拉近網娛集團有限公司

LAJIN ENTERTAINMENT NETWORK GROUP LIMITED

ANNUAL REPORT

2019

年報

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

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

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Lajin Entertainment Network Group Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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 in this report misleading.

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhai Shan Shan
Ms. Wu Li

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun
Mr. Zhou Ya Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Leung Wai Shun Wilson

AUDITOR

Ernst & Young
Certified Public Accountants

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDIT COMMITTEE

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

PRINCIPAL BANKER

China Everbright Bank
Hang Seng Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre,
183 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3903A Far East Finance Centre,
16 Harcourt Road,
Admiralty, Hong Kong

CORPORATE WEBSITE

http://www.irasia.com/listco/hk/lajin/

GEM STOCK CODE

8172

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Movies, TV Programmes and Internet Contents

The Group continued to team up with talented creative teams as well as powerful and affluent media companies in the TV/movies industry for investing in quality TV/movies projects for the sake of effectively managing and mitigating the risks for our investments. Besides, the Group has produced many internet related media contents in the industry, including many internet movies, internet drama and variety show, thus building Lajin Entertainment's internet media ecosystem.

As of 31 December 2019, the management reviewed the status of each project and decided to make impairments for some projects which were considered doubtful and unlikely for further development. These projects mainly represented copyright and script writing costs and attempted to develop in prior years but ceased due to careful business consideration. These projects were mainly TV dramas or internet dramas. Considering the relatively long preparation time and difficulty in cost-control, market risk for dramas is higher and the Group has become more cautious in investing drama-type projects recently. Due to the dynamic nature of the entertainment business, the abovementioned hiccups may just be temporary and the management may revive them or realize by transferring out when suitable business opportunities arise.

With the rapid development of video streaming websites and internet movies in Mainland China, the Group continued to increase its investment in internet movies and invested in a series of projects of larger scale and investment including "Hey! Tiny Bone"(《嘿！小骨頭》), "The Legend of Zu 2"(《蜀山降魔傳2》), "Swordsmanship and Immortality Cultivation"(《天劍修仙傳》), "The Strongest Iron Mr. Nanny"(《最強鐵血奶爸》) and "The Legend of Lu Bu"(《斗破亂世情》) in pursuit of "blockbuster" projects to generate considerable profit contributions to the Group. Among them, "Swordmanship and Immortality Cultivation"(《天劍修仙傳》) recorded over 160 million view counts to date which ranked the second largest number of audiences on all platforms in 2019. "The Legend of Zu 2"(《蜀山降魔傳2》), ranked number one in "iQiyi Internet Movies Shared Revenue Chart" ("愛奇藝網絡電影分賬榜") for 8 consecutive days. As of the end of 2019, the gross shared revenue in video streaming has exceeded RMB14.64 million, ranking 15th in the iQiyi annual Chart. In addition to the positive results of "Swordsmanship and Immortality Cultivation"(《天劍修仙傳》) and " The Legend of Zu 2"(《蜀山降魔傳2》) in box office, both movies also achieved the Best 10 Internet Movies of the Year in Golden Shark Award (金鮫獎) which was known as the "Chinese Oscar in Internet Content" and organized by 20 quality entertainment media companies.

In virtue of its experience in investment in internet movie projects, the Group has deepened its exploration in internet movie market by taking the initiative to consolidate industry resources. The Group commenced to expand its business into internet movie distribution business in 2019, and "Di Renjie-Deep Sea Dragon Palace"(《狄仁杰之深海龍宮》), the first internet movie distributed by the Group, was launched on Youku with the highest popularity of 8648 on the platform, breaking the record in the popularity of Youku's internet movies; and also top in the following 8 Charts: Hot Youku Movies Charts (優酷電影熱度榜), Hot Mainland Movies Chart (內地片熱榜), Hot Action Movies Chart (動作片熱榜), Hot Suspense Movies Chart (懸疑片熱榜), Youku Movies V Chart (優酷V榜電影榜), Internet Movies Ranking Chart (電影排行榜網大榜), Hot Movies Ranking Chart (電影排行榜熱度榜) and Action Movies of the Movies Ranking Chart (電影排行榜動作榜). It also has been ranking top in the Internet Movies of the Youku Movies Ranking Chart (優酷電影排行榜網大榜) for ten consecutive days. The business model of investment-assisted distribution has not only enabled the Group to increase project revenue by increasing collaborative business segments and effectively reduce project risks, but also enabled the Group to continuously deepen project participation and have more opportunities to participate in different stages of mega projects. After effectively evaluating project risks, the Group has given priority in choosing high-quality projects.

Furthermore, the Group has also established its strategic cooperation relationship with numerous established companies that have the capacity for producing theatrical films, and fully leveraged on its experience and advantages in the field of internet-based products to remake classic films and television drama IP to produce quality internet movies with partners. To date, both Parts I and II of the "The Legend of the Condor Heroes" (《射雕英雄傳》) series and the "The Crisis of the Youth" (《少年葉問驚天危機》) of the Ip Man series are being produced through this model. The first draft of the screenplay of "The Legend of the Condor Heroes" (《射雕英雄傳》) has been completed and is scheduled to be shot in the second quarter of 2020. In addition to being produced in conventional format, the "Legend of the Condor Heroes" (《射雕英雄傳》) will also be devised and shot as an interactive film, which is expected to become a super-mega movie of the platform.

In addition to internet movies, the Group also invested in theatrical films "Pegasus" (《飛馳人生》), "The Home Front" (《破陣子》), "Farewell U" (《再見，少年》) and "A Guide to Daily fantasy" (《日常幻想指南》) in 2019. "Pegasus" (《飛馳人生》) was released during the 2019 Lunar New Year period and recorded a satisfactory box office in the Mainland China.

The Group's upcoming key projects include but not limit to:

"Faithful Dog Hachiko" (《忠犬八公》)

The Group has been granted the license for "Hachi: A Dog's Tale" (《忠犬八公的故事》) (a famous japanese film with Kaneto Shindo as the scriptwriter) by Jiro Shindo, the licence owner of this film, to adapt it into the Chinese version, "Faithful Dog Hachiko" (《忠犬八公》). Script adaptation for this movie has been completed and Mr. Xu Ang has confirmed to direct this movie. Director Xu Ang's representative work include the stage drama "What Makes You Beautiful" (《喜劇的憂傷》), the film "12 Citizens" (《十二公民》) and the internet drama "Medical Examiner Dr. Qin" (《法醫秦明》). At this stage "Faithful Dog Hachiko" (《忠犬八公》) has gained a very positive response either in financing or seeking cooperative teams. Considering the sharing of resources, risk management and beneficial for subsequent distribution and other matters, the Group is under negotiation with numerous powerful companies in PRC to seek cooperation. Form of collaboration is already at early stage. Specific targets were set for the creative team and the leading actors. The filming dog has been in training since end of 2019. Filming will start after the preparation work at early stage is completed.

"The Tibet Code"

The Group has entered into a joint investment and development agreement with Tencent Pictures, Guoying Investment and Dimension Films to collectively produce the film series of "The Tibet Code" (《藏地密碼》) adapted from the bestselling novel of the same name. We have invited Mr. Huang Jianxin, a famous director, executive producer and producer, to be the executive producer of the first film of the "The Tibet Code" (《藏地密碼》) series, who acted as the executive producer of films including "The Warlords" (《投名狀》) and "The Taking of Tiger Mountain" (《智取威虎山》) and the producer of films such as "My People, My Country" (《我和我的祖國》), "Bodyguards and Assassins" (《十月圍城》) and "Operation Mekong" (《湄公河行動》). Mr. Huang Hai will lead the scriptwriter team for "The Tibet Code" (《藏地密碼》) whose scripting works include "The Devotion of Suspect X" (《嫌疑人X的獻身》), "Wu Kong" (《悟空傳》) and "Mystery of Antiques" (《古董局中局》). We are now identifying for a director for this film series.

"Legend of the Galactic Heroes" (《銀河英雄傳説》)

The project is based on the best-selling novel written by the distinguished Japanese novelist Tanaka Yoshiki. The Group has entered into a cooperation agreement with "Linghe Media"(靈河文化)for the development of internet drama under this super IP which has extensive experience in producing "super dramas", in which Bai Yicong, a key person of this company has a nickname of "Internet Dramas No. One". The Chinese New Year holiday in 2019 witnessed the great market potential of Chinese science fiction movies. Therefore, the theatrical film of "Legend of the Galactic Heroes" is actively under study hoping this legendary story can bring new impetus to Chinese science fiction movies.

The above projects are the main focus of our investments in the coming 2–3 years which will receive the Group's full support and plan to shoot and release or online thereafter.

Furthermore, the previously invested theatrical movies like "The Dynasty Warriors"(《真・三國無雙》), "Theory of Ambition"(《風再起時》), "I'm Livin' It"(《麥路人》), "Ori Princess, the Elf is Coming"(《甜心格格之精靈來了》) and "In Winter"(《藍色列車》) are either under post-production or scheduled for release while "Fagara in Mara"(《花椒之味》) and "If You are Happy"(《學區房72小時》) have been released during this year and brought a number of award nominations to the Group. "If You are Happy"(《學區房72小時》) is shortlisted in the nomination of two awards "The Best Small and Medium Budget Story" and "The Best supporting actress" in the 32th Golden Rooster Award. After shown in theatre, the film received positive feedbacks and various film critics call it a "A Masterpiece of Realism". "I'm Livin' It"(《麥路人》) starring "Best Actor" award winner Mr. Aaron Kwok is highly anticipated even before screening. This movie is chosen as the Closing Gala film of London East Asian Film Festival and featured in Tokyo International Film Festival "Asian Future" section. The 39th Hong Kong Film Awards in 2020, Mr. Aaron Kwok and Ms. Sammi Cheng in "I'm Livin' it"(《麥路人》) and "Fagara in Mara"(《花椒之味》) respectively received the Best Actor and Best Actress award nomination. Moreover, the two movies "I'm Livin' it"(《麥路人》) and "Fagara in Mara"(《花椒之味》) received 21 awards nomination in total and both received the Best Film award nomination.

PROSPECTS AND CHALLENGES

The environment for the film and television industry in 2019 was described as the "winter period", but more severe is the unexpected novel coronavirus epidemic crisis in early 2020. The epidemic inevitably swept across various industries, especially the film and television industry. Theatrical films, which were affected by the epidemic, were at a complete standstill: cinemas were closed down, all the films scheduled in the Chinese New Year were withdrawn from cinemas, and the films which were scheduled to be released in February and March are facing a massive re-scheduling. Currently, the progress of films and television programs being filmed and prepared in major film and television production bases has been slowed down, and it is conservatively estimated that the total box office in the country will decrease by 1/4 in 2020, and the window period of release of films and television programs will also bring a period of revenue reduction to the film and television market in the future. Some of the Group's products, such as "Theory of Ambitions"(《風再起時》), "The Dynasty Warriors"(《真・三國無雙》), "A Guide to Daily Fantasy"(《日常幻想指南》) and "Farewell U"(《再見,少年》) which were scheduled to be released in 2020, may suffer from varying degrees of delays.

However, "Lost in Russia"(《囧媽》) became the first theatrical film beginning to explore the internet field, which was released online on video platforms under "Toutiao"(「頭條」) family during the Chinese New Year, with more than 600 million plays and 180 million view counts within three days on the four platforms under "Toutiao"(「頭條」), i.e., TikTok (抖音), Jinri Toutiao (今日頭條), Xigua (西瓜) and Vigo Video (火山小視頻), and a smart TV platform Wasu Fresh Time (鮮時光), making it a classical case*. On the other hand, the popularity of this movie also demonstrated that the room for development of streaming platforms is still expanding. In light of the above, the Group will gradually be benefitted from its strength in distribution business of internet movies in the future. In addition, according to the statistics during the period from the Chinese New Year to the Lantern Festival in 2020, the number of plays of online audio-visual products showed a significant increase, especially for internet movies, which more than doubled the number of plays of internet movies in the three major platforms as compared with the corresponding period of 2019. As the business model of internet related products gradually matures, internet users are more used to watch movies online, and internet movies with high quality contents, correct value orientation, balance of entertainment and profitability will be the high quality resources for each platform to strive for. Since 2019, the Group has been in negotiation for investment in and distribution of diversified projects to enrich its project pipeline with clear positioning, which may become a key to cope with risks and overcome obstacles in 2020.

* *Source: CBN, Tonghuashun Finance Research Center, and released by ByteDance.*

Artists Management

The Group continuously optimizes the portfolio of artists. The Group provides customized performance opportunities for the development of our new artists through the media and music projects produced or invested by the Group. On the other hand, the Group developed sources of advertising income for artists via various channels such as online marketing and e-commerce.

