H.BROTHERS ENTERTAINMENT

華誼騰訊娛樂

華誼騰訊娛樂有限公司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00419)

2016 ANNUAL REPORT

This annual report, in both English and Chinese versions, is available on the Company's website at www.huayitencent.com (the "Company Website") and the website of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

Registered Shareholders who have chosen (or are deemed to have consented) to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website, and who for any reason have difficulty in receiving or gaining access to the Corporate Communications posted on the Company Website will promptly upon request be sent the annual report in printed form free of charge.

Registered Shareholders may request for printed copy of the annual report and/or change their choice of language and means of receiving Corporate Communications by providing a reasonable prior notice in writing to the Company c/o the Hong Kong branch share registrar of the Company, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an e-mail to is-ecom@hk.tricorglobal.com.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Zhongjun *(Chairman)*
Mr. LAU Seng Yee *(Vice Chairman)*
Mr. WANG Zhonglei
Mr. LIN Haifeng
Ms. WANG Dongmei
Mr. YUEN Hoi Po

Independent Non-Executive Directors

Dr. WONG Yau Kar, David, *BBS, JP*
Mr. YUEN Kin
Mr. CHU Yuguo

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. HAU Wai Man, Raymond

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank
The Hongkong and Shanghai Banking Corporation Limited
China Minsheng Bank

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CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016.

In 2016, China's film industry returned to a more rational phase of development. In addition to showing promising signs for the film industry's long-term development, the film market also maintained its rapid growth. Box-office revenue totalled RMB45.712 billion in 2016, with Hollywood productions recording an increase of 12.5% in box office receipts in the Chinese market to RMB19 billion. With state authorities planning to loosen restrictions on imported films, box-office growth of U.S. films is expected to further accelerate in the Chinese market. On the other hand, riding on the robust development of Korean films, TV programmes and music, as well as their growing impact in the global market, it is expected that investing in Korean media productions would diversify the Group's revenue streams in the long run.

The Company completed a series of share subscriptions on 5 February 2016, introducing Huayi Brothers Media Corporation ("Huayi Brothers") and Tencent Holdings Limited ("Tencent") as its controlling shareholders. Further, the Company officially changed its English name to Huayi Tencent Entertainment Company Limited on 10 May 2016, a true testimony to the Groups' approach in business development and the close collaboration between the newly appointed directors and management, all in an effort to build the Company into a listing platform for those engaged in the development of overseas media and entertainment industry.

As one of the five largest traditional film distributors in China, Huayi Brothers owns a wide range of films and TV programmes, and has successfully established a layout that covers every link in the industry chain to create a pan-entertainment ecosystem. Meanwhile, leveraging on its own considerable user base and valuable distribution channels, the internet giant Tencent has created a closed-loop for O2O distribution by exploring different forms of the new media business via internet platforms and entering the pan-entertainment industry. After the introduction of Huayi Brothers and Tencent as our controlling shareholders, the Company now has access to their vast resources, and is planning on seeking opportunities to invest in, acquire and collaborate with projects from, among others, Hollywood and South Korea. By forming long-term partnerships with celebrated directors from overseas and introducing top Chinese and foreign actors, the Company aims to create international productions that suit the global audience, with a view to targeting the massive market in Greater China, thereby giving the Chinese entertainment culture a stronger voice on the global stage.

Rock Dog, one of the films that the Group invested in, was first released in China in July 2016, and subsequently in North America at the end of February 2017, in cooperation with Lionsgate Entertainment and Summit Entertainment. *Rock Dog* is the first Chinese-made animated film to be massively distributed overseas. In addition, the Group also collaborated with China Lion Entertainment (a North America-based company with extensive talents in the industry) to invest in ten films that cover various genres such as action, comedy and animation, whose production team includes Peter Segal (director of *50 First Dates* and *Grudge Match)*, Pete Chiarelli (screenwriter of *Now You See Me 2* and *The Proposal*), and the production team of *The Simpsons Movie*. These film productions will be starring top celebrities from China and the U.S., and are expected to be released in succession starting from 2018.

Further, the Group subscribed approximately 22% of equity interest in HB Entertainment in August 2016, and it plans to gradually increase its shareholding to 30% by early 2018. As one of the well-known private producers of TV series in South Korea, HB Entertainment is primarily engaged in the production of and investment in films and TV series, as well as the provision of artist management and agency services. Popular TV programmes produced by HB Entertainment in recent years include *My Love from the Star*, *You're All Surrounded, Yong Pal* and *The K2,* and it represents artists such as Ji Jin-Hee, Ahn Jae-Hyeon and Shin Seongrok. HB Entertainment received the Global Management Award in the awards ceremony of the 9th Korea Drama Festival, while Ahn Jae-Hyeon, with his portrayal at *Cinderella and Four Knights* (one of HB Entertainment's TV series) won the Best Actor, Top Excellence Award and the accolade for Global Star.

While China's culture and entertainment industry is being ushered into its golden age, it is also facing intensified competitions arising from considerable potentials in the market. In order to enhance China's culture and entertainment industry with global perspectives in the future, our productions must aim at a global audience, and the rest is in the hands of time. We need to take the initiative to seek changes, to provide our audience with more and fresher content productions of greater quality. Looking ahead, through the Group's investments and collaborations with overseas producers, as well as its partnerships with top talents around the globe, the Group will become better positioned to take advantage of arisen opportunities as the Chinese audience acquires a taste for international productions, to produce phenomenal media productions, and to establish a stronger presence in the world and the Greater China Region alike.

Last but not least, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our investors and business partners for always trusting and supporting us, and to extend my earnest thanks to all our staff members for their dedication and contribution throughout the past year.

WANG Zhongjun
Chairman
Huayi Tencent Entertainment Company Limited

Hong Kong, 24 March 2017

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the year ended 31 December 2016 are summarized in the table below:

	2016 HK$'000	2015 HK$'000
Continuing operations:		
Total sales revenue	**135,633**	122,838
Gross profit	**21,791**	55,179
Loss before finance costs and taxation	**(138,947)**	(127,813)
Loss for the year	**(138,800)**	(132,645)
Loss attributable to equity holders of the Company	**(139,527)**	(129,319)
Discontinued operations:		
Profit/(loss) for the year	**21**	(364,351)

Business Review	Sales Revenue		Segment Results	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Continuing operations				
Entertainment and media operations	**11,825**	9,806	**(36,317)**	(158,348)
Online healthcare services	**7,309**	1,946	**(14,283)**	(43,049)
Offline healthcare and wellness services	**116,499**	111,086	**7,828**	(31,828)
Total	**135,633**	122,838	**(42,772)**	(233,225)

During the year ended 31 December 2016 (the "year under review"), each operation of the Group recorded an increase in revenue, driving the Group's revenue to record an increase of approximately 10%. However, the Group recorded a consolidated net loss of HK$138,779,000 during the year under review, primarily due to (i) legal and professional fees of approximately HK$32,488,000 incurred for the share subscriptions that were completed on 5 February 2016, those related expenses have already been fully settled; (ii) currency exchange loss of approximately HK$39,803,000, caused by the depreciation of Chinese Renminbi against Hong Kong dollars arising from the Group's healthcare and wellness operations in the People's Republic of China ("China") during the year under review; and (iii) segment loss of HK$36,317,000 recorded for the entertainment and media operations, mainly due to impairment provisions required for certain film rights assets.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

The Company officially completed its share subscriptions on 5 February 2016, upon which Huayi Brothers Media Corporation ("Huayi Brothers") and Tencent Holdings Limited ("Tencent") have become controlling shareholders of the Company. During the year under review, the Group actively sought quality projects, as well as opportunities for direct mergers and acquisitions or collaborations with outstanding international entertainment companies by deploying resources from both substantial shareholders, with a view to investing in and carrying out online and offline cultural and new media operations, both domestically and internationally, and to expanding its entertainment, cultural and media operations in robust markets such as the U.S. and South Korea. During the year under review, the Group invested approximately HK$500 million in a number of global movie projects and proposed to acquire 30% of equity interest in HB Entertainment Co., Ltd. ("HB Entertainment"), a company based in South Korea, at a consideration equivalent to approximately HK$300 million. The first stage of the acquisition was completed in August 2016, and the Group currently holds approximately 22% of equity interest in HB Entertainment. During the year under review, our entertainment and media operations recorded a revenue of approximately HK$11,825,000, representing an increase of 21% in comparison to that of the previous year; however, as the operation was still in its early stage of expansion, added with the need to make impairment provisions for some of the film rights assets, the entertainment and media operations segment recorded a loss of approximately HK$36,317,000. Further, due to a drastic drop in the import of film and TV productions from South Korea into Mainland China since the fourth quarter of 2016, share of results of HB Entertainment amounted to approximately HK$1,624,000 only.

In terms of healthcare services, the Group provided online and offline healthcare solutions in Mainland China during the year under review, which mainly comprised of "Beijing Bayhood No. 9 Club", a high-end healthcare and wellness centre and operations of "Kangxun Xuetang", a cloud-based healthcare service platform. During the year under review, operations of online healthcare services and offline healthcare and wellness services generated revenue of HK$7,309,000 and HK$116,499,000, respectively, representing an increase of approximately 276% and 5% in comparison to the previous year; and their segment results showed a loss of HK$14,283,000 and a profit of HK$7,828,000, respectively.

In addition, Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (a wholly-owned subsidiary of the Company) acquired 50% of equity interest in Beijing Hao You Media Culture Co., Ltd. (formerly known as "Asia Union Film and Media") ("Hao You") from Poly Culture Group Corporation Limited, at a consideration of RMB80 million. The acquisition was completed on 1 December 2016, and the Company now holds the entire equity interest in Hao You, which is to be sold in its entirety.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review

In 2016, China's film industry returned to a more rational phase of development. In addition to showing promising signs for the film industry's long-term development, the film market also maintained its rapid growth. A total of 772 dramas were produced during 2016, 86 more than that in 2015, representing an increase of 12.54%. Cinema attendance recoded a year-on-year increase of 8.89% to RMB1.372 billion, overtaking that in North America for the first time. 9,552 new screens were installed in the year, bringing the total screen count to 41,179, the single largest figure around the globe. Annual box-office revenue totalled RMB45.712 billion in 2016.

In 2016, world-wide box office receipts stood at a total of US$38.1 billion, while Hollywood productions recorded a revenue of US$28.9 billion, or 76% of the global total; the Chinese market, now growing at a pace never seen before, contributed 19% of the global box office receipts and a substantial proportion of the overseas market for U.S. films.

As the single largest film market in the world, the U.S. has an abundance of experts, equipment and an established task-allocation system for film production. Not only have the ingenuity of US filmmakers and the magnificent scenes of their films won the hearts of global audience, recording ever increasing box office receipts, Hollywood productions are also particularly well received by the Chinese audience. Building on its shareholders' experience and influence in China's film industry, the Company aims to invest or engage in film and TV programme productions in collaboration with master directors from Hollywood and top studios, and to gradually reserve quality resources in the form of overseas intellectual property (IP) rights, which are believed to be beneficial to the Company's success in building a comprehensive platform targeting global markets.

(1) Entertainment and Media Operations

The film and entertainment industry is a fast-growing sector in the Chinese market. In order to seize opportunities arising from the rapid development in the Chinese film industry and to take a share for animations and Hollywood films in Chinese market, the Group brought in Huayi Brothers and Tencent as its strategic shareholders in 2015. On one hand, Huayi Brothers has established channels for co-producing films and animations with Hollywood and South Korea as well as investment; on the other hand, Tencent owns one of the most influential internet platforms across China. Both parties would provide the Group with substantial resources to seize opportunities in the golden age of China's culture and entertainment industry. A series of share subscriptions generated proceeds of approximately HK$547 million for the Company. The entire amount of these proceeds has been used to invest in ten film production projects in collaboration with China Lion Entertainment as well as *Rock Dog*, an original Sino-U.S. 3D animated comedy film.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) Entertainment and Media Operations *(Continued)*

The ten film production projects in collaboration with China Lion Entertainment included *Kill Me Now*, an action comedy by Peter Segal, director of *50 First Dates* and *Grudge Match*, as well as *Spaghetti VS. Noodle*, the screenwriters of which included Pete Chiarelli, who was also screenwriter of *Now You See Me 2* and *The Proposal*. Starring top stars from China and the U.S., these two films are scheduled to be released globally in 2018. The collaborated projects will also include *OZI*, an animated film collaborated by parties from China, the UK and the U.S., and *Extinct*, an animated film produced by the production team of *The Simpsons Movie* and collaborated by parties from China, the UK and Canada. China Lion Entertainment is the largest producer and distributor of Chinese films and TV programmes in North America, owning an extensive network locally. The collaboration with China Lion Entertainment will facilitate the engagement of production teams of the greatest potential and top stars from Hollywood.

During the year under review, the Group invested in *Rock Dog*, an original Sino-U.S. 3D animated comedy film directed by Ash Brannon, director of the well-known *Toy Story 2*. Being the only made-in-China animation nominated for "Best Animation" of "Golden Goblet" Awards at the Shanghai International Film Festival, *Rock Dog* was released in Mainland China in July. In terms of the North American markets, the local premiere of *Rock Dog* was held by Lionsgate Entertainment and Summit Entertainment on 24 February 2017, featuring over 2,000 screens. *Rock Dog* has made history as the first-ever Chinese made animated film massively distributed overseas. As of the date of the annual report, *Rock Dog* recorded total box office receipts of over US$9 million in North America. In addition, *Rock Dog* is expected to be distributed worldwide across Asia, Europe, Oceania and Latin America in 2017. This, coupled with the large animation DVD and TV market in North America, is expected to generate revenue for the Group continuously in 2017.

During the year under review, the Group proposed to subscribe for 23,334 convertible preferred shares of HB Entertainment Co., Ltd. ("HB Entertainment") at a subscription price of KRW14,042,400,000 (equivalent to approximately HK$92,700,000) and purchase 46,666 shares of HB Entertainment from HB Entertainment's major shareholders and HB Corporation at an aggregate purchase price of KRW28,084,800,000 (equivalent to approximately HK$185,400,000). The first stage of the acquisition was completed at the end of August, and the Group currently holds approximately 22% of the enlarged issued share capital of HB Entertainment. The Company's shareholdings will gradually increase to 30% by early 2018.

HB Entertainment is primarily engaged in the production and investment of films and TV dramas in South Korea. Its new TV series *Cinderella and Four Knights* debuted on TVN in South Korea and iQIYI in China simultaneously on 12 August 2016. Directed by Kwon Hyuk Chan (the director of *Master's Sun*) and starring Korean famous actors such as Jung Il-woo, Ahn Jae-hyun and Park So-dam, *Cinderella and Four Knights* is another Korean TV production broadcast simultaneously in China and South Korea after *Descendants of the Sun*. Immediately after its debut, the series has captured great attention from Korean audience, with a debut rating of 3.5% and hitting 4.3% as the highest among TV dramas during the same timeslot in Korean cable TV channels. Meanwhile, its debut on the Chinese video website iQIYI also enjoyed good ratings and reputation, recording a total of more than 900 million views and a rating of 8.5 as of 1 March 2017. Directed by Kwak Jung-hwan and starring Ji Chang-wook, Song Yoon-ah, etc., *The K2* debuted in September 2016 and recorded an average viewership rate as high as 4.865% in South Korea, topping the list of drama programmes. However, *The K2* has not yet been broadcast in Mainland China as a result of the sharp decrease in the import of Korean TV productions into Mainland China in the fourth quarter of 2016.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) Entertainment and Media Operations *(Continued)*

Following the business development pattern of our controlling shareholder Huayi Brothers, the Group commenced content investment and production during the year under review. The Group is in negotiation about collaborating with first-class directors, aiming to gradually build its own pool of quality IP resources. In addition, the Group focused on the development of overseas markets by adopting an approach centred around market demand; it also explored opportunities to develop film projects in collaboration with top directors from Hollywood or invest in TV dramas with renowned studios, with a view to laying a solid foundation to facilitate globalization of the Group's operations.

(2) Healthcare and Wellness Services

The Group's healthcare solutions segment includes the operations of "Beijing Bayhood No. 9 Club", an offline healthcare and wellness centre, and "Kangxun Xuetang", an online platform targeted at managing chronic diseases such as diabetes.

As one of the top green health clubs in China, "Beijing Bayhood No. 9 Club" comprises a comprehensive range of facilities, including a standard 18-hole golf course, lakeside golf course private VIP rooms, a spa facility, and Asia's first PGA-branded golf academy. The Group's healthcare and wellness centre located in Chaoyang District, Beijing also officially commenced operation in mid-2015. Featuring themes of dining, leisure and healthcare, the centre serves middle to high-end clients who are conscious of their wellbeing. During the year under review, the business of offline healthcare and wellness services remained stable and contributed revenue of approximately HK$116,499,000 to the Group, representing a year-on-year increase of 5%.

The market for China's online healthcare business has the potential for growth. The Group's online healthcare business has taken up some market shares, and the Group has cooperated with insurance companies in launching "Healthcare Stations" in more than 10 provinces in China. However, as even the industry leaders in this sector have yet to figure out a suitable profit-making model, the entire sector is still groping its way towards the right direction. During the year under review, the business recorded revenue of approximately HK$7,309,000, accounting for only 5% of the Group's total revenue, while the revenue growth failed to meet expectations. The business has been loss-making for the third consecutive year, posting a loss of approximately HK$14,283,000 for the year under review. As the national authority and insurance companies impose stricter requirements on physical examinations and blood glucose tests conducted at facilities other than hospitals, the operating costs of online healthcare services, in particular, physical examination service provided by "Healthcare Stations", will be set to rise further. Having considered the development and prospect of this sector in a prudent manner, the management of the Company had reduced the investment into the online healthcare business significantly during the year under review, with a view to curbing loss. The management had also considered various feasible options actively, including further reducing the investment in and size of the business, introducing other investors and partners, and even disposing of the business in whole or in part.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook

Improved quality of life among Chinese citizens spurred the growth in China's box office receipts, reflecting a bright prospect for the film industry. With higher consumption power, Chinese citizens are more willing to spend money on enjoying life and improving their quality of life, and going to the movies has become an important form of entertainment for them. According to predictions of the EntGroup, cinema attendance in China is likely to increase to 1.93 billion by 2017. Benefiting from increased cinema attendance, China's film industry is undergoing a phase of prosperous development. Thanks to incentive policies launched by the government in recent years, considerable capital injections made by major film companies, as well as the increased cinema attendance, China's film industry market experienced rapid growth; its box office receipts have become the strongest driver behind global box office growth, and cinema investment will gradually expand towards second-tier and third-tier cities. Driven by the strong demand of the audience group, the number of screens in China currently grows at a rate of over 10% year on year. According to *Prospects of China's Culture and Entertainment Industry* issued by Deloitte last year, China's culture and entertainment industry is expected to be worth RMB1 trillion by 2020, of which the film industry is going to become a RMB200 billion sector by 2020.

