturity of less than three months when acquired and readily convertible into known amounts of cash	21	—	102,018
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		<b>429,983</b>	402,451

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 1. CORPORATE INFORMATION

Media Asia Group Holdings Limited (the “**Company**”) is an exempted company under the laws of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong. The Company’s shares are listed and traded on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

During the year, the Company acted as an investment holding company. The principal activities of its subsidiaries are disclosed in note 37 to the financial statements.

In the opinion of the directors of the Company, the ultimate holding company of the Company is eSun Holdings Limited (“**eSun**”), which was incorporated in Bermuda and whose shares are listed and traded on the Main Board of the Stock Exchange. Subsequent to the reporting period, on 8 August 2018, Lai Sun Garment (International) Limited, which was incorporated in Hong Kong and whose shares are listed and traded on the Main Board of the Stock Exchange, becomes the ultimate holding company of the Company.

## 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 July 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2. BASIS OF PREPARATION *(continued)*

### *Basis of consolidation (continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

## 2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

As explained below, the adoption of the above revised standards has had no significant financial effect on these financial statements.



## 2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure is provided in note 24 to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have subsidiaries, joint ventures or associates classified as a disposal group held for sale as at 31 July 2018.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> <sup>1</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>1</sup>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> <sup>1</sup>
HKFRS 16	<i>Leases</i> <sup>2</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> <sup>2</sup>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>2</sup>
Amendments to HKAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
HK (IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28 <sup>1</sup>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 August 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 August 2018. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) *Classification and measurement*

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

## 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### *(b) Impairment*

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group is in the progress of making an assessment of the impact on impairment upon initial recognition. The Group is not yet in a position to state whether they have a significant impact on the Group's results of operation and financial position.

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

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will not be significant.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Investments in associates and joint ventures*

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Interests in joint operations*

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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

### *Business combinations and goodwill*

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Business combinations and goodwill (continued)*

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

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

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

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

### *Fair value measurement*

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

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

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

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Fair value measurement (continued)*

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

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

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

### *Impairment of non-financial assets*

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Property, plant and equipment and depreciation*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Leasehold improvements	20%
Office equipment, furniture and fixtures	20% - 25%
Motor vehicles	30%
Computer equipment	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each financial year.

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

### *Film rights, film and TV program products, and films and TV programs under production*

Film rights are rights acquired or licensed from outsiders for exhibition and other exploitation of the films.

Film rights are stated at cost less accumulated amortisation and any impairment losses. Film rights, less accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues. Additional amortisation/impairment loss is made if future estimated projected revenues are adversely different from the previous estimation. Estimated projected revenues and related cash flows are reviewed at least at the end of each reporting period.



## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Film rights, film and TV program products, and films and TV programs under production (continued)*

Film and TV program products are stated at cost less accumulated amortisation and any impairment losses. Film and TV program products, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues. Cost of film and TV program products, accounted for on a project-by-project basis, includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film or TV program.

Films and TV programs under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of films or TV programs. Upon completion and release, these films and TV programs under production are reclassified as film and TV program products. Films and TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses.

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

### *Investments and other financial assets*

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

#### *Subsequent measurement*

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

#### *Loans and receivables*

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

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Impairment of financial assets*

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

### *Financial assets carried at amortised cost*

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

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

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

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

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Derecognition of financial assets*

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

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

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

### *Financial liabilities*

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

#### *Subsequent measurement*

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

#### *Loans and borrowings*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Financial liabilities (continued)*

#### *Convertible notes*

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

#### *Derecognition of financial liabilities*

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

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

#### *Offsetting of financial instruments*

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

#### *Provisions*

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

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

#### *Leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases net of any incentives received from lessor are charged to the income statement on the straight-line basis over the lease terms.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Revenue recognition*

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

- (a) turnover from entertainment events organised by the Group, when the events are completed;
- (b) net income from entertainment events organised by other co-investors, when the events are completed and in proportion as agreed with co-investors;
- (c) income from films licensed to movie theatres, when the films are exhibited;
- (d) licence income from films and TV programs licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment is granted to the licensee which permits the licensee to exploit those rights freely and where the Group has no remaining obligations to perform and when the materials have been delivered to licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies;
- (e) licence income from films and TV programs licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period and when the films and TV programs are available for showing or telecast;
- (f) sale of products and albums, when significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the products and albums sold;
- (g) distribution commission income, when the album, film materials or TV program materials have been delivered to the wholesalers, distributors and licensees;
- (h) album licence income and music publishing income, on an accrual basis in accordance with the terms of the relevant agreements;
- (i) artiste management fee income, producer fee income and consultancy service income on entertainment events and TV programs, in the period in which the relevant services are rendered;
- (j) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (k) dividend income, when the shareholder's right to receive payment has been established.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Employee benefits*

#### *Share-based payments*

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

The cost of Equity-Settled Transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Employee benefits (continued)*

#### *Share-based payments (continued)*

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

#### *Retirement benefit schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “**Scheme**”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

#### *Borrowing costs*

Borrowing costs are expensed in the year in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### *Government grants*

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

#### *Foreign currencies*

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

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Foreign currencies (continued)*

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

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

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

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

### *Income tax*

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Income tax (continued)*

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

- when the deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred tax liabilities relate to income taxes levied by the same authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "PRC").

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Related parties*

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity; and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### *Cash and cash equivalents*

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

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

#### *Estimation uncertainty*

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

#### *(a) Accounting for film and TV program products and films and TV programs under production*

Films and TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses. Film and TV program products are stated at cost less accumulated amortisation and any impairment losses. Film and TV program products, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues. Additional amortisation/impairment is made if estimated projected revenues are adversely different from the previous estimation.

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

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of films and TV programs, management reviews and revises the estimated projected revenues and related cash flows at least at the end of each reporting period. Any change in revenue estimations may result in a change in the rate of amortisation and/or the impairment of the carrying amounts of the assets to their recoverable amounts. This could have a significant impact on the Group's financial performance. The carrying amounts of film and TV program products and films and TV programs under production are disclosed in notes 14 and 18 to the financial statements, respectively.

#### *(b) Impairment of receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of receivables and impairment of receivables in the year in which such estimate has been changed. The carrying amounts of receivables are disclosed in notes 19 and 20 to the financial statements, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 4. OPERATING SEGMENT INFORMATION

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

- (i) the media and entertainment segment engages in the investment in, and the production of entertainment events, the provision of artiste management services, album sales and distribution and licence of music;
- (ii) the film and TV program segment engages in the investment in, production of, sale and distribution of films and TV programs; and
- (iii) the corporate segment comprises corporate income and expense items.

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

Segment liabilities exclude convertible notes, tax payable and loans from the ultimate holding company and a related party as these liabilities are managed on a group basis.

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

There were no material intersegmental sales and transfers during the year (2017: Nil).

### Segment revenue/results:

	Media and entertainment		Film and TV program		Corporate		Consolidated	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Sales to external customers	249,731	244,585	240,200	318,328	—	—	489,931	562,913
Other income	6,721	5,338	4,033	2,530	364	88	11,118	7,956
Segment profit/(loss)	31,505	26,822	(253,426)	(127,176)	(20,864)	(18,792)	(242,785)	(119,146)
Finance costs							(24,921)	(24,338)
Share of profits and losses of joint ventures	1,833	(5,768)	(909)	(26,795)	—	—	924	(32,563)
Share of profit and loss of an associate	—	—	(15,638)	(1)	—	—	(15,638)	(1)
Loss before tax							(282,420)	(176,048)

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 4. OPERATING SEGMENT INFORMATION (continued)

### Segment assets/liabilities:

	Media and entertainment		Film and TV program		Corporate		Consolidated	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Segment assets	192,237	193,145	915,214	977,251	51,225	72,052	1,158,676	1,242,448
Investments in joint ventures	14,507	12,807	4	146	—	—	14,511	12,953
Investment in an associate	—	—	3,705	19,343	—	—	3,705	19,343
Total assets							1,176,892	1,274,744
Segment liabilities	107,007	109,270	414,005	251,426	584	2,870	521,596	363,566
Unallocated liabilities							309,530	283,562
Total liabilities							831,126	647,128
Other segment information:								
Depreciation	1,186	1,225	1,957	737	2,197	2,338	5,340	4,300
Amortisation of film and TV program products	—	—	320,032	223,569	—	—	320,032	223,569
Amortisation of film rights	—	—	299	1,350	—	—	299	1,350
Write-off of items of property, plant and equipment	479	—	2	—	—	25	481	25
Impairment of film rights	—	—	—	599	—	—	—	599
Impairment of films and TV programs under production	—	—	5,659	82,754	—	—	5,659	82,754
Gain on disposal of items of property, plant and equipment	—	—	—	—	—	(10)	—	(10)
Impairment of trade receivables	271	5	10	—	—	—	281	5
Impairment of advances and other receivables	3,024	198	12,893	2,659	—	—	15,917	2,857
Reversal of impairment of advances and other receivables	(34)	(23)	—	(1,943)	—	—	(34)	(1,966)
Additions of property, plant and equipment	53	83	1,311	1,599	41	652	1,405	2,334
Additions of film rights	—	—	—	2,730	—	—	—	2,730
Additions of film and TV program products, net	—	—	(927)	1,148	—	—	(927)	1,148
Additions of films and TV programs under production	—	—	292,849	318,546	—	—	292,849	318,546