Amongst all artists under our management, Chen Xinzhe（陳信喆）shows enormous potential and has been put in the limelight quickly. Chen Xinzhe, a new-born and post-95 generation star, develops his career on multiple fronts: movie, television and music. He has published 8 singles as well as 4 theme songs for movies/TV and performed in 20 movies/TV since his debut two years ago. The first single of Chen Xinzhe "I Miss You Again"（《我又想你了》）, which recorded over 70,000 comments in the NetEase Cloud Music（網易雲音樂）music platform has entered the Tik Tok Music new song chart shortly after its release online, and subsequently entered the hit song chart of Tik Tok Music also. His brilliant performance in his debut movie "Exorcism Master"*（《鎮魂法師》）brought him the Best New Actor award in Golden Seagull（金海鷗）Film Festival. In July 2019, he was invited to take part in an event hosted by Mango TV in which he closely interacted with fans and gained vast popularity on the spot. The "New Arbiter Justice Bao Blood Witchcraft"（《新包青天之血酬蠱》）, in which he starred, was released on the platform "iQIYI" on 1 December 2019, achieved remarkable results and stood out among numerous movies and TV dramas released at the same time. The movie is divided into two parts and the second part is expected to release in the second half of 2020. In addition, he starred in the movie of "The Evil Thief's White Bone Clothes"（《魔盜白骨衣》）, which was adapted from the novel written by Antusheng, an Internet writer. The movie is divided into two parts and the first part has been already released in Youku on 5 February 2020, achieving satisfactory results in box office and reputation during the release. In addition, the movie won the Gold Award at the Jakarta International Film & Art Festival Awards and its second part is expected to release in the second half of 2020. Chen Xinzhe's recently starring in an Internet drama "《我在六扇門的日子》" as the lead actor, which is co-presented by iQiyi Literature has finished filming at end of 2019 and expected to release online after June 2020. Apart from his impressive achievements in the movies/TV and music sectors, his accomplishment also extended to charitable events through participation in the "Charity Walk for Tibet"*（《千里西藏助學行》）of "Xiantou Commonwealth"*（線頭公益）and the "Support! Free Lunch"*（《支持，免費午餐》）of Tencent Foundation, supporting the children in need with actions. We will strive to secure more commercial advertisement jobs for our artists and leverage on the facilities available in our Lajin Base to provide necessary trainings and shooting/production environment, enabling our future stars to shine.

Affected by the COVID-19 pneumonia epidemic, the filming of most film and television projects throughout the country were suspended during this period. It is expected to seriously hit the income of the Group's artists in the first half of the year. In addition, the Group has discharged several artists to remain the quality ones in the past year. These factors affected the profit forecast of the previously acquired artist agency. Therefore, the Group has made impairments for the goodwill and the exclusive agency rights of artists of this subsidiary in 2019. The Group will endeavor to search for more talented artists and create returns and contribution for this business segment.

Music

Lajin Music has augmented the copyright of a large number of high quality original music compositions through the past 2-year efforts, covering a variety of mainstream and non-mainstream music in styles of pop, rock, classical, folk, electronic, rap, etc.

The Group has developed a comprehensive music promotion and distribution network and commenced copyright operation in full swing: Lajin Music collaborated with various domestic mainstream music platforms, such as QQ Music, KuGou Music, Kuwo Music, NetEase Cloud Music, Xiami Music as well as TikTok and gradually opened overseas issuance channels. It also established strategic partnerships with nearly 100 radio stations and internet radio channels in China.

During the current period, Lajin Music (拉近音樂) provided support to the Group's film and artist management businesses with its music creation, and also produced and distributed music products for several movies/TV dramas and artists. Lajin Music/Huo Miao has become one of the three interrelated industry chains of the Group.

Lajin Base

Lajin Base (the "Base") located in Yi Zhuang (亦莊), Beijing comprises two 6-storey buildings of approximately 5,600 square metres in total and houses various facilities and functionalities, including top-tier recording studios, dance studios, band rooms, styling salons, theatres, live broadcasting facilities, intelligent programmes productions, talents development, media post-productions and copyrights management. Lajin Base is the most strategic and forward-looking business framework of Lajin Entertainment Network. Equipped with first-class facilities of the country, it possesses independent intellectual property rights and high-tech connectivity combining first-class functions such as Internet entertainment, stars nurturing, movie and video production, interaction with fans and master's studios.

In order to maximize the value of the Base, the Base will become the focal point to develop two new business segments, which are believed to bring significant revenue and steady growth to the Group:

Performing arts training business

The Group established a joint venture with well-known enterprises and a top artist in the industry. Leveraging on the top-tier hardware configuration of the Base, the Group integrated the resources and experience of each shareholder in film and television, variety shows and internet celebrities over the years to launch the performing arts training business, which set a new direction for the nurturing of stars. The training business has three major aspects, namely film and television, music and variety shows and form the course foundation. The training business fully integrates the artists'skills required for film crews, selection through variety shows and internet celebrity reposition into the courses of the training system. Utilizing the relations resources of each shareholder, the Group invited film and television stars, famous musicians, professional dancers, variety shows casting directors, top traffic internet artists and mentors of top art institutions in Asia to create a comprehensive, professional and standardized star-making service platform.

Internet Celebrity E-commerce Business

According to the statistics of a professional institution*, the number of live streaming and short-form video users in China increased year-on-year, reaching 456,000,000 and 648,000,000, respectively, as of 2018, representing a year-on-year increase of 14.6% and 58.0%, respectively, as compared to 2017. In the same year, the number of internet celebrities with over 100,000 fans in China also increased by 51% year-on-year, and the number of top internet celebrities (with over 1,000,000 fans) increased by 23%, as compared to 2017. As of April 2018, the total number of fans of internet celebrities in China was close to 600,000,000, representing a year-on-year increase of 25%. The continuous growth in both the number of internet celebrities and the number of fans laid a solid foundation for the internet celebrity e-commerce business (that sells goods through live streaming of internet celebrities). Promoting sales by internet celebrities have become a new trend in e-commerce and have great potential for commercial value. According to the forecast of the institutions, the GMV of internet celebrity e-commerce driven by mainstream platforms will reach RMB700,000,000,000 in 2020.

In 2017, the Group made strategic investment in "Face Towards the Sea" (面朝大海) Company to set a stage for developing the internet celebrity e-commerce business. Through years of development, abundant internet celebrity resources, channel resources, brand resources and industry knowledge has been accumulated. Leveraging on the top live streaming system and other hardware and software facilities in Lajin Base, the Group intends to plan and launch a live streaming program

* *Source: Re-discussion on Internet Celebrity E-commerce 《扁舟一夜東風起 — 對網紅電商的再討論》published in Soochow Securities*

for internet celebrity with entertainment features in 2020. Through the program, the Group can shortlist quality internet celebrities and is advantageous in internet celebrity nurturing. Meanwhile, the Group will jointly promote the merchant brand via video platforms and e-commerce platforms to achieve sales in the program, creating a win-win results for all parties.

The Group will take the live e-commerce show as the starting point, and combine its advantages in content production and creative distribution, continue to put more efforts in the area of internet celebrity economy, deliver content materials, serve the brands of merchants, connect the economic industry chain of internet celebrity and e-commerce, and drive the development of internet celebrity economy industry through content output.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER

With effect from 11 July 2019, the address of the branch share registrar and transfer office in Hong Kong was changed to Level 54, Hopewell Centre, 183 Queen East, Hong Kong.

CHANGE IN DIRECTOR

After the conclusion of the AGM on 21 June 2019, Mr. Luo Ning retired as a non-executive Director.

FINANCIAL REVIEW

The revenue of the Group was approximately HK$31,868,000 for the year ended 31 December 2019 (2018: HK$43,133,000). It was mainly generated from the provision of artists management and investment in movies, TV programmes and internet contents, representing a decrease of 26.1% as compared to last year. The decrease was mainly attributable to the decrease in revenue from the Group's Movies, TV programmes and internet content business.

Cost of sales for the year ended 31 December 2019 decreased to approximately HK$34,310,000 (2018: HK$123,540,000), was mainly due to that the films and TV series which incurred heavy losses were accounted for in last year.

During the year, loss for the year attributable to owners of the parent was approximately HK$87,588,000 (2018: loss of HK$236,071,000). The decrease in loss was primarily due to the decrease in losses recorded by the aforesaid TV/film related projects and the impairment of other TV/film related projects.

Movies, TV programmes and internet contents

During the year under review, the revenue contributed by such segment was approximately HK$29,266,000 (2018: HK$40,574,000), mainly representing the sales of film rights and film distribution revenue.

Artists Management

During the year under review, the revenue contributed by such segment was approximately HK$2,602,000 (2018: HK$2,559,000).

Administrative expenses

Administrative expenses were mainly the staff costs, operating lease expenses, depreciation of fixed assets and amortization expenses and other general administrative expenses of the Group incurred during the year under review. Administrative expenses decreased to approximately HK$49,059,000 from approximately HK$78,265,000 in the prior year primarily due to the reduction of staff cost during the year.

Liquidity and Financial Resources

At 31 December 2019, the Group had total assets of approximately HK$594,099,000 (2018: HK$700,788,000), including cash and cash equivalents of approximately HK$122,454,000 (2018: HK$180,393,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities.

CONTRACTUAL ARRANGEMENTS UNDER THE STRUCTURED CONTRACTS

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

PRC rules and regulations

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

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

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

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

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

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

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

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

The registered owners of the OPCOs are Ms. Zhai Shan Shan, director of the Company who has been appointed on 1 December 2018, and an employee of the Group ("Registered Owner"). The OPCOs, Registered Owners have respectively entered into the relevant structured contracts (the "Structural Contracts") with Beijing Lajin Hudong Chuanmei Keji Company Limited (北京拉近互動傳媒科技有限公司) (the "WOFE", an indirect wholly-owned subsidiary of the Company). The Structured Contracts are designed to provide the Company with an effective control over and the right to enjoy the economic benefits and risks in and/or assets of OPCOs. Through the Structural Contracts, the control and economic benefits and risks from the business of OPCOs will flow to WOFE. For accounting purposes, OPCOs are regarded as indirect wholly owned subsidiaries of the Company.

Major terms of the Structured Contracts

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

Ms. Zhai Shan Shan, an executive director of the Company was appointed as sole director of the OPCOs to oversee the daily operation of the OPCOs. The Directors consider that the possibility of material potential conflicts of interest between the Company and the Registered Owners is remote. In case of any material potential conflicts of interest between the Company and the Registered Owners, the Board will ensure that any material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when the Company becomes aware of such potential conflict. The Board will review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions where necessary.

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

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

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

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

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

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

Exclusive Option Agreement (獨家購買權合同)

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

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

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

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

Equity Pledge Agreements (股權質押協議)

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

Spouse Undertaking (配偶同意函)

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

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

OPCOs' Business activities

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

Under the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證) dated 11 May 2018, 2 September 2018 and 23 June 2017 issued to OPCOs by Beijing Municipal bureau of Press, Publication, Radio, Film and Television (北京市新聞出版廣電局), OPCOs are allowed to engage in the provision and distribution of animation or Television Programmes (other than production of political news and relevant radio and television programmes) and other related business permitted under the relevant PRC rules for a period of two years. Under the Commercial Performance License (營業性演出許可證) dated 14 April 2016 issued to OPCO1 by Beijing Municipal Bureau Of Culture (北京市文化局), OPCO1 is allowed to engage in business of performance brokerage and artists management for a period from 14 April 2016 to 10 June 2020.

The Group has consolidated the financial results of OPCOs and its subsidiaries in its consolidated financial statements in accordance with HKFRSs. For the year ended 31 December 2018 and 2019, the financial results of OPCOs are as below:

	Revenue				**Total Assets**			
						As at 31 Dec		As at 31 Dec
		2019		2018		**2019**		2018
	HK$'000	***%***	*HK$'000*	*%*	***HK$'000***	***%***	*HK$'000*	*%*
OPCO1	**2,722**	**8.5**	4,377	10.1	**19,995**	**3.4**	42,584	6.1
OPCO2	**985**	**3.1**	2,466	5.7	**33,777**	**5.7**	71,656	10.2
OPCO3	**28,154**	**88.3**	33,868	78.5	**192,216**	**32.4**	186,469	26.6

Risk relating to the Structured Contracts

The following risks are associated with the Structured Contracts:

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

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

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

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

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

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

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

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

CAPITAL STRUCTURE

As at 31 December 2019, the Company has in issue a total of 4,209,131,046 ordinary shares.

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities excluding deferred tax liabilities over total equity attributable to owners of the parent, was approximately 13.5% (2018: 12.8%). The change in gearing ratio was mainly derived from the decrease of current liabilities in accruals and other payables from approximately HK$76,563,000 to HK$62,384,000 as compared with that in prior year, and the decrease of total equities attributable to owners of the parent from HK$620,824,000 to HK$525,051,000, also contributed to the increase in the Company's gearing ratio.