As the largest film market in the world, North America outperforms most of the world in terms of box office receipts and number of screens. The U.S. has an abundance of experts, equipment and an established task-allocation system for film production. The ingenuity of US filmmakers and the magnificent scenes of their films have won the hearts of global audience, leading to ever increasing box office receipts. Seeing that Hollywood productions are particularly well received by the Chinese audience, the Group will cater for the market demand by actively seeking opportunities to collaborate with or invest jointly with world-class directors and well-known studios from Hollywood, and expand the Group's portfolio of projects. Separately, given the flourishing development of films, TV programmes and music in South Korea, as well as their rising influence in the international market, it is expected that the investments in the production of Korean films and TV programmes will generate considerable and long-lasting revenue for the Group.

In respect of healthcare and wellness services, the Group anticipates that the operation of the offline healthcare and wellness centre "Beijing Bayhood No. 9 Club" will remain steady and continue to maintain a stable revenue stream for the Group in the future. However, as online healthcare services have been loss-making for the third consecutive year, with the revenue growth failing to meet expectations, while no enterprises in the market have succeeded in exploring a suitable and sustainable profit-making model, the Group will further reduce the investment in and size of the business, actively introduce other investors and partners, and even consider disposing of the business in whole or in part.

Environmental & Social Responsibilities

The Group has been adhering to the corporate philosophy of "Integrity First" and committed to the core values of "innovation, efficiency, advancement and elevation". While seeking business growth, the Group strives to fulfil its environmental and social responsibilities, and actively implements the principle of sustainable development, with an aim to create sustainable value for all stakeholders including shareholders, employees, customers and suppliers.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Environmental & Social Responsibilities *(Continued)*

a) ***Environmental responsibilities***

Committed to developing an "eco-friendly" industry, the Group strictly abides by laws and regulations on environmental protection, reviews its environmental management policies regularly and has taken certain measures to minimize the impact of its business activities on the environment.

The Group keeps enhancing the monitoring of its emissions, adopts environment-friendly technologies and uses raw materials compliant with environmental protection standards. On the basis of compliance with emission standards, the Group strives to reduce the generation and emission of waste gas, greenhouse gas, sewage and waste.

The Group focuses on the use of energy and resources in its daily operation, and implements an energy-saving scheme and recycling of resources to ensure the mitigation of environmental impact and the improvement of operational efficiency.

b) ***Social responsibilities***

The Group actively fulfils its social responsibilities and complies with various regulatory requirements on employment, labour standards, supply chain management, product responsibility and anti-corruption. The Group cares for the community and the disadvantaged group, while promoting harmonious relationship with stakeholders including investors, employees, customers, suppliers, the government and the community, with an aim to maximize social benefits through concerted efforts.

Adhering to a "people-centric" principle, the Group creates a fair, safe, healthy and pleasant work environment for its employees. The Group provides a full range of training and career development plans and enhances its performance management system, helping employees to capitalize on their strengths and achieve personal growth. The Group abides by the Labour Law of the People's Republic of China and employment laws applicable to relevant jurisdictions where its operations are located, and protects all legitimate interests of its employees.

As part of the Group's strict supplier management system, suppliers are selected based on the quality and pricing of products and services, while site visits are conducted to ensure that suppliers meet the Group's standards in terms of production capacity, technical level, supply capacity and the quality of their safety and environmental management. During the contract term, the Group conducts regular reviews on the quality, environmental and social risks of the products and services provided by suppliers, so as to ensure the safe and smooth operation of the supply chain. In the meantime, the Group takes measures to enhance communication and maintain long-lasting and stable relationships with suppliers.

Committed to providing customers with quality products and services, the Group keeps improving the communication channels and the complaint processing mechanism. The Group safeguards customers' interests to the fullest extent by recognizing and making prompt responses to their feedback as well as keeping customer information strictly confidential.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Environmental & Social Responsibilities *(Continued)*

b) ***Social responsibilities*** *(Continued)*

The Group has always been participating in community services, making efforts to promote community development and social harmony. In its daily operation, the Company also strictly complies with laws on anti-corruption, bribery, abusive conduct, money laundering, etc., adhering to compliant operation and meeting the requirements and expectations of the government and regulators.

FINANCIAL REVIEW

Continuing Operations

Revenue for the year ended 31 December 2016 amounted to approximately HK$135,633,000 (2015: HK$122,838,000), being a 10% increase comparing to the prior year, and all segment revenues recorded an increase during the year. During the year, the Group has made heavy investment of approximately HK$500 million into the expansion of "Entertainment and Media" segment. Yet, it still takes time for such investments to be realized as revenue. As such, although the revenue from "Entertainment and Media" segment increased by 21% comparing to the prior year, it still only accounts for approximately 9% (2015: 8%) of the Group's revenue. 86% (2015: 90%) of the revenue during the year arose from the "Offline Healthcare and Wellness Services" segment, which recorded a stable 5% increase in revenue during the year. The "Online Healthcare Services" segment, which generates revenue mainly from the operations of "Healthcare Stations" in more than 10 provinces in China in hands with insurance companies started to be revenue-generating since 2015, but the growth pace of sales revenue is not as fast as expected, contributing only 5% (2015: 2%) of the Group's revenue.

Cost of sales for the year ended 31 December 2016 amounted to approximately HK$113,842,000 (2015: HK$67,659,000), being a 68% increase comparing to the prior year. The significant increase is mainly attributed to the "Entertainment and Media" segment, resulting from the impairment of certain film rights amounting to approximately HK$44,051,000. Discounting such factor, cost of sales for the year in fact slightly increased by 3% amid 10% increase in revenue. In view of the actual box office performance of certain film right distribution in certain markets during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2016. By using the latest available information and best estimates as at 31 December 2016, the carrying value of the film right was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film right, including expected future box office performance in different markets around the globe, other revenue streams that the film right can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. The impairment assessment was further updated with the actual box office performance up to the date of this report. Accordingly, impairment of film right amounting to approximately HK$44,051,000 was recognized for the year ended 31 December 2016, and was included in cost of sales during the year.

Other expenses and other losses, net, for the year amounted to approximately HK$40,310,000 (2015: other income and other gains, net, of approximately HK$153,661,000), which comprised mainly exchange loss of approximately HK$39,803,000 (2015: HK$33,575,000) arising from the significant depreciation of Renminbi against Hong Kong dollars during the year. In the prior year, however, a net gain on financial assets at fair value through profit or loss of approximately HK$180,687,000 was also recorded, while for current year there was a net loss on financial assets at fair value through profit or loss of approximately HK$4,700,000.

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

Marketing and selling expenses for the year ended 31 December 2016 amounted to approximately HK$4,069,000 (2015: HK$23,421,000), being an 83% decrease comparing to the prior year. Marketing and selling expenses during the year were mainly attributed to the "Online Healthcare Services" segment. As mentioned above, the growth pace of the revenue of "Online Healthcare Services" segment is not as fast as expected, management has placed strict control on expense spending and commitment, with free or subsidized distribution of smart blood glucose meters and test strips to new subscribers being substantially limited, leading to significant reduction in marketing and selling expenses.

Administrative expenses for the year ended 31 December 2016 amounted to approximately HK$117,983,000 (2015: HK$136,564,000), being a 14% decrease comparing to the prior year. The fluctuation is mainly due to the following factors:

– During the year ended 31 December 2015, the Group has recorded provision for impairment of construction in progress and prepayments of approximately HK$6,517,000 and HK$22,182,000 respectively, while no such provision was recorded during the year; and

– The Group has incurred legal and professional fees, most of which was incurred for the share subscription completed in February 2016, of approximately HK$32,488,000 during the year, while legal and professional fees from continued operations for the prior year amounted to approximately HK$16,802,000 only.

Share of results of an associate for the current year represented the share of results of HB Entertainment which become a 22%-owned associated company of the Group since August 2016. The financial performance of HB Entertainment, similar to other content production companies in South Korea, is also affected by the prominent decrease in the export of TV drama contents to the PRC since the fourth quarter of 2016.

Share of results of joint ventures, mainly represents the Group's share of loss of the Travel Channel operations, for the year ended 31 December 2015 amounted to approximately HK$12,544,000. As the investment in joint venture has already been fully impaired as at 31 December 2015 (provision for impairment of interests in joint ventures and amount due from a joint venture amounting to approximately HK$164,124,000 was recorded in the prior year), no further share of results of joint ventures was recorded during the year. As further detailed in notes 29 and 30 to the consolidated financial statements, management has intended to dispose of the entire shareholding in Hao You including the Travel Channel operations.

Finance income, net for the year ended 31 December 2016 amounted to approximately HK$233,000 (2015: finance costs, net of approximately HK$220,000). Such amounts represented imputed finance income/costs on discounting non-current rental deposits received/paid and are all non-cash items in nature. The Group has not incurred any borrowing as of 31 December 2016.

Discontinued Operations

The gain from discontinued operations for the year ended 31 December 2016 arose from the intended disposal of the entire shareholding in Hao You (including the Travel Channel operations) following the completion of step acquisition on 1 December 2016. Further details of the intended disposal are disclosed in note 30 to the consolidated financial statements.

FINANCIAL REVIEW *(Continued)*

Discontinued Operations *(Continued)*

The loss from discontinued operations for the year ended 31 December 2015 arose from the very substantial disposal in relation to the Beijing Healthcare and Wellness Si He Yuan and Hotel project which has been completed on 6 October 2015. Part of the considerations of the disposal is in the form of share entitlement notes issued by the purchaser (which is a company listed on The Stock Exchange of Hong Kong Limited). The market share price of the purchaser has dropped by the time of the completion of the disposal comparing to the time of the signing of the relevant agreements for the disposal, leading to a significant loss on disposal during the year. The said share entitlement notes have been fully distributed to the Company's shareholders after completion of the disposal. Details of the disposal are disclosed in note 30 to the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 31 December 2016, the Group held cash and cash equivalents of approximately HK$70,842,000 (2015: HK$280,400,000), being a 75% decrease comparing to the balance as at 31 December 2015. Although the Group has completed a share subscription in February 2016 and has raised funds of approximately HK$547 million, the Group has also made heavy investments in content productions and has completed the acquisition of minority interests in HB Entertainment during the year, leading to decrease in cash and cash equivalents balance.

The Group is at net current asset position of HK$336,963,000 as at 31 December 2016 (2015: HK$460,631,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 6.36 as at 31 December 2015 to 5.39 as at 31 December 2016. This is in line with the decrease in cash and cash equivalents balance, which has been utilized to invest in contents and investment in associates which are mostly non-current assets. Nevertheless, with a 5.39-time current ratio with no borrowing, the Group still maintains a very healthy liquidity position.

The debt to equity ratio, representing the sum of borrowings to total equity, remained zero as at 31 December 2016 and 2015. The Group has no borrowing as at 31 December 2016 and 2015.

Foreign Currency Exchange Exposure

The Group mainly operates in China and Hong Kong and is exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. During the year, depreciation in Chinese Renminbi against Hong Kong dollars resulted in the significant exchange loss of approximately HK$39,803,000 (2015: HK$33,575,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi but manages through constant monitoring to limit as much as possible its net exposures.

LIQUIDITY AND CAPITAL RESOURCES *(Continued)*

Foreign Currency Exchange Exposure *(Continued)*

In August 2016, the Group has completed the acquisition of a minority interests in HB Entertainment in South Korea and the investment was classified as Interests in Associates. The consideration for the acquisition was denominated in Korean Won ("KRW"). The Group has settled partial considerations of approximately KRW 27.0 billion during the year ended 31 December 2016. The Group is expected to make further settlement of considerations of approximately KRW12.3 billion in 2017. The Group is currently in negotiation of entering into forward contract arrangements or through other similar means to hedge its foreign currency exposure from KRW regarding the expected settlement in 2017.

Capital Structure

The Group has mainly relied on its equity, borrowings and internally generated cash flow to finance its operations.

During the year ended 31 December 2016, the Company has issued 6,837,620,000 new ordinary shares upon completion of share subscriptions at HK$0.08 per share. During the year ended 31 December 2015, the Company has issued (i) 12,000,000 new ordinary shares upon conversion of convertible notes at HK$0.20 per share; and (ii) 88,582,706 new ordinary shares upon share option exercise at a weighted average exercise price of HK$0.40 per share.

Convertible notes with principal amount of RMB569 million, among others, were issued in October 2012 to finance the acquisition of the development and operating rights of the 580 Chinese acres land for the Beijing Healthcare and Wellness Si He Yuan and Hotel project. During the year ended 31 December 2015, the Company has redeemed all outstanding convertible notes at maturity date of 22 October 2015 in cash of HK$18,600,000.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2016 and 2015, none of the Group's assets was charged and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 31 December 2016, the Group employed a total of 72 (2015: 83) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 451 (2015: 470) full-time employees in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2016, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the "CG Code") with the exception of the following deviations:–

1. **Code Provision A.2.1**

   Under the code provision A.2.1 of the CG Code, the roles of chairman ("Chairman") and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. During the period from 1 January 2016 to the date of this report, the roles of Chairman and CEO have not been separated. Mr. YUEN Hoi Po was the Chairman and CEO of the Company for the period from 1 January 2016 to 5 February 2016. From then on, Mr. WANG Zhongjun has been appointed as the Executive Director and has performed the roles of Chairman and CEO.

   The Board believes that it is appropriate and in the interests for the same individual to serve the Chairman and CEO because it helps ensure consistent leadership within the Group and enable more effective and efficient overall strategic planning for the Group. The Board considers that this structure did not impair the balance of power and authority between the Board and the management of the Company.

2. **Code Provision A.6.7**

   Under the code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to work commitment, Mr. Hugo SHONG and Mr. Edward TIAN Suning (both resigned in February 2016) were unable to attend the extraordinary general meeting held on 1 February 2016.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine directors of the Company ("Directors") whose biographical details, as well as the relationship amongst them (if any), are set out on pages 28 to 32 of this Annual Report.

The Board is responsible for establishing the Group's corporate policy and strategic direction; setting business objectives and development plans; monitoring financial performance, internal controls and the performance of the senior management; and ensuring that the Company complies with all applicable laws and regulations. The Board delegates day-to-day operations of the Group to the management, which is responsible for implementing these strategies and plans.

BOARD OF DIRECTORS *(Continued)*

The Board should meet regularly at least four times a year at approximately quarterly intervals and holds additional meetings as and when the Board thinks appropriate. During the year, a total of eight Board meetings were held (three of which was convened by way of written resolutions).

Directors play an active role in participating in the Company's meetings. The composition of the Board as at the date of this report and their attendance at the Company's meetings during year 2016 is as follows:

Directors	Director Categories	Board Meetings	General Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Corporate Governance Committee Meetings	Nomination Committee Meetings	Executive Committee Meetings
Mr. WANG Zhongjun[1]	Chairman, Chief Executive Officer and Executive Director	5/5 [4]	3/3 [4]	–	member 0/0	chairman 1/1	chairman 1/1	chairman 1/1
Mr. LAU Seng Yee[1]	Vice Chairman and Executive Director	4/5 [4]	3/3 [4]	–	–	–	–	member 1/1
Mr. WANG Zhonglei[1]	Executive Director	5/5 [4]	3/3 [4]	–	–	–	–	–
Mr. LIN Haifeng[1]	Executive Director	5/5 [4]	3/3 [4]	–	–	–	–	–
Ms. WANG Dongmei[1]	Executive Director	5/5 [4]	3/3 [4]	–	–	–	–	–
Mr. YUEN Hoi Po[2]	Executive Director	8/8	4/4	–	ex-member 1/1	–	–	–
Dr. WONG Yau Kar, David	Independent Non-executive Director	8/8	4/4	member 2/2	chairman 1/1	–	member 1/1	–
Mr. YUEN Kin	Independent Non-executive Director	8/8	4/4	chairman 2/2	member 1/1	member 1/1	–	–
Mr. CHU Yuguo	Independent Non-executive Director	8/8	4/4	member 2/2	–	member 1/1	member 1/1	–
Mr. ZHANG Changsheng[3]	Former Executive Director	3/3	1/1	–	–	–	–	–
Mr. Edward TIAN Suning[3]	Former Non-executive Director	3/3	0/1	–	–	–	–	–
Mr. Hugo SHONG[3]	Former Non-executive Director	3/3	0/1	–	–	–	–	–
Total number of meetings held		8	4	2	1	1	1	1

1. Appointed on 5 February 2016
2. Mr. YUEN Hoi Po ceased to be Chairman of the Board, Corporate Governance Committee, Nomination Committee, Executive Committee, CEO of the Company and a member of Remuneration Committee with effect from 5 February 2016
3. Resigned on 5 February 2016
4. These meetings were held after his/her appointment

BOARD OF DIRECTORS *(Continued)*

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the Directors save that Mr. WANG Zhongjun (Chairman) is the brother of Mr. WANG Zhonglei.

BOARD COMMITTEES

The Board has established Strategy Committee, Executive Committee, Corporate Governance Committee, Nomination Committee, Remuneration Committee and Audit Committee. Sufficient resources have been provided for the committees to undertake their duties. Each Board Committee has the authority to seek any complete and reliable information that it requires from the management. Where necessary, these committees should seek independent professional advice, at the Company's expenses, to perform their responsibilities.

Written terms of reference of each of the Executive Committee, Corporate Governance Committee, Nomination Committee, Remuneration Committee and Audit Committee are available on the websites of the Company, and, where applicable, the Stock Exchange.

Strategy Committee

The Strategy Committee is mainly responsible for formulating the Group's business strategy. As at the date of this report, the Strategy Committee comprises two Executive Directors, namely, Mr. WANG Zhongjun (Chairman) and Mr. LAU Seng Yee.

Executive Committee

The Executive Committee is mainly responsible for improving the efficiency of the Board's operation and shorten any operations-related decision making processes, as sometimes it may be practically difficult to convene a full board meeting or to arrange all the Directors to sign a written resolution in a timely manner.

During the year, one meeting was held by the Executive Committee. This meeting is mainly to approve the change of bank authorized signatories.

Corporate Governance Committee

The Corporate Governance Committee is mainly responsible for developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; and reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year, one meeting was held by the Corporate Governance Committee to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report, to review and monitor the training and continuous professional development of Directors and senior management, to review the Company's Shareholder Communication Policy, to review the code of conduct applicable to employees of the Company and to review whether the Directors have spent sufficient time to perform the director's duties.

BOARD COMMITTEES *(Continued)*

Nomination Committee

The Nomination Committee is mainly responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board; making recommendations on any proposed changes to the Board; reviewing Board Diversity Policy; and assessing the independence of Independent Non-executive Directors.

During the year, one meeting was held by the Nomination Committee to conduct the annual review of the structure, size and composition of the Board; to assess independence of Independent Non-executive Directors; to recommend the Board's rotation schedule for 2016 annual general meeting, and to review the Board Diversity Policy.