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 4. OPERATING SEGMENT INFORMATION *(continued)*

### *Geographical information*

	Hong Kong		Mainland China		Macau		Others		Consolidated	
	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:										
Sales to external customers	206,701	198,502	226,271	301,762	25,162	24,811	31,797	37,838	489,931	562,913
Assets:										
Segment assets										
– non-current assets	75,600	143,755	34,892	25,608	–	–	81	818	110,573	170,181
– current assets	590,268	695,709	466,556	392,738	1,102	1,364	8,393	14,752	1,066,319	1,104,563
Total assets									1,176,892	1,274,744
Other information:										
Additions of property, plant and equipment	58	697	1,347	1,637	–	–	–	–	1,405	2,334
Additions of film rights	–	2,730	–	–	–	–	–	–	–	2,730
Additions of film and TV program products, net	(927)	1,007	–	141	–	–	–	–	(927)	1,148
Additions of films and TV programs under production	189,397	191,580	103,452	126,966	–	–	–	–	292,849	318,546

### *Information about major customers*

Revenue from one (2017: two) customer which accounted for revenue exceeding 10% of the Group's total revenues, amounted to approximately HK\$65,007,000 for the year ended 31 July 2018 (2017: HK\$127,009,000).

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 5. TURNOVER AND OTHER INCOME

An analysis of the Group's turnover and other income is as follows:

	2018 HK\$'000	2017 HK\$'000
<b>Turnover</b>		
Entertainment event income	194,306	173,082
Album sales, licence income and distribution commission income from music publishing and licensing	31,155	46,401
Artiste management fee income	24,270	25,102
Distribution commission income and licence fee income from film and TV program products and film rights	240,200	318,328
	<b>489,931</b>	562,913
<b>Other income</b>		
Bank interest income	2,479	1,756
Government grants *	200	979
Commission and handling fee income of entertainment events	6,479	4,538
Others	1,960	683
	<b>11,118</b>	7,956

\* There are no unfulfilled conditions or contingencies related to this income.

## 6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2018 HK\$'000	2017 HK\$'000
Interest on:		
— TFN Convertible Notes (note 24(i))	8,849	10,561
— Specific Mandate Convertible Notes (note 24(ii))	13,828	13,777
— Loan from the ultimate holding company (note 32(a)(vii))	429	—
— Loan from a related party (note 32(a)(vii))	1,815	—
	<b>24,921</b>	24,338

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 7. LOSS BEFORE TAX

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

	Notes	2018 HK\$'000	2017 HK\$'000
Cost of film and TV program products, film rights and licence rights		<b>326,104</b>	311,520
Cost of artiste management services and services for entertainment events provided		<b>147,809</b>	150,166
Cost of inventories sold		—	111
<b>Total cost of sales</b>		<b>473,913</b>	461,797
Depreciation	12	<b>5,340</b>	4,300
Amortisation of film and TV program products #	14	<b>320,032</b>	223,569
Amortisation of film rights #	15	<b>299</b>	1,350
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events #		<b>4,952</b>	5,159
Others		<b>16,050</b>	14,027
Contingent rents incurred for entertainment events #		<b>21,615</b>	17,742
<b>Total operating lease payments</b>		<b>42,617</b>	36,928
Auditor's remuneration		<b>2,146</b>	2,146
Employee benefit expense (including directors' emoluments (note 8)):			
Salaries, wages, bonuses and allowances		<b>95,729</b>	94,053
Pension scheme contributions		<b>4,926</b>	4,652
		<b>100,655</b>	98,705
Less: Capitalised in films and TV programs under production	18	—	(31,939)
		<b>100,655</b>	66,766



# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 7. LOSS BEFORE TAX (continued)

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

	Notes	2018 HK\$'000	2017 HK\$'000
Gain on disposal of items of property, plant and equipment*	12	—	(10)
Write-off of items of property, plant and equipment##	12	481	25
Impairment of film rights#	15	—	599
Impairment of films and TV programs under production#	18	5,659	82,754
Impairment of trade receivables##	19	281	5
Impairment of advances and other receivables##	20	15,917	2,857
Reversal of impairment of advances and other receivables*	20	(34)	(1,966)
Share of net income##/(loss)* from entertainment events organised by the Group to co-investors		309	(1,159)
Share of net income from entertainment events organised by co-investors*		(1,675)	(1,376)
Foreign exchange losses##/(gains)*, net		5,825	(305)

# These items are included in "Cost of sales" in the consolidated income statement. The contingent rents are charged based on certain percentages of the gross ticket proceeds collected in respect of the entertainment events.

## These items are included in "Other operating expenses" in the consolidated income statement.

\* These items are included in "Other operating gains" in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Directors' emoluments for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2018 HK\$'000	2017 HK\$'000
Fees	810	810
Other emoluments:		
Salaries and allowances	4,566	4,513
Pension scheme contributions	32	33
	4,598	4,546
	5,408	5,356

	Fees HK\$'000	Salaries and allowances HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>Year ended 31 July 2018</b>				
<i>Executive Directors</i>				
Lam Kin Ngok, Peter	120	—	—	120
Lui Siu Tsuen, Richard	120	—	—	120
Chan Chi Kwong	120	3,351	14	3,485
Yip Chai Tuck	—	1,215	18	1,233
	360	4,566	32	4,958
<i>Independent Non-executive Directors</i>				
Chan Chi Yuen	150	—	—	150
Zhang Xi	150	—	—	150
Ng Chi Ho, Dennis	150	—	—	150
	450	—	—	450
	810	4,566	32	5,408

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (a) Directors' emoluments (continued)

	Fees HK\$'000	Salaries and allowances HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>Year ended 31 July 2017</b>				
<i>Executive Directors</i>				
Lam Kin Ngok, Peter	120	—	—	120
Lui Siu Tsuen, Richard	120	—	—	120
Chan Chi Kwong	120	3,289	15	3,424
Yip Chai Tuck	—	1,224	18	1,242
	360	4,513	33	4,906
<i>Independent Non-executive Directors</i>				
Chan Chi Yuen	150	—	—	150
Zhang Xi	150	—	—	150
Ng Chi Ho, Dennis	150	—	—	150
	450	—	—	450
	810	4,513	33	5,356

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

### (b) Employees' emoluments

The five highest paid employees during the year included one (2017: one) director, details of whose emoluments are set out above. Details of the remuneration of the remaining four (2017: four) non-director, highest paid employees for the year are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and allowances	11,306	12,480
Pension scheme contributions	48	54
	11,354	12,534

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

### *(b) Employees' emoluments (continued)*

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

	Number of employees	
	2018	2017
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$3,500,001 to HK\$4,000,000	—	1
HK\$4,000,001 to HK\$4,500,000	1	—
	<b>4</b>	<b>4</b>

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2018 HK\$'000	2017 HK\$'000
Provision for tax for the year		
Current — Hong Kong		
Charge for the year	415	666
Overprovision in prior years	(39)	(15)
Current — Elsewhere		
Charge for the year	1,537	2,663
Overprovision in prior years	(132)	(901)
Total tax expense for the year	<b>1,781</b>	<b>2,413</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 9. INCOME TAX EXPENSE (continued)

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

	2018 HK\$'000	2017 HK\$'000
Loss before tax	(282,420)	(176,048)
Tax at the applicable tax rates	(46,361)	(34,243)
Lower tax rate enacted by local authority	(165)	—
Adjustments in respect of current tax of previous years	(171)	(916)
Profits and losses attributable to joint ventures and an associate	2,428	5,373
Income not subject to tax	(979)	(1,241)
Expenses not deductible for tax	7,136	6,975
Utilisation of tax losses previously not recognised	(6,570)	(5,403)
Estimated tax losses not recognised	46,754	23,893
Others	(291)	7,975
Tax charge at the Group's effective rate	1,781	2,413

## 10. DIVIDEND

The board of directors of the Company does not recommend the payment of any dividend in respect of the year ended 31 July 2018 (2017: Nil).