CHARGES ON THE GROUP'S ASSETS

At 31 December 2019, the Group did not have any charge on its assets.

Foreign Exchange Risk

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

Commitments

At 31 December 2019, the Group had capital commitments of approximately HK$34,501,000 (2018: HK$68,030,000).

Contingent Liabilities

At 31 December 2019, the Group had no contingent liabilities (2018: Nil).

Employees

At at 31 December 2019, the Group had 49 employees, including approximately 45 employees in PRC and 4 employees in Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performances, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

CONNECTED TRANSACTION

During the year ended 31 December 2019, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements thereunder.

COMPLIANCE WITH LAWS AND REGULATIONS

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

REMUNERATION POLICY

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

PROFILES OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Wu Li

Ms. Wu Li, aged 40, graduated from the University of Electronic Science and Technology of China (（中國）電子科技大學) with a bachelor's degree in English for Science and Technology and has completed the Postgraduate Diploma in Integrated Marketing Communications (IMC) in Institute for China Business of The University of Hong Kong School of Professional and Continuing Education. She currently also serves the Company as executive director, authorised representative and compliance officer. Ms. Wu has over 15 years of experience in cultural and media sector and has extensive marketing experience. She was a senior officer in Jingwen Records Co., Ltd. ("Jingwen") responsible for the production, promotion and copyrights management of audio and video products from 2000 to 2006. She joined Beijing Wellso Pharmaceutical Co., Ltd. (北京華素製藥股份有限公司) in 2006 and was the Brand Director and an assistant to the chairman of the company when she left the company in 2013.

Ms. Zhai Shan Shan

Ms. Zhai Shan Shan ("Ms. Zhai"), aged 38, holds a bachelor degree in International Economy and Trade from Beijing Normal University. Ms. Zhai was the CEO's assistant of Beijing Jingwen Records Communication Co., Ltd.* (北京京文唱片傳播有限公司) from March 2005 to November 2006. From November 2006 to April 2015, Ms. Zhai was the CEO's assistant of Beijing Wellso Pharmaceutical Co., Ltd.. Ms. Zhai was also appointed as the director of Shenzhen Qianhai Huaren Finance Holdings Group Company Limited (深圳前海華人金融控股集團有限公司) from November 2014 to March 2015 and Beijing Centergate Technologies (Holding) Co., Ltd. (stock code: 000931-SZ) from February 2014 to June 2019, respectively. Ms. Zhai is in charge of the Group's internet celebrities nurturing, e-commerce live streaming, internet celebrities marketing and artist management business. She is the liaising representative of the Group's business partners and important resources, and is also responsible for human resources and administrative management within the Group.

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun

Mr. Zou Xiao Chun, aged 50, graduated from the Department of Law of Nanchang University (南昌大學法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國税務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer for 30 years and has practiced in legal areas relating to capital markets in the PRC for 20 years. Mr. Zou is currently a member of the remuneration committee of the Company. In June 2006, Mr. Zou founded Beijing John & Law Firm (北京市中逸律師事務所) and he still serves as a founding partner of this firm. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited (北京中關村科技發展（控股）股份有限公司) (a company listed on the Shenzhen Stock Exchange) and since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), a company owned or controlled by Mr. Wong Kwong Yu. Between June 2011 and June 2014, Mr. Zou was a director and managing Director of Sanlian Commercial Co., Limited (三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange). Since December 2010, Mr. Zou has been an executive director of GOME Retail Holdings Limited (together with its subsidiaries, the "GOME Group"), a company listed on the main board of the Stock Exchange and controlled by Mr. Wong Kwong Yu. From December 2010 to December 2013, Mr. Zou also served as the Vice President and then the Senior Vice President of the GOME Group. From December 2013 to December 2019, Mr. Zou became the director and chairman of YouWan Technology (Beijing) Co., Limited (優萬科技（北京）股份有限公司) (a company listed on National Equities Exchange and Quotations). Mr. Zou was appointed as the managing Director of Beijing YiPing Capital Management Co., Limited and Jian Dao Zhong Chuang Investment Co., Limited in August 2014. Since December 2018, Mr. Zou has been appointed as the Independent Non Executive Director of Beijing Worldia Diamond Tools Co.,Ltd (沃爾德金剛石工具股份有限公司) (a company listed on the STAR Market of the Shanghai Stock Exchange). From March 2015, Mr. Zou has been appointed as the non-executive director of the Company.

Mr. Zhou Ya Fei

Mr. Zhou Ya Fei, aged 52, graduated from the Beijing Institute of Technology with a master's degree. Prior to joining the Group, he was the Chief Financial Officer of GOME Appliance Co., Ltd. from 2000 to 2004, and subsequently remained his position as the Chief Financial Officer for GOME Retail Holdings Limited (Stock Code: 493) from 2004 to 2008 after the asset injection, and has been the executive vice president of GOME Holding Group Company Limited (incorporated in Beijing) since 2009. Mr. Zhou has over 20 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practising) and a registered tax agent (non-practising) in the PRC. Currently, Mr. Zhou serves as member of both audit committee and nomination committee of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung

Mr. Ng Wai Hung, aged 56, is a practising solicitor and a partner in Iu, Lai & Li, Hong Kong. Mr. Ng has been admitted as a Hong Kong solicitor since 1992. Currently, Mr. Ng serves as the chairman of the nomination committee, and member of both audit committee and remuneration committee of the Company. Mr. Ng has been an independent non-executive director of Sustainable Forest Holdings Limited since February 2013, On Time Logistics Holdings Limited since June 2014, Xinyi Automobile Glass Hong Kong Enterprises Limited since July 2016 and 1957 & Co. (Hospitality) Limited since November 2017, Winshine Science Co., Ltd. since May 2019, all being companies listed on the Stock Exchange. Mr. Ng has been a non-executive director of Coolpad Group Limited (a main board listed Company in HK) since January 2018. Mr. Ng was also an independent non-executive director of HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from January 2008 to September 2014, Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) from September 2008 to February 2010, Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited) from January 2013 to August 2014, HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from 10 January 2008 to 27 September 2014, Tech Pro Technology Development Limited from 8 April 2011 to 17 March 2017 Fortune Sun (China) Holdings Limited from June 2006 to September 2017, GOME Retail Holdings Limited from June 2011 to May 2017, Trigiant Group Limited from August 2011 to March 2017 and Kingbo Strike Limited from June 2015 to June 2017 all being companies listed on the Stock Exchange.

Mr. Lam Cheung Shing, Richard

Mr. Lam Cheung Shing, Richard, aged 62, is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently, Mr. Lam serves as the chairman of both the audit committee and the remuneration committee, and as a member of the nomination committee of the Company. Mr. Lam was admitted to the Master's Degree of Business Administration in The Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm, and promoted to be a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Mr. Lam was admitted as an Executive Director of Everchina Int'l. Holdings Company Limited ("Everchina"), a company listed on the Stock Exchange, since September 2001, and is the deputy chairman and chief executive officer of Everchina since June 2009. Prior to joining Everchina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Currently, Mr. Lam is also an Independent Non-executive Director ("INED") of China Water Industry Group Limited, a company listed on the Stock Exchange. During the period from 2001 to 2014, Mr. Lam served as either an INED or executive director in various companies whose shares are listed on the Stock Exchange, including Eagle Legend Asia Limited, Kai Yuan Holdings Limited and China Pipe Group Limited.

Mr. Wang Ju

Mr. Wang Ju, aged 66, received his education from the Beijing Broadcasting Institute 北京廣播學院 (currently known as the Communication University of China (中國傳媒大學)) with a vocal major in the School of Art. Mr. Wang is the former Permanent Vice Chairman and Chief Secretary of the China Audio-Video and Digital Publishing Association (中國音像與數字出版協會). Prior to that, he was a music host of China National Radio 中央電台 (CNR), the chief editor of China Record Corporation (CRC) (中唱), an associate chairperson of the judging panel of the China Gold Record Award (中國金唱片獎) and a member of the judging panel of PRC Outstanding Publication Award (中華優秀出版物評獎), and more actively support the CMIC Music Awards (CMA) (唱工委獎) in recent years which has great influence in the industry, and also participated in the judging panel of various national foundation programmes and various award programmes. He was also a member of the National Technical Committee on Press and Publication Information of Standardization Administration of China (全國新聞出版標準化技術委員) under the Committee Panel of the Standardization Administration of the PRC (國家標準化管理委員會) and involved in the revision of the Copyright Law of the People's Republic of China (中華人民共和國著作權法) and other copyright laws at the invitation of the National Copyright Administration of the PRC (國家版權局) . He is also an expert of the authority in the PRC approving the imported audio and video products from 2010 onwards.

SENIOR MANAGEMENT

Mr. Xu Zhongmin — Chief Strategist

Mr. Xu Zhongmin has extensive business connections and network in the entertainment industry in the PRC. He was the founder of Jingwen. Jingwen was a music producer and was one of the largest music album distributors in the PRC which has fostered a number of famous artists including Han Hong (韓紅), Cui Jian (崔健) and Wang Feng (汪峰). It published and distributed albums of Mao Yamin (毛阿敏), Li Yundi (李雲迪), Lang Lang (郎朗) and other famous artists in the PRC. While Jingwen was developing the local original music, it introduced music albums and video contents from international producers and distributors including Warner Bros. Records, EMI, Universal Music, Universal Picture, Discovery Channel and National Geographic Channel. It extended its business to publication of books and investment in multi-media educational materials. Mr. Xu was also actively involved in the investment in TV programmes and artists management business and has been involved in producing concerts in the PRC and performance show PANDA! in Las Vegas, the United States of America. Mr. Xu is currently the managing Director of Beijing Centergate Technologies (Holding) Co., Ltd. (stock code : 000931.SZ)

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

Mr. Hu Qinggang ("Mr. Hu") has extensive experience in the finance field and had worked in the Finance Department of CITIC Group Corporation, a substantial shareholder of the Company, as the deputy director of the Finance and Planning Division. For the period from October 2006 to March 2020, Mr. Hu held the office of Executive Director, CFO, acting CEO of Frontier Services Group Limited (formerly known as DVN Holdings Limited) (stock code: 500). Mr. Hu holds a bachelor's degree in Economics from the Beijing University of Technology and a master's degree in Economics from the University of International Business and Economics in the PRC. Mr. Hu is currently the CEO of Beijing Lajin Film Co., Ltd. (北京拉近影業有限公司), a subsidiary of the Group.

Mr. Leung Wai Shun, Wilson — CFO and Company Secretary

Mr. Leung Wai Shun, Wilson has over 20 years of experience in the field of auditing, accounting and finance. Mr. Leung held various senior positions in different organisations, including in an international accounting firm and listed companies in Hong Kong. During the period from March 2012 to October 2014, Mr. Leung was appointed as the Director of Yueshou Environmental Holdings Limited (currently known as China Gem Holdings Limited) (stock code: 1191). During the period from October 2015 to November 2016, Mr. Leung served as the Company Secretary of another listed company in Hong Kong. Mr. Leung was the Chief Financial Officer of Zhong Ao Home Group Limited (stock code: 1538) during the period from November 2016 to October 2017 prior to joining the Company. Mr. Leung is currently the Chief Financial Officer and Company Secretary of the Group. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICES

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

Throughout the financial year ended 31 December 2019, the Group has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules save for certain deviations, details of which will be explained in the relevant paragraphs in this report. The Board has, since the amendments to the GEM Listing Rules regarding corporate governance practices were first proposed by the Stock Exchange, continued to monitor and review the Group’s progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Group to ensure awareness to issues regarding corporate governance practices.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group’s business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities. The statement of the auditor of the Company in relation to their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor’s Report on pages 34 to 37 of this annual report.

Composition

As at 31 December 2019, the Board comprises seven Directors: including two executive Directors, namely, Ms. Zhai Shan Shan and Ms. Wu Li, two non-executive Directors, namely, Mr. Zhou Ya Fei and Mr. Zou Xiao Chun, and three independent non-executive directors, namely Mr. Wang Ju, Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard.

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

Biographical details of the Directors are set out in the section of Profiles of Directors and Management on pages 15 to 17.

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

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

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

INDEPENDENCE

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

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

DEVIATION FROM THE CG CODE

Throughout the year ended 31 December 2019, the Company complied with the CG Code in Appendix 15 to the GEM Listing Rules, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (Directors attending general meetings).