Remuneration Committee

The Remuneration Committee is mainly responsible for making recommendation to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; and making recommendations to the Board on the remuneration of Non-executive Directors. The Remuneration Committee was delegated responsibility to determine the remuneration packages, including benefits in kind, pension rights and compensation payments, of individual Executive Directors and senior management.

During the year, one meeting was held by the Remuneration Committee to determine remuneration package and discretionary bonus for Executive Director and senior management.

Audit Committee

The Audit Committee is mainly responsible for the following:

1. Making recommendation to the Board on the appointment, reappointment, and removal of the external auditor;

2. Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. Monitoring the integrity of the Company's financial statements and annual report and accounts, interim report and reviewing significant financial reporting judgments contained in them; and

4. Monitoring the Company's risk management and internal control systems; assisting the Board in reviewing the effectiveness of the Company's risk management and internal control systems.

During the year, two meetings were held by the Audit Committee for the purposes of meeting the above mentioned responsibilities.

BOARD DIVERSITY POLICY

The Group adopted a Board Diversity Policy in 2013. A summary of this policy, together with the measureable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are as follows:–

The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a numbers of measurable aspects including but not limited to gender, ethnicity, age, business experience, functional expertise, personal skills and geographic background in order to attract and maintain a Board with an appropriate mix of skills, experience and expertise. The Nomination Committee has reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have participated in continuous professional development to develop and refresh their knowledge and skills. According to the training records provided by each of the Directors, the training received by all Directors during the year is as follows:

Directors	Attending Seminars	Reading Regulatory Updates	Giving Speeches
Mr. WANG Zhongjun		✓	✓
Mr. LAU Seng Yee		✓	✓
Mr. WANG Zhonglei		✓	✓
Mr. LIN Haifeng		✓	
Ms. WANG Dongmei		✓	
Mr. YUEN Hoi Po		✓	
Dr. WONG Yau Kar, David	✓	✓	✓
Mr. YUEN Kin	✓	✓	
Mr. CHU Yuguo		✓	
Mr. ZHANG Changsheng*		✓	
Mr. Edward TIAN Suning*	✓	✓	
Mr. Hugo SHONG*	✓	✓	✓

* Resigned on 5 February 2016

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the period from 1 January 2016 to 5 February 2016, the positions of the Chairman and Chief Executive Officer ("CEO") were held by Mr. YUEN Hoi Po. Following that, Mr. WANG Zhongjun has been appointed as the Executive Director and serves as the Chairman and CEO of the Company. It is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a CEO.

NON-EXECUTIVE DIRECTORS

All Non-executive Directors (including Independent Non-executive Directors) of the Company were appointed for a specific term, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall retire from their office but become eligible for re-election. All the Non-executive Directors are serving for a fixed term of not more than three years.

Throughout the year, the Board has at least three Independent Non-executive Directors, one of whom has appropriate professional qualifications in accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

Pursuant to Rule 3.13 of the Listing Rules, the Company has received the annual confirmation from each of the Independent Non-executive Directors. The Company considers that Dr. WONG Yau Kar, David, Mr. YUEN Kin and Mr. CHU Yuguo are independent in character and judgment and they also meet the criteria set out in Rule 3.13 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT PERSONS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout year 2016.

The Code of Conduct applies to all the relevant persons as defined in the CG Code, including any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities.

EXTERNAL AUDITOR

The Audit Committee has received a letter from the existing auditor of the Company, PricewaterhouseCoopers, confirming their independence and objectivity. The remuneration paid to PricewaterhouseCoopers and its affiliated firms (if any) for services rendered is listed as follows:

Nature of the services	2016 HK'000	2015 HK'000
Audit and review services	2,980	2,760
Non-audit services	1,724	3,343
	4,704	6,103

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibilities of the Directors in relation to the consolidated financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 43 to 49 which acknowledges the reporting responsibilities of the external auditor.

Annual Report and Financial Statements

The Directors acknowledge their responsibilities for preparing the consolidated financial statements for each financial year which give a true and fair view of the state of the Group.

Accounting Policies

The Directors consider that in preparing the consolidated financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of consolidated financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable accounting standards.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS *(Continued)*

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The Directors, having made appropriate enquires, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

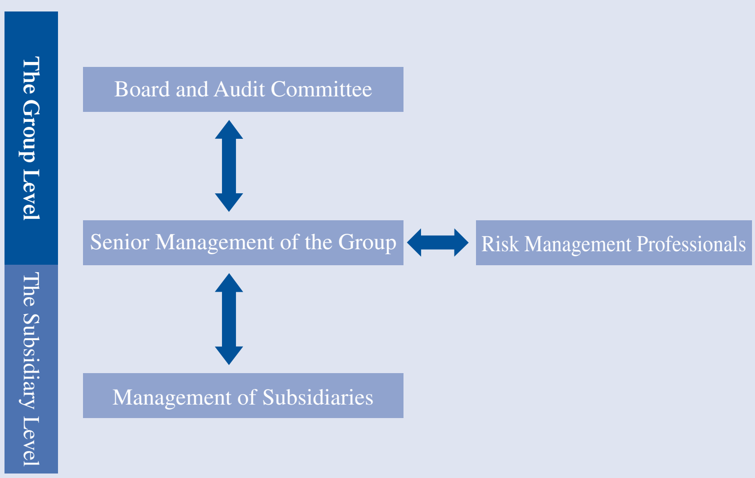
Responsibilities

The Board believes that a comprehensive set of risk management and internal control systems plays an essential role in achieving the Group's strategic goals, and has therefore acknowledged its responsibility to set up and maintain these systems, as well as review their effectiveness, while the management is accountable for designing and executing the Group's internal control system to facilitate risk management. However, such internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives, and is only capable of providing reasonable, not absolute assurance.

Risk Management and Internal Control Systems

Established in 2015, the Group's risk management organizational structure is a 3-tier framework, comprising of the Board and its Audit Committee, senior management of the Group, as well as management of subsidiaries. This structure aims at facilitating the risk management in each aspect of the Group's businesses and constantly improving its internal control system. Details of the structure are set out as follows:

Risk Management Structure



RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Risk Management and Internal Control Systems *(Continued)*

Roles performed by parties at all levels within the risk management structure are set out below:

Board and its Audit Committee

- ✓ Setting strategic goals
- ✓ Overseeing the design, implementation and monitoring of risk management and internal control systems by the management
- ✓ Evaluating major risks faced by the Group and judging their nature and degree
- ✓ Providing guidance on the importance of risk management and risk management culture
- ✓ Reviewing the effectiveness of the risk management and internal control systems

Senior Management of the Group

- ✓ Performing risk assessment on the Group from an overall perspective and developing risk management measures
- ✓ The design, implementation and monitoring of the risk management and internal control systems
- ✓ Providing the Board with confirmation of the effectiveness of the risk management and internal control systems

Risk Management Professionals

- ✓ Coordinating with and assisting senior management of the Group in promoting risk management
- ✓ Overseeing how each business department establishes and implements risk mitigation plans and countermeasures

Management of Subsidiaries (Operational Level)

- ✓ Identifying and evaluating operational risks, designing, executing and monitoring the risk management and internal control systems implemented at subsidiaries
- ✓ Carrying out risk management processes and internal control measures across business operations and functional areas

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Risk Management and Internal Control Systems *(Continued)*

The Group has prepared the Risk Management Manual, which defines its risk management structure, respective duties and risk management processes. In each financial year, the Group organizes the management of each business department to implement their respective risk management processes. Through systematic risk management procedures, the Group identifies the nature and degree of the risks it faces, and assesses the major risks the Group is subject to. The Group prioritizes risks based on their probability and the severity of impact on the Group's businesses, and then develops risk management measures to keep the risks at an acceptable level.

The Group's internal control system was constructed based on the internal control framework issued by the Committee of Sponsoring Organization of the Treadway Commission. The Audit Committee reviews the effectiveness and adequacy of the system on an annual basis. If any deficiency of internal control is identified, the Group will address it by communicating with the management internally and ordering rectification to be made. Any material deficiency identified in the control or procedures will be reported to the Board directly for communication and discussion.

The Group has an independent internal audit function, which reports to the Audit Committee directly and regularly. The internal audit function is responsible for reviewing the Group's risk management and internal control measures, and overseeing the management and controls of each of the Group's businesses and processes independently, through which the internal audit function assists the Board in promoting the continuous improvement of the Group's risk management and internal control systems.

In relation to the management of disclosure of insider information, the Group has put in place the Insider Information and Disclosure Policies, setting out the definition of insider information and specifying the procedures for the handling and dissemination of insider information. The Group discloses information to the public generally and non-exclusively through channels including financial reports, announcements and its website, with a view to achieving fair and timely disclosure of information. The Group strictly prohibits unauthorized use of confidential or insider information.

Review on the Risk Management and Internal Control Systems in 2016

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems for the year. The review covers all material aspects of control, including financial, operational and compliance controls. During the year ended 31 December 2016, the Board has finished reviewing the Group's risk management and internal control systems and is satisfied with the results. The Board has also reviewed the adequacy of resources, staff qualifications and experiences, training programmes for staff and relevant budgets for the Group's accounting, internal audit and financial reporting functions, and is satisfied with the results.

COMPANY SECRETARY

Mr. HAU Wai Man, Raymond, being an employee of the Company, has been appointed as Company Secretary of the Company ("Company Secretary") since 2008. The Company Secretary reports to the chairman of the Board. His appointment and removal is a matter for the Board as a whole.

The Company Secretary is mainly responsible for assisting the chairmen of the Board and its committees to prepare agendas for meetings and to prepare and disseminate meeting material to the Directors and committees' members in a timely and comprehensive manner; ensuring every Director complied with the Board's policy and procedures, and all applicable rules and regulations; and ensuring accurate records of Board/committee meeting proceedings, discussions and decisions are recorded.

According to Rule 3.29 of the Listing Rules, Mr. HAU has taken no less than 15 hours of relevant professional training during the year. His biography is set out on page 32 of this Annual Report.

INVESTOR RELATIONS

The Board is committed to providing clear and full performance information of the Group to shareholders through different publications and financial reports. In addition to dispatching circular, notices and financial reports to shareholders, additional information is also available to shareholders on the Group's website (www.huayitencent.com).

COMMUNICATION WITH SHAREHOLDERS

Shareholders' communication policy was established for ensuring the enhancement of communication between the Company and its shareholders.

Shareholders are encouraged to attend general meetings or to appoint proxies to attend and vote at the meetings on their behalf if they are unable to attend the meetings. Any vote of the shareholders at general meetings must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

The chairman of the Board has attended the annual general meeting of the Company in year 2016 (the "AGM"). He has also invited the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the AGM. In case of their absence, he would invite another member of the committee or failing this his duly appointed delegate, to attend. These persons are available to answer questions at the AGM.

The chairman of the independent board committee (if any) would be available to answer questions at any general meeting to approve connected transactions or any other transactions that required independent shareholders' approval.

The external auditor engaged by the Company has attended the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

The Share Registrar of the Company would be appointed as the scrutineer at the Company's general meetings to provide the detailed procedures for conducting a poll and to take the vote. The poll results announcement will then be announced in the manner prescribed under the Listing Rules.

To further increase the efficiency of communication as well as to protect the environment, arrangements have been made to ascertain the shareholders' preference as to the means of receiving the Company's corporate communications. For details of such arrangements, please refer to the announcement of the Company dated 22 December 2016.

CONSTITUTIONAL DOCUMENTS

Pursuant to the special resolutions passed at the extraordinary general meeting of the Company held on 22 April 2016, the amendments to the Company's memorandum and articles of association were approved by the shareholders of the Company. The amendments principally reflected the change of Company name. For details of the amendments, please refer to the circular of the Company dated 21 March 2016. An updated version of the memorandum and articles of association of the Company is available on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

1. Procedures for Shareholders to convene an EGM:

- An annual general meeting of the Company ("AGM") shall be held in each year.
- Each general meeting, other than AGM, shall be called an extraordinary general meeting ("EGM").
- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.
- The requisition signed by the requisitionist(s) shall set out the matters for consideration at the meeting to be called. It shall be deposited at the principal office of the company located at Suite 908, 9/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
- In case of joint holdings, it would be sufficient if only one of the joint holders has signed the requisition.
- The requisition may consist of several documents in like form, each signed by one or more requisitionist(s).
- The requisition will be verified with the Company's Share Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionist(s) concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

SHAREHOLDERS' RIGHTS *(Continued)*

1. Procedures for Shareholders to convene an EGM: *(Continued)*

- The EGM shall be held within two (2) months after the deposit of such requisition.
- If within twenty-one (21) days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

2. Procedures for Shareholders to make proposals at AGM:

There are no provisions allowing shareholders to make proposals or move resolutions at the AGM under the memorandum and articles of association of the Company or the companies laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may convene an EGM.

3. Procedures for Shareholders to send enquiries to the Board:

Shareholders may send their enquiries to the Board by addressing them to the Company Secretary. The Company Secretary will forward the enquiries to the Board.

The contact details of the Company Secretary are as follows:

Address	:	Suite 908, 9/F Tower Two, Lippo Centre 89 Queensway, Hong Kong
Email	:	info@huayitencent.com
Tel	:	3690 2050
Fax	:	3690 2059

By Order of the Board

WANG Zhongjun
Chairman

Hong Kong, 24 March 2017

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Mr. WANG Zhongjun

Director since 2016
Chairman, Chief Executive Officer and Executive Director
Mr. WANG Zhongjun, aged 56, currently serves as Chairman of the Board, Chief Executive Officer and Executive Director of the Company. He is the Chairman of Nomination Committee, Corporate Governance Committee, Executive Committee and Strategy Committee as well as a member of Remuneration Committee. He received a Master of Mass Media from the State University of New York, USA. Mr. WANG Zhongjun had worked as a press-photographer for the Press of China Administration of Goods and Materials, a manager of the advertising department of China Yongle Cultural Development Co., Ltd., the general manager of Beijing Huayi Brothers Advertising Co., Ltd., and the chairman of Beijing Huayi Brothers Film Investment Co., Ltd. He has been serving as the chairman and director of Huayi Brothers Media Corporation, a substantial shareholder of the Company and a company listed on the Shenzhen Stock Exchange (SZSE: 300027) ("Huayi Brothers Media Corporation"). He had served as the vice-chairman and a director of Ourpalm Co., Ltd., a company listed on the Shenzhen Stock Exchange (SZSE: 300315) and resigned in October 2013. Mr. WANG Zhongjun is the brother of Mr. WANG Zhonglei.

Mr. LAU Seng Yee

Director since 2016
Vice Chairman and Executive Director
Mr. LAU Seng Yee, aged 50, currently serves as Vice Chairman of the Board and Executive Director of the Company. He is a member of Executive Committee and Strategy Committee. Mr. LAU concurrently holds the positions of senior executive vice president (SEVP), chairman of Tencent Advertising and chairman of Group Marketing and Global Branding within the Tencent Holdings Limited, a substantial shareholder of the Company and a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 700) ("Tencent Holdings Limited"). Already an SEVP, he assumed the joint chairmanship responsibilities in 2017, committing himself to bring a new vision and dynamism to the company's advertising endeavors. Mr. LAU has set himself the mission of enhancing the company's brand presence on a global scale, all while maintaining existing, and developing new, world-wide strategic partnerships.

Mr. LAU joined Tencent in 2006 and his most recent position was serving as president of the Tencent Online Media Group (OMG), whose holdings include Tencent News, Tencent Video, Tencent Sports, and Penguin Pictures. Under his leadership, Tencent OMG has evolved into a highly integrated media matrix with one of the most respected media positions in China.

BOARD OF DIRECTORS *(Continued)*

Mr. LAU Seng Yee *(Continued)*

With over 20 years of rich experience in both the media and Internet industries, Mr. LAU is recognized as a global entrepreneur, media master and technology evangelist. His influence reaches across a range of fields, including the new economy, Internet trends, and digital media. Mr. LAU speaks frequently at high-profile academic and industry events, such as the Bo'Ao Forum for Asia, the G20 lead-in event Brisbane Global Cafe, Viva Technology Paris as well as at executive programs of major institutions such as the Harvard Business School, and Stanford and Oxford Universities, where he shared his observations and insights on the Internet's value to the national economy and to people's livelihood, innovation, corporate social responsibility and leadership development.

In 2011, Mr. LAU was honoured globally as "The World's 21 Most Influential People in Marketing and Media" by New York based Advertising Age. In 2015, Mr. LAU received another global award when he was announced as "Media Person of the Year" by Cannes Lion Festival of Creativity in France, making him the first recipient from China that received such recognition. In the same year, he was handpicked as a member of Harvard Business School's Asia-Pacific Advisory Board (APAB). In 2014, Mr. LAU has been appointed an Honorary Ambassador to the City of Brisbane, Australia to recognize his contribution as, in the words of Brisbane's Lord Mayor, "a world leading global entrepreneur." In 2016, Mr. LAU was named chairman of the China Media Assessment Council, the first media evaluation and accreditation organization in China.

Mr. LAU is currently an employee of a wholly-owned subsidiary of Tencent Holdings Limited (a substantial shareholder of the Company).

Mr. WANG Zhonglei

Director since 2016
Executive Director
Mr. WANG Zhonglei, aged 46, currently serves as Executive Director and director of several subsidiaries of the Company. He received a college degree from Beijing Youth Politics College. Mr. WANG Zhonglei had served for China Mechanical and Electrical Equipment Corporation, and worked as the chief executive officer of Beijing Huayi Exhibition & Advertising Company, the vice-general manager of Beijing Huayi Brothers Advertising Co., Ltd. and the general manager of Beijing Huayi Brothers Film Investment Co., Ltd. He has been serving as the vice-chairman and general manager of Huayi Brothers Media Corporation (a substantial shareholder of the Company) and as a non-executive director of Guru Online (Holdings) Limited, a company listed on the GEM Board of the Hong Kong Stock Exchange (Stock Code: 8121). Mr. WANG Zhonglei is also serving as a director of Huayi Brothers International Limited, a wholly-owned subsidiary of Huayi Brothers Media Corporation (a substantial shareholder of the Company) and a director of Sim Entertainment Co., Ltd., a company listed on the Korea Exchange (KOSDAQ: 204630). Mr. WANG Zhonglei is the brother of Mr. WANG Zhongjun.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS *(Continued)*

Mr. LIN Haifeng

Director since 2016
Executive Director

Mr. LIN Haifeng, aged 40, currently serves as Executive Director and director of several subsidiaries of the Company. He received a Bachelor of Engineering from Zhejiang University and an MBA from the Wharton School of the University of Pennsylvania. Mr. LIN is serving as the general manager of the merger and acquisitions department of Tencent Holdings Limited (a substantial shareholder of the Company) and he has strong experience in investment, strategy and finance for 13 years. Since joining Tencent Holdings Limited in 2010, Mr. LIN has led investment initiatives in e-commerce, internet finance, media and content areas, solidifying Tencent Holdings Limited's endeavor in building a healthy ecosystem. Prior to joining Tencent Holdings Limited, Mr. LIN held various senior positions in finance, strategy, and operating management at Microsoft and Nokia.