## 11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of approximately HK\$273,503,000 (2017: HK\$169,955,000) and the weighted average number of ordinary shares of approximately 2,136,056,000 (2017: approximately 2,136,056,000) in issue during the year.

No adjustment had been made to the basic loss per share amounts presented for the years ended 31 July 2018 and 2017 in respect of a dilution as the impact of the TFN Convertible Notes and the Specific Mandate Convertible Notes outstanding during the years had an anti-dilutive effect on the basic loss per share amounts presented.

# NOTES TO THE FINANCIAL STATEMENTS

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## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Cost:					
At 1 August 2016	14,906	3,164	1,100	2,548	21,718
Additions	1,334	32	—	968	2,334
Disposal	—	—	(514)	(17)	(531)
Write-off	(44)	—	—	—	(44)
Exchange realignment	11	2	—	15	28
At 31 July 2017 and 1 August 2017	16,207	3,198	586	3,514	23,505
Additions	1,202	15	—	188	1,405
Disposal	—	(12)	—	(23)	(35)
Write-off	(768)	(143)	—	(31)	(942)
Exchange realignment	(61)	(1)	—	(12)	(74)
At 31 July 2018	16,580	3,057	586	3,636	23,859
Accumulated depreciation:					
At 1 August 2016	6,677	1,587	1,100	1,892	11,256
Charge for the year	3,227	565	—	508	4,300
Disposal	—	—	(514)	(17)	(531)
Write-off	(19)	—	—	—	(19)
Exchange realignment	21	7	—	9	37
At 31 July 2017 and 1 August 2017	9,906	2,159	586	2,392	15,043
Charge for the year	4,210	445	—	685	5,340
Disposal	—	(12)	—	(23)	(35)
Write-off	(367)	(65)	—	(29)	(461)
Exchange realignment	(99)	(8)	—	(17)	(124)
At 31 July 2018	13,650	2,519	586	3,008	19,763
Net carrying amount:					
At 31 July 2018	2,930	538	—	628	4,096
At 31 July 2017	6,301	1,039	—	1,122	8,462

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. GOODWILL

	HK\$'000
Cost:	
At 1 August 2016, 31 July 2017, 1 August 2017 and 31 July 2018	3,477
Accumulated impairment:	
At 1 August 2016, 31 July 2017, 1 August 2017 and 31 July 2018	3,477
Net carrying amount:	
At 31 July 2018	—
At 31 July 2017	—

## 14. FILM AND TV PROGRAM PRODUCTS

	HK\$'000
Cost:	
At 1 August 2016	563,763
Additions	1,148
Transfer from films and TV programs under production (note 18)	225,315
Exchange realignment	(707)
At 31 July 2017 and 1 August 2017	789,519
Additions, net	(927)
Transfer from films and TV programs under production (note 18)	276,014
Exchange realignment	(1,063)
At 31 July 2018	1,063,543
Accumulated amortisation and impairment:	
At 1 August 2016	480,042
Provided during the year	223,569
Exchange realignment	687
At 31 July 2017 and 1 August 2017	704,298
Provided during the year	320,032
Exchange realignment	(1,240)
At 31 July 2018	1,023,090
Net carrying amount:	
At 31 July 2018	40,453
At 31 July 2017	85,221

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 14. FILM AND TV PROGRAM PRODUCTS *(continued)*

In light of the circumstances of the film and TV industry, the Group regularly reviewed its film and TV program products to assess the marketability/future economic benefits of film and TV program products and the corresponding recoverable amounts. The estimated recoverable amount as at 31 July 2018 was determined based on the present value of expected future revenues and related cash flows arising from the distribution and sublicensing of the film and TV program products and their residual values, which was derived from discounting the projected cash flows by a discount rate of 15% (2017: 15%).

## 15. FILM RIGHTS

	HK\$'000
Cost:	
At 1 August 2016	31,937
Additions	2,730
Write-off	<u>(1,293)</u>
At 31 July 2017 and 1 August 2017	33,374
Write-off	<u>(25)</u>
At 31 July 2018	<u>33,349</u>
Accumulated amortisation and impairment:	
At 1 August 2016	30,548
Provided during the year	1,350
Impairment	599
Write-off	<u>(1,293)</u>
At 31 July 2017 and 1 August 2017	31,204
Provided during the year	299
Write-off	<u>(25)</u>
At 31 July 2018	<u>31,478</u>
Net carrying amount:	
At 31 July 2018	<u>1,871</u>
At 31 July 2017	<u>2,170</u>



# NOTES TO THE FINANCIAL STATEMENTS

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## 16. INVESTMENTS IN JOINT VENTURES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	(16,678)	(17,760)
Due from joint ventures	31,189	30,713
	<b>14,511</b>	12,953

The amounts due from joint ventures are unsecured, interest-free and have no fixed terms of repayment but are not expected to be repayable in the next twelve months from the end of the reporting period, except for an amount of HK\$11,502,000 (2017: HK\$11,593,000) due from a joint venture which bears interest at The People's Bank of China Benchmark Loan Interest Rate.

Details of the joint ventures are disclosed in note 38 to the financial statements.

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs adjusted by the Group for equity accounting purposes. The joint ventures are accounted for using the equity method in the consolidated financial statements.

### 上影寰亞

上影寰亞文化發展(上海)有限公司("上影寰亞"), which is considered a material joint venture of the Group, acts as the Group's key joint venture in investment and production of films and TV programs in the PRC and is accounted for using the equity method.

The following table illustrates the summarised financial information of 上影寰亞 and reconciled to the carrying amount in the financial statements:

	2018 HK\$'000	2017 HK\$'000
Cash and cash equivalents	2,762	10,077
Other current assets	14,953	24,417
Current assets	<b>17,715</b>	34,494
Non-current assets	232	305
Current liabilities	(25,362)	(34,096)
Non-current liabilities	(39,072)	(37,990)
Net liabilities	<b>(46,487)</b>	(37,287)

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### 16. INVESTMENTS IN JOINT VENTURES (continued)

#### 上影寰亞 (continued)

The following table illustrates the summarised financial information of 上影寰亞 and reconciled to the carrying amount in the financial statements: (continued)

	2018 HK\$'000	2017 HK\$'000
Proportion of the Group's ownership	50%	50%
The Group's share of net liabilities of 上影寰亞	<b>(19,337)</b>	(18,643)
Amount due from 上影寰亞	<b>19,337</b>	18,789
The carrying amount of the Group's investment in the joint venture	—	146
Revenue	<b>23,274</b>	14,395
Cost of sales (including amortisation expense of HK\$10,130,000 (2017: HK\$60,564,000))	<b>(10,130)</b>	(60,564)
Other revenue (including interest income of HK\$95,000 (2017: HK\$296,000))	<b>106</b>	337
Expenses (including interest expense of HK\$1,444,000 (2017: HK\$1,372,000))	<b>(22,399)</b>	(9,195)
Income tax credit/(expense)	<b>(483)</b>	1,438
Loss for the year	<b>(9,632)</b>	(53,589)
Other comprehensive income/(loss) for the year	<b>432</b>	(1,633)
Total comprehensive loss for the year	<b>(9,200)</b>	(55,222)
The Group's share of total comprehensive loss for the year	<b>(694)</b>	(27,611)

The Group discontinued recognising its share of losses of 上影寰亞 because the share of losses of 上影寰亞 exceeded the Group's interest in 上影寰亞 and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of 上影寰亞 for the current year and cumulatively were HK\$3,907,000 (2017: Nil) and HK\$3,907,000 (2017: Nil), respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 16. INVESTMENTS IN JOINT VENTURES (continued)

### Player One

Player One Limited and its subsidiaries (“**Player One**”), which is considered a material joint venture of the Group, acts as the Group’s key joint venture in event management in Hong Kong and is accounted for using the equity method.

The following table illustrates the summarised financial information of Player One and reconciled to the carrying amount in the financial statements:

	2018 HK\$'000	2017 HK\$'000
Cash and cash equivalents	13,286	15,615
Other current assets	279	1,570
Current assets	13,565	17,185
Non-current assets	364	594
Current liabilities	(6,348)	(9,414)
Non-current liabilities	(22,000)	(22,000)
Net liabilities	(14,419)	(13,635)
Proportion of the Group’s ownership	50%	50%
The Group’s share of net liabilities of Player One	(7,210)	(6,818)
Amount due from Player One	11,000	11,000
The carrying amount of the Group’s investment in the joint venture	3,790	4,182
Revenue	7,619	35,871
Cost of sales	(4,271)	(59,725)
Other revenue	94	8,461
Expenses	(3,450)	(7,031)
Other operating gains/(losses)	(776)	11,337
Loss and total comprehensive loss for the year	(784)	(11,087)
The Group’s share of total comprehensive loss for the year	(392)	(5,544)

# NOTES TO THE FINANCIAL STATEMENTS

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## 16. INVESTMENTS IN JOINT VENTURES *(continued)*

### SQ

SQ Workshop Limited (“**SQ**”), which is considered a material joint venture of the Group, acts as the Group’s key joint venture in artiste management in Hong Kong and is accounted for using the equity method.