(a) Chairman and Chief Executive Officer

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

(b) Terms of non-executive Directors

Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

(c) Non-executive Directors attending general meeting

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

BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

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

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

Name of Director	Board Meetings Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meetings Attended/ Eligible to attend	General Meetings Attended/ Eligible to attend
Ms. Zhai Shan Shan	5/5	N/A	N/A	N/A	1/1
Ms. Wu Li	5/5	N/A	N/A	N/A	0/1
Mr. Zhou Ya Fei	5/5	4/4	N/A	1/1	0/1
Mr. Zou Xiao Chun	5/5	N/A	1/1	N/A	0/1
Mr. Ng Wai Hung	5/5	4/4	1/1	1/1	1/1
Mr. Lam Cheung Shing, Richard	5/5	4/4	1/1	1/1	0/1
Mr. Wang Ju	5/5	N/A	N/A	N/A	0/1

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

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

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

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

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

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

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

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

During the year ended 31 December 2019, apart from the annual general meeting held on 21 June 2019, the Company did not hold any other general meetings.

TRAINING AND SUPPORT FOR DIRECTORS

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

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

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

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. As at 31 December 2019, the remuneration committee consists of two independent non-executive Directors, namely, Mr. Lam Cheung Shing, Richard, Mr. Ng Wai Hung, and one non-executive Director, Mr. Zou Xiao Chun. Mr. Lam Cheung Shing, Richard is the chairman of the committee.

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

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

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

Remuneration (including share-based payment) of senior management other than directors for the full year of 2019:

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

NOMINATION COMMITTEE

A nomination committee was formed with specific written terms of reference on 26 March 2012. As at 31 December 2019, the nomination committee consists of two independent non-executive Directors, namely, Mr. Ng Wai Hung, Mr. Lam Cheung Shing, Richard, and one non-executive Director, Mr. Zhou Ya Fei. Mr. Ng Wai Hung is the chairman of the nomination committee.

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

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

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

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

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

AUDIT COMMITTEE

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

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

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

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

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

As at 31 December 2019, the audit committee has three members, namely Mr. Lam Cheung Shing, Richard (chairman of the audit committee), Mr. Zhou Ya Fei and Mr. Ng Wai Hung, all being independent non-executive Directors except for Mr. Zhou Ya Fei who is a non-executive director of the Company. Mr. Lam Cheung Shing, Richard is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountant. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports.

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

The Company's annual report for the year ended 31 December 2019 has been reviewed by the audit committee. The accounts for the year were audited by Ernst & Young whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that Ernst & Young be nominated for appointment as the auditor of the Company at the forthcoming annual general meeting.

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

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the remuneration in respect of audit services provided by the auditor, Ernst & Young, amounted to HK$850,000 (2018: HK$830,000). For non-audit services, no fees were paid (2018: HK$8,700).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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

CORPORATE GOVERNANCE FUNCTION

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

During the financial year ended 31 December 2019, the Board has reviewed the Company's policies and practices on corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

The Audit Committee and the Board have conducted an ongoing review and monitoring of the effectiveness of the risk management, reviewed and discussed the internal control review reports submitted by the independent professional firm. The Audit Committee and the Board considered that the systems of internal control and risk management were effectively and satisfactorily operated in general and would serve to protect the interest of the shareholders and safeguard the assets of the Group during the year ended 31 December 2019.

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. The company secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The company secretary is also responsible for advising the Board on governance matters. All Directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committee. Mr. Leung Wai Shun Wilson was appointed as the company secretary since 1 October 2018. The biographical details of Mr. Leung are set out in the section of Profiles of Directors and Management on page 17 of this report. Mr. Leung has undertaken not less than 15 hours of relevant professional training to update his skills and knowledge in 2019.

DELEGATION BY THE BOARD

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

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

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

SHAREHOLDERS RELATIONS

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

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

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

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

SHAREHOLDERS' RIGHTS

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

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

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at Unit 3903A, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

INVESTOR RELATIONS

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

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

During the year ended 31 December 2019, there were no significant changes to the Company's constitutional documents.

CONCLUSION

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

REPORT OF THE DIRECTORS

The Directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2019.

BUSINESS REVIEW

The business review of the Company is as set out in the section of "Management Discussion and Analysis" on page 3 to 14 of this annual report.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 38 to 39 of this annual report.

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

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 43 of this annual report and in note 30 to the consolidated financial statements respectively.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2019 amounting to HK$478,940,000 (2018: HK$542,858,000).

PUBLIC FLOAT

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

DIRECTORS

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

Executive Directors

Ms. Zhai Shan Shan
Ms. Wu Li

Non-Executive Directors

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

Independent Non-Executive Directors

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

Pursuant to Article 87(1) and 86(2) of the Bye-laws, Ms. Wu Li, Mr. Ng Wai Hung and Mr. Wang Ju will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

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

At 31 December 2019 the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

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

Name of Director	Capacity	Number of issued ordinary shares held	Number of share options held	Number of options lapsed	Approximate percentage of the issued share capital of the Company
Ms. Zhai Shan Shan	Beneficial owner	–	6,000,000	(6,000,000)	–
Ms. Wu Li	Beneficial owner	–	8,000,000	(8,000,000)	–
Mr. Zhou Ya Fei	Beneficial owner	–	1,000,000	(1,000,000)	–
Mr. Zou Xiao Chun	Beneficial owner	–	1,000,000	(1,000,000)	–
Mr. Ng Wai Hung	Beneficial owner	–	1,000,000	(1,000,000)	–
Mr. Lam Cheung Shing, Richard	Beneficial owner	–	1,000,000	(1,000,000)	–
Mr. Wang Ju	Beneficial owner	–	1,000,000	(1,000,000)	–

Save as disclosed above, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2019.

SHARE OPTION SCHEME

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

Details of the options outstanding as at 31 December 2019 which have been granted to directors or chief executives under the Share Option Scheme are as follows:

	Option type	Number of share options				
		Outstanding at 1 January 2019	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Outstanding at 31 December 2019
Other employees	2016A	15,000,000	–	–	(15,000,000)	–
		15,000,000	–	–	(15,000,000)	–
Exercisable at the end of the reporting period at HK$1.088 each						–
Weighted average exercise price		HK$1.088	HK$1.088	–	HK$1.088	HK$1.088

Details of the specific categories of options are as follows:

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

During the year, no options were granted or exercised, and a total of 15,000,000 options were expired under the Share Option Scheme. There are no option outstanding as at 31 December 2019.

The total number of shares of the Company available for issue under the Share Option Scheme amounts to 156,967,477 shares as at the date of this report, representing 3.73% of the issued share capital outstanding. Details of the movement of the share option are set out in note 29 to the financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

DIRECTORS' INTEREST IN CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 2019, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

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

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

Notes:

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

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

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

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

Save as disclosed above, at 31 December 2019, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales

— the largest customer	61.8%
— five largest customers combined	92%

Purchases

— the largest supplier	22%
— five largest suppliers combined	61.5%

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

CONNECTED TRANSACTION

During the year ended 31 December 2019, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements thereunder.

CONFIRMATION OF INDEPENDENCE

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

CHANGE IN AUDITORS IN THE PRECEDING 3 YEARS

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

AUDITOR

The account for the year ended 31 December 2019 were audited by Ernst & Young whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of Ernst & Young as the auditor of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhai Shan Shan
Director

Hong Kong, 14 May 2020

INDEPENDENT AUDITOR'S REPORT

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

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
www.ey.com

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

OPINION

We have audited the consolidated financial statements of Lajin Entertainment Network Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 120, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, 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 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of film rights and films and TV programmes under production	
As at 31 December 2019, the Group had film rights and films and TV programmes under production with a carrying amount of approximately HK$157.2 million stated at cost less accumulated amortisation and any impairment losses. At the end of each reporting period, both internal and external market information is considered to assess whether there is any indication that film rights and films and TV programmes under production are impaired. An impairment loss is recognised to reduce an asset to its estimated recoverable amount. Management's assessment process for the impairment of film rights and films and TV programmes under production is complex, highly judgemental and is based on assumptions, which are affected by the expected future film market and customers' demand. Relevant disclosures are included in notes 3 and 21 to the financial statements.	We reviewed and assessed management's impairment assessment and the rationale for recording the specific impairment. Our audit procedures included inquiring management on the method used in the impairment assessment, reviewing management's analysis of the main artists and directors' recent works of the films/programmes and the targeted markets of the films/programmes, assessing the methodologies and assumptions used by management in determining the recoverable amounts of film rights and films and TV programmes under production. We also evaluated management's business plans with reference to the market situation. We also assessed the appropriateness of the Group's disclosure of the impairment of film rights and films and TV programmes under production in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- 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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
14 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**31,868**	43,133
Cost of sales		**(34,310)**	(123,540)
Gross loss		**(2,442)**	(80,407)
Other income and gains/(losses)	5	**(11,358)**	7,163
Selling and distribution expenses		**(395)**	(7,201)
Administrative expenses		**(49,059)**	(78,265)
Other expenses		**(25,589)**	(76,760)
Finance costs		**(235)**	(854)
Share of profits and losses of:			
Associates	14	**(363)**	(1,234)
A joint venture	15	**(477)**	548
LOSS BEFORE TAX	6	**(89,918)**	(237,010)
Income tax credit	9	**742**	92
LOSS FOR THE YEAR		**(89,176)**	(236,918)
Attributable to:			
Owners of the parent		**(87,588)**	(236,071)
Non-controlling interests		**(1,588)**	(847)
		(89,176)	(236,918)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	**HK(2.08) cents**	HK(5.61) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
LOSS FOR THE YEAR		**(89,176)**	(236,918)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(6,971)**	(31,316)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value, net of tax		**(1,477)**	(11,335)
Share of other comprehensive gain/(loss) of an associate	*14*	**286**	(355)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(1,191)**	(11,690)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(8,162)**	(43,006)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(97,338)**	(279,924)
Attributable to:			
Owners of the parent		**(95,773)**	(279,127)
Non-controlling interests		**(1,565)**	(797)
		(97,338)	(279,924)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**108,169**	118,784
Financial assets at fair value through profit or loss	13	**–**	6,512
Investments in associates	14	**35,050**	40,878
Investment in a joint venture	15	**–**	17,031
Equity investments designated at fair value through other comprehensive income	16	**10,721**	12,393
Goodwill	17	**–**	4,626
Right-of-use assets	18	**5,645**	–
Other non-current assets		**2,718**	6,711
Total non-current assets		**162,303**	206,935
CURRENT ASSETS			
Trade receivables	19	**5**	2,379
Contract assets	20	**714**	–
Film rights and films and TV programmes under production	21	**157,206**	169,144
Investments in film	22	**6,516**	4,554
Prepayments, other receivables and other assets	23	**144,901**	137,383
Cash and cash equivalents	24	**122,454**	180,393
Total current assets		**431,796**	493,853
CURRENT LIABILITIES			
Trade payables	25	**2,778**	2,827
Other payables and accruals	26	**62,384**	76,563
Lease liabilities	18	**4,871**	–
Total current liabilities		**70,033**	79,390
NET CURRENT ASSETS		**361,763**	414,463
TOTAL ASSETS LESS CURRENT LIABILITIES		**524,066**	621,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*27*	**–**	744
Lease liabilities	*18*	**751**	–
Total non-current liabilities		**751**	744
Net assets		**523,315**	620,654
EQUITY			
Equity attributable to owners of the parent			
Share capital	*28*	**42,090**	42,090
Reserves	*30*	**482,961**	578,734
		525,051	620,824
Non-controlling interests		**(1,736)**	(170)
Total equity		**523,315**	620,654

Wu Li
Director

Zhai Shanshan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to owners of the parent										
	Notes	Share capital *HK$'000*	Share premium *HK$'000* *(note i)*	Fair value reserve *HK$'000*	Share-based payment reserve *HK$'000* *(note ii)*	Contributed surplus *HK$'000* *(note iii)*	Other reserve *HK$'000* *(note iv)*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Subtotal *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2018		42,090	1,138,909	68	21,024	28,294	14,476	2,462	(347,037)	900,286	257	900,543
Loss for the year		–	–	–	–	–	–	–	(236,071)	(236,071)	(847)	(236,918)
Other comprehensive loss for the year:												
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	(11,335)	–	–	–	–	–	(11,335)	–	(11,335)
Share of other comprehensive loss of an associate	*14*	–	–	–	–	–	(355)	–	–	(355)	–	(355)
Exchange differences arising from the translation of foreign operations		–	–	–	–	–	–	(31,366)	–	(31,366)	50	(31,316)
Total comprehensive loss for the year		–	–	(11,335)	–	–	(355)	(31,366)	(236,071)	(279,127)	(797)	(279,924)
Acquisition of non-controlling interests		–	–	–	–	–	(335)	–	–	(335)	335	–
Deregistration of subsidiaries		–	–	–	–	–	–	–	–	–	35	35
Transfer of share-based payment reserve upon the expiry of share options	*29*	–	–	–	(17,950)	–	–	–	17,950	–	–	–
At 31 December 2018		42,090	1,138,909	(11,267)	3,074	28,294	13,786	(28,904)	(565,158)	620,824	(170)	620,654