Mr. LIN is currently an employee of a wholly-owned subsidiary of Tencent Holdings Limited (a substantial shareholder of the Company).

Ms. WANG Dongmei

Director since 2016
Executive Director

Ms. WANG Dongmei, aged 40, currently serves as Executive Director of the Company. She holds a Master of Laws from China University of Political Science and Law. Ms. WANG Dongmei had worked as a paralegal in Duebound Law Firm, the legal counsellor of TOM Group International Limited Beijing Office and the legal manager of Eastdawn Digital Technology Co., Ltd. She is currently serving as the legal director of Huayi Brothers Media Corporation (a substantial shareholder of the Company).

Mr. YUEN Hoi Po

Director since 2010
Executive Director

Mr. YUEN Hoi Po, aged 54, currently serves as Executive Director of the Company. Mr. YUEN is the sole member and the sole director of Smart Concept Enterprise Limited which is a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance and a director of several subsidiaries of the Company. Mr. YUEN currently serves as a member of the standing committee of the Beijing Youth Federation. Mr. YUEN has acquired extensive experiences in the commercial sector when he engaged in businesses, including trading, real estates, tourism and services, since 1990. Given his outstanding records in the commercial field and strong personal influence over the society, Mr. YUEN has been nominated as the members of the Beijing Youth Federation and its standing committee for many years.

Mr. YUEN Hoi Po is a cousin of Mr. WANG Le who is the senior management of the Company.

BOARD OF DIRECTORS *(Continued)*

Dr. WONG Yau Kar, David, *BBS, J.P.*

Director since 2000
Independent Non-Executive Director
Dr. WONG Yau Kar, David BBS, JP, aged 59, currently serves as Independent Non-executive Director of the Company. He is the Chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee. Dr. Wong received a doctorate in Economics from the University of Chicago in 1987. Dr. Wong has extensive experience in manufacturing, direct investment and international trade. Dr. Wong is active in public service. He is a Hong Kong deputy of the 12th National People's Congress of the People's Republic of China (第十二屆全國人民代表大會). He is also the Chairman of the Land and Development Advisory Committee, Mandatory Provident Fund Schemes Authority and Protection of Wages on Insolvency Fund Board. Dr. Wong was appointed a Justice of Peace (JP) in 2010 and was awarded a Bronze Bauhinia Star (BBS) in 2012 for his valuable contribution to the society.

Dr. Wong is currently an independent non-executive director of Concord New Energy Group Limited (Stock code: 182), Redco Properties Group Limited (Stock code: 1622), Yunfeng Financial Group Limited (Stock code: 376), Shenzhen Investment Limited (Stock code: 604) and Sinopec Kantons Holdings Limited (Stock code: 934), the shares of which are listed on The Stock Exchange of Hong Kong Limited.

Mr. YUEN Kin

Director since 2004
Independent Non-Executive Director
Mr. YUEN Kin, aged 62, currently serves as Independent Non-executive Director of the Company. He is the Chairman of Audit Committee of the Company and a member of Remuneration Committee and Corporate Governance Committee. Mr. YUEN holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. YUEN is currently an independent non-executive director of Lafe Corporation Limited (SGX: AYB), a company listed on The Singapore Stock Exchange and an independent non-executive director of Emerson Radio Corporation (NYSEMKT: MSN), a company listed on The New York Stock Exchange. He is also serving as a non-executive director of Kong Sun Holdings Limited (Stock code: 295), a company listed on The Stock Exchange of Hong Kong Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS *(Continued)*

Mr. CHU Yuguo

Director since 2012
Independent Non-Executive Director
Mr. CHU Yuguo, aged 51, currently serves as Independent Non-executive Director of the Company. He is a member of Audit Committee, Nomination Committee and Corporate Governance Committee. Mr. CHU is a PhD fellowship of Peking University. He was a lecturer of the Department of Computer Science & Technology of Peking University, deputy head and head of office of admission of Peking University Office of Educational Administration, head of asset management office of Peking University, and the chairman and general manager of Peking University Science Park. He is a director of Beida Jade Bird; a director of Beijing Science Park Culture Education Development Co., Ltd; the chairman of Beida Jade Bird Culture and Education Group and the vice president of Institute of Examinations, Peking University.

SENIOR MANAGEMENT

Mr. HAU Wai Man, Raymond

Mr. HAU Wai Man, Raymond, aged 42, is the Chief Financial Officer, Qualified Accountant, Company Secretary and director of several subsidiaries of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. He holds an MBA degree from The Hong Kong University of Science and Technology, and has over 10 years of experience in international accounting firms and corporates in Hong Kong and China before joining the Company in 2006.

Mr. WANG Le

Mr. WANG Le, aged 40, currently serves as the President of the Group's Online Healthcare Service business. Mr. WANG has more than ten years' experience in information technology corporate management and product research and development. Before joining the Group in December 2013, Mr. WANG worked in senior management position for Beijing Esafenet Science & Technology Development Co., Ltd. Mr. WANG received a bachelor's degree in Applied Computer Science from Haerbin Engineering University in 1998.

Mr. WANG Le is a cousin of Mr. YUEN Hoi Po who is the Executive Director of the Company.

The board of directors of the Company (the "Board") is pleased to submit its report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of online and offline healthcare and wellness services. Details of the principal activities of the Company's principal subsidiaries as at 31 December 2016 are set out in Note 35 to the consolidated financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 14 of this Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on pages 50 to 51 of this Annual Report.

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2016.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146 of this Annual Report.

DONATIONS

The Group has made donations of approximately HK$80,000 (2015: HK$85,000) to non-profit organizations during the year.

SHARE ISSUED IN THE YEAR

Details of the shares of the Company issued in the year ended 31 December 2016 are set out in Note 26 to the consolidated financial statements.

USE OF PROCEEDS FROM FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Reference is made to the announcement of the Company dated 5 February 2016 about the completion of the subscription of the Company's shares by Huayi Brothers International Limited, Tencent Holdings Limited and other financial investors (the "Subscription"). Upon completion of the Subscription, the Company received gross proceeds of approximately HK$547,000,000 (or net proceeds of approximately HK$527,000,000 after deduction of the professional and legal fees in connection with the Subscriptions). The whole of the net proceeds has been fully utilized for the investment of various film production projects under the Ten Film Production Cooperation Agreement and the Animation Film Cooperation Agreement in 2016.

DIRECTORS

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

Mr. WANG Zhongjun (Chairman & CEO)[1, 3]
Mr. LAU Seng Yee (Vice Chairman)[1, 3]
Mr. WANG Zhonglei[1, 3]
Mr. LIN Haifeng[1, 3]
Ms. WANG Dongmei[1, 3]
Mr. YUEN Hoi Po[1, 5]
Dr. WONG Yau Kar, David, *BBS, JP* [2]
Mr. YUEN Kin[2]
Mr. CHU Yuguo[2]
Mr. ZHANG Changsheng[4]
Mr. Edward TIAN Suning[4]
Mr. Hugo SHONG[4]

1. Executive Director
2. Independent Non-executive Director
3. Appointed on 5 February 2016
4. Each of Mr. ZHANG Changsheng (former Executive Director), Mr. Edward TIAN Suning (former Non-executive Director) and Mr. Hugo SHONG (former Non-executive Director) resigned on 5 February 2016 and has confirmed that none of them has any disagreement with the Board and that they are not aware of any matter in relation to their resignation that needs to be brought to the attention of the shareholders of the Company.
5. Mr. YUEN Hoi Po ceased to be the Chairman and Chief Executive Officer of the Company with effect from 5 February 2016.

In accordance with Article 87 of the Company's Articles of Association, Mr. LIN Haifeng, Ms. WANG Dongmei and Dr. WONG Yau Kar, David shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offers themselves for re-election.

As Dr. WONG Yau Kar, David has been appointed as an Independent Non-executive Director for more than 9 years, pursuant to Code Provision A.4.3 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules, his further appointment should be subject to a separate resolution to be approved by the Shareholders at the forthcoming annual general meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company will publish an ESG Report in accordance with Rule 13.91 and the ESG Reporting Guide contained in Appendix 27 to the Listing Rules no later than 3 months from the publication of this Annual Report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and Senior Management as at the date of this report are set out on pages 28 to 32 of this Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST-PAID INDIVIDUALS

Particulars of the emoluments of the Directors and the five highest-paid individuals of the Group during the year are set out in Notes 12 and 34(a) to the consolidated financial statements.

EQUITY–LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the year are set out below:

Share Option Scheme

The share option scheme of the Company was adopted on 4 June 2012 (the “Share Option Scheme”).

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide appropriate incentives or rewards to eligible participants for their contributions or potential contributions to the Group and to promote the success of the business of the Group. The eligible participants of the Share Option Scheme including but not limited to directors of the Group, employees of the Group, suppliers of goods or services to the Group, customers of the Group, and shareholders of any member of the Group. The Share Option Scheme became effective on the adoption date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options to be granted under any other share option schemes must not in aggregate exceed 10% of the aggregate of the shares in issue as at the adoption/refreshment date.

The maximum number of shares issuable under share options to each eligible participant under the Share Option Scheme and any other schemes of the Group in any 12-month period, is limited to 1% of the issued shares of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

EQUITY–LINKED AGREEMENTS *(Continued)*

Share Option Scheme *(Continued)*

Each grant of options to a participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the Share Option Scheme must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who or whose associate is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an Independent Non-executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders in general meeting.

A participant shall pay the Company HK$1.00 for the grant of an option on acceptance of an option offer within 21 days after the offer date. The option price will be determined by the board at its absolute discretion and notified to an option-holder. The minimum option price shall not be less than the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of the shares.

During the year, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the Share Option Scheme as at 1 January 2016 and 31 December 2016. As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 1,349,810,657 which represents approximately 10% of the total issued shares of the Company.

COMPETING BUSINESS

During the year, none of the Directors had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2016, calculated under the Companies Law of the Cayman Islands and the Company's Articles of Association, amounted in total to HK$976,518,000 (2015: HK$515,345,000), representing the share premium of HK$1,213,484,000 (2015: HK$803,227,000) less the accumulated losses of HK$236,966,000 (2015: HK$287,882,000). The Company may make distributions to its members out of the share premium in certain circumstances subject to the Articles of Association of the Company.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

For the year ended 31 December 2016, the Group's aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers were less than 30% of the Group's total revenue from sales of goods or rendering of services. The percentages of purchases of goods and services from its major suppliers are as follows:

–	The largest supplier	16.5%
–	Five largest suppliers in aggregate	47.1%

None of the Directors, their close associates or any shareholder (who to the knowledge of the Directors own more than 5% of the Company's issued shares) had an interest in these major suppliers.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme of the Group are set out in Note 2(t) to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the details disclosed in Note 34(e) to the consolidated financial statements, there is no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2016, the interests and short positions of the Director and Chief Executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long positions in ordinary shares and underlying shares of the Company:

Name of Director	Capacity	Number of Shares: Personal interest	Number of Shares: Corporate interest	Number of Shares: Total interest	% of total issued share capital of the Company (Note 1)
YUEN Hoi Po	Beneficial owner and interest of controlled corporations	139,000,000	1,976,492,607 (Note 2)	2,115,492,607	15.67
CHU Yuguo	Beneficial owner	2,000,000	–	2,000,000	0.01

Note:

1 The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 31 December 2016.

2 Mr. YUEN Hoi Po was deemed to be interested in 1,976,492,607 shares of the Company held by his wholly-owned corporations namely, Ming Bang Limited, Rich Public Limited and Smart Concept Enterprise Limited.

Save as disclosed above, as at 31 December 2016, none of the Directors, Chief Executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed under the section headed "Shares Option Schemes" and "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company of any Associated Corporation" above, at no time during the year was the Company or a specified undertaking (within the meaning of the Hong Kong Companies Ordinance) of the Company is a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporation.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the interests and short positions of the following persons (other than Directors or Chief Executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Shareholder	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note a)
YUEN Hoi Po	Beneficial owner	Beneficial interest	139,000,000	1.03
Smart Concept Enterprise Limited	Beneficial owner	Beneficial interest	1,837,000,000	13.61
Rich Public Limited	Beneficial owner (Note b)	Beneficial interest	139,492,607	1.03
Ming Bang Limited	Interest of a controlled corporation (Note c)	Corporation interest	139,492,607	1.03
Huayi Brothers International Limited	Beneficial owner	Beneficial interest	2,452,447,978	18.17
Huayi Brothers Media Corporation	Interest of a controlled corporation (Note d)	Corporation interest	2,452,447,978	18.17
Tencent Holdings Limited	Interest of a controlled corporation (Note e)	Corporation interest	2,116,251,467	15.68
MIH TC Holdings Limited	Interest of a controlled corporation (Note f)	Corporation interest	2,116,251,467	15.68
Naspers Limited	Interest of a controlled corporation (Note f)	Corporation interest	2,116,251,467	15.68
Confidex Key Limited	Beneficial owner	Beneficial interest	691,882,675	5.13
Mr. YU Feng	Interest of a controlled corporation (Note g)	Corporation interest	691,882,675	5.13

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in ordinary shares of the Company: *(Continued)*

Name of Shareholder	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note a)
Mr. MA Yun	Interest of a controlled corporation (Note g)	Corporation interest	691,882,675	5.13
Yunfeng Investment GP II, Ltd.	Interest of a controlled corporation (Note g)	Corporation interest	691,882,675	5.13
Yunfeng Investment II, L.P.	Interest of a controlled corporation (Note g)	Corporation interest	691,882,675	5.13
Yunfeng Fund II, L.P.	Interest of a controlled corporation (Note g)	Corporation interest	691,882,675	5.13

Notes:

a. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 31 December 2016.

b. Rich Public Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Ming Bang Limited.

c. Ming Bang Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Mr. YUEN Hoi Po who is also a director of Ming Bang Limited.

d. Huayi Brothers International Limited is a wholly-owned subsidiary of Huayi Brothers Media Corporation and is beneficially interested in 2,452,447,978 shares of the Company.

e. Mount Qinling Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited and is beneficially interested in 2,116,251,467 shares of the Company.

f. MIH TC Holdings Limited is a controlling shareholder of Tencent Holdings Limited. MIH TC Holdings Limited is controlled by Naspers Limited through its intermediary subsidiaries, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited were deemed to be interested in the same block of 2,116,251,467 shares of the Company under Part XV of the SFO.

g. Each of Mr. YU Feng, Mr. MA Yun, Yunfeng Investment GP II, Ltd., Yunfeng Investment II, L.P., and Yunfeng Fund II, L.P. was deemed to be interested in the 691,882,675 shares of the Company by virtue of their direct/indirect ownership of Confidex Key Limited.

Save as disclosed above, as at 31 December 2016, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the transactions carried out with related parties are set out in Note 32 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holdings in the shares of the Company.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

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

MANAGEMENT CONTRACTS

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

INDEMNITY OF DIRECTORS

Permitted indemnity provisions (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company are currently in force and was in force during the year and at the date of this report.

The Company has maintained directors and officers liability insurance throughout the year, which provides certain indemnities against liability incurred by directors and officers of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

A separate corporate governance report prepared by the Board on its corporate governance practices is set out on pages 15 to 27 of this Annual Report.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

OTHER CHANGES IN DIRECTORS' INFORMATION

Other changes in Directors' information since the date of 2016 Interim Report are set out below.

1. Mr. WANG Zhonglei has been appointed as a director of Sim Entertainment Co., Ltd. (KOSDAQ: 204630).

2. Mr. YUEN Kin has been appointed as a non-executive director of Kong Sun Holdings Limited (Stock code: 295).

Save as the information disclosed above, there is no change in Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

On behalf of the Board

WANG Zhongjun
Chairman

Hong Kong, 24 March 2017

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF HUAYI TENCENT ENTERTAINMENT COMPANY LIMITED
(formerly known as China Jiuhao Health Industry Corporation Limited)
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 145, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2016, 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.

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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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarized as follows:

- Impairment assessment for film right
- Subsidiary classified as held for sale

KEY AUDIT MATTERS *(Continued)*

Impairment assessment for film right	How our audit addressed the Key Audit Matter
Refer to note 14 to the consolidated financial statements As at 31 December 2016, the carrying amount of film right was HK$74,931,000. In view of the box office performance of the film right distribution during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2016 and the carrying value was written down to its recoverable amount, which was measured at the higher of fair value less costs of disposal and value in use. Management determined the recoverable amount using value in use, which was calculated based on present value of future cash flows directly generated by the film right. The forecast of future cash flows involves judgements regarding the future cash inflows generated from forecast revenue, which included box office performance, types of revenue streams that the film right can be distributed, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. Impairment of film right recognized for the year ended 31 December 2016 amounted to HK$44,051,000. We consider the impairment assessment of film right as key audit matter due to the significant judgements and estimates made by management on the recoverability of the film right.	We understood, evaluated and tested the key controls over the recoverability assessment performed by management on the film right. We assessed the methodology used by management in determining the recoverable amount by referencing to industry practice and market conditions. We evaluated management's assessment on the expected revenue to be generated by the film right based on historical data and our knowledge on the market and industry. We tested the expected revenue from circulation and distribution of the film right by comparing with market data of the box office performance of the after year end circulation. We also compared with market information of other similar types of films in the market, including box office performance, number and location of planned circulations, type of revenue stream expected to be distributed and duration of circulation in various revenue streams. We also evaluated and challenged management's assumptions of the estimated circulation and distribution costs to be incurred by comparing the ratio of these budgeted costs to the budgeted revenue with other comparable films in the industry based on industry research. We found the assumptions and judgements made by management in respect of the recoverability of the film rights to be reasonable based on the available evidence.