The following table illustrates the summarised financial information of SQ and reconciled to the carrying amount in the financial statements:

	<b>2018</b> <b>HK\$’000</b>	2017 HK\$’000
Cash and cash equivalents	<b>21,110</b>	23,382
Other current assets	<b>366</b>	13,283
Current assets	<b>21,476</b>	36,665
Non-current assets	<b>951</b>	257
Current liabilities	<b>(14,664)</b>	(27,956)
Net assets	<b>7,763</b>	8,966
Proportion of the Group’s ownership	<b>50%</b>	50%
The Group’s share of net assets of SQ	<b>3,882</b>	4,483
Amount due from SQ	<b>—</b>	95
The carrying amount of the Group’s investment in the joint venture	<b>3,882</b>	4,578
Revenue	<b>2,601</b>	3,737
Cost of sales	<b>(469)</b>	(491)
Other income (including interest income of HK\$103,000 (2017: HK\$101,000))	<b>103</b>	106
Expenses	<b>(3,437)</b>	(4,667)
Income tax expense	<b>—</b>	(209)
Loss and total comprehensive loss for the year	<b>(1,202)</b>	(1,524)
The Group’s share of total comprehensive loss for the year	<b>(601)</b>	(762)

# NOTES TO THE FINANCIAL STATEMENTS

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## 16. INVESTMENTS IN JOINT VENTURES *(continued)*

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

	2018 HK\$'000	2017 HK\$'000
The Group's share of profit for the year	2,826	538
The Group's share of other comprehensive loss for the year	(57)	(16)
The Group's share of total comprehensive income for the year	2,769	522
The Group's share of net assets of joint ventures	5,987	3,218
Amounts due from joint ventures	852	829
The carrying amounts of the Group's investments in the joint ventures	6,839	4,047

## 17. INVESTMENT IN AN ASSOCIATE

	2018 HK\$'000	2017 HK\$'000
Share of net liabilities	(15,718)	(80)
Due from an associate	19,423	19,423
	3,705	19,343

The amount due from an associate, ProM Rococo Limited ("**ProM**"), is unsecured, interest-free and has no fixed terms of repayment but is not expected to be repayable in the next twelve months from the end of the reporting period.

Details of the associate are disclosed in note 39 to the financial statements.

The following table illustrates the summarised financial information of ProM and reconciled to the carrying amount in the financial statements:

	2018 HK\$'000	2017 HK\$'000
Non-current assets	5,024	—
Current assets	1,434	77,313
Current liabilities	(1,295)	—
Non-current financial liabilities	(77,636)	(77,636)
Net liabilities	(72,473)	(323)

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## 17. INVESTMENT IN AN ASSOCIATE *(continued)*

The following table illustrates the summarised financial information of ProM and reconciled to the carrying amount in the financial statements: *(continued)*

	2018 HK\$'000	2017 HK\$'000
Proportion of the Group's ownership	25%	25%
The Group's share of net liabilities of the associate	(15,718)	(80)
Amount due from the associate	19,423	19,423
The carrying amount of the Group's investments in an associate	3,705	19,343
Revenue	4,174	—
Cost of sales	(70,855)	—
Expenses	(5,473)	—
Other operating gain	4	—
Loss and total comprehensive loss for the year	(72,150)	(5)
The Group's share of total comprehensive loss for the year	(15,638)	(1)

The Group recognised the share of net liabilities of the associate under the equity method of accounting, adjusted for the Group's right of first recoupment of certain assets of the associate pursuant to the co-investment agreement.

## 18. FILMS AND TV PROGRAMS UNDER PRODUCTION

	2018 HK\$'000	2017 HK\$'000
At beginning of the reporting period	463,155	450,913
Additions (including capitalisation of employee benefit expense of nil (2017: HK\$31,939,000) (note 7))	292,849	318,546
Transfer to film and TV program products (note 14)	(276,014)	(225,315)
Impairment #	(5,659)	(82,754)
Exchange realignment	(4,720)	1,765
At end of the reporting period	469,611	463,155

# The impairment of films and TV programs under production was made based on the management's estimation of recoverable amount against the carrying amount.

## 19. TRADE RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	55,702	34,059
Impairment	(7,759)	(7,478)
	47,943	26,581

## NOTES TO THE FINANCIAL STATEMENTS

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### 19. TRADE RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit. The credit period generally ranges from 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables, net of provision for impairment of trade receivables, based on the payment due date, as at the end of the reporting period, is as follows:

	2018 HK\$'000	2017 HK\$'000
Neither past due nor impaired	38,458	8,107
1 to 90 days past due	4,971	11,145
Over 90 days past due	4,514	7,329
	<b>47,943</b>	26,581

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

	2018 HK\$'000	2017 HK\$'000
At beginning of the reporting period	7,478	7,484
Impairment loss recognised	281	5
Write-off	—	(11)
At end of the reporting period	<b>7,759</b>	7,478

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade debtors of HK\$7,759,000 (2017: HK\$7,478,000) with a gross carrying amount before provision of HK\$7,759,000 (2017: HK\$7,478,000). The individually impaired trade receivables relate to customers that were in default in settlements and no portion of the receivables is expected to be recovered.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

# NOTES TO THE FINANCIAL STATEMENTS

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## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 HK\$'000	2017 HK\$'000
Prepayments, deposits and advances for artiste management, music production, film and TV program production	(i)	189,033	253,084
Prepayments, deposits and other receivables		15,677	31,166
	(ii)	204,710	284,250
Impairment	(iii)	(39,991)	(29,842)
		164,719	254,408
Portion classified as current portion		(118,782)	(212,376)
Non-current portion		45,937	42,032

Notes:

(i) Included in prepayments, deposits and other receivables as at 31 July 2018 are other receivables of HK\$61,235,000 (2017: HK\$127,577,000) in relation to films and TV programs.

(ii) Included in prepayments, deposits and other receivables as at 31 July 2018 are advances of HK\$7,476,000 (2017: HK\$7,535,000) due from film owners for the Group's investments in film projects. The advances are unsecured, repayable within the next twelve months and with a fixed guarantee return of 16.5% (2017: 16.5%).

Included in prepayments, deposits and other receivables as at 31 July 2018 is an amount due from an associate of HK\$1,295,000 (2017: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.

(iii) Movements in the provision for impairment of advances and other receivables are as follows:

	2018 HK\$'000	2017 HK\$'000
At beginning of the reporting period	29,842	32,951
Impairment loss recognised	15,917	2,857
Impairment loss reversed	(34)	(1,966)
Write-off	(5,762)	(4,000)
Exchange realignment	28	—
At end of the reporting period	39,991	29,842

Included in the above provision for advances and other receivables is a provision for individually impaired receivables of HK\$39,991,000 (2017: HK\$29,842,000) of which HK\$29,411,000 (2017: HK\$22,253,000) is in relation to films and TV programs, with a gross carrying amount of HK\$43,614,000 (2017: HK\$29,902,000). The individually impaired advances and receivables relate to the portions of advances and receivables that were not expected to be recovered.



# NOTES TO THE FINANCIAL STATEMENTS

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## 21. CASH AND CASH EQUIVALENTS

	2018 HK\$'000	2017 HK\$'000
Cash and bank balances	429,983	300,433
Time deposits	—	102,018
Cash and cash equivalents	429,983	402,451

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to HK\$292,370,000 (2017: HK\$266,876,000). The conversion of RMB denominated cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of Mainland China are subject to the relevant rules and regulations of foreign exchange control by the government authorities concerned.

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

## 22. TRADE PAYABLES

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

	2018 HK\$'000	2017 HK\$'000
Less than 30 days	4,838	518
31 to 60 days	62	79
61 to 90 days	12	—
Over 90 days	63	—
	4,975	597

Trade payables are non-interest-bearing and have credit terms generally ranging from 30 to 60 days.

## NOTES TO THE FINANCIAL STATEMENTS

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### 23. ACCRUALS AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Accruals and other payables	253,467	286,589

Included in accruals and other payables as at 31 July 2018, are amounts due to fellow subsidiaries and a joint venture of HK\$29,422,000 (2017: Nil) and HK\$1,627,000 (2017: HK\$17,971,000), respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.

Other payables are non-interest-bearing and have an average credit term of one month.