		Attributable to owners of the parent										
	Notes	Share capital *HK$'000*	Share premium *HK$'000*	Fair value reserve *HK$'000*	Share-based payment reserve *HK$'000*	Contributed surplus *HK$'000*	Other reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Subtotal *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
			(note i)		*(note ii)*	*(note iii)*	*(note iv)*					
At 1 January 2019		42,090	1,138,909	(11,267)	3,074	28,294	13,786	(28,904)	(565,158)	620,824	(170)	620,654
Loss for the year		–	–	–	–	–	–	–	(87,588)	(87,588)	(1,588)	(89,176)
Other comprehensive loss for the year:												
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	(1,477)	–	–	–	–	–	(1,477)	–	(1,477)
Share of other comprehensive loss of an associate	14	–	–	–	–	–	286	–	–	286	–	286
Exchange differences arising from the translation of foreign operations		–	–	–	–	–	–	(6,994)	–	(6,994)	23	(6,971)
Total comprehensive loss for the year		–	–	(1,477)	–	–	286	(6,994)	(87,588)	(95,773)	(1,565)	(97,338)
Deregistration of subsidiaries		–	–	–	–	–	–	–	–	–	(1)	(1)
Transfer of share-based payment reserve upon the expiry of share options	29	–	–	–	(3,074)	–	–	–	3,074	–	–	–
At 31 December 2019		42,090	1,138,909*	(12,744)*	–*	28,294*	14,072*	(35,898)*	(649,672)*	525,051	(1,736)	523,315

* These reserve accounts comprise the consolidated other reserves of HK$482,961,000 (2018: HK$578,734,000) in the consolidated statement of financial position

Notes:

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(89,918)**	(237,010)
Adjustments for:			
Bank interest income	5	**(552)**	(1,276)
Finance costs		**235**	854
Share of losses of associates and a joint venture		**840**	686
Remeasurement loss on investment in a joint venture for step acquisition	5	**6,727**	—
Depreciation of property, plant and equipment	6	**10,180**	12,230
Depreciation of right-of-use assets	6	**2,935**	—
Amortisation of other non-current assets	6	**1,131**	1,116
Loss on disposal of property, plant and equipment	6	**45**	324
Impairment loss recognised in respect of films and TV programmes under production	6	**7,310**	41,882
Loss on disposal of other non-current assets	6	**357**	460
Fair value losses of financial assets at fair value through profit or loss	5	**6,512**	747
Impairment loss on investment in an associate	6	**5,498**	3,342
Impairment loss on goodwill	6	**4,611**	—
Impairment loss on other non-current assets	6	**2,477**	—
Impairment loss on other receivables, net	6	**3,619**	31,536
Impairment loss on prepayments	6	**2,074**	—
Income on film investments	5	**(685)**	(2,492)
		(36,604)	(147,601)
Decrease/(increase) in trade receivables		**2,366**	(2,442)
Increase in prepayments, other receivables and other assets		**(13,313)**	(40,193)
Decrease in film rights and films and TV programmes under production		**4,668**	80,225
Increase in contract assets		**(724)**	—
(Decrease)/increase in other payables and accruals		**(8,800)**	8,928
Decrease in an amount due to a shareholder		**—**	(30)
Cash used in operations		**(52,407)**	(101,113)
Bank interest received		**552**	1,498
Net cash flows used in operating activities		**(51,855)**	(99,615)

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,390)**	(2,587)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	*31*	**4,067**	—
Purchase of other non-current assets		**—**	(1,429)
Investments in film		**(15,142)**	(4,981)
Proceeds from investments in film		**12,092**	—
Proceeds from disposal of items of property, plant and equipment		**—**	7
Net cash flows used in investing activities		**(1,373)**	(8,990)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Payments of lease liabilities	*18(b)*	**(1,951)**	—
Interest paid		**—**	(854)
Net cash flows used in financing activities		**(1,951)**	(854)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(55,179)**	(109,459)
Cash and cash equivalents at beginning of year		**178,048**	296,141
Effect of foreign exchange rate changes, net		**(2,779)**	(8,634)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**120,090**	178,048
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**79,408**	137,484
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**40,682**	40,564
Cash and cash equivalents as stated in the statement of cash flows	*24*	**120,090**	178,048

1. CORPORATE INFORMATION

Lajin Entertainment Network Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3903A, Far East Finance Centre,16 Harcourt Road, Admiralty, Hong Kong, respectively.

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

- Artists management service; and

- Movies, TV programmes and internet contents services.

Particulars of the Company's principal subsidiaries are set out in note 39 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("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, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income. These financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. 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.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	5,954
Decrease in prepayments, other receivables and other assets	(1,247)
Increase in total assets	4,707
Liabilities	
Increase in lease liabilities	4,707
Increase in total liabilities	4,707

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	**5,242**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	228
Commitments relating to leases of low-value assets	24
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	4,707
Lease liabilities as at 1 January 2019	**4,707**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and a joint venture upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and a joint venture continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. As the group did not have intergoup sales, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption

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

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

or

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

   (i) the entity and the Group are members of the same group;

   (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

   (iii) the entity and the Group are joint ventures of the same third party;

   (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) *(continued)*

(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.

Property, plant and equipment and depreciation

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

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

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

Buildings	2.4% to 10%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and equipment	20%
Computer equipment	$33\frac{1}{3}\%$
Motor vehicles	25%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

Film rights and films and TV programmes under production

Film rights

Film rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). The Group amortises costs of film rights based on the expected pattern of consumption of the expected future economic benefits. The Group begins to amortise the capitalised costs of film rights when a film is released and it begins to recognise revenue from that film.

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

Films and TV programmes under production

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

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

Investments in film

The Group has certain investments in film projects which entitles the Group to receive a fixed and/or variable income based on the Group's investment amount and expected rate of return as specified in respective film investment agreements. The investments are carried at cost less any identified impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	3 to 4 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipments that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through the statement of profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due for a long period of time. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement

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

Financial liabilities at amortised cost

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 statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of profit or loss.

Offsetting of financial instruments

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

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.

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation 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.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Artists management service income is recognised over the scheduled period on a straight-line basis because the customers simultaneously receive and consume the services rendered by the artists of the Group as the Group performs.

Revenue from the sale of film rights is recognised at a point in time when the control of assets is transferred to customers, major obligations in the agreement has been fulfilled and the right to receive payment is established.

Film production and distribution income is recognised based on the pre-determined share of the distributable box office receipts from the public screening of the related films set out in the respective film investment agreements when the film is released.

TV and internet programme revenue is recognised when master tapes and materials have been delivered to television stations and online entertainment content platforms and right to play has been licensed in accordance with the terms of the underlying agreements and the right to receive payment is established, based on the pre-determined share of the sales proceeds from the licensing of the related TV and internet programme set out in the respective agreements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from other sources

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

Other income

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

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

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

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

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

Other employee benefits

Pension schemes

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Pension schemes *(continued)*

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 a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of the Group's certain overseas subsidiaries, joint venture and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Accounting for companies governed under contractual arrangements as subsidiaries

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

The Group's revenue generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately HK$31,861,000 (2018: HK$40,711,000) for the year ended 31 December 2019. At 31 December 2019, total assets and total liabilities of these entities amounted to approximately HK$245,988,000 (2018: HK$300,709,000) and HK$16,505,000 (2018: HK$17,918,000), respectively.

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

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.

Impairment of film rights and films and TV programmes under production

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

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

These estimated recoverable amount can change significantly due to a variety of factors. Such change in estimations may result in the write-down of the carrying values of the assets to their recoverable amounts. This could have an impact on the Group's results of operations. The carrying amounts of film rights and films and TV programmes under production are disclosed in note 21 to the financial statements.

Provision for expected credit losses on other receivables

The loss allowances for other receivables are based on assumptions about risk of default and expected loss rates. The Group makes adjustment in making these assumptions and selecting the inputs to the expected credit loss calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. The information about the provision for expected credit losses on the Group's other receivables is disclosed in note 23 to the financial statements.

Impairment of non-financial assets (other than goodwill and film rights and films and TV pragrammes under production)

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

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

Estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was nil (2018: HK$4,626,000). Further details are given in note 17.

Income taxes

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

4. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that impairment loss recognised in respect of other receivables, impairment loss on prepayments, impairment loss on investment in an associate, loss arising on change in fair value in respect of financial assets at fair value through profit or loss, share of profit/(loss) of a joint venture, share of profits and losses of associates, remeasurement loss on investment in a joint venture for step acquisition, impairment loss on goodwill as well as head office and corporate income and expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

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

	Artists management		Movies, TV programmes and internet contents		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue *(note 5)*						
Revenue to external customers	**2,602**	2,559	**29,266**	40,574	**31,868**	43,133
Segment results	**(8,877)**	(20,740)	**(47,990)**	(168,999)	**(56,867)**	(189,739)
Reconciliation:						
Unallocated other income					**104**	1,365
Corporate and other unallocated expenses					**(3,274)**	(12,325)
Impairment loss recognised in respect of other receivables, net					**(3,619)**	(31,536)
Impairment loss on prepayments					**(2,074)**	–
Impairment loss on investment in an associate					**(5,498)**	(3,342)
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss					**(6,512)**	(747)
Share of profit/(loss) of a joint venture					**(477)**	548
Share of profits and losses of associates					**(363)**	(1,234)
Remeasurement loss on investment in a joint venture for step acquisition					**(6,727)**	–
Impairment loss on goodwill					**(4,611)**	–
Loss before tax					**(89,918)**	(237,010)

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

4. OPERATING SEGMENT INFORMATION *(continued)*

(b) Other segment information

	Artists management		Movies, TV programmes and internet contents		Unallocated		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of property, plant and equipment	**943**	853	**9,237**	10,861	**–**	516	**10,180**	12,230
Impairment loss recognised in respect of films and TV programmes under production	**–**	–	**7,310**	41,882	**–**	–	**7,310**	41,882
Impairment loss recognised in respect of other receivables, net	**13**	1,045	**3,606**	30,491	**–**	–	**3,619**	31,536
Impairment loss on other non-current assets	**2,477**	–	**–**	–	**–**	–	**2,477**	–
Loss on disposal of other non-current assets	**357**	–	**–**	–	**–**	–	**357**	–
Investments in associates	**–**	–	**21,123**	29,082	**13,927**	11,796	**35,050**	40,878
Investment in a joint venture	**–**	–	**–**	17,031	**–**	–	**–**	17,031
Capital expenditure*	**109**	2,242	**1,477**	1,860	**–**	9	**1,586**	4,111

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

(c) Geographical information

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

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

	Revenue from external customers		Non-current assets*	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**31,868**	42,665	**130,459**	158,948
Hong Kong	**–**	468	**–**	–
Korea	**–**	–	**21,123**	29,082
	31,868	43,133	**151,582**	188,030

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

4. OPERATING SEGMENT INFORMATION *(continued)*

(d) Information about major customers

Revenue from customers for the years ended 31 December 2019 and 2018 which individually amounted to contributing over 10% of the total revenue of the Group is as follows:

	Reporting segment	**2019** **HK$'000**	2018 HK$'000
Customer A	Movies, TV programmes and internet contents	**–**	26,081
Customer B	Movies, TV programmes and internet contents	**–**	5,134
Customer C	Movies, TV programmes and internet contents	**18,498**	–
Customer D	Movies, TV programmes and internet contents	**3,751**	–
Customer E	Movies, TV programmes and internet contents	**3,684**	–

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue is as follows:

	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers	**31,868**	43,133

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES) *(Continued)*

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019	2018
	HK$'000	*HK$'000*
Type of goods or services		
TV and internet programme	**48**	33,773
Film distribution	**7,739**	4,286
Sales of film rights	**21,353**	2,437
Artists management	**2,602**	2,559
Others	**126**	78
Total Revenue from contracts with customers	**31,868**	43,133
Geographical markets		
Mainland China	**31,868**	42,665
Hong Kong	**–**	468
	31,868	43,133
Timing of revenue recognition		
Transferred at a point in time	**29,266**	40,574
Transferred over time	**2,602**	2,559
	31,868	43,133

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	HK$'000	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of film rights	**804**	–
Artists management	**100**	–
	904	–

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES) *(Continued)*

Revenue from contracts with customers *(Continued)*

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

TV and internet programme

The performance obligation is satisfied when master tapes and materials have been delivered to television stations and online entertainment content platforms and right to pay has been licensed in accordance with the terms of the underlying agreements.

Film distribution

The performance obligation is satisfied when the film is released.