KEY AUDIT MATTERS *(Continued)*

Subsidiary classified as held for sale	How our audit addressed the Key Audit Matter
Refer to note 29 and 30 to the consolidated financial statements On 1 December 2016, the Group acquired the remaining equity interest in a joint venture of the Group, Beijing Hao You Media Culture Co., Ltd. (formerly known as "Asia Union Film and Media") ("Hao You"). Upon completion of the acquisition, Hao You became a wholly-owned subsidiary of the Group. The Group acquired Hao You with a view to subsequently resell the entire equity interest in Hao You so as to realize and recover the Group's interests in Hao You. In view of management's intention to dispose Hao You subsequently and the sale was highly probable, the assets and liabilities acquired through Hao You were classified as disposal group held for sale as at 31 December 2016 amounted to HK$245,441,000 and HK$2,068,000, respectively. Upon the classification as disposal group held for sale, management assessed the disposal group at lower of their carrying amounts and the fair value less costs to sale. We determined the classification of assets and liabilities of Hao You as a disposal group held for sale and the recoverability of the disposal group held for sale to be key audit matters due to the significant judgements and assumptions made by management on whether the assets and liabilities of Hao You meet the criteria to be classified as disposal group held for sale and whether the fair value less costs to sell is able to support the carrying amount of the disposal group held for sale.	For the classification of the assets and liabilities of Hao You as disposal group held for sale as at 31 December 2016, we obtained from management the share purchase agreement and discussed and understood the substance of the acquisition, including management's intention for the acquisition and subsequent disposal of Hao You. We reviewed the Board of directors' plan and approval on potential disposal of Hao You and discussed with management the status of negotiation with potential buyer in assessing the probability of the subsequent disposal, traced to the non-binding letter of intent between the potential buyer and the Group, and interviewed the potential buyer to understand the likelihood of completing the potential disposal transaction within twelve months from the balance sheet date. For the recoverability assessment of the disposal group held for sale, we reviewed management's impairment assessment on the disposal group held for sale by comparing the carrying amounts of the disposal group with the indicated consideration based on our interview with the potential buyer. We also checked the balances being classified as disposal group held for sale to the amounts calculated by management in the recoverability assessment to assess the accuracy and appropriateness of such presentation and disclosure made in the consolidated financial statements. We considered the significant judgements and assumptions made by management on the classification of the assets and liabilities of Hao You as disposal group held for sale and recoverability assessment of the disposal group held for sale to be supportable by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Ka Keung, Johnny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Continuing Operations			
Revenue	5	**135,633**	122,838
Cost of sales		**(113,842)**	(67,659)
Gross profit		**21,791**	55,179
Other income and other (losses)/gains, net	5	**(40,310)**	153,661
Marketing and selling expenses		**(4,069)**	(23,421)
Administrative expenses		**(117,983)**	(136,564)
Share of results of an associate	15	**1,624**	–
Share of results of joint ventures, net	16	**–**	(12,544)
Provision for impairment of interests in joint ventures and amount due from a joint venture	16	**–**	(164,124)
		(138,947)	(127,813)
Finance income/(costs), net	7	**233**	(220)
Loss before taxation	8	**(138,714)**	(128,033)
Taxation	9	**(86)**	(4,612)
Loss for the year from continuing operations		**(138,800)**	(132,645)
Discontinued Operations			
Profit/(loss) for the year from discontinued operations	30	**21**	(364,351)
Loss for the year		**(138,779)**	(496,996)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Attributable to:			
Equity holders of the Company			
– continuing operations		**(139,527)**	(129,319)
– discontinued operations		**21**	(364,351)
		(139,506)	(493,670)
Non-controlling interest			
– continuing operation		**727**	(3,326)
		(138,779)	(496,996)
Loss per share attributable to the equity holders of the Company for the year		**HK Cents**	HK Cents
Basic loss per share	10		
– from continuing operations		**(1.09)**	(1.96)
– from discontinued operations		**–**	(5.51)
		(1.09)	(7.47)
Diluted loss per share	10		
– from continuing operations		**(1.09)**	(1.96)
– from discontinued operations		**–**	(5.51)
		(1.09)	(7.47)

The notes on pages 57 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
Loss for the year		**(138,779)**	(496,996)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
– Currency translation differences	27	**18,784**	(11,462)
Other comprehensive income/(loss) for the year, net of tax		**18,784**	(11,462)
Total comprehensive loss for the year		**(119,995)**	(508,458)
Total comprehensive loss attributable to:			
Equity holders of the Company			
– continuing operations		**(120,865)**	(140,418)
– discontinued operations		**20**	(364,757)
Non-controlling interest			
– continuing operation		**850**	(3,283)
		(119,995)	(508,458)

The notes on pages 57 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	As at 31 December **2016** HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**15,940**	15,734
Film right and film production in progress	14	**367,602**	23,872
Other intangible assets		**10**	15
Interest in an associate	15	**190,501**	–
Interests in joint ventures	16	**–**	179
Available-for-sale financial assets	18	**12,101**	–
Deferred income tax assets	9	**2,142**	2,012
Prepayments, deposits and other receivables	23	**91,834**	86,628
		680,130	128,440
Current assets			
Trade receivables	19	**73**	400
Inventories	20	**6,942**	7,595
Amount due from a joint venture	16	**–**	165,535
Programmes and film production in progress	21	**50,252**	50,271
Financial assets at fair value through profit or loss	22	**–**	13,900
Prepayments, deposits and other receivables	23	**40,164**	28,483
Cash and cash equivalents	24	**70,842**	280,400
		168,273	546,584
Assets of disposal group classified as held for sale	30	**245,441**	–
		413,714	546,584
Total assets		**1,093,844**	675,024
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	26	**269,962**	133,210
Reserves	27	**735,413**	446,001
		1,005,375	579,211
Non-controlling interest	27	**(1,506)**	(2,356)
Total equity		**1,003,869**	576,855

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	As at 31 December 2016 HK$'000	2015 HK$'000
Liabilities			
Non-current liabilities			
Other payables	25	**12,221**	11,509
Deferred income tax liabilities	9	**1,003**	707
		13,224	12,216
Current liabilities			
Trade payables	25	**2,518**	3,920
Receipt in advance, other payables and accrued liabilities	25	**14,787**	24,655
Income tax liabilities		**57,378**	57,378
		74,683	85,953
Liabilities of disposal group classified as held for sale	30	**2,068**	–
		76,751	85,953
Total liabilities		**89,975**	98,169
Total equity and liabilities		**1,093,844**	675,024

The financial statements on pages 50 to 145 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

WANG Zhongjun
Director

LAU Seng Yee
Director

The notes on pages 57 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	28	**(453,631)**	244,326
Net cash (used in)/generated from operating activities		**(453,631)**	244,326
Cash flows from investing activities			
Bank interest received		**894**	1,589
Purchases of property, plant and equipment		**(8,691)**	(53,234)
Disposals of subsidiaries, net of cash disposed of	28	**(7)**	324,705
Proceeds from disposals of joint ventures		**191**	5,133
Repayment received from a then joint venture		**1,190**	–
Proceeds from disposals of property, plant and equipment		**29**	–
Net cash used through acquisition of a subsidiary	29	**(89,953)**	–
Investment in an associate	15	**(191,656)**	–
Purchase of available-for-sale financial assets	18	**(12,101)**	–
Net cash (used in)/generated from investing activities		**(300,104)**	278,193
Cash flows from financing activities			
Proceeds from issuance of shares on exercise of share options		**–**	35,260
Proceeds from issuance of subscription shares		**547,009**	–
Dividends paid		**(1,701)**	(500,000)
Redemption of convertible notes		**–**	(18,600)
Net cash generated from/(used in) financing activities		**545,308**	(483,340)
Net (decrease)/increase in cash and cash equivalents		**(208,427)**	39,179
Cash and cash equivalents at 1 January		**280,400**	243,734
Currency translation differences		**(980)**	(2,513)
Cash and cash equivalents at 31 December		**70,993**	280,400
Analysis of cash and cash equivalents			
Cash and cash equivalents of the Group		**70,993**	280,400
Reclassification to assets of disposal group held for sale	30	**(151)**	–
	24	**70,842**	280,400

The notes on pages 57 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Company				
	Share capital HK$'000	**Other reserves HK$'000**	**Accumulated losses HK$'000**	**Non-controlling interest HK$'000**	**Total equity HK$'000**
Balance at 1 January 2015	1,311,981	2,825,390	(1,843,924)	927	2,294,374
Comprehensive income:					
– Loss for the year	–	–	(493,670)	(3,326)	(496,996)
Other comprehensive income:					
– Currency translation differences	–	(11,505)	–	43	(11,462)
Total comprehensive loss	–	(11,505)	(493,670)	(3,283)	(508,458)
Transactions with owners in their capacity as owners:					
– Capital reduction (Note 26)	(1,197,792)	170,859	1,026,933	–	–
– Issuance of shares upon conversion of convertible notes	2,400	(111)	–	–	2,289
– Redemption of convertible notes	–	(8,980)	8,980	–	–
– Dividend paid	–	(1,227,500)	–	–	(1,227,500)
– Issuance of shares upon exercise of share options	16,621	18,639	–	–	35,260
– Lapse of share options	–	(1,886)	1,886	–	–
Total transactions with owners in their capacity as owners	(1,178,771)	(1,048,979)	1,037,799	–	(1,189,951)
Disposals of subsidiaries and joint ventures	–	(19,110)	–	–	(19,110)
Balance at 31 December 2015	133,210	1,745,796	(1,299,795)	(2,356)	576,855
Balance at 1 January 2016	**133,210**	**1,745,796**	**(1,299,795)**	**(2,356)**	**576,855**
Comprehensive income:					
– Loss/(profit) for the year	**–**	**–**	**(139,506)**	**727**	**(138,779)**
Other comprehensive income:					
– Currency translation differences					
– Group	**–**	**21,163**	**–**	**123**	**21,286**
– Associate (Note 15)	**–**	**(2,779)**	**–**	**–**	**(2,779)**
– Recycling upon disposal of subsidiaries	**–**	**277**	**–**	**–**	**277**
Total comprehensive income/(loss)	**–**	**18,661**	**(139,506)**	**850**	**(119,995)**
Transactions with owners in their capacity as owners:					
– Issuance of subscription shares	**136,752**	**410,257**	**–**	**–**	**547,009**
Total transactions with owners in their capacity as owners	**136,752**	**410,257**	**–**	**–**	**547,009**
Balance at 31 December 2016	**269,962**	**2,174,714**	**(1,439,301)**	**(1,506)**	**1,003,869**

The notes on pages 57 to 145 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Huayi Tencent Entertainment Company Limited (formerly known as "China Jiuhao Health Industry Corporation Limited") (the "Company") and its subsidiaries (together the "Group") is principally engaged in (i) entertainment and media business; and (ii) provision of online and offline healthcare and wellness services.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1.1111, Cayman Islands.

Pursuant to a special resolution passed at an extraordinary general meeting on 22 April 2016, the Company changed its English name from "China Jiuhao Health Industry Corporation Limited" to "Huayi Tencent Entertainment Company Limited" and the dual foreign name in Chinese from "中國9號健康產業有限公司" to "華誼騰訊娛樂有限公司". The new names have also been registered with the Registrar of Companies in Hong Kong on 6 May 2016. The Company's stock short name has been changed from "JIUHAO HEALTH" to "HUAYI TENCENT".

The shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousand Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2017.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Changes in accounting policy and disclosures:

(i) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards that have been issued and effective for the Group's financial year beginning on 1 January 2016:

HKAS 1 (amendments)	Disclosure initiative
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortization
HKAS 16 and HKAS 41 (amendments)	Agriculture: bearer plants
HKAS 27 (amendments)	Equity method in separate financial statements
HKFRSs (amendments)	Annual improvements to HKFRSs 2012–2014 cycle
HKFRS 10 and HKFRS 12 and HKAS 28 (amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (amendments)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts

The adoption of the above new and amended standards has no significant impact on the Group's results and financial position.

(ii) New and amended standards that are issued, but are not effective for financial year beginning on 1 January 2016 and have not been early adopted:

		Effective for financial years beginning on or after
HKAS 7 (amendments)	Disclosure initiative	1 January 2017
HKAS 12 (amendments)	Recognition of deferred tax assets for unrealized losses	1 January 2017
HKFRS 2 (amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group has commenced an assessment of the impact of these new and amended standards, but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(ii) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(iii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(iii) Business combinations *(Continued)*

If the business combination is achieved in stages, the carrying value of acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

(iv) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(vii) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the statement of profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(vii) Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the statement of profit or loss.

(viii) Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition of profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

(ix) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-marker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management committee, which comprises the chief executive officer and the chief financial officer of the Group, that makes strategic decisions.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). As the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, Limited the directors consider that it will be more appropriate to adopt Hong Kong dollar ("HK$") as the Group's and the Company's presentation currency. Accordingly, the consolidated financial statements are presented in HK$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income/(costs), net". All other foreign exchange gains and losses are presented in the income statement within "other income and other gains, net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognized in other comprehensive income.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Group companies *(Continued)*

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(iv) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a joint venture that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(d) Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings, plant, equipment and other assets are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20-30 years
Leasehold improvements	shorter of 5 years or lease term
Furniture, computer and equipment	3-5 years
Machinery and equipment	3-10 years
Motor vehicles	4-5 years

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

Major costs in restoring property, plant and equipment to their normal working conditions are charged to the consolidated income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(f)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated income statement.

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets *(Continued)*

(ii) Film rights

Film rights comprise amounts paid and payable under agreements for the productions, circulations and distributions of films on film-by-film basis.

Film rights are stated at cost less accumulated amortization and accumulated impairment losses.

Upon the release of the films, film rights are amortized at rates calculated to write off the costs in proportion to the expected revenues from circulation and distribution of films. Such rates are on a systematic basis, with reference to the projected revenues and are subject to annual review by management.

(iii) Film production in progress

Film production in progress are accounted for on a film-by-film basis and are stated at cost less accumulated impairment losses, if any. Cost of film production in progress includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film. Upon completion, these films under production are reclassified as film rights.

(f) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Upon the reclassification of disposal group held for sales, the amortization of intangible assets and depreciation of property, plant and equipment are ceased. The finance cost of convertible notes and promissory notes attributable to the disposal group is continued to be recognized and capitalized as cost of qualifying asset of construction in progress. Operating lease payment for land use right is continued to be incurred and capitalized to the carrying amount of disposal group.

(h) Financial assets

Classification
The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "programmes and film production in progress", "trade receivables", "amount due from a joint venture", "deposits and other receivables", and "cash and cash equivalents" in the consolidated balance sheet.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial assets *(Continued)*

Classification *(Continued)*

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other income and other gains, net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of "other income and other gains, net" when the Group's right to receive payments is established.

Gains or losses on an available-for-sale financial assets are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial assets are derecognized. At that time, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of group entities or counterparty.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of financial assets

(i) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of financial assets *(Continued)*

(ii) Assets classified as available-for-sale (Continued)

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

(k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of such receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default of delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement. When a trade receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

(m) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash on hand and deposits held at call with banks.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Share capital

Ordinary shares and preference shares are classified as equity.

Preference shares are classified as equity as there is no contractual right to convert the preference shares to any outflow of liability on the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(p) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to item recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis difference

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Current and deferred income tax *(Continued)*

(ii) ***Deferred income tax*** *(Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(iii) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(r) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for the sale of goods or services rendered in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifies of each arrangement.

(i) Revenue from film exhibition is recognized when the film is shown and the right to receive payment is established and reported under "Entertainment and Media" segment.

(ii) Revenue from programmes and film production in progress is recognized on a time proportion basis using the effective interest method and reported under "Entertainment and Media" segment.

(iii) Food and beverage income and club activities income are accounted for when the services are rendered. Members' annual fees are recognized on a straight-line basis over the subscription period. Membership entrance fees represent non-refundable upfront registration fee for lifetime entitlement by members for using the golf facilities and enjoying certain privileges in other facilities in the club and are recognized on a reducing balance method for which the membership is granted and the reducing rate is based upon historical usage pattern of existing members. The portion of membership entrance fees which relates to services not yet rendered as at year end is included in the consolidated balance sheet as deferred revenue. Such food and beverage income and club activities income are reported under "Offline Healthcare and Wellness Services" segment.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

(iv) Revenue generated from healthcare stations which are jointly operated by a group entity and an independent third party contains separately identifiable components that should be accounted for separately. The Group allocates the consideration received/receivable to each identifiable component of the transaction based on the fair value of respective component. Revenue from lease component is recognized by amortizing the minimum lease receivable on a straight-line basis over the lease period. Revenue from service components is recognized in the period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(v) Sales of goods are recognized when a group entity has delivered products to the customer, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(vi) Rental income from leasehold property is recognized in the consolidated income statement on a straight-line basis over the term of the lease.

(vii) Interest income is recognized on a time proportion basis using the effective interest method.

(viii) Dividend income is recognized when the right to receive payment is established.

(t) Employee benefits

(i) Retirement benefit costs

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they became payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits *(Continued)*

(i) Retirement benefit costs (Continued)

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

For both retirement benefits schemes, the Group has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payment is available.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to terminate the employment of current employees without possibility of withdrawal. In case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iii) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long- service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity and other non-accumulating compensated absences are not recognized until the time of leave.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expenses during the period between service commencement period and grant date. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

3 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, foreign exchange risk, liquidity risk and price risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimize potential adverse effects on the Group's financial performance.

(a) *Cash flow and fair value interest rate risk*

Programmes and film production in progress at fixed interest rate expose the Group to fair value interest rate risk, while cash held at call with banks at variable interest rate expose it to cash flow interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for financial assets and liabilities that represent the major floating interest-bearing positions.

Based on the simulations performed on cash balances placed with banks carried at floating interest rate, if the interest rate increased/decreased by 60 basis-point with all other variables held constant, loss attributable to the equity holders of the Company for the year ended 31 December 2016 would decrease/increase by HK$425,000 (2015: HK$1,682,000).

(b) *Credit risk*

Credit risk is managed on a group basis. The carrying amounts of bank balances, trade receivables, deposits and other receivables, programmes and film production in progress and amount due from a joint venture represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

In regards to the amount due from a joint venture, management assessed the financial position and performance of the counter-party, taking into account its business plans, financial information and other factors. In addition, the Group reviews regularly the recoverable amount of deposits and other receivable, programme and film production in progress and amount due from a joint venture to ensure that adequate impairment losses are made for irrecoverable amounts.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(b) *Credit risk* *(Continued)*

The credit risk on bank balances is limited because the counterparties are financial institutions with good credit standing.

Other than concentration of credit risk on bank balances, which are deposited with several banks with good credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

(c) *Foreign exchange risk*

According to the Group policy, the Company has adopted the Hong Kong dollar ("HK$") as the Group's and the Company's presentation currency because the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, thus, the directors considers that it will be more appropriate to adopt Hong Kong dollar ("HK$") as the Group's and the Company's presentation currency.

Correspondingly, foreign exchange risk arises when future commercial transactions and net monetary assets and liabilities are denominated in a currency that is not the entity's functional currency.

For the year ended 31 December 2016, The Group has investments in People Republic of China and South Korea, whose net assets are exposed to foreign currency translation risk. Therefore, the foreign exchange exposure of group entities with functional currency of HK$ is mainly exposed to Renminbi ("RMB") and Korean Won ("KRW) (2015: the foreign exchange exposure of group entities with functional currency of HK$ is mainly exposed to RMB).

Notwithstanding the foreign exchange currency exposure arising from the net assets of the Group's foreign operations, the Group has not used any forward contracts, currency borrowings and other means to hedge its foreign currency exposure but manages through constant monitoring to limit as much as possible its net exposure.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against Hong Kong dollars with all other variables held constant, the loss for the year would increase/decrease by HK$37,412,000 (2015:HK$35,948,000), mainly as a result of foreign exchange gains/losses on translation of loans and receivables which are not dominated in HK$.