### 24. CONVERTIBLE NOTES

	Notes	2018 HK\$'000	2017 HK\$'000
TFN Convertible Notes	(i)	—	121,151
Specific Mandate Convertible Notes	(ii)	—	153,012
		—	274,163

Pursuant to a subscription agreement entered into between TFN Media Co., Ltd. (“**TFN Media**”) and the Company on 17 April 2015, among others, the Company conditionally agreed to issue, and TFN Media conditionally agreed to subscribe for 3-year zero coupon convertible notes in an aggregate principal amount of HK\$130,000,000 (the “**TFN Convertible Notes**”), which are convertible at the option of the holder into the Company’s ordinary shares during the period commencing on the first day of the TFN Convertible Notes and expiring on the date which is five business days preceding the maturity date.

Pursuant to each of the subscription agreements entered into by the Company with each of Perfect Sky Holdings Limited, Fubon Financial Holding Venture Capital Corp., Kbro Media Co., Ltd., and MOMO.COM Inc. (collectively the “**Subscribers**”) on 17 April 2015, among others, the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for 3-year zero coupon convertible notes in an aggregate principal amount of HK\$186,840,000 (the “**Specific Mandate Convertible Notes**”), which are convertible at the option of the holders into the Company’s ordinary shares during the period commencing on the first day of the Specific Mandate Convertible Notes and expiring on the date which is five business days preceding the maturity date.

## 24. CONVERTIBLE NOTES *(continued)*

### *(i) TFN Convertible Notes*

The TFN Convertible Notes were issued to TFN Media, the holder of the TFN Convertible Notes, on 13 May 2015. The TFN Convertible Notes in an aggregate principal amount of HK\$130,000,000 carries the conversion right entitling TFN Media to subscribe for a total of 245,746,691 shares of HK\$0.01 each in the Company at a conversion price of HK\$0.529 per share.

Pursuant to the terms and conditions of the TFN Convertible Notes, as a result of the open offer on the basis of one offer share for every two existing shares at the subscription price of HK\$0.30 per offer share (further details were disclosed in the Company's announcement dated 17 April 2015 and the prospectus of the Company dated 8 May 2015) (the "**Open Offer**"), the conversion price of the TFN Convertible Notes set out above was adjusted from HK\$0.529 per share to HK\$0.458 per share. Based on the issued and outstanding TFN Convertible Notes in the principal amount of HK\$130,000,000 as at 31 July 2017, the number of shares to be allotted and issued to TFN Media would be adjusted from 245,746,691 shares to 283,842,794 shares as a result of the Open Offer assuming the conversion rights attaching thereto were exercised in full. However, as disclosed in the Company's announcement dated 13 May 2015, the Company elects to redeem the principal amount attributable to conversion shares under the TFN Convertible Notes in excess of the outstanding number of new shares issuable under the general mandate granted to the directors of the Company to issue shares of the Company at the annual general meeting of the Company held on 9 December 2014 (the "**General Mandate**"), and therefore, having taken into account the maximum number of such issuable shares under the General Mandate and assuming no utilisation of the General Mandate (other than that for the allotment and issue of the conversion shares under the TFN Convertible Notes), the maximum number of conversion shares that could be allotted and issued to TFN Media under the TFN Convertible Notes shall be 267,973,164 shares, at the adjusted conversion price of HK\$0.458 per share.

Unless previously converted, redeemed, purchased or cancelled in accordance with the terms and conditions of the TFN Convertible Notes, it would be redeemed by the Company on the maturity date of 13 May 2018 at the principal amount outstanding. The TFN Convertible Notes were redeemed on 14 May 2018.

The fair value of the liability component was estimated at the issue date, net of transaction cost allocated to the liability component using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in the capital reserve.

The various components of the TFN Convertible Notes recognised on initial recognition are as follows:

	HK\$'000
TFN Convertible Notes	
Face value of convertible notes issued	130,000
Equity component	(30,991)
Liability component at date of issue	99,009

# NOTES TO THE FINANCIAL STATEMENTS

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## 24. CONVERTIBLE NOTES *(continued)*

### (i) *TFN Convertible Notes (continued)*

The movements of the liability component and the equity component of the TFN Convertible Notes are as follows:

	<b>Liability component</b> HK\$'000	<b>Equity component</b> HK\$'000 (note 36)	<b>Total</b> HK\$'000
At 1 August 2016	110,590	30,951	141,541
Interest charged during the year (note 6)	10,561	—	10,561
At 31 July 2017 and 1 August 2017	121,151	30,951	152,102
Interest charged during the year (note 6)	8,849	—	8,849
Redemption of convertible notes	(130,000)	(30,951)	(160,951)
At 31 July 2018	—	—	—

### (ii) *Specific Mandate Convertible Notes*

The Specific Mandate Convertible Notes were issued to the Subscribers on 3 July 2015. The Specific Mandate Convertible Notes in an aggregate principal amount of HK\$186,840,000 carries the conversion right entitling the relevant holders to subscribe for a total of 407,947,597 shares of HK\$0.01 each in the Company at a conversion price of HK\$0.458 per share as adjusted for the Open Offer pursuant to the terms and conditions of the Specific Mandate Convertible Notes.

Unless previously converted, redeemed, purchased or cancelled in accordance with the terms and conditions of the Specific Mandate Convertible Notes, it would be redeemed by the Company on the maturity date of 3 July 2018 at the principal amount outstanding. The Specific Mandate Convertible Notes were redeemed on 3 July 2018.

The fair value of the liability component was estimated at the issue date, net of transaction cost allocated to the liability component using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in the capital reserve.

The various components of the Specific Mandate Convertible Notes recognised on initial recognition are as follows:

	HK\$'000
Specific Mandate Convertible Notes	
Face value of convertible notes issued	186,840
Equity component	(45,530)
Liability component at date of issue	141,310

**24. CONVERTIBLE NOTES** *(continued)*

*(ii) Specific Mandate Convertible Notes (continued)*

The movements of the liability component and the equity component of the Specific Mandate Convertible Notes are as follows:

	<b>Liability component</b> HK\$'000	<b>Equity component</b> HK\$'000 (note 36)	<b>Total</b> HK\$'000
At 1 August 2016	139,235	40,503	179,738
Interest charged during the year (note 6)	13,777	—	13,777
At 31 July 2017 and 1 August 2017	153,012	40,503	193,515
Interest charged during the year (note 6)	13,828	—	13,828
Redemption of convertible notes	(166,840)	(40,503)	(207,343)
At 31 July 2018	—	—	—

Interests charged for the TFN Convertible Notes and the Specific Mandate Convertible Notes were calculated by applying effective interest rates of 9.5% (2017: 9.5%) per annum and 9.9% (2017: 9.9%) per annum, respectively, to the respective liability components.

**25. LOAN FROM THE ULTIMATE HOLDING COMPANY**

The balance is unsecured, interest-bearing at 3-month Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 3.3% per annum and repayable on 3 July 2020.

**26. LOAN FROM A RELATED PARTY**

The balance represents a loan from Hibright Limited, a wholly-owned subsidiary of Lai Sun Development Company Limited (“**LSD**”), a major shareholder of eSun, which is unsecured, interest-bearing at 3-month HIBOR plus 3.3% per annum and repayable on 11 May 2020.

**27. DEFERRED TAX**

The Group has tax losses arising in Hong Kong of approximately HK\$532,011,000 (2017: HK\$298,305,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of approximately HK\$84,857,000 (2017: HK\$81,853,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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## 27. DEFERRED TAX *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is either 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and joint ventures established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 July 2018, no deferred tax had been recognised for withholding taxes that would be payable on the unremitted earnings that were subject to withholding taxes of certain subsidiaries and joint ventures established in the PRC. In the opinion of the directors, it was not probable that these subsidiaries and joint ventures would distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities had not been recognised totalled approximately HK\$4,799,000 (2017: HK\$2,764,000) at 31 July 2018.

## 28. SHARE CAPITAL

	2018		2017	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	60,000,000	600,000	60,000,000	600,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	2,136,056	21,361	2,136,056	21,361

### *Share options*

Details of the Company's share option scheme and the share options granted under the scheme are included in note 29 to the financial statements.

## 29. SHARE OPTION SCHEME

### *New Share Option Scheme*

On 18 December 2012, the Company adopted a new share option scheme (the “**New Share Option Scheme**”) which will remain in force for 10 years and terminated the old share option scheme which was adopted on 19 November 2009 and became effective on 24 November 2009 (the “**Old Share Option Scheme**”) as (i) the Company has become a subsidiary of eSun in June 2011 and Rule 23.01 (4) of the GEM Listing Rules requires the relevant provisions of the Old Share Option Scheme which are required to be approved by the shareholders/independent non-executive directors of the Company to be simultaneously approved by the shareholders/independent non-executive directors of eSun; and (ii) eSun would like to have an unified set of share option scheme rules for its all subsidiaries. The purpose of the New Share Option Scheme is to recognise the contribution or future contribution of the eligible participants for their contribution to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-calibre eligible participants in line with the performance goals of the Group or the affiliated companies. Eligible participants include any employee, director, officer or consultant of the Group and the affiliated companies, and any other group or classes of participants which the board of the directors of the Company, in its absolute discretion, considers to have contributed or will contribute, whether by way of business alliance or other business arrangement, to the development and growth of the Group.