Sales of film rights

The performance obligation is satisfied when control of assets is transferred to the customers and major obligation in the agreement has been fulfilled.

Artists management

The performance obligation is satisfied over time because the customers simultaneously receive and consume the services rendered by the artists of the Group as the Group performs.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Amounts expected to be recognised as revenue:		
Within one year	**17**	904

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES) *(Continued)*

Revenue from contracts with customers *(Continued)*

(b) Performance obligations *(Continued)*

Artists management (Continued)

	2019 *HK$'000*	2018 *HK$'000*
Other income		
Interest income on film investments	–	2,293
Income on film investments	685	199
Bank interest income	552	1,276
Consultancy service income	–	1,119
Rental income	–	2,368
Others	777	1,314
	2,014	8,569
Gains/(losses)		
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss (note 13)	(6,512)	(747)
Loss on disposal of other non-current assets	(357)	(460)
Loss on disposal of property, plant and equipment	(45)	(324)
Remeasurement loss on investment in a joint venture for step acquisition	(6,727)	–
Exchange differences, net	70	160
Others	199	(35)
	(13,372)	(1,406)
	(11,358)	7,163

6. LOSS BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of film and TV programme rights		**32,683**	121,142
Cost of artists management services		**1,627**	2,398
Total cost of sales		**34,310**	123,540
Auditor's remuneration		**850**	884
Depreciation of property, plant and equipment	*12*	**10,180**	12,230
Depreciation of right-of-use assets	*18(a)*	**2,935**	—
Operating lease rentals in respect of rented premises		**—**	7,812
Lease payments not included in the measurement of lease liabilities	*18(c)*	**624**	—
Amortisation of other non-current assets		**1,131**	1,116
Loss on disposal of other non-current assets		**357**	460
Remeasurement loss on investment in a joint venture for step acquisition	*15*	**6,727**	—
Impairment loss on goodwill*	*17*	**4,611**	—
Impairment loss on other non-current assets*		**2,477**	—
Impairment loss on investments in an associate*	*14*	**5,498**	3,342
Loss on disposal of property, plant and equipment		**45**	324
Impairment loss recognised in respect of film rights and films and TV programmes under production*	*21*	**7,310**	41,882
Impairment loss on other receivables, net*	*23*	**3,619**	31,536
Impairment loss on prepayments*		**2,074**	—
Staff costs (excluding directors' remuneration):			
— Salaries and allowances		**13,895**	27,251
— Pension scheme contributions**		**1,292**	2,766
		15,187	30,017

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

** As at 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2018: Nil).

7. DIRECTORS' REMUNERATION

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

For the year ended 31 December 2019:

	Fees *HK'000*	Salaries, and allowances *HK'000*	Pension scheme contributions *HK'000*	Total *HK'000*
Executive director:				
Ms. Wu Li	–	566	57	623
Ms. Zhai Shanshan	–	869	50	919
Non-executive directors:				
Mr. Zou Xiao Chun	–	–	–	–
Mr. Zhou Ya Fei	–	–	–	–
Mr. Luo Ning[1]	–	–	–	–
Independent non-executive directors:				
Mr. Lam Cheung Shing Richard	240	–	–	240
Mr. Ng Wai Hung	240	–	–	240
Mr. Wang Ju	240	–	–	240
	720	1,435	107	2,262

1 On 21 June 2019, Mr. Luo Ning resigned from the position of non-executive director of the Company.

7. DIRECTORS' REMUNERATION *(continued)*

For the year ended 31 December 2018:

	Fees	Salaries, and allowances	Pension scheme contributions	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*
Executive director:				
Ms. Wu Li	—	765	42	807
Mr. Chan Kam Kwan, Jason[1]	—	1,050	15	1,065
Ms. Zhai Shanshan[2]	—	82	5	87
Non-executive directors:				
Mr. Zou Xiao Chun	—	—	—	—
Mr. Zhou Ya Fei	—	—	—	—
Mr. Luo Ning	—	—	—	—
Independent non-executive directors:				
Mr. Lam Cheung Shing Richard	240	—	—	240
Mr. Ng Wai Hung	240	—	—	240
Mr. Wang Ju	240	—	—	240
	720	1,897	62	2,679

1 On 1 November 2018, Mr. Chan Kam Kwan, Jason resigned from the positions of executive director, the Company secretary and authorised representative of the Company due to his other business commitment.

2 On 1 December 2018, Ms. Zhai Shanshan was appointed as an executive director of the Company. The remuneration disclosed above represented her remuneration during her tenure as executive director of the Company.

In prior year, certain directors were granted share options in respect of their services to the group, further details of which are included in the note 29 to the consolidated financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant. During the year ended 31 December 2019, no share option expense was recognised by the Group (2018: Nil) and no amount is included in the above directors' remuneration disclosures (2018: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: two directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are not directors of the Company are as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries and allowances	**2,475**	2,644
Pension scheme contributions	**163**	99
	2,638	2,743

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following bands:

	2019	2018
HK$500,001 to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

In prior years, two non-director highest paid employees were granted share options in respect of their services to the Group, further details of which are included in the note 29 to the consolidated financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant. During the year ended 31 December 2019, no share option expense was recognised by the Group and included in the emolument disclosures of five highest paid individuals above (2018: Nil).

9. INCOME TAX CREDIT

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) of 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.

	2019	2018
	HK$'000	*HK$'000*
Deferred	**(742)**	(92)
Total tax credit for the year	**(742)**	(92)

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

9. INCOME TAX CREDIT *(Continued)*

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

	2019 ***HK$'000***	2018 *HK$'000*
Loss before tax	**(89,918)**	(237,010)
Tax at the statutory tax rates	**(20,383)**	(56,447)
Profits and losses attributable to associates and a joint venture	**(24)**	172
Expenses not deductible for tax	**1,465**	1,290
Income not subject to tax	**(66)**	(166)
Tax losses not recognised	**18,402**	55,059
Tax effect of utilisation of tax losses previously not recognised	**(136)**	–
Tax credit for the year	**(742)**	(92)

There was no share of tax attributable to associates (2018: HK$1,000) and a joint venture (2018: Nil) included in "Share of profits and losses of associates and a joint venture" in the consolidated statement of profit or loss.

10. DIVIDEND

No dividend was paid or proposed during 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$87,588,000 (2018: HK$236,071,000), and the weighted average number of ordinary shares of 4,209,130,000 (2018: 4,209,130,000) in issue during the year.

As the Company's share options had an anti-dilutive effect on the basic loss per share calculation for the years ended 31 December 2019 and 2018, the conversion of the above potential dilutive shares was not assumed in the calculation of diluted loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improvements	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2018	116,862	5,199	16,587	5,865	1,477	–	145,990
Additions	–	–	314	1,606	–	667	2,587
Transfer	667	–	–	–	–	(667)	–
Disposals	–	(1,169)	(715)	(133)	–	–	(2,017)
Exchange realignment	(6,090)	(210)	(843)	(365)	(77)	–	(7,585)
At 31 December 2018 and at 1 January 2019	111,439	3,820	15,343	6,973	1,400	–	138,975
Acquired on acquisition of a subsidiary *(note 31)*	–	-	6	18	–	-	24
Additions	109	1,377	25	18	–	-	1,529
Disposals	–	(1,404)	–	(114)	–		(1,518)
Exchange realignment	(1,939)	(67)	(268)	(120)	(24)	–	(2,418)
At 31 December 2019	**109,609**	**3,726**	**15,106**	**6,775**	**1,376**	**–**	**136,592**
Accumulated depreciation							
At 1 January 2018	2,155	4,125	1,303	2,662	369	–	10,614
Charged for the year	5,420	1,007	3,591	1,847	365	–	12,230
Disposals	–	(1,111)	(485)	(90)	–	–	(1,686)
Exchange realignment	(331)	(201)	(192)	(209)	(34)	–	(967)
At 31 December 2018 and at 1 January 2019	7,244	3,820	4,217	4,210	700	–	20,191
Charged for the year	4,939	–	3,347	1,545	349	–	10,180
Disposals	-	(1,404)	–	(69)	–	–	(1,473)
Exchange realignment	(196)	(47)	(120)	(95)	(17)	–	(475)
At 31 December 2019	**11,987**	**2,369**	**7,444**	**5,591**	**1,032**	**–**	**28,423**
Net carrying amount:							
At 31 December 2019	**97,622**	**1,357**	**7,662**	**1,184**	**344**	**–**	**108,169**
At 31 December 2018	104,195	–	11,126	2,763	700	–	118,784

As at 31 December 2019, the certificate of ownership in respect of a building of the Group in Mainland China with a carrying amount of HK$97,622,000 (2018: HK$104,195,000) has not been issued by the relevant PRC authority.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On 7 October 2015, the Group subscribed for a 5-year interest-free convertible notes issued by a company located in Korea, with a principal amount of approximately HK$7,549,000. The convertible notes can be converted at any time from the date of issue to the maturity date.

The convertible notes are classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

As at 31 December 2019, the management assessed and concluded that the possibility of the principal's collectability is minimal.

The movements of the Group's financial assets at fair value through profit or loss are as follows:

	Financial assets at fair value through profit or loss *HK$'000*
31 December 2019	
At 1 January 2019	**6,512**
Change in fair value	**(6,512)**
At 31 December 2019	**–**
31 December 2018	
At 1 January 2018	7,259
Change in fair value	(747)
At 31 December 2018	6,512

The convertible notes are measured at fair value using a binomial option pricing model and an income approach with the discounted cash flow method at 31 December 2019 and 1 January 2019 and the inputs to the model are as follows:

	At 31 December 2019	At 31 December 2018
Stock price	**KRW15,291.21**	–
Conversion price	**KRW40,635.00**	KRW40,635.00
Expected volatility	**36%**	43%
Option life	**0.8 years**	1.8 years
Risk-free rate	**1.5%**	1.8%
Yield to maturity	**9.6%**	11.3%

14. INVESTMENTS IN ASSOCIATES

	2019	2018
	HK$'000	*HK$'000*
Share of net assets	**34,418**	34,581
Goodwill on acquisition	**9,472**	9,639
Provision for impairment	**(8,840)**	(3,342)
	35,050	40,878

The Group's associates are all held through wholly-owned subsidiaries of the Company. As an associate has been in loss position for the past three years with future profitability unclear, the Group performed an impairment assessment as at 31 December 2019.

As at 31 December 2019, the recoverable amount of an investment in an associate has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 14.5% (2018: 15.6%). The growth rate used to extrapolate the cash flows beyond the 5-year period is 2.0% (2018: 2.0%). As a result of this analysis, an impairment of HK$5,498,000 (2018: HK$3,342,000) was recognised in other expenses in the consolidated statement of profit or loss for the year ended 31 December 2019.

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

	2019	2018
	HK$'000	*HK$'000*
Share of the associates' loss for the year	**(363)**	(1,234)
Share of an associate's other comprehensive loss	**286**	(355)
Share of the associates' total comprehensive loss	**(77)**	(1,589)
Aggregate carrying amount of the Group's investments in the associates	**35,050**	40,878

15. INVESTMENT IN A JOINT VENTURE

	2019 HK$'000	2018 HK$'000
Share of net assets	–	17,031

In 2019, the Group acquired an additional 49% of the registered share capital of a joint venture. Upon the completion of the acquisition, the joint venture became a wholly-owned subsidiary of the Group. The difference between the carrying amount and the fair value of 51% shares on the acquisition date amounting to HK$6,727,000 was recognised in the remeasurement loss on investment in a joint venture for step acquisition. Details are disclosed in note 31 to the financial statements.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2019 HK$'000	2018 HK$'000
Share of a joint venture's profit/(loss) and total comprehensive profit/(loss) for the year	(477)	548
Carrying amount of the Group's investment in a joint venture	–	17,031

16. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Equity securities designed at fair value through other comprehensive income		
Unlisted equity investments, at fair value	10,721	12,393
	10,721	12,393

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

17. GOODWILL

	HK$'000
Cost:	
At 1 January 2018	4,879
Exchange alignment	(253)
At 31 December 2018 and 1 January 2019	4,626
Exchange realignment	(80)
At 31 December 2019	**4,546**
Accumulated impairment:	
At 1 January 2018, 31 December 2018 and 1 January 2019	—
Impairment during the year	4,611
Exchange realignment	(65)
At 31 December 2019	**4,546**
Net carrying amount:	
At 31 December 2019	**—**
At 31 December 2018	4,626

As at 31 December 2019, the carrying amount of goodwill amounting to HK$4,546,000 (2018: HK$4,626,000) has been allocated to the cash generating unit relating to the Group's artists management service.

As at 31 December 2019, the recoverable amount of the cash-generating unit of artists management service has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 23.32% (2018: 20.2%). The growth rate used to extrapolate the cash flows of the artists management service beyond the 5-year period is 3% (2018: 3%).