As at 31 December 2016, if KRW had strengthened/weakened by 5% against Hong Kong dollars with all other variables held constant, the loss for the year would decrease/increase by HK$81,000 (2015: Nil), mainly as a result of foreign exchange gains/losses on translation of share of results of an associate.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and bank balances.

Due to the dynamic nature of the Group's underlying businesses, the Group monitors the current and expected liquidity requirements and maintains flexibility in funding by maintaining sufficient cash and cash equivalent to meet operational needs and possible investment opportunities.

The table below analyzed the financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows. Balances due within twelve months equaled their carrying balances, as the impact of discounting was not significant.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2016				
Trade payables, other payables and accrued liabilities	**10,213**	**–**	**154**	**4,386**
At 31 December 2015				
Trade payables, other payables and accrued liabilities	19,070	–	184	4,413

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(e) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity of other entities are publicly traded in The Stock Exchange of Hong Kong Limited. Gains and losses arising from changes in the fair value of financial asset at fair value through profit or loss are dealt with in consolidated income statement. The performance is monitored regularly, together with an assessment of its relevance to the Group's strategic plans.

As at 31 December 2016, all equity securities have been disposed of.

As at 31 December 2015, if the share price increased/decreased by 5%, with all other variables held constant, the Group's loss of the year would decrease/increase by HK$695,000.

(ii) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. As at 31 December 2016, the Group did not have any outstanding borrowing and its gearing ratio was Nil (2015: Nil).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets that are measured at fair value:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2016				
Financial assets at fair value through profit or loss				
Trading securities	**–**	**–**	**–**	**–**
At 31 December 2015				
Financial assets at fair value through profit or loss				
Trading securities	13,900	–	–	13,900

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily the listed equity investments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Income taxes

The Group recognizes income tax liabilities based on estimates of anticipated amounts of taxes that will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(ii) Impairment of film right and film production in progress classified as intangible assets

The Group assesses at the end of each reporting period whether there is any indication for impairment on the film right and film in progress and further assesses if they have suffered any impairment, in accordance with the accounting policy stated in Note 2(e). Such annual assessment is performed on film-by-film basis at each balance sheet date. The recoverable amounts of films right and film production in progress have been determined based on the expected future cash flow forecasts and the film production budget and status respectively. These forecasts require the use of estimates.

For the year ended 31 December 2016, the Group has recognized provision for impairment of film right of approximately HK$44,051,000 (2015: Nil) and no provision for impairment of film production in progress was recognized (2015: Nil).

(iii) Amortization of film right

The Group is required to estimate the projected revenue of the film right based on its useful life in order to ascertain the amount of amortization charges for each reporting period. The appropriateness of the amortization estimate requires the use of judgement and estimates with reference to the prevailing and future market conditions and the expected cash flow pattern of the projected revenue. Changes in these estimates and assumptions could have a material effect on the amortization expenses.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iv) Impairment of programmes and film production in progress classified as financial assets

The Group assesses whether the programmes and film production in progress have suffered any impairment. Such assessment requires significant judgement. In making this judgement, the Group evaluates to current market conditions and trade history. If projected cash inflow from these investments deteriorates, provision for impairment may be required.

(v) Membership entrance fees

Membership entrance fees represents non-refundable upfront registration fee for lifetime entitlement by members for using the Bayhood No.9 Club facilities and enjoying certain privileges in other facilities in the club and are recognized on a reducing balance method which is based upon historical usage pattern of the members.

(vi) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions in response to severe industry cycle. Management reassesses the estimations at each balance sheet date.

(vii) Impairment of amounts due from a joint venture

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

For the year ended 31 December 2016, there was no provision for impairment of amounts due from a joint venture (2015: HK$119,815,000).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(viii) Impairment of interests in joint ventures

The Group tests at the end of each reporting period whether investments in joint ventures have suffered impairment. The recoverable amounts have been determined at the higher of fair value less costs to sell and value in use. Value-in-use calculations use cash flow projections based on financial budgets approved by management. Cash flows beyond the budget period are extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the business in which the joint ventures operate. Management's judgement is required in assessing the ultimate realization of these investments, including the operations and the ability to generate economic benefits in the foreseeable future. If the operations of the joint ventures were to deteriorate, resulting in an impairment of their ability to recover the carrying amount, additional impairment may be required.

For the year ended 31 December 2016, there was no provision for impairment of interests in joint ventures (2015: HK$44,309,000).

(ix) Impairment of construction in progress

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on the best information available. The Group derives the required cash flow estimates from historical experience and internal business plans. To determine recoverable amount, the Group uses cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate.

For the year ended 31 December 2016, there was no provision for impairment of construction in progress (2015: HK$6,517,000).

(x) Impairment of prepayments

The Group reviews prepayments for impairment whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining timing, amount and probability of future economic benefits, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on the best information available.

For the year ended 31 December 2016, there was no provision for impairment of prepayments (2015: HK$22,182,000).

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

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of online and offline healthcare and wellness services. Revenue recognized during the year are as follows:

	2016 **HK$'000**	2015 HK$'000
Sales		
Entertainment and media	**11,825**	9,806
Offline healthcare and wellness services	**116,499**	111,086
Online healthcare services	**7,309**	1,946
	135,633	122,838
Other income and other (losses)/gains, net		
Interest income	**894**	1,577
Realized (loss)/gain on financial assets at fair value through profit or loss, net	**(4,700)**	201,787
Unrealized loss on financial assets at fair value through profit or loss, net	**–**	(21,100)
Gain on disposals of subsidiaries	**1,694**	1,300
Gain on disposal of a joint venture	**12**	3,138
Exchange losses, net	**(39,803)**	(33,575)
Miscellaneous	**1,593**	534
	(40,310)	153,661

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the chief executive officer and the chief financial officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organized into three main operating segments from continuing operations: (i) Entertainment and media businesses; (ii) Online healthcare service; and (iii) Offline healthcare and wellness services. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from loss before taxation, excluding exchange losses, net, finance income/(costs), net and unallocated (expenses)/income, net. Unallocated (expenses)/income, net mainly comprise of corporate income net off with corporate expenses including salary, office rental and other administrative expenses which are not attributable to particular reportable segment.

There are no sales between the operating segments in the year ended 31 December 2016 (2015: Nil).

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment

For the year ended 31 December 2016

	Entertainment and Media HK$'000	Online Healthcare Services HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operations: Entertainment and Media - Hao You HK$'000	Total HK$'000
Revenue	11,825	7,309	116,499	135,633	–	135,633
Share of result of an associate	1,624	–	–	1,624	–	1,624
Segment results	(36,317)	(14,283)	7,828	(42,772)	21	(42,751)
Exchange losses, net				(39,803)	–	(39,803)
Unallocated expenses, net				(56,372)	–	(56,372)
				(138,947)	21	(138,926)
Finance income, net				233	–	233
(Loss)/profit before taxation				(138,714)	21	(138,693)
Taxation				(86)	–	(86)
(Loss)/profit for the year				(138,800)	21	(138,779)
Non-controlling interest				(727)	–	(727)
(Loss)/profit attributable to the equity holders of the Company				(139,527)	21	(139,506)

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

For the year ended 31 December 2016 *(Continued)*

	Entertainment and Media HK$'000	Online Healthcare Services HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operations: Entertainment and Media - Hao You HK$'000	Total HK$'000
Segment assets	652,013	17,019	101,440	770,472	245,441	1,015,913
Unallocated assets				77,931	–	77,931
Total assets				848,403	245,441	1,093,844
Segment liabilities	3,285	8,371	17,863	29,519	2,068	31,587
Unallocated liabilities				58,388	–	58,388
Total liabilities				87,907	2,068	89,975
Other information:						
Purchases of property, plant and equipment						
– Allocated	–	3,280	3,422	6,702	–	6,702
– Unallocated				1,989	–	1,989
Purchases of film right and film production in progress	536,250	–	–	536,250	–	536,250
Depreciation						
– Allocated	292	3,212	3,018	6,522	–	6,522
– Unallocated				142	–	142
Amortization of film right	5,779	–	–	5,779	–	5,779
Amortization of other intangible assets	–	–	5	5	–	5

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

For the year ended 31 December 2015

	Entertainment and Media HK$'000	Online Healthcare Services HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operations: Offline Healthcare and Wellness Services - Beijing Healthcare and Wellness Si He Yuan and Hotel Project HK$'000	Total HK$'000
Revenue	9,806	1,946	111,086	122,838	–	122,838
Share of results of joint ventures, net	(12,544)	–	–	(12,544)	–	(12,544)
Segment results	(158,348)	(43,049)	(31,828)	(233,225)	(306,980)	(540,205)
Exchange losses, net				(33,575)	–	(33,575)
Unallocated income, net				138,987	–	138,987
				(127,813)	(306,980)	(434,793)
Finance costs, net				(220)	–	(220)
Loss before taxation				(128,033)	(306,980)	(435,013)
Taxation				(4,612)	(57,371)	(61,983)
Loss for the year				(132,645)	(364,351)	(496,996)
Non-controlling interest				3,326	–	3,326
Loss attributable to the equity holders of the Company				(129,319)	(364,351)	(493,670)

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

For the year ended 31 December 2015

	Entertainment and Media HK$'000	Online Healthcare Services HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operations: Offline Healthcare and Wellness Services - Beijing Healthcare and Wellness Si He Yuan and Hotel Project HK$'000	Total HK$'000
Segment assets	128,350	23,009	120,760	272,119	–	272,119
Interests in and amount due from joint ventures	165,714	–	–	165,714	–	165,714
Unallocated assets				237,191	–	237,191
Total assets				675,024	–	675,024
Segment liabilities	3,496	11,226	23,698	38,420	–	38,420
Unallocated liabilities				59,749	–	59,749
Total liabilities				98,169	–	98,169
Other information:						
Purchases of property, plant and equipment						
– Allocated	8,075	6,256	2,663	16,994	–	16,994
– Unallocated				22	–	22
Purchases of film right and film production in progress	24,590	–	–	24,590	–	24,590
Depreciation expense						
– Allocated	331	731	1,861	2,923	–	2,923
– Unallocated				160	–	160
Amortization expense	–	–	5	5	–	5

6 SEGMENT INFORMATION *(Continued)*

(b) Geographical segment

The segment results for the year ended 31 December 2016 are as follows:

	PRC HK$'000	HK HK$'000	South Korea HK$'000	Total HK$'000
Revenue	128,234	7,399	–	135,633
Segment results	(45,808)	(95,322)	1,624	(139,506)
Segment assets	441,283	104,715	202,602	748,600
Unallocated (Note)				345,244
Total assets				1,093,844
Segment liabilities	26,015	63,960	–	89,975
Total liabilities				89,975
Other information:				
Purchases of property, plant and equipment	6,702	1,989	–	8,691
Purchases of film right and film production in progress (Note)	N/A	N/A	N/A	536,250
Depreciation	6,522	142	–	6,664
Amortization of film right	N/A	N/A	N/A	5,779
Amortization of other intangible assets	5	–	–	5

Note: The unallocated assets represent the portion of film right and film production in progress used and to be used globally. No geographical allocation is applicable to these assets.

6 SEGMENT INFORMATION *(Continued)*

(b) Geographical segment *(Continued)*

The segment results for the year ended 31 December 2015 are as follows:

	PRC HK$'000	HK HK$'000	Total HK$'000
Revenue	122,838	–	122,838
Segment results	(222,726)	(270,944)	(493,670)
Segment assets	402,385	106,925	509,310
Interests in and amount due from joint ventures	165,714	–	165,714
Total assets			675,024
Segment liabilities	32,459	65,710	98,169
Total liabilities			98,169
Other information:			
Purchases of property, plant and equipment	16,994	22	17,016
Purchases of film right and film production in progress	24,590	–	24,590
Depreciation	3,015	68	3,083
Amortization	5	–	5

7 FINANCE INCOME/(COSTS), NET

	2016	2015
	HK$'000	HK$'000
Finance costs		
Notional non-cash interest on convertible notes	**–**	(1,821)
Imputed finance cost on discounting non-current rental deposit paid	**–**	(1,520)
Imputed finance cost on discounting non-current rental deposits received	**(33)**	–
	(33)	(3,341)
Less: Amounts capitalized as the cost of qualifying assets (Note)	**–**	1,813
	(33)	(1,528)
Finance income		
Imputed finance income on discounting non-current rental deposits received	**–**	1,308
Imputed finance income on discounting non-current rental deposits paid	**266**	–
	266	1,308
Finance income/(costs), net	**233**	(220)

Note: Finance costs on the convertible notes capitalized were borrowing costs attributable to the construction of the "Beijing Healthcare and Wellness Si He Yuan and Hotel" project.

8 LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	2016 HK$'000	2015 HK$'000
Depreciation of property, plant and equipment (Note 13)	**6,664**	3,083
Amortization of film right (Note 14)	**5,779**	–
Auditor's remuneration		
– Audit services	**2,980**	2,760
– Non-audit services	**1,724**	3,343
Operating lease rentals – land and buildings	**6,069**	5,818
Operating lease rentals – operating rights	**20,782**	10,027
Provision for impairment of		
– inventories	**–**	3,453
– construction in progress	**–**	6,517
– prepayments	**–**	22,182
– Film right	**44,051**	–
Loss on disposal of property, plant and equipment	**162**	–
Employee benefit expense:		
Directors' fees	**600**	750
Wages and salaries	**21,126**	55,045
Contributions to defined contribution pension schemes	**1,529**	5,305
	23,255	61,100

9 TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2015: Nil). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

9 TAXATION *(Continued)*

PRC Corporate Income Tax has been provided for at the rate of 25% (2015: 25%) on the estimated assessable profit for the year.

	2016 HK$'000	2015 HK$'000
Current income tax		
– PRC Corporate income tax	–	(13,072)
Deferred income tax	86	17,684
Income tax expense	86	4,612

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the domestic tax rate applicable to the profit or loss before taxation of the consolidated entities in the respective countries as follows:

	2016 HK$'000	2015 HK$'000
Loss before taxation	(138,714)	(128,033)
Tax calculated at domestic tax rates applicable to the profit or loss in respective countries	(23,082)	(53,649)
Tax effects of an associate and joint ventures, results reported net of tax	(268)	3,136
Income not subject to tax	(29,950)	(34,974)
Expenses not deductible for tax purposes	35,539	59,006
Derecognition of deferred tax assets	–	17,586
Utilization of previously unrecognized tax losses	(404)	–
Tax losses not recognized	18,251	13,507
Income tax expense	86	4,612

The weighted average applicable tax rate was 16.64% (2015: 41.90%). The change in weighted average applicable tax rate was mainly caused by a change in mix of profits earned/losses incurred.

9 TAXATION *(Continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 HK$'000	2015 HK$'000
Deferred income tax assets to be recovered after more than 12 months	**2,142**	2,012
Deferred income tax liabilities to be recovered after more than 12 months	**(1,003)**	(707)
Deferred income tax assets, net	**1,139**	1,305

The movement in gross deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Decelerated tax amortization in the PRC HK$'000	**Amortization of operating lease HK$'000**	**Impairment losses HK$'000**	**Tax losses HK$'000**	**Total HK$'000**
At 1 January 2015	7,814	1,749	8,479	1,839	19,881
(Charged)/credited to the consolidated income statement	(7,579)	630	(8,224)	(1,783)	(16,956)
Disposal of a subsidiary	–	(255)	–	–	(255)
Exchange differences	(235)	(112)	(255)	(56)	(658)
At 31 December 2015	–	2,012	–	–	2,012
Credited to the consolidated income statement	**–**	**266**	**–**	**–**	**266**
Exchange differences	**–**	**(136)**	**–**	**–**	**(136)**
At 31 December 2016	**–**	**2,142**	**–**	**–**	**2,142**

9 TAXATION *(Continued)*

Deferred tax liabilities:

	Amortization of operating lease HK$'000	Total HK$'000
At 1 January 2015	–	–
Charged to the consolidated income statement	(728)	(728)
Exchange differences	21	21
At 31 December 2015	(707)	(707)
Charged to the consolidated income statement	**(352)**	**(352)**
Exchange differences	**56**	**56**
At 31 December 2016	**(1,003)**	**(1,003)**

Deferred tax assets are recognized for tax losses carry-forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2016, the Group had unrecognized tax losses of approximately HK$352,942,000 (2015: HK$339,742,000) to carry forward against future taxable income, subject to agreement by the Inland Revenue Department of Hong Kong and local tax bureau of the PRC. The tax losses of the PRC subsidiaries have an expiry period of five years, while the tax losses of Hong Kong subsidiaries have no expiry date.

The Group did not recognize deferred income tax assets of approximately HK$12,032,000 (2015: HK$10,025,000) in respect of tax losses of approximately HK$48,128,000 (2015: HK$40,098,000) that will expire in five years from the year incurred. The remaining tax losses of approximately HK$304,814,000 (2015: HK$299,644,000) can be carried forward indefinitely to offset against future taxable income.

Deferred income tax liabilities of HK$6,415,000 (2015: HK$9,830,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries and joint ventures. Total unremitted earnings amounted to HK$64,148,000 as at 31 December 2016 (2015: HK$98,304,000).

10 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted loss per share for the years ended 31 December 2016 and 2015 were the same as basic loss per share as the Company had no potentially dilutive ordinary shares in issue during these years.

	2016	2015
Weighted average number of ordinary shares in issue (thousands)	**12,844,236**	6,612,389
Loss from continuing operations attributable to equity holders of the Company (HK$'000)	**(139,527)**	(129,319)
Basic and diluted loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**(1.09)**	(1.96)
Profit/(loss) from discontinued operations attributable to equity holders of the Company (HK$'000)	**21**	(364,351)
Basic and diluted earnings/(loss) per share from discontinued operations attributable to equity holders of the Company (HK cents per share)	**–**	(5.51)
Loss per share attributable to equity holders of the Company (HK cents per share)	**(1.09)**	(7.47)

11 DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2016 (2015: Nil).

For the year ended 31 December 2015, a special dividend comprising of HK$500,000,000 paid in cash and share entitlement note ("SEN") of Eternity Investment Limited ("Eternity"), a company listed on The Stock Exchange of Hong Kong Limited, which can be converted into 1,500 million ordinary shares of Eternity was distributed to entitled shareholders of the Company on 6 October 2015, following the completion of a disposal transaction (Note 30). It represented HK$0.18 per ordinary share and was debited from the distributable reserves of the Company.