The principal terms of the New Share Option Scheme are:

- (a) The total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme and all options to be granted under any other share option schemes of any member of the Group (the “**Other Schemes**”) must not in aggregate exceed 10% of the total number of shares in issue as at 18 December 2012 (the “**Scheme Limit**”).
- (b) Subject to (a) above and the approval of the shareholders of the Company and eSun (so long as the Company is a subsidiary of eSun under the GEM Listing Rules) at the respective general meetings, the Company may refresh the Scheme Limit at any time, provided that such limit as refreshed must not exceed 10% of the total number of shares in issue as at the date of approval of such refreshed limit.
- (c) Subject to (a) above and the approval of the shareholders of the Company and eSun (so long as the Company is a subsidiary of eSun under the GEM Listing Rules) at the respective general meetings, the Company may grant the options beyond the 10% limit, provided that the options in excess of such limit are granted only to the eligible participants specifically identified by the Company before such shareholders’ approval is sought.
- (d) The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and Other Schemes must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 29. SHARE OPTION SCHEME *(continued)*

### *New Share Option Scheme (continued)*

- (e) The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Share Option Scheme and the Other Schemes (including both exercised and outstanding share options) in any 12-month period up to and including the date of grant must not exceed 1% of the total number of shares of the Company in issue at anytime. Any further grant of share options in excess of this limit must be separately approved by the shareholders of the Company and eSun (so long as the Company is a subsidiary of eSun under the GEM Listing Rules) at the respective general meetings with such eligible participant and his associates abstaining from voting.
- (f) Any grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, is subject to approval in advance by the independent non-executive directors of the Company and eSun (so long as the Company is a subsidiary of eSun under the GEM Listing Rules).
- (g) Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant) in excess of HK\$5 million, within any 12-month period up to and including the date of grant, must be approved by the shareholders of the Company and eSun (so long as the Company is a subsidiary of eSun under the GEM Listing Rules) in advance at the respective general meetings.
- (h) The offer of a grant of share options may be accepted within 30 days from the date of offer, together with payment of a nominal consideration of HK\$1 for the grant by the grantee.
- (i) The exercise period of the share options granted is determined by the directors provided that such period must not be longer than ten years from the date upon which any share option is granted in accordance with the New Share Option Scheme.
- (j) The exercise price of the share options is determined by the directors, but must not be lower than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

No share options had been granted by the Company under the New Share Option Scheme during the years ended 31 July 2018 and 31 July 2017.



## 30. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity.

## 31. COMMITMENTS

### (a) Capital commitments

At the end of the reporting period, the Group had the capital commitment for acquisition of items of property, plant and equipment of HK\$1,119,000 (2017: Nil).

### (b) Operating lease commitments – lessee

At 31 July 2018, the Group leased certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one year to four years (2017: from one year to five years).

At 31 July 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Within one year	<b>5,898</b>	5,864
Within two to five years	<b>1,987</b>	1,522
	<b>7,885</b>	7,386

# NOTES TO THE FINANCIAL STATEMENTS

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## 32. RELATED PARTY TRANSACTIONS

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

	Notes	2018 HK\$'000	2017 HK\$'000
Fellow subsidiaries:			
Rental expenses and building management fee	(i)	1,061	924
Artiste fee	(iii)	—	295
Film distribution commission income	(iv)	3,094	3,905
Film distribution fee	(v)	121	459
Promotion and advertising fee	(v)	45	29
Music distribution commission income	(vi)	2,447	—
Sharing of corporate salaries on a cost basis allocated from		8,612	8,291
Sharing of administrative expenses on a cost basis allocated from		1,614	1,052
Sharing of corporate salaries on a cost basis allocated to		13,565	12,927
Sharing of administrative expenses on a cost basis allocated to		6,364	2,221
The ultimate holding company:			
Interest expense	(vii)	429	—
Related parties:			
Rental expenses and building management fee *	(i)	3,697	3,674
Production fee #	(ii)	2,790	2,290
Interest income #	(ii)	722	683
Interest expense *	(vii)	1,815	—

\* LSD and its subsidiaries.

# The company is a joint venture of the Group.

Notes:

- (i) The related parties are LSD and its subsidiaries. eSun, an associate of LSD, was the ultimate holding company of the Company. The Company is therefore also an associate of LSD. The rental expenses and building management fee were charged with reference to market rates.
- (ii) The production fee and interest income were charged in accordance with contractual terms with the respective parties.
- (iii) During the year ended 31 July 2017, the Group paid artiste fee of HK\$295,000 to fellow subsidiaries for engaging artistes in the Group's events.

## 32. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

- (iv) During the year ended 31 July 2018, the Group received a contract sum of HK\$18,419,000 (2017: HK\$26,031,000), net of direct expenses from licensing certain film rights and film products owned by fellow subsidiaries. The Group was entitled to film distribution commission income of HK\$3,094,000 (2017: HK\$3,905,000). The balance of HK\$15,325,000 (2017: HK\$22,126,000) was paid to eSun which was designated as the representative of fellow subsidiaries. The film distribution commission is charged in accordance with contractual terms.
- (v) During the year ended 31 July 2018, the Group paid film distribution fee of HK\$121,000 (2017: HK\$459,000) to a fellow subsidiary for theatrical distribution of the Group's films. The fellow subsidiary further sublicensed to its fellow subsidiary for theatrical exhibition which was entitled to the sharing of theatrical box office and the amount was HK\$594,000 (2017: HK\$1,285,000). The Group also paid promotion and advertising fee of HK\$45,000 (2017: HK\$29,000) to another fellow subsidiary for the promotion of the Group's films. The aggregate amount paid to these fellow subsidiaries for theatrical distribution was HK\$761,000 (2017: HK\$1,773,000).
- (vi) During the year ended 31 July 2018, the Group received distribution commission income of HK\$2,447,000 (2017: Nil) from licensing certain music rights owned by fellow subsidiaries. The music distribution commission is charged in accordance with contractual terms.
- (vii) The interest expenses were charged at 3-month HIBOR plus 3.3% per annum on loans from the ultimate holding company and a related party, of which details are set out in notes 25 and 26 to the financial statements, respectively. Interest expenses incurred to the ultimate holding company and the related party of HK\$429,000 (2017: Nil) and HK\$1,815,000 (2017: Nil), respectively, remained unsettled and were included in "accruals and other payables" as at 31 July 2018.

Certain of the above related party transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules and their details are disclosed in the Report of the Directors.

(b) Commitments with related parties:

- (i) During the years ended 31 July 2018 and 2017, a subsidiary of the Group, as the lessee, entered into tenancy agreements with a major shareholder of eSun for leasing office premises for terms of two to three years. The total operating lease commitments due within one year and two to five years as at 31 July 2018 were HK\$703,000 (2017: HK\$625,000) and HK\$37,000 (2017: Nil), respectively.
- (ii) During the years ended 31 July 2018 and 2017, certain subsidiaries of the Group, as the lessees, entered into agreements with fellow subsidiaries, for leasing office premises for terms of one to three years. The total operating lease commitments due within one year and two to five years as at 31 July 2018 were HK\$937,000 (2017: HK\$421,000) and HK\$1,407,000 (2017: Nil), respectively.

## NOTES TO THE FINANCIAL STATEMENTS

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### 32. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel of the Group:

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Short term employee benefits	<b>10,287</b>	12,526
Post-employment benefits	<b>50</b>	51
	<b>10,337</b>	12,577

Further details of directors' emoluments are included in note 8 to the financial statements.