Assumptions were used in the value in use calculation of the artists management service cash-generating units for 31 December 2019. The following describe each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

Discount rates — The discount rates used are pre-tax and reflect risks specific to artists management service business.

In 2019, in view that the artists management services cash-generating units has been broken-even in recent year and it was not considered probable that profits would be available in the foreseeable future, goodwill in relation to the artists management services cash-generating unit was fully impaired.

18. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and other equipment used in its operations. Leases of office premises generally have lease terms between 3 and 4 years. Other equipment generally has lease terms of 12 months or less and is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office premises *HK$'000*
As at 1 January 2019	5,954
Additions	2,956
Depreciation charge	(2,935)
Modification	(229)
Exchange realignment	(101)
At 31 December 2019	**5,645**

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities ***HK$'000***
Carrying amount at 1 January	**4,707**
New leases	**2,956**
Accretion of interest recognised during the year	**235**
Modification	**(229)**
Payments	**(1,951)**
Exchange realignment	**(96)**
Carrying amount at 31 December	**5,622**
Analysed into:	
Current portion	**4,871**
Non-current portion	**751**

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

18. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	HK$'000
Interest on lease liabilities	**235**
Depreciation charge of right-of-use assets	**2,935**
Expense relating to short-term leases (included in administrative expenses)	**417**
Expense relating to leases of low-value assets (included in administrative expenses)	**207**
Total amount recognised in profit or loss	**3,794**

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 32 and 34, respectively, to the financial statements.

19. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**5**	2,379

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

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

	2019	2018
	HK$'000	*HK$'000*
Within 3 months	**5**	2,379

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

19. TRADE RECEIVABLES *(continued)*

As at 31 December 2019

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK$'000)	5	—	—	—	5
Expected credit losses (HK$'000)	—	—	—	—	—

As at 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK$'000)	2,379	—	—	—	2,379
Expected credit losses (HK$'000)	—	—	—	—	—

20. CONTRACT ASSETS

	31 December 2019 ***HK$'000***	31 December 2018 *HK$'000*
Contract assets arising from:		
Film distribution	714	—
Impairment	—	—
At 31 December 2019	714	—

Contract assets are initially recognised for revenue earned from film distribution, as the receipt of consideration is conditional on the calculation and allocation of sharing of from film distribution income. Included in contract assets from film distribution are retention receivables. Upon release of films and receipt of settlement statement, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2019 was the result of the increase in the release of films.

During the year ended 31 December 2019, no allowance (2018: Nil) was recognised for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 19 to the financial statements.

21. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Films and TV programme rights	Films and TV programmes under production	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2018	84,151	215,822	299,973
Additions	343	71,905	72,248
Transfer to film and TV programme rights	100,407	(100,407)	—
Charged to cost of sales	(119,383)	(33,360)	(152,743)
Impairment	(23,784)	(18,098)	(41,882)
Exchange realignment	(1,895)	(6,557)	(8,452)
At 31 December 2018 and 1 January 2019	39,839	129,305	169,144
Additions	—	28,014	28,014
Acquisition of a subsidiary *(note 31)*	—	2,197	2,197
Transfer to film and TV programme rights	27,454	(27,454)	—
Charged to cost of sales	(20,523)	(12,160)	(32,683)
Impairment	—	(7,310)	(7,310)
Exchange realignment	(378)	(1,778)	(2,156)
At 31 December 2019	**46,392**	**110,814**	**157,206**

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

At 31 December 2019 and 2018, the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amounts would not cause the carrying amounts of the film and TV programme rights exceed the recoverable amounts.

During the year ended 31 December 2019, in view that impairment indicators arose from certain film rights and films and TV programmes under production, an impairment loss of approximately HK$7,310,000 (2018: HK$41,882,000) was recognised in respect of film rights and films and TV programmes under production, based on contractual cash flows less cost to sell which solely related to the Group's TV programmes under production based in Mainland China and Hong Kong.

22. INVESTMENTS IN FILM

	Investments in film *HK$'000*
At 1 January 2018	1,981
Additions	4,981
Derecognitions	(2,193)
Exchange realignment	(215)
At 31 December 2018 and 1 January 2019	4,554
Additions	**15,688**
Derecognitions	**(13,616)**
Exchange realignment	**(110)**
At 31 December 2019	**6,516**

During the year ended 31 December 2019, the Group has four (2018: one) film investment agreements amounting to HK$6,516,000 (2018: HK$4,554,000). The investments are governed by the relevant agreements entered into between the Group and the production house whereby the Group is entitled to a pre-agreed percentage of the net income agreed with the production house in 2019 (2018: 15% per annum or 20% of the net income agreed with the production house).

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 ***HK$'000***	2018 *HK$'000*
Deposits	**994**	1,925
Prepayments	**24,023**	57,886
Other receivables	**135,915**	88,506
Other assets	**14,278**	15,475
Amount due from a related party	**—**	2,059
	175,210	165,851
Impairment	**(30,309)**	(28,468)
	144,901	137,383

The expected credit losses of financial assets in prepayments, other receivables and other assets are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2019, the loss allowance for impairment of prepayments, other receivables and other assets recognised by the Group mainly included the expected credit losses of financial assets in prepayments, other receivables and other assets and the impairment of prepayment.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

Financial assets included in prepayments, other receivables and other assets at amortised cost are subject to impair under the general approach and they are classified within the following stage measurement of ECLs.

As at 31 December 2019

	Gross carrying amount *HK$'000*	Expected credit losses *HK$'000*
Stage 1 — 12 months expected credit loss	**103,042**	**—**
Stage 2 — Life time expected credit loss	**8,128**	**2,525**
Stage 3 — Life time expected credit loss—with credit impaired	**25,739**	**25,739**
	136,909	**28,264**

As at 31 December 2018

	Gross carrying amount *HK$'000*	Expected credit losses *HK$'000*
Stage 1 — 12 months expected credit loss	59,232	—
Stage 2 — Life time expected credit loss	6,154	3,423
Stage 3 — Life time expected credit loss—with credit impaired	25,045	25,045
	90,431	28,468

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

	2019 **HK$'000**	2018 *HK$'000*
At 1 January	**28,468**	6,581
Impairment losses recognised	**3,801**	31,536
Amount written off as uncollectible	**(3,324)**	(8,224)
Impairment losses reversed	**(182)**	—
Exchange realignment	**(499)**	(1,425)
At 31 December	**28,264**	28,468

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

The movements in provision for impairment of prepayments are as follows:

	2019 ***HK$'000***
At 1 January	**–**
Impairment losses recognised	**2,074**
Exchange realignment	**(29)**
At 31 December	**2,045**

As at 31 December 2018, no impairment of prepayments was provided.

24. CASH AND CASH EQUIVALENTS

	2019 ***HK$'000***	2018 *HK$'000*
Cash and bank balances	**79,408**	137,484
Non-pledged time deposits with original maturity of less than three months when acquired	**40,682**	40,564
	120,090	178,048
Non-pledged time deposits with original maturity of over three months when acquired	**2,364**	2,345
Cash and cash equivalents as stated in the statement of financial position	**122,454**	180,393

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in United State Dollars ("USD"), South Korea Won ("KRW") and Renminbi ("RMB") amounted to approximately HK$5,072,000 (2018: HK$5,051,000), HK$528,000 (2018: HK$570,000) and HK$64,245,000 (2018: HK$115,997,000), respectively.

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

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

25. TRADE PAYABLES

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

	2019 *HK$'000*	2018 *HK$'000*
Over 1 year	**2,778**	2,827

26. OTHER PAYABLES AND ACCRUALS

	Notes	2019 *HK$'000*	2018 *HK$'000*
Contract liabilities	*(a)*	**17**	904
Deposits received		**3**	142
Salary payables		**977**	1,912
Other payables	*(b)*	**60,131**	72,823
Accruals		**1,256**	782
		62,384	76,563

Notes:

(a) Details of contract liabilities are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Short-term advances received from customers		
Sales of film rights	**–**	804
Artists management	**3**	100
Others	**14**	–
	17	904

Contract liabilities include short-term advances received to deliver film rights, artists management and other services.

(b) Other payables are non-interest-bearing and have no fix terms of repayments.

27. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

	2019 Fair value adjustments arising from acquisition of a subsidiary *HK$'000*	**Total** *HK$'000*
At 1 January 2019	**744**	**744**
Deferred tax credited to the statement of profit or loss during the year *(note 9)*	**(742)**	**(742)**
Exchange differences	**(2)**	**(2)**
Net deferred tax liabilities as at 31 December 2019	**–**	**–**

	2018 Fair value adjustments arising from acquisition of a subsidiary *HK$'000*	Total *HK$'000*
At 1 January 2018	878	878
Deferred tax credited to the statement of profit or loss during the year *(note 9)*	(92)	(92)
Exchange differences	(42)	(42)
Net deferred tax liabilities as at 31 December 2018	744	744

As at 31 December 2019, The Group has tax losses arising in Hong Kong of approximately HK$222,247,000 (2018: approximately HK$200,253,000) 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$417,972,000 (2018: HK$361,116,000) 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.

28. SHARE CAPITAL

	2019 Number of shares '000	2019 Share capital HK$'000	2018 Number of shares '000	2018 Share capital HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**8,000,000**	**80,000**	8,000,000	80,000
Issued and fully paid:				
At 1 January and 31 December	**4,209,130**	**42,090**	4,209,130	42,090
Preferred shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**2,000,000**	**20,000**	2,000,000	20,000
Issued and fully paid:				
At 1 January and 31 December	**–**	**–**	–	–

29. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

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

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

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

Share option scheme *(continued)*

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

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

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

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

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

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

(ix) The subscription price of a share option must not be less than the highest of:

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

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

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

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

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

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

Share option scheme *(continued)*

The movement of the share options outstanding as at the end of the reporting period is as follows:

	Number of share options				
	Outstanding at 1 January 2019	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	**Outstanding at 31 December 2019**
Other employees	15,000,000	—	—	15,000,000	—
	15,000,000	—	—	15,000,000	—

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

2018

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

As at 31 December 2019, the share options granted in 2016 have expired. The share-based payment reserve recognised in prior years amounting to HK$3,074,000 was transferred to accumulated losses.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 to 43 of the financial statements.

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

31. ACQUISITION OF A SUBSIDIARY

On 21 May 2019, a wholly-owned subsidiary of the Company, has entered into sale and purchase agreements in relation to the acquisition of an additional 49% of the registered share capital in the then 51% owned joint venture of the Group, Beijing Da Zao Wan Ji Ying Shi Chuan Mei Company Limited ("Da Zao Wan Ji"), at a total consideration of RMB5,181,000 (equivalent to approximately HK$5,878,000). The purpose of the acquisition is to provide a synergy to the existing businesses of the Group. All the conditions precedent were fulfilled on 21 May 2019 ("Date of acquisition") and accordingly, the acquisition was completed and control over Da Zao Wan Ji was passed to the Group on the same date.

Upon completion of the acquisition, Da Zao Wan Ji has become a 100% owned subsidiary of the Company.

The fair values of the identifiable assets and liabilities of Da Zao Wan Ji as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *HK$'000*
Property, plant and equipment	*12*	24
Other non-current assets		33
Film rights and films and TV programmes under production	*21*	2,197
Prepayment and other receivable		3,849
Cash and cash equivalents		4,067
Other payables		(186)
Total identifiable net assets at fair value		9,984
Satisfied by:		
Prepayment		3,829
Fair value of previously held equity interests		4,106
Other payable		2,049
		9,984
Net cash inflow on acquisition:		
Cash consideration paid		—
Less: Cash and cash equivalents acquired		(4,067)
		4,067

The Group incurred no transaction cost for acquisition.

Since the acquisition, Da Zao Wan Ji contributed no revenue to the Group's revenue and HK$83,350 to the consolidated loss for the year ended 31 December 2019.

Had the combination taken place at the beginning of 2019, the revenue of the Group and the loss of the Group for the year 2019 would have been HK$32,253,000 and HK$89,653,000, respectively.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$2,956,000 and HK$2,956,000, respectively, in respect of lease arrangements for office premises (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Lease liabilities *HK$'000*
At 31 December 2018	—
Effect of adoption of HKFRS 16	4,707
At 1 January 2019 (restated)	4,707
Changes from financing cash flows	(1,951)
Modification	(229)
New leases	2,956
Interest expense	235
Exchange realignment	(96)
At 31 December 2019	**5,622**

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 ***HK$'000***
Within operating activities	**624**
Within financing activities	**1,951**
	2,575

33. RELATED PARTY TRANSACTIONS

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

	Note	2019 HK$'000	2018 HK$'000
Other related parties:			
Service income	(i)	–	1,119

Note:

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

(b) Outstanding balances with related parties

(i) The balances due to an associate and a joint venture of HK$5,442,000 (2018: HK$5,538,000) and nil (2018: HK$5,692,000), respectively, included in the Group's other payables and accruals, are unsecured, interest-free and have no fixed terms of repayments.