12 EMPLOYEE BENEFIT EXPENSE

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include no (2015: one) director whose emoluments are reflected in the analysis shown in Note 34(a). The emoluments payable to the five (2015: four) individuals during the year are as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries, bonuses, allowances and benefits in kind	**5,245**	7,325
Contributions to defined contribution pension schemes	**281**	275
	5,526	7,600

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
HK$500,001 – HK$1,000,000	**4**	2
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$4,000,001 – HK$4,500,000	**–**	1
	5	4

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture, computer and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2015							
Opening net book amount	745	33	1,992	546	1,614	4,583	9,513
Additions	–	6,385	153	8,241	188	2,049	17,016
Disposal of a subsidiary	–	–	–	–	(494)	–	(494)
Provision for impairment loss	–	–	–	–	–	(6,517)	(6,517)
Depreciation	(25)	(93)	(789)	(1,917)	(259)	–	(3,083)
Exchange differences	(42)	(185)	(117)	(216)	(26)	(115)	(701)
Closing net book amount	**678**	**6,140**	**1,239**	**6,654**	**1,023**	**-**	**15,734**
At 31 December 2015							
Cost	726	6,258	3,637	9,046	2,538	6,348	28,553
Accumulated depreciation and impairment	(48)	(118)	(2,398)	(2,392)	(1,515)	(6,348)	(12,819)
Net book amount	**678**	**6,140**	**1,239**	**6,654**	**1,023**	**-**	**15,734**

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture, computer and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2016							
Opening net book amount	678	6,140	1,239	6,654	1,023	–	15,734
Additions	–	3,398	1,132	2,692	1,469	–	8,691
Acquisition of subsidiary (Note 29)	904	–	119	–	92	–	1,115
Disposals	–	–	(44)	–	(147)	–	(191)
Disposals of subsidiaries	(671)	(2)	–	–	–	–	(673)
Depreciation	–	(2,603)	(797)	(3,005)	(259)	–	(6,664)
Reclassification to assets of disposal group held for sale (Note 30)	(898)	–	(118)	–	(91)	–	(1,107)
Exchange differences	(13)	(417)	(79)	(354)	(102)	–	(965)
Closing net book amount	**-**	**6,516**	**1,452**	**5,987**	**1,985**	**-**	**15,940**
At 31 December 2016							
Cost	–	9,128	4,411	10,749	3,455	6,348	34,091
Accumulated depreciation and impairment	–	(2,612)	(2,959)	(4,762)	(1,470)	(6,348)	(18,151)
Net book amount	**-**	**6,516**	**1,452**	**5,987**	**1,985**	**-**	**15,940**

Depreciation expense of approximately HK$2,678,000 (2015: HK$83,000) and HK$3,986,000 (2015: HK$3,000,000) has been charged in cost of sales and administrative expenses respectively.

For the year ended 31 December 2015, the Group has capitalized borrowing costs of approximately HK$1,813,000 and operating lease rentals of approximately HK$8,783,000. Aggregated amount of approximately HK$10,596,000 was capitalized for a subsidiary disposed of during the year ended 31 December 2015.

14 FILM RIGHT AND FILM PRODUCTION IN PROGRESS

	Film right HK$'000	Film production in progress HK$'000	Total HK$'000
Year ended 31 December 2015			
Opening net book amount	–	–	–
Additions	–	24,590	24,590
Exchange differences	–	(718)	(718)
Closing net book amount	–	23,872	23,872
At 31 December 2015			
Cost	–	23,872	23,872
Accumulated amortization	–	–	–
Net book amount	–	23,872	23,872

14 FILM RIGHT AND FILM PRODUCTION IN PROGRESS *(Continued)*

	Film right HK$'000	Film production in progress HK$'000	Total HK$'000
Year ended 31 December 2016			
Opening net book amount	–	23,872	23,872
Additions	–	536,250	536,250
Reclassification	171,292	(171,292)	–
Return of investments	(46,531)	(94,645)	(141,176)
Amortization	(5,779)	–	(5,779)
Impairment	(44,051)	–	(44,051)
Exchange differences	–	(1,514)	(1,514)
Closing net book amount	74,931	292,671	367,602
At 31 December 2016			
Cost	124,761	292,671	417,432
Accumulated amortization	(5,779)	–	(5,779)
Impairment	(44,051)	–	(44,051)
Net book amount	74,931	292,671	367,602

Amortization of film right of approximately HK$5,779,000 has been charged to the cost of sales in the consolidated income statement (2015: Nil).

In view of the actual box office performance of certain film right distribution in certain markets during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2016. By using the latest available information and best estimates as at 31 December 2016, the carrying value of the film right was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film right, including expected future box office performance in different markets around the globe, other revenue streams that the film right can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. The impairment assessment was further updated with the actual box office performance up to the date of this report. Accordingly, impairment of film right amounting to approximately HK$44,051,000 was recognized for the year ended 31 December 2016, and was included in cost of sales during the year.

15 INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2016 which, in the opinion of the directors, is material to the Group. The associate is a private company and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interest in the associate, and there are no contingent liabilities and commitments of the associate itself.

Nature of interest in an associate as at 31 December 2016 and 2015 is as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2016	2015	
HB Entertainment Co., Ltd ("H1B Entertainment")(Note)	South Korea, limited liability company	**22%**	N/A	Production of and investment in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea

Note: On 23 March 2016, the Company, HB Entertainment, Ms. Bo Mi Moon ("Major Shareholder") and HB Corporation entered into an investment agreement ("Investment Agreement"). Pursuant to the Investment Agreement: (a) the Company will subscribe for 23,334 convertible preferred stock at the subscription price of KRW14,042.4 million (equivalent to approximately HK$92.7 million) ("CPS Subscription"); and (b) the Company will purchase 46,666 common stocks in HB Entertainment from Major Shareholder and HB Corporation. As of 16 August 2016, the Company has completed both the first CPS subscription and share purchase. The Company currently holds approximately 22% of equity interest in HB Entertainment, and the Company's shareholdings in HB Entertainment will gradually increase to 30% by early 2018.

15 INTEREST IN AN ASSOCIATE *(Continued)*

Summarized financial information for material associate

Set out below is the summarized financial information of HB Entertainment which is material to the Group. The entity is accounted for using the equity method.

Summarized balance sheet

	HB Entertainment 2016 HK$'000
Current	
Cash and cash equivalents	44,638
Other current assets (excluding cash)	68,395
Total current assets	**113,033**
Current financial liabilities (excluding trade payables)	(26,185)
Other current financial liabilities	(31,073)
Total current liabilities	**(57,258)**
Non-current	
Assets	75,566
Financial liabilities	(11,031)
Other liabilities	(4,217)
Total non-current liabilities	**(15,248)**
Net asset	**116,093**
Non-controlling interests	**(1,261)**
Net asset attributable to the equity holders	**114,832**

15 INTEREST IN AN ASSOCIATE *(Continued)*

Summarized financial information for material associate *(Continued)*

Summarized statement of comprehensive income

	HB Entertainment 2016 HK$'000
Revenue	200,000
Profit before taxation	22,773
Taxation	(3,946)
Profit after taxation	18,827
Other comprehensive loss	(4,469)
Total comprehensive income	14,358

The information above reflects the amounts represented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Movements of interest in an associate are as follows:

	HB Entertainment 2016 HK$'000
Interest in an associate	
Acquisition of an associate	191,656
Share of results	1,624
Exchange differences	(2,779)
At 31 December	190,501

15 INTEREST IN AN ASSOCIATE *(Continued)*

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in an associate

	HB Entertainment 2016 HK$'000
Summarized financial information	
Opening net assets as at acquisition of an associate	120,030
Post-acquisition profit for the period	7,308
Exchange differences	(12,506)
Closing net assets	114,832
Interest in an associate	25,518
Goodwill	164,983
Carrying value	190,501

16 INTERESTS IN JOINT VENTURES AND AMOUNT DUE FROM A JOINT VENTURE

(a) Amount due from a joint venture

As at 31 December 2015, amounts due from a joint venture are unsecured, interest-free and past due. They are expected to be settled within 12 months from the balance sheet date.

The joint venture had become a wholly owned subsidiary of the Group upon the completion of the acquisition on 1 December 2016 (Note 29). The amount due from the then joint venture has been eliminated in accordance with the Group's accounting policy set out in Note 2(b)(ii) to the consolidated financial statements.

For the year ended 31 December 2016, no provision for impairment of amounts due from a joint venture has been charged to the consolidated income statement (2015: HK$119,815,000). The recoverable amounts have been determined based on management's best estimate of present value of expected future cash flows.

(b) Interests in joint ventures

Set out below are the joint ventures of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group. All these joint ventures are private companies and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interests in these joint ventures, and there are no contingent liabilities and commitments of these joint ventures themselves.

Name	Place of establishment and kind of legal entity	Registered capital	Percentage of equity interests attributable to the Group 2016	2015	Principal activities and place of operation
Joint venture for media business					
Beijing Hao You Media Culture Co., Ltd (formerly known as "Asia Union Film and Media") ("Hao You") (1)(2)	The PRC, limited liability company	RMB120,000,000	**N/A**	50%	Investment holding in the PRC

(1) Pursuant to the shareholders' agreements, the Group and Poly Culture and Arts Co., Ltd. ("PCACL"), the joint venture partner, agreed that the Group maintains the joint control over Hao You but the profit sharing ratio of the Group in Hao You is 75%.

(2) The Group has acquired the remaining 50% equity interest in Hao You on 1 December 2016 and thereafter Hao You became a wholly-owned subsidiary of the Group (Note 29).

(3) On 15 January 2016, the Group disposed its 50% equity interests in an individually insignificant joint venture to an independent third party.

(4) The name of the company referred to above represent management's best effort in translating the Chinese name of the company as no English name for this company has been registered.

16 INTERESTS IN JOINT VENTURES AND AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Summarized financial information for joint ventures

Set out below are the summarized financial information for joint ventures for media business which are accounted for using the equity method.

	Hao You		Joint venture not individually significant		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Summarized balance sheet						
Current						
Cash and cash equivalents	**–**	1,501	**–**	564	**–**	2,065
Other current assets (excluding cash)	**–**	7,375	**–**	–	**–**	7,375
Total current assets	**–**	8,876	**–**	564	**–**	9,440
Current financial liabilities (excluding trade and other payables and provisions)	**–**	(278,323)	**–**	–	**–**	(278,323)
Other current liabilities (trade and other payables and provisions)	**–**	(76,649)	**–**	(1,262)	**–**	(77,911)
Total current liabilities	**–**	(354,972)	**–**	(1,262)	**–**	(356,234)
Non-current						
Assets	**–**	228,172	**–**	–	**–**	228,172
Net liabilities	**–**	(117,924)	**–**	(698)	**–**	(118,622)

16 INTERESTS IN JOINT VENTURES AND AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Summarized financial information for joint ventures *(Continued)*

	Hao You		Joint venture not individually significant		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Summarized statement of comprehensive income						
Revenue	**–**	2,207	**–**	–	**–**	2,207
Depreciation and amortization	**(298)**	(328)	**–**	–	**(298)**	(328)
Provision for impairment loss	**(82,950)**	(91,099)	**–**	–	**(82,950)**	(91,099)
Interest income	**–**	4	**–**	1	**–**	5
Loss before taxation	**(32,814)**	(103,349)	**–**	1	**(32,814)**	(103,348)
Income tax expense	**–**	–	**–**	–	**–**	
Loss after taxation and total comprehensive loss	**(32,814)**	(103,349)	**–**	1	**(32,814)**	(103,348)

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

16 INTERESTS IN JOINT VENTURES AND AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Interests in joint ventures

	Hao You		Joint venture not individually significant		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interests in joint ventures						
At 1 January	**–**	55,794	**179**	263	**179**	56,057
Share of results	**–**	(7,946)	**–**	1	**–**	(7,945)
Exchange differences	**–**	(3,607)	**–**	(17)	**–**	(3,624)
Disposal	**–**	–	**(179)**	–	**(179)**	–
Impairment	**–**	(44,241)	**–**	(68)	**–**	(44,309)
At 31 December	**–**	–	**–**	179	**–**	179
Summarized financial information						
Opening net liabilities 1 January	**(117,924)**	(15,857)	**(698)**	(745)	**–**	(16,602)
Loss for the year	**(32,814)**	(103,349)	**–**	1	**–**	(103,348)
Exchange differences	**(5,159)**	1,282	**–**	46	**–**	1,328
Disposal	**155,897**	–	**698**	–	**–**	156,595
Closing net liabilities	**–**	(117,924)	**–**	(698)	**–**	(118,622)
Interests in joint ventures	**–**	(18,912)	**–**	(349)	**–**	(19,261)
Goodwill	**–**	18,912	**–**	528	**–**	19,440
Carrying value	**–**	–	**–**	179	**–**	179

16 INTERESTS IN JOINT VENTURES AND AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Impairment of interests in joint ventures

For the year ended 31 December 2015, provision for impairment of interest in Hao You of approximately HK$44,241,000 has been charged in the consolidated income statement, mainly due to deterioration of expected future cash flows from Hao You. Recoverable amount has been determined by value-in-use calculation of present value of expected future cash flows.

Key assumptions adopted in value-in-use calculation were as follows:

	As at 31 December 2015
Compound annual growth rate of revenue in five-year period	9.0%
Annual growth rate beyond the five-year period	3.0%
Discount rate	15.0%

Management determined the average annual revenue growth rate based on past performance, industry forecast and its expectation of market development. The discount rate used reflected specific risks relating to this CGU.

Provision for impairment of interest in a joint venture not individually significant of approximately HK$68,000 was based on fair value less costs to sell calculation whereas the disposal has been contracted with an independent third party.

17 FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per consolidated balance sheet

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale HK$'000	Total HK$'000
As at 31 December 2016				
Programmes and film production in progress	**50,252**	**–**	**–**	**50,252**
Trade receivables	**73**	**–**	**–**	**73**
Deposits and other receivables (excluding non-financial assets)	**43,643**	**–**	**–**	**43,643**
Cash and cash equivalents	**70,842**	**–**	**–**	**70,842**
Available-for-sale financial assets	**–**	**–**	**12,101**	**12,101**
Total	**164,810**	**–**	**12,101**	**176,911**
As at 31 December 2015				
Amount due from a joint venture	165,535	–	–	165,535
Programmes and film production in progress	50,271	–	–	50,271
Financial assets at fair value through profit or loss	–	13,900	–	13,900
Trade receivables	400	–	–	400
Deposits and other receivables (excluding non-financial assets)	9,600	–	–	9,600
Cash and cash equivalents	280,400	–	–	280,400
Total	506,206	13,900	–	520,106

17 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Liabilities as per consolidated balance sheet

	Financial liabilities at amortized cost HK$'000
As at 31 December 2016	
Trade payables	**2,518**
Other payables and accrued liabilities (excluding non-financial liabilities)	**11,349**
Total	**13,867**
As at 31 December 2015	
Trade payables	3,920
Other payables and accrued liabilities (excluding non-financial liabilities)	18,492
Total	22,412

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 **HK$'000**	2015 HK$'000
At 1 January	**–**	–
Additions	**12,101**	–
At 31 December	**12,101**	–

Available-for-sale financial assets include convertible preferred stocks, which are unlisted securities.

The balance is denominated in Korean Won. The maximum exposure to credit risk at the year-end is the carrying value. None of these financial assets is either past due or impaired.

The fair value of available-for-sale financial assets is based on the par value and history of dividend distribution of the unlisted security.

19 TRADE RECEIVABLES

The aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
0–3 months	**73**	400
Over 1 year	**12,254**	13,083
	12,327	13,483
Provision for doubtful debts (all made against trade receivables aged over 6 months)	**(12,254)**	(13,083)
	73	400

The Group generally requires customers to pay in advance, but grants a credit period of 15 days to 30 days to certain customers.

Credit risk represents the accounting loss that would be recognized at the balance sheet date if counterparties failed to perform as contracted. As at 31 December 2016, HK$12,254,000 of the trade receivables was considered impaired (2015: HK$13,083,000).

The aging analysis of trade receivables that were past due but not impaired is as follows:

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
0-3 months	**73**	400
	73	400

Management does not expect any material losses from non-performance by these counterparties, as these relate to a number of independent customers for whom there is no recent history of default.

19 TRADE RECEIVABLES *(Continued)*

Movements on the Group's provision for doubtful debts are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**13,083**	13,894
Exchange differences	**(829)**	(811)
At 31 December	**12,254**	13,083

Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The carrying amounts of trade receivables approximate their fair values and are denominated in RMB.

The maximum exposure to credit risk at the balance sheet date is the carrying value of trade receivables disclosed above. The Group does not hold any collateral as security.

20 INVENTORIES

	As at 31 December	
	2016 HK$'000	2015 HK$'000
Finished goods	**6,942**	7,595

For the year ended 31 December 2016, the cost of inventories sold and included in cost of sales amounted to approximately HK$276,000 (2015: HK$5,230,000). No provision for impairment of inventories was recognized in cost of sales (2015: HK$3,352,000).

21 PROGRAMMES AND FILM PRODUCTION IN PROGRESS

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
At 1 January	**50,271**	68,262
Investment return recognized	**4,426**	5,369
Return of investment	**–**	(13,525)
Receipt of investment return	**(1,155)**	(6,270)
Exchange difference	**(3,290)**	(3,565)
At 31 December	**50,252**	50,271

Programmes and film production in progress are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 31 December 2016, the average effective interest rate for the outstanding balance was 10% (2015: 10%).

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
Equity security:		
Listed in Hong Kong	**–**	13,900

Purchases and disposals of financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the consolidated cash flow statement (Note 28).

Changes in fair value of financial assets at fair value through profit or loss are recorded in "other income and other (losses)/gains, net" in the consolidated income statement (Note 5).

The fair value of the equity security was based on its current bid prices in an active market denominated in HK$, and is within level 1 of the fair value hierarchy.

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
Prepayments	**84,304**	125,131
Deposits and other receivables	**47,694**	12,430
	131,998	137,561
Less: provision for impairment of prepayments	**–**	(22,450)
	131,998	115,111
Less: non-current portion	**(91,834)**	(86,628)
	40,164	28,483

The carrying amounts of prepayments, deposits and other receivables of the Group are denominated in the following currencies:

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
HK$	**14,983**	4,909
United States dollar	**24,619**	–
RMB	**92,396**	110,202
	131,998	115,111

The carrying amounts of deposits and other receivables approximate their fair values. For the year ended 31 December 2016, no provision for impairment has been charged to the consolidated income statement (2015: HK$22,182,000).

The maximum exposure to credit risk at the balance sheet date is the carrying value of deposits and other receivables disclosed above.

24 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
Cash and bank balances	**70,842**	280,400
Denominated in:		
HK$	**32,034**	258,975
RMB	**30,139**	21,407
United States dollar	**8,667**	15
Other	**2**	3
	70,842	280,400
Maximum exposure to credit risk	**70,734**	280,289

25 TRADE PAYABLES, RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
Current liabilities:		
Trade payables	**2,518**	3,920
Receipt in advance	**8,853**	9,505
Other payables and accrued liabilities (Note)	**5,934**	15,150
	17,305	28,575
Non-current liabilities:		
Tenant deposits received and other payables	**12,221**	11,509
	29,526	40,084

Note: Other payables and accrued liabilities mainly represented PRC tax payables, accrued operating expenses and payables for property, plant and equipment.