### 33. FINANCIAL INSTRUMENTS BY CATEGORY

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

#### *Financial assets*

	<b>2018</b> <b>Loans and</b> <b>receivables</b> <b>HK\$'000</b>	2017 Loans and receivables HK\$'000
Trade receivables	<b>47,943</b>	26,581
Financial assets included in prepayments, deposits and other receivables	<b>67,104</b>	140,365
Cash and cash equivalents	<b>429,983</b>	402,451
	<b>545,030</b>	569,397

#### *Financial liabilities*

	<b>2018</b> <b>Financial</b> <b>liabilities</b> <b>at amortised</b> <b>cost</b> <b>HK\$'000</b>	2017 Financial liabilities at amortised cost HK\$'000
Trade payables	<b>4,975</b>	597
Financial liabilities included in accruals and other payables	<b>231,106</b>	243,970
Convertible notes	<b>—</b>	274,163
Loan from ultimate holding company	<b>100,000</b>	—
Loan from a related party	<b>200,000</b>	—
	<b>536,081</b>	518,730

# NOTES TO THE FINANCIAL STATEMENTS

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## 34. FAIR VALUE HIERARCHY

*Liabilities for which fair values are disclosed:*

	Carrying amounts		Fair values	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
<b>Financial liabilities</b>				
Convertible notes	—	274,163	—	274,242

The fair values of the liability portion of the convertible notes were estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar instrument with consideration of the Group's own non-performance risk. The interest rates used to discount the future cash flows of the TFN Convertible Notes and the Specific Mandate Convertible Notes as at 31 July 2017 were 9.5% and 9.8%, respectively.

Other than the above financial liabilities, the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 July 2018 and 2017.

The Group did not have any financial liabilities measured at fair value as at 31 July 2018 and 2017.

*Liabilities for which fair values are disclosed:*

**As at 31 July 2018**

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Convertible notes	—	—	—	—

As at 31 July 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Convertible notes	—	—	274,242	274,242

# NOTES TO THE FINANCIAL STATEMENTS

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## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible notes, loans from the ultimate holding company and a related party, and cash and cash equivalents. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

### *Foreign currency risk*

Certain subsidiaries of the Company have transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of RMB against Hong Kong dollars.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile and will consider appropriate hedging measures in the future as may be necessary.

The following table demonstrates the sensitivity of the Group's equity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant.

	<b>Increase in RMB rate</b>	<b>Decrease in equity</b>
	%	HK\$'000
<hr/>		
<b>31 July 2018</b>		
If Hong Kong dollar weakens against RMB	<b>5</b>	<b>(2,689)</b>
31 July 2017		
If Hong Kong dollar weakens against RMB	5	(626)

### *Credit risk*

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

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### *Credit risk (continued)*

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's receivables are widely dispersed in different sectors and industries.

### *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits, loans from the ultimate holding company and a related party.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax and the Group's equity.

	<b>Increase in interest rate (in percentage)</b>	<b>Decrease/ (increase) in loss before tax HK\$'000</b>	<b>Increase/ (decrease) in equity HK\$'000</b>
<b>31 July 2018</b>			
Loan from the ultimate holding company	<b>0.5</b>	<b>(40)</b>	<b>(40)</b>
Loan from a related party	<b>0.5</b>	<b>(178)</b>	<b>(178)</b>
	<b>0.5</b>	<b>(218)</b>	<b>(218)</b>
<b>31 July 2017</b>			
Time deposits	0.5	510	510

The Group adopts a prudent liquidity risk management policy to maintain sufficient cash to fund its operations.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### *Liquidity risk*

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

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
<b>31 July 2018</b>				
Trade payables	4,975	—	—	4,975
Financial liabilities included in accruals and other payables	231,106	—	—	231,106
Loan from the ultimate holding company	4,966	105,394	—	110,360
Loan from a related party	8,014	210,337	—	218,351
<b>Total</b>	<b>249,061</b>	<b>315,731</b>	<b>—</b>	<b>564,792</b>
<b>31 July 2017</b>				
Trade payables	597	—	—	597
Financial liabilities included in accruals and other payables	243,970	—	—	243,970
Convertible notes	296,840	—	—	296,840
<b>Total</b>	<b>541,407</b>	<b>—</b>	<b>—</b>	<b>541,407</b>

### *Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, return capital to shareholders, issue new shares, raise new debts and redeem existing debts.

The Group monitors capital by maintaining a net cash position throughout the year. As at 31 July 2018, the consolidated cash and cash equivalents amounted to HK\$429,983,000 (2017: HK\$402,451,000).

The only externally imposed capital requirement is that, for the Group to maintain its listing on the Stock Exchange, it has to maintain sufficient public float required under the GEM Listing Rules. The Group receives a report from the share registrar monthly on substantial share interests showing the non-public float, and it demonstrates the Group's continuing compliance with the 25% threshold throughout the period. As at 31 July 2018, 32.43% (2017: 32.43%) of the shares were in public hands.



# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	582,431	874,492
CURRENT ASSETS		
Prepayments, deposits and other receivables	241	4,681
Cash and cash equivalents	34,735	54,133
Total current assets	34,976	58,814
CURRENT LIABILITIES		
Due to subsidiaries	113,793	152,722
Accruals and other payables	2,986	1,014
Convertible notes	—	274,163
Total current liabilities	116,779	427,899
NET CURRENT LIABILITIES	(81,803)	(369,085)
TOTAL ASSETS LESS CURRENT LIABILITIES	500,628	505,407
NON-CURRENT LIABILITIES		
Loan from the ultimate holding company	100,000	—
Loan from a related party	200,000	—
Total non-current liabilities	300,000	—
Net assets	200,628	505,407
EQUITY		
Issued capital	21,361	21,361
Reserves (note)	179,267	484,046
Total equity	200,628	505,407

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000 (note i)	<b>Capital reserve</b> HK\$'000 (note ii)	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 August 2016	633,661	95,191	71,454	(130,604)	669,702
Loss for the year and total comprehensive loss for the year	—	—	—	(185,656)	(185,656)
At 31 July 2017 and 1 August 2017	<b>633,661</b>	<b>95,191</b>	<b>71,454</b>	<b>(316,260)</b>	<b>484,046</b>
Loss for the year and total comprehensive loss for the year	—	—	—	<b>(304,779)</b>	<b>(304,779)</b>
Redemption of TFN Convertible Notes (note 24(i))	—	—	<b>(30,951)</b>	<b>30,951</b>	—
Redemption of Specific Mandate Convertible Notes (note 24(ii))	—	—	<b>(40,503)</b>	<b>40,503</b>	—
At 31 July 2018	<b>633,661</b>	<b>95,191</b>	—	<b>(549,585)</b>	<b>179,267</b>

Notes:

(i) Contributed surplus

Contributed surplus represents the net effect of the capital reduction and the elimination of accumulated losses of the Company based on the results of the capital reorganisations of the Company effected in 2009 and 2014.

Under the Bermuda Companies Act, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(ii) Capital reserve

The capital reserve represented the value of the equity component of the unexercised convertible notes issued by the Company recognised as disclosed in note 24 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Champ Universe Limited	Hong Kong	HK\$1	100	100	Provision of management services
China Film Media Asia Audio Video Distribution Co., Ltd. *	PRC/ Mainland China	RMB10,000,000 <sup>#</sup>	70	70	Film distribution
Lam & Lamb Entertainment Limited	Hong Kong	HK\$1	100	100	Provision of artiste management services
Media Asia Distribution (Beijing) Co., Ltd. <sup>Δ</sup> *	PRC/ Mainland China	RMB50,000,000 <sup>#</sup>	100	100	Film distribution
Media Asia Entertainment Limited	Hong Kong	HK\$100	100	100	Entertainment activity production and film investment
Media Asia Film Distribution (HK) Limited	Hong Kong	HK\$1	100	100	Film distribution and licensing of films
Media Asia Film International Limited	British Virgin Islands	US\$100	100	100	Film investment and production
Media Asia Film Production Limited	Hong Kong	HK\$100	100	100	Investment holding and film production
Media Asia Music Limited	Hong Kong	HK\$1	100	100	Music production and distribution
Media Asia Music Publishing Limited	Hong Kong	HK\$100	100	100	Music publishing
Media Asia Performance Agency (Macao) Limited *	Macau	MOP25,000	100	100	Entertainment activity production
Media Asia Talent Management Limited	Hong Kong	HK\$1	100	100	Provision of artiste management services

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Media Asia TV Program Distribution Limited	Hong Kong	HK\$1	100	100	Licensing of television drama
Media Asia TV Program Production (HK) Limited	Hong Kong	HK\$1	70	70	TV program production
Upper Triumph Limited *	British Virgin Islands	US\$1	100	100	Entertainment activity production
寰亞文化傳播(中國)有限公司 <sup>△*</sup>	PRC/ Mainland China	HK\$38,000,000 <sup>#</sup>	100	100	Entertainment activity production

# The amounts stated represent the paid-up capital.

△ Registered as wholly-foreign-owned enterprises under the laws of the PRC.

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

Except for Champ Universe Limited, all of the above subsidiaries are indirectly held by the Company.

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

As at 31 July 2018, the Group had unpaid capital contribution of approximately HK\$109,472,000 (2017: HK\$127,598,000) to subsidiaries.