(ii) At 31 December 2019, there was no balance due from related companies. As at 31 December 2018, the balance due from a related company of HK$2,059,000, included in the Group's prepayments, other receivables and other assets, was unsecured, interest-free and had no fixed terms of repayments.

(c) Compensation of key management personnel

	2019 HK$'000	2018 HK$'000
Salaries and allowances	4,219	5,772
Pension scheme contributions	281	286
	4,500	6,058

34. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	**59**	2,073
Film rights and films and TV programmes under production	**34,358**	65,957
Investments in film	**84**	—
	34,501	68,030

(b) Operating lease commitments as at 31 December 2018

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

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

	2018
	HK$'000
Within one year	2,642
In the second to third years, inclusive	2,600
	5,242

35. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2018: Nil).

36. 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:

2019

Financial assets

	Financial assets at amortised cost *HK$'000*	Financial assets at fair value through other comprehensive income — Equity investment *HK$'000*	Total *HK$'000*
Equity investment designated at fair value through other comprehensive income	—	10,721	10,721
Trade receivables	5	—	5
Financial assets included in prepayments, other receivables and other assets	108,645	—	108,645
Cash and cash equivalents	122,454	—	122,454
	231,104	10,721	241,825

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade payables	2,778
Financial liabilities included in other payables and accruals	55,523
Lease liabilities	5,622
	63,923

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2018

Financial assets

	Financial assets at fair value through profit or loss Mandatorily designed as such *HK$'000*	Financial assets at amortised cost *HK$'000*	Financial assets at fair value through other comprehensive income — Equity investment *HK$'000*	Total *HK$'000*
Equity investment designated at fair value through other comprehensive income	—	—	12,393	12,393
Trade receivables	—	2,379	—	2,379
Financial assets included in prepayments, other receivables and other assets	—	61,963	—	61,963
Financial assets at fair value through profit or loss	6,512	—	—	6,512
Cash and cash equivalents	—	180,393	—	180,393
	6,512	244,735	12,393	263,640

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade payables	2,827
Financial liabilities included in other payables and accruals	66,572
	69,399

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets at fair value through profit or loss	**–**	6,512	**–**	6,512
Equity investments at fair value through other comprehensive income	**10,721**	12,393	**10,721**	12,393
	10,721	18,905	**10,721**	18,905

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

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

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

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

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique and income approach with the discounted cash flow method based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The valuation also requires the directors to determine the amounts of premiums and discounts that market participants would take into account when pricing the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss	–	–	–	–
Equity investments at fair value through other comprehensive income	–	–	10,721	10,721

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss	–	–	6,512	6,512
Equity investments at fair value through other comprehensive income	–	–	12,393	12,393
	–	–	18,905	18,905

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

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

	2019 ***HK$'000***	2018 *HK$'000*
Financial assets at fair value through profit or loss:		
At 1 January	**6,512**	7,259
Fair value loss recognised in profit or loss *(note 5)*	**(6,512)**	(747)
At 31 December	**–**	6,512

	2019 ***HK$'000***	2018 *HK$'000*
Equity investments at fair value through other comprehensive income — unlisted:		
At 1 January	**12,393**	25,022
Fair value loss recognised in other comprehensive income	**(1,477)**	(11,335)
Exchange realignment	**(195)**	(1,294)
At 31 December	**10,721**	12,393

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation Technique	Significant unobservable input	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Income approach with the discounted cash flow method	Yield to maturity	10% (2018:10%) increase (decrease) in yield to maturity would result in decrease (increase) in fair value by HK$47,000 (HK$48,000) (2018: HK$115,000 (HK$119,000))
	Binomial option price method	Share price	10% (2018:10%) increase (decrease) in share price would result in increase (decrease) in fair value by HK$1 (HK$0) (2018: HK$0(HK$0))
Equity investment designated at fair value through other comprehensive income	Valuation multiples	Average EV/EBITDA multiple of peers	10% (2018:10%) increase (decrease) in multiple would result in increase (decrease) in fair value by HK$374,000 (HK$375,000) (2018: HK$26,000 (HK$25,000))
	Income approach with the discounted cash flow method	Discount for lack of marketability	5% (2018:5%) increase (decrease) in discount would result in decrease (increase) in fair value by HK$431,000 (HK$431,000) (2018: HK$518,000 (HK$518,000))

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Liquidity risk

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

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

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

	Within 1 year or on demand *HK$'000*	**1 to 2 years** *HK$'000*	**Total** *HK$'000*
At 31 December 2019			
Trade payables	**2,778**	**–**	**2,778**
Other payables and accruals	**55,523**	**–**	**55,523**
Lease liabilities	**4,871**	**751**	**5,622**
	63,172	**751**	**63,923**
At 31 December 2018			
Trade payables	2,827	–	2,827
Other payables and accruals	66,572	–	66,572
	69,399	–	69,399

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Simplified approach *HK$'000*	Total *HK$'000*
Trade receivables*	—	—	—	5	5
Contract assets	—	—	—	714	714
Financial assets included in prepayments, other receivables and other assets					
— Normal**	103,042	—	—	—	103,042
— Doubtful	—	8,128	25,739	—	33,867
Cash and cash equivalents					
— Not yet past due	122,454	—	—	—	122,454
	225,496	8,128	25,739	719	260,082

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	—	—	—	2,379	2,379
Financial assets included in prepayments, other receivables and other assets					
— Normal**	59,232	—	—	—	59,232
— Doubtful	—	6,154	25,045	—	31,199
Cash and cash equivalents					
— Not yet past due	180,393	—	—	—	180,393
	239,625	6,154	25,045	2,379	273,203

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables are disclosed in note 23 to the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

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

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

	Assets		Liabilities	
	At 31 December			
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**134,224**	179,233	**51,503**	66,301
USD	**5,077**	5,055	**–**	–
KRW	**7,040**	7,082	**–**	5

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

Sensitivity analysis

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

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in loss before tax *HK$'000*
2019		
If RMB weakens against HK$	**5%**	**4,136**
If RMB strengthens against HK$	**(5%)**	**(4,136)**
If USD weakens against HK$	**5%**	**254**
If USD strengthens against HK$	**(5%)**	**(254)**
If KRW weakens against HK$	**5%**	**352**
If KRW strengthens against HK$	**(5%)**	**(352)**
2018		
If RMB weakens against HK$	5%	5,647
If RMB strengthens against HK$	(5%)	(5,647)
If USD weakens against HK$	5%	253
If USD strengthens against HK$	(5%)	(253)
If KRW weakens against HK$	5%	354
If KRW strengthens against HK$	(5%)	(354)

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

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

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

Capital management

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

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

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

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

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

	31 December 2019 ***HK$'000***	1 January 2019 *HK$'000* *(note i)*	31 December 2018 *HK$'000*
Trade payables	**2,778**	2,827	2,827
Other payables and accruals	**62,384**	76,563	76,563
Lease liabilities	**5,622**	4,707	—
Total debt	**70,784**	84,097	79,390
Equity attributable to owners of the parent	**525,051**	620,824	620,824
Total debt to equity ratio *(note ii)*	**13.48%**	13.55%	12.79%

Notes:

(i) The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 12.79% to 13.55% on 1 January 2019 when compared with the position as at 31 December 2018.

(ii) Total debt comprises trade payables, other payables and accruals and lease liabilities.

39. PARTICULARS OF INTERESTS IN SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lajin Film Co., Limited *(i)*	British Virgin Islands	US$1	100	–	Investment holding
Lajin Sino-Korean Entertainment Holding Limited *(i)*	British Virgin Islands	US$1	100	–	Investment holding
Lajin Entertainment Network (HK) Limited	Hong Kong	HK$1	100	–	Investment holding
Jiaxuan Global Pictures (HK) Limited	Hong Kong	HK$1	100	–	Investment holding
Hong Kong Xuanhe Management Limited	Hong Kong	HK$29,000,000	–	100	Artists management and investment holding
Lajin IFilm Limited *(i)*	Hong Kong	HK$1,560,000	–	60	Cultural and entertainment media contents
Lajin Sino-Korean Entertainment Limited *(i)*	Hong Kong	HK$1	–	100	Investment holding
Lajin Sports (HK) Limited	Hong Kong	HK$1	–	100	Investment holding
Lajin Picture (HK) Limited	Hong Kong	HK$1	–	100	Investment holding
Young Film Culture Media Company Limited	Hong Kong	HK$2	–	100	Sourcing and production of media contents
北京拉近互動傳媒科技有限公司 *(i)(ii)*	PRC/ Mainland China	RMB250,000,000	–	100	Culture and entertainment media contents
北京拉近互娛文化傳媒有限公司 *(i)(iii)*	PRC/ Mainland China	RMB10,000,000	–	100	Culture and entertainment media contents

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

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
稼軒環球影業有限公司 *(i)(iii)*	PRC/Mainland China	RMB50,000,000	–	100	Culture and entertainment media contents
北京拉近影業有限公司 *(i)(iii)*	PRC/Mainland China	RMB3,000,000	–	100	Culture and entertainment media contents
柏視數碼（上海）有限公司 *(i)(ii)*	PRC/Mainland China	US$10,000,000	–	100	Digital technology
北京新美星秀文化傳媒有限公司 *(i)*	PRC/Mainland China	RMB625,000	–	80	Artists management
北京大旱晚集影視傳媒有限公司 *(i) (note 31)*	PRC/Mainland China	RMB3,000,000	–	100	Culture and entertainment media contents

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

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

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

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

40. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) has certain impact on the operations of the Group and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

41. COMPARATIVE AMOUNTS

Certain comparative figures of the consolidated financial statements were reclassified to conform with the current year's presentation.

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

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

(a) Statement of financial position of the Company

	2019 *HK$'000*	2018 *HK$'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	**250,250**	250,250
Current assets		
Prepayments, other receivables and other assets	**27,499**	27,430
Due from subsidiaries	**236,276**	295,947
Cash and cash equivalents	**8,279**	15,148
Total current assets	**272,054**	338,525
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,274**	753
Total current liabilities	**1,274**	753
Net current assets	**270,780**	337,772
Total assets less current liabilities	**521,030**	588,022
Net assets	**521,030**	588,022
EQUITY		
Share capital	**42,090**	42,090
Reserves	**478,940**	545,932
Total equity	**521,030**	588,022

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

(b) Movements in reserves of the Company

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

	Share premium	Share-based payment reserve	Contribute surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note i)	*(Note ii)*	*(Note iii)*		
Balance at 1 January 2018	1,138,909	21,024	28,294	(352,728)	835,499
Loss and total comprehensive loss for the year	–	–	–	(289,567)	(289,567)
Transfer of share-based payment reserve upon the expiry of share options	–	(17,950)	–	17,950	–
At 31 December 2018 and 1 January 2019	1,138,909	3,074	28,294	(624,345)	545,932
Loss and total comprehensive loss for the year	–	–	–	(66,992)	(66,992)
Transfer of share-based payment reserve upon the expiry of share options	–	(3,074)	–	3,074	–
At 31 December 2019	**1,138,909**	**–**	**28,294**	**(688,263)**	**478,940**

Notes:

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

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

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

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 14 May 2020.

SUMMARY OF FINANCIAL INFORMATION

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

RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**31,868**	43,133	65,216	24,143	5,662
Loss before tax	**(89,918)**	(237,010)	(80,954)	(224,163)	(30,380)
Income tax credit/(expense)	**742**	92	38	(93)	—
Loss for the year	**(89,176)**	(236,918)	(80,916)	(224,256)	(30,380)
Loss for the year attributable to:					
Owners of the parent	**(87,588)**	(236,071)	(79,853)	(224,239)	(30,343)
Non-controlling interests	**(1,588)**	(847)	(1,063)	(17)	(37)
	(89,176)	(236,918)	(80,916)	(224,256)	(30,380)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**594,099**	700,788	975,352	962,256	1,074,689
Total liabilities	**(70,784)**	(80,134)	(75,681)	(17,873)	(34,804)
Non-controlling interests	**1,736**	170	(257)	(573)	34
	525,051	620,824	899,414	943,810	1,039,919

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

香港金鐘夏慤道16號遠東金融中心3903A室
Unit 3903A, Far East Finance Centre,
16 Harcourt Road, Admiralty, Hong Kong

北京市經濟技術開發區經海六路東尚E園4號樓
Building No.4, Dongshang E Garden,
Jinghai 6th Road, Beijing Economic and
Technological Development Area