38. PARTICULARS OF JOINT VENTURES

Name	Place of incorporation/ registration and business	Particulars of shares held	Percentage of ownership interest, voting power and profit sharing attributable to the Group	Principal activities
Much (BVI) Limited	British Virgin Islands	Ordinary	50	Event supervising
Much Entertainment (HK) Limited	Hong Kong	Ordinary	50	Event supervising
Player One	Hong Kong	Ordinary	50	Event management
SQ	Hong Kong	Ordinary	50	Artiste management
SQ Workshop (BVI) Limited	British Virgin Islands	Ordinary	50	Artiste management
鼎紅文化傳播(上海)有限公司	PRC/Mainland China	Paid-up capital	50	Artiste management
上影寰亞	PRC/Mainland China	Paid-up capital	50	Film and TV program investment and production
Media Cool Productions Limited	Hong Kong	Ordinary	35	Production and distribution of TV programs

During the year ended 31 July 2017, Hole in One Capital Partners Limited (“**Hole in One**”) further repurchased and cancelled its shares held by a non-controlling shareholder. Accordingly, Hole in One became a wholly-owned subsidiary of the Group. Net cash outflows in respect of the repurchase of shares were HK\$3,760,000. Hole in One was deregistered after the repurchase of shares before 31 July 2017.

The investments in joint ventures were all indirectly held by the Company.

As at 31 July 2018, the Group had unpaid capital contribution of approximately HK\$2,500,000 (2017: Nil) to a joint venture.

# NOTES TO THE FINANCIAL STATEMENTS

31 July 2018

## 39. PARTICULARS OF AN ASSOCIATE

Particulars of the associate as at 31 July 2018 are as follows:

<b>Name</b>	<b>Place of incorporation and business</b>	<b>Class of shares held</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activity</b>
ProM	Hong Kong	Ordinary	25	Film production

ProM is engaged in film production and is accounted for using the equity method.

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 October 2018.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an annual general meeting of the members (the “**Members**”) of **MEDIA ASIA GROUP HOLDINGS LIMITED** (the “**Company**”) will be held at Kellett Rooms II and III, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 21 December 2018 at 9:15 a.m. (the “**AGM**”) for the following purposes:

## ORDINARY BUSINESS

1. To consider and adopt the audited financial statements of the Company and the reports of the directors and the independent auditor of the Company for the year ended 31 July 2018;
2. To re-elect the retiring directors of the Company and authorise the board of directors to fix the directors’ remuneration; and
3. To re-appoint Ernst & Young, Certified Public Accountants as the independent auditor of the Company for the ensuing year and authorise the board of directors to fix its remuneration.

## SPECIAL BUSINESS

To consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

## ORDINARY RESOLUTIONS

4. **“THAT**
  - (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (the “**Directors**”) during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares of the Company (the “**Shares**”) and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisation given to the Directors at any time to allot, issue and deal with additional Shares and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares) which would or might require the exercise of such power after the end of the Relevant Period;
  - (c) the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
    - (i) a Rights Issue (as defined below); or
    - (ii) an issue of Shares upon the exercise of rights of subscription, exchange or conversion under the terms of any of the options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares); or

## NOTICE OF ANNUAL GENERAL MEETING

- (iii) an issue of Shares as scrip dividends pursuant to the bye-laws of the Company from time to time; or
- (iv) an issue of Shares under any award or option scheme or similar arrangement for the grant or issue to eligible participants under such scheme or arrangement of Shares or rights to acquire Shares;

shall not exceed 20% of the number of the issued Shares at the date of passing this Resolution, and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution,

“Relevant Period” means the period from the date of passing this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the members of the Company in general meeting; or
- (iii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and

“Rights Issue” means an offer of Shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members and/or the Hong Kong branch register of members of the Company on a fixed record date in proportion to their then holdings of such Shares at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

### 5. “THAT

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase the shares of the Company (the “**Shares**”) on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or any other stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Code on Share Buy-backs, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM, be and is hereby generally and unconditionally approved;
- (b) the number of Shares to be repurchased pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the number of the issued Shares at the date of passing this Resolution, and the said approval shall be limited accordingly; and



## NOTICE OF ANNUAL GENERAL MEETING

- (c) for the purposes of this Resolution, “Relevant Period” means the period from the date of passing this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the members of the Company in general meeting; or
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held.”
6. **“THAT** subject to the passing of the Resolutions Nos. 4 and 5 in the notice convening this meeting, the general mandate granted to the directors of the Company (the **“Directors”**) to exercise all the powers of the Company to allot, issue and deal with additional shares of the Company (the **“Shares”**) and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the addition thereto of an amount representing the number of Shares which has been repurchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the powers of the Company to repurchase such Shares, provided that such amount shall not exceed 10% of the number of the issued Shares at the date of passing this Resolution.”

By Order of the Board  
**Media Asia Group Holdings Limited**  
**Lau Siu Mui**  
*Company Secretary*

Hong Kong, 31 October 2018

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal Place of Business:*  
11th Floor, Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

Notes:

- (1) A Member entitled to attend and vote at the AGM is entitled to appoint one (or, if he/she/it holds two or more shares of the Company (the **“Shares”**), more than one) proxy to attend the AGM and vote on his/her/its behalf in accordance with the bye-laws of the Company (the **“Bye-laws”**). A proxy need not be a Member but must attend the AGM in person to represent the Member.
- (2) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong (the **“Registrar”**), Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof (as the case may be) and in default, the proxy will not be treated as valid. Completion and return of the form of proxy will not preclude Members from attending and voting in person at the AGM or any adjournment thereof should they so wish. In that event, their form of proxy will be deemed to have been revoked.

## NOTICE OF ANNUAL GENERAL MEETING

- (3) To ascertain the entitlements to attend and vote at the AGM, Members must lodge the relevant transfer document(s) and share certificate(s) at the office of the Registrar not later than 4:30 p.m. on Monday, 17 December 2018 for registration.
- (4) Where there are joint registered holders of any Shares, any one of such joint holders may attend and vote at the AGM or any adjournment thereof, either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto; but if more than one of such joint holders are present at the AGM or any adjournment thereof personally or by proxy, that one of such holders so present whose name stands first in the register/branch register of members of the Company in respect of such Shares will alone be entitled to vote in respect thereof.
- (5) In regard of Resolution No. 2 of this notice,
  - (a) in accordance with Bye-law 84 of the Bye-laws, Mr. Lui Siu Tsuen, Richard, Mr. Yip Chai Tuck and Mr. Ng Chi Ho, Dennis will retire by rotation at the AGM and, being eligible, offer themselves for re-election; and
  - (b) in accordance with Rule 17.46A of the Rules Governing the Listing of Securities on GEM (the “**GEM Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), details of the aforesaid retiring directors of the Company are set out in “Biographical Details of Directors” of the annual report of the Company for the year ended 31 July 2018.
- (6) In regard of Resolution No. 3 of this notice, the board of directors of the Company (the “**Board**”) (which concurs with the audit committee of the Company) has recommended that subject to the approval of Members at the AGM, Ernst & Young will be re-appointed the independent auditor of the Company for the year ending 31 July 2019 (the “**Year 2019**”). Members should note that in practice, independent auditor’s remuneration for the Year 2019 cannot be fixed at the AGM because such remuneration varies by reference to the scope and extent of the audit and other works which the independent auditor is being called upon to undertake in any given year. To enable the Company to charge the amount of such independent auditor’s remuneration as operating expenses for the Year 2019, Members’ approval to delegate the authority to the Board to fix the independent auditor’s remuneration for the Year 2019 is required, and is hereby sought, at the AGM.
- (7) A circular containing details regarding Resolutions Nos. 4 to 6 of this notice will be sent to Members together with the annual report of the Company for the year ended 31 July 2018.
- (8) In compliance with Rule 17.47(4) of the GEM Listing Rules, voting on all resolutions set out in this notice will be decided by way of a poll.
- (9) If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time after 7:15 a.m. on the date of the AGM, the AGM will be postponed. Members will be informed of the date, time and venue of the postponed AGM by a supplementary notice posted on the respective websites of the Company and GEM of the Stock Exchange.

If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is cancelled at or before 7:15 a.m. on the date of the AGM and where conditions permit, the AGM will be held as scheduled. The AGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

Members should decide on their own whether they would attend the AGM under a bad weather condition bearing in mind their own situations and if they do so, they are advised to exercise care and caution.

Media Asia actively expands the media and entertainment markets of Mainland China. Its business scope includes film production and distribution, concert and live performance, artiste management and television dramas production and distribution.

寰亞傳媒大力開拓中國大陸的傳媒及娛樂市場，其業務範圍包括電影製作與發行、演唱會與現場表演、藝人管理及電視劇製作與發行。



**Media Asia Group Holdings Limited**  
**寰亞傳媒集團有限公司**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*  
(於開曼群島註冊成立及於百慕達存續之有限公司)

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