25 TRADE PAYABLES, RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES *(Continued)*

The aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
0–3 months	**–**	1,413
4–6 months	**–**	2,438
Over 6 months	**2,518**	69
	2,518	3,920

The carrying amounts of trade payables, receipt in advance, other payables and accrued liabilities approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
HK$	**3,797**	8,390
United States dollar	**2,785**	–
RMB	**22,944**	31,694
	29,526	40,084

26 SHARE CAPITAL

	Ordinary shares of HK$0.02 each		Preference shares of HK$0.01 each		
	No. of shares '000	HK$'000	No. of shares '000	HK$'000	Total HK$'000
Authorized:					
At 31 December 2016 (Note a)	**150,000,000**	**3,000,000**	**240,760**	**2,408**	**3,002,408**
Issued and fully paid:					
At 1 January 2016	**6,660,487**	**133,210**	**–**	**–**	**133,210**
Issuance of shares (Note b)	**6,837,620**	**136,752**	**–**	**–**	**136,752**
At 31 December 2016	**13,498,107**	**269,962**	**–**	**–**	**269,962**

	Ordinary shares of HK$0.02 each		Preference shares of HK$0.01 each		
	No. of shares '000	HK$'000	No. of shares '000	HK$'000	Total HK$'000
Authorized:					
At 31 December 2015 (Note a)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2015	6,559,904	1,311,981	–	–	1,311,981
Issuance of shares upon conversion of convertible notes	12,000	2,400	–	–	2,400
Issuance of shares upon exercise of share options	88,583	16,621	–	–	16,621
Capital reduction (Note c)	–	(1,197,792)	–	–	(1,197,792)
At 31 December 2015	6,660,487	133,210	–	–	133,210

26 SHARE CAPITAL *(Continued)*

Notes:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 (2015: 150,000,000,000) shares are ordinary shares with par value of HK$0.02 (2015: HK$0.02) per share. 240,760,000 (2015: 240,760,000) shares are preference shares with par value of HK$0.01 per share (2015: HK$0.01). All issued shares are fully paid.

(b) Issuance of shares

On 5 February 2016, the Company completed the issuance and allotment of 6,837,619,860 subscription shares, representing 50.66% of the Company's enlarged share capital, at an issue price of HK$0.08 per share subscribed for by a number of new investors ("Subscription"). The aggregate gross subscription consideration amounted to approximately HK$547,009,000. Immediately after the Subscription, the Company has 13,498,106,577 ordinary shares in issue.

Out of the 6,837,619,860 subscription shares, 2,452,447,978 subscription shares representing a shareholding percentage of approximately 18.17% of the Company's enlarged issued share capital, were subscribed for by Huayi Brothers International Limited ("Huayi Brothers"), a company incorporated in Hong Kong and 2,116,251,467 subscription shares representing a shareholding percentage of approximately 15.68% of the Company's enlarged issued share capital, were subscribed for by Mount Qinling Investment Limited ("Tencent"), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Tencent Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Huayi Brothers and Tencent are considered as parties acting in concert in connection with this Subscription.

The remaining subscription shares were subscribed for by Confidex Key Limited, Key Ability Limited, Lofty Rainbow Limited and Merit New Limited (together, "Other Investors"), companies incorporated in the British Virgin Islands, representing a shareholding percentage of approximately 5.13%, 4.45%, 4.52% and 2.71% of the Company's enlarged issued share capital respectively.

(c) Capital reorganization comprising the following was completed and effective on 25 August 2015:

(i) the par value of each then issued existing share was reduced from HK$0.20 to HK$0.02 and the issued ordinary share capital of the Company was cancelled to the extent of HK$0.18 of each share in issue, and the entire amount of the authorized but unissued ordinary share capital of the Company will be cancelled;

(ii) the application of the credit arising from the capital reduction to set off the accumulated losses of the Company as at the effective date of the capital reduction with the balance to be transferred to capital reserve, a distributable reserve account of the Company to be applied in such manner as the Directors consider appropriate and in accordance with the articles of association of the Company, the order of the Court sanctioning the capital reduction and all applicable laws and rules; and

(iii) an increase in the authorized ordinary share capital of the Company following the capital reduction to HK$3,000,000,000 by the creation of the 135,000,000,000 additional unissued new shares.

26 SHARE CAPITAL *(Continued)*

Share Option

Pursuant to a resolution passed on the extraordinary general meeting of the Company dated 4 June 2012, the share option scheme adopted by the Company on 30 July 2002 ("Terminated Option Scheme") has been terminated and the Company has adopted a new 10-year term share option scheme ("New Option Scheme") on the same date. Outstanding share options granted under the Terminated Option Scheme shall continue to be valid and exercisable. Pursuant to the New Option Scheme, the Company can grant options to Qualified Persons (as defined in the New Option Scheme) for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to said resolution passed on 22 April 2016, the Company can grant up to 1,349,810,657 share options to the Qualified Persons.

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the year ended 31 December 2016, no share option have been granted under the New Option Scheme (2015: Nil) and no share-based payment expense has been charged to the consolidated income statement (2015: nil).

During the year ended 31 December 2016, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding share option under the New Option Scheme as at 31 December 2016.

Movement of share options during the year ended 31 December 2015 is as follows:

		Number of share options							
Tranche	Date of share options granted	Outstanding as at 1 January 2015	Cancelled/ lapsed during the year	Exercised during the year	Outstanding as at 31 December 2015	Exercisable as at 31 December 2015	Exercise Price HK$	Vesting date	Expiry date
1	5 May 2008	1,042,459	(1,042,459)	–	–	–	2.58	From 1 April 2009	31 December 2015
2	4 November 2008	26,582,706	–	(26,582,706)	–	–	0.86	From 8 March 2009 to 8 March 2011	31 December 2015
3	15 June 2012	64,000,000	(2,000,000)	(62,000,000)	–	–	0.20	From 15 June 2012	14 June 2017
		91,625,165	(3,042,459)	(88,582,706)	–	–			

26 SHARE CAPITAL *(Continued)*

There are no performance conditions or market conditions required for these tranches of issued options.

Options exercised in 2015 resulted in 88,582,706 shares being issued at a weighted average exercise price of HK$0.40 each. The related weighted average share price at the time of exercise was HK$0.91 per share.

27 RESERVES

	Share premium HK$'000 (Note ii)	Merger reserve HK$'000 (Note i)	Equity component of convertible notes HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000 (Note iii)	Capital reserve HK$'000	Currency translation reserve HK$'000 (Note iv)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
Balance at 1 January 2015	1,825,800	860,640	10,139	16,267	1,206	–	111,338	(1,843,924)	981,466	927	982,393
Loss for the year	–	–	–	–	–	–	–	(493,670)	(493,670)	(3,326)	(496,996)
Issuance of shares upon exercise of share options	33,020	–	–	(14,381)	–	–	–	–	18,639	–	18,639
Issuance of shares upon conversion of convertible notes	1,048	–	(1,159)	–	–	–	–	–	(111)	–	(111)
Capital reduction	–	–	–	–	–	170,859	–	1,026,933	1,197,792	–	1,197,792
Dividend paid	(1,056,641)	–	–	–	–	(170,859)	–	–	(1,227,500)	–	(1,227,500)
Lapse of share options	–	–	–	(1,886)	–	–	–	1,886	–	–	–
Redemption of convertible notes	–	–	(8,980)	–	–	–	–	8,980	–	–	–
Disposals of subsidiaries and joint ventures	–	–	–	–	–	–	(19,110)	–	(19,110)	–	(19,110)
Currency translation differences	–	–	–	–	–	–	(11,505)	–	(11,505)	43	(11,462)
Balance at 31 December 2015	803,227	860,640	–	–	1,206	–	80,723	(1,299,795)	446,001	(2,356)	443,645

27 RESERVES *(Continued)*

	Share premium HK$'000 (Note ii)	Merger reserve HK$'000 (Note i)	Capital redemption reserve HK$'000 (Note iii)	Currency translation reserve HK$'000 (Note iv)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
Balance at 1 January 2016	803,227	860,640	1,206	80,723	(1,299,795)	446,001	(2,356)	443,645
(Loss)/profit for the year	–	–	–	–	(139,506)	(139,506)	727	(138,779)
Currency translation differences								
– Group	–	–	–	21,163	–	21,163	123	21,286
– Associate	–	–	–	(2,779)	–	(2,779)	–	(2,779)
– Recycling upon disposal of subsidiaries	–	–	–	277	–	277	–	277
Issuance of subscription shares	410,257	–	–	–	–	410,257	–	410,257
Balance at 31 December 2016	1,213,484	860,640	1,206	99,384	(1,439,301)	735,413	(1,506)	733,907

Notes:

(i) The merger reserve of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of China Jiuhao Group Limited (formerly known as Universal Appliances Limited) pursuant to the Group reorganization in 2002, and the consolidated net asset value of China Jiuhao Group Limited so acquired. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.

(ii) The share premium of the Company represents the excess of the fair value of the issued shares over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.

(iii) During the year ended 31 December 2008, the Company repurchased 120,600,000 issued ordinary shares on the Stock Exchange. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$4,609,000 were deducted from shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$1,206,000 has been transferred from accumulated losses to capital redemption reserve.

(iv) The Group has certain investments in PRC subsidiaries with RMB as their functional currency, which is subjected to foreign currency translation risk. Fluctuation in such currencies would be reflected in the movement of the translation reserve. Decrease of currency translation differences in other comprehensive income in current year was resulted from depreciation in RMB against HK$ and reclassification to profit or loss upon disposals of the Group's certain subsidiaries and joint venture.

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to cash (used in)/generated from operations

	2016 **HK$'000**	2015 HK$'000
Loss before taxation from continuing operations	**(138,714)**	(128,033)
Profit/(loss) before taxation for the year from discontinued operation	**21**	(306,980)
Adjustments for:		
– Share of results of joint ventures, net	**–**	12,544
– Share of results of an associate	**(1,624)**	–
– (Gain)/loss on disposals of subsidiaries, net	**(1,694)**	363,024
– Gain on disposals of joint ventures	**(12)**	(3,138)
– Bank interest income	**(894)**	(1,589)
– Depreciation	**6,664**	3,083
– Loss on disposal of property, plant and equipment	**162**	–
– Provision for impairment of inventories	**–**	3,453
– Provision for impairment of interests in joint ventures and amounts due from a joint venture	**–**	164,124
– Provision for impairment of construction in progress	**–**	6,517
– Provision for impairment of prepayments	**–**	22,182
– Provision for impairment of film rights	**44,051**	–
– Amortization of intangible assets	**5,784**	5
– Capitalization of operating lease rentals	**–**	(8,783)
– Membership entrance fee income and rental income recognized	**–**	(40,774)
– Fair value loss/(gain) on financial assets at fair value through profit or loss, net	**4,700**	(180,687)
– Finance (income)/costs, net	**(233)**	220
– Investment return recognized from programmes and film production in progress	**(4,426)**	(5,369)
	(86,215)	(100,201)
Changes in working capital:		
– Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	**9,272**	(7,137)
– Decrease/(increase) in inventories	**177**	(8,425)
– Purchases of intangible assets	**–**	(24,590)
– Disposals of investment securities	**9,200**	305,439
– Additions in film right and film production in progress, net	**(395,074)**	–
– Distributions from programmes and film production in progress	**1,155**	19,795
– Increase in trade payables, receipt in advance, other payables and accrued liabilities	**7,854**	9,272
– Cash inflows from membership entrance fee and rental income	**–**	50,173
Cash (used in)/generated from operations	**(453,631)**	244,326

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Cash flow from disposals of subsidiaries

For the year ended 31 December 2016

Analysis of gain on disposal of subsidiaries, net:

	Total HK$'000
Cash consideration	–
Net liabilities disposed of	1,417
	1,417
Release of exchange reserve upon disposal	277
Gain on disposals	1,694

Analysis of net proceeds received from disposals of subsidiaries, net:

	Total HK$'000
Cash consideration (HK$1, shown as nil in HK$'000)	–
Less:	
– cash and cash equivalents included in subsidiaries disposed of	(7)
Proceeds from disposed of subsidiaries, net at cash disposed of	(7)

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Cash flow from disposals of subsidiaries *(Continued)*

For the year ended 31 December 2015

Analysis of loss on disposals of subsidiaries, net:

	Disposal group held for sale (Note 30) HK$'000	Other subsidiaries individually insignificant HK$'000	Total HK$'000
Cash consideration	600,000	1,623	601,623
Other consideration	727,500	–	727,500
Total consideration	1,327,500	1,623	1,329,123
Direct transaction costs incurred	(54,293)	–	(54,293)
Net consideration	1,273,207	1,623	1,274,830
Net assets disposed of	(1,561,078)	(317)	(1,561,395)
	(287,871)	1,306	(286,565)
Release of exchange reserve upon disposal	(19,075)	(6)	(19,081)
Capital gain tax arising from disposal	(57,378)	–	(57,378)
(Loss)/gain on disposal	(364,324)	1,300	(363,024)

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Cash flow from disposals of subsidiaries *(Continued)*

Analysis of net proceeds received from disposals of subsidiaries:

	Disposal group held for sale (Note 30) HK$'000	Other subsidiaries individually insignificant HK$'000	Total HK$'000
Cash consideration	600,000	1,623	601,623
Less: cash received in prior year or withheld as prepayment (Note 30)	(168,000)	–	(168,000)
Cash consideration received during the year	432,000	1,623	433,623
Less:			
– cash and cash equivalents included in subsidiaries disposed of	(54,563)	(62)	(54,625)
– direct transaction costs paid in relation to the disposal	(54,293)	–	(54,293)
Proceeds from disposals of subsidiaries, net of cash disposed of	323,144	1,561	324,705

(c) Non-cash transactions

		2016 HK$'000	2015 HK$'000
(i)	Conversion of 12,000,000 ordinary shares	–	2,289
(ii)	Capital reduction	–	1,197,792
(iii)	Special dividend paid in SEN of Eternity	–	727,500

29 STEP ACQUISITION FROM JOINT VENTURE TO SUBSIDIARY

Refer to the announcement dated 9 September 2016, Beijing Hua Yi Hao Ge Media Culture Co., Ltd. ("Hao Ge", a wholly-owned subsidiary of the Company) and Poly Culture Group Corporation Limited ("Poly Culture") entered into an agreement in relation to the possible acquisition of the remaining 50% equity interest in Hao You by Hao Ge from Poly Culture for a consideration of RMB80 million. Hao You was the then joint venture of the Group held by Hao Ge as to 50%.

29 STEP ACQUISITION FROM JOINT VENTURE TO SUBSIDIARY *(Continued)*

On 25 November 2016, Hao Ge and Poly Culture entered into an sales and purchase agreement in relation to the remaining 50% equity interest in Hao You at a consideration of RMB80 million (equivalent to approximately HK$90.1 million) (the "Step Acquisition"). Upon the completion of the Step Acquisition on 1 December 2016, Hao You became a wholly-owned subsidiary of the Company.

As at the date of acquisition, the subsidiary had not actively engaged in any business and accordingly, in the opinion of management, the acquisition of Hao You constitutes an acquisition of assets and liabilities.

The cost of acquisition of RMB80,000,000 (equivalent to approximately HK$90,100,000) has been allocated to the following identifiable assets and liabilities of Hao You as at the date of acquisition as follows:

	1 December 2016 HK$'000
Consideration paid	
Cash	90,100
Recognized accounts of identifiable assets acquired and liabilities assumed	
Interest in an associate (Note)	90,100
Amount due from an associate	155,897
Property, plant and equipment	1,115
Cash and cash equivalents	147
Amount due from a fellow subsidiary	478
Trade payables, other payables and accruals	(2,099)
Amount due to the immediate holding company	(155,538)
Total identifiable net assets acquired	90,100
Analysis of cash flows in respect of the acquisition of Hao You is as follows:	
Cash consideration	(90,100)
Cash and cash equivalents acquired	147
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(89,953)

Note: Interest in an associate represented 49% equity interest in Hainan Haishi Travel Satellite TV Media Co., Ltd* whose principal activity is the operation of Travel Channel, a provincial satellite television channel in PRC.

* The name of the company referred to above represents management's best effort in translating the Chinese name of the company as no English name for the company has been registered.

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

For the year ended 31 December 2016

Saved as disclosed in Note 29, Hao Ge acquired Hao You with a view to subsequently dispose of all or a majority of its equity interest in Hao You and the amount due from Hao You by Hao Ge. Hao Ge has held equity interest in Hao You since 2005 and Hao You had made losses since 2014. For the year ended 31 December 2015, the Group made provision for impairment of interest in Hao You and amount due from Hao You amounting HK$164 million, which was mainly due to deterioration of expected future cash flows from Hao You. Given that the financial results of Hao You had not been satisfactory and it did not make positive contribution to the Group in recent years, management's disposal plan on Hao You represented a good opportunity to realize the Group's investment in Hao You.

The assets and liabilities related to Hao You have been presented as held for sale following the approval of the Company's board of directors on 9 September 2016 to sell Hao You.

Assets of disposal group classified as held for sale as at 31 December 2016 are as follows:

	HK$'000
Property, plant and equipment	1,107
Interest in an associate	89,435
Amount due from an associate	154,748
Cash and cash equivalents	151
	245,441

Liabilities of disposal group classified as held for sale as at 31 December 2016 are as follows:

	HK$'000
Trade payables, other payables and accruals	2,068

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2016 *(Continued)*

Analysis of cumulative income or expense recognized in other comprehensive income relating to the disposal group classified as held for sale is as follows:

	From 1 December 2016 to 31 December 2016 HK$'000
Currency translation differences	(1)

As interest in Hao You was acquired exclusively with a view to resale, it is accounted for as discontinued operations as of 31 December 2016.

Analysis of the result of discontinued operations in relation to Hao You, and the result recognized on the remeasurement of the then equity interest in Hao You, is as follows:

	From 1 December 2016 to 31 December 2016 HK$'000
Other income and other gains, net	21
Profit before taxation of discontinued operations	21
Taxation	–
Profit for the year from discontinued operations	21

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2016 *(Continued)*

Analysis of the cash flows of discontinued operations in relation to Hao You is as follows:

	From 1 December 2016 to 31 December 2016 HK$'000
Operating cash flows	4
Investing cash flows	–
Financing cash flows	–
Total cash flows	4

For the year ended 31 December 2015

On 11 December 2014, Unique Talent Group Limited (the "Vendor"), a wholly-owned subsidiary of the Company, the Company (as a guarantor) and Eternity (the "Purchaser") entered into a sales and purchase agreement (the "S&P Agreement") (as amended and supplemented by a supplemental agreement dated 30 March 2015 entered into by parties to the S&P Agreement) pursuant to which (i) the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the entire shareholding interest in Smart Title Limited (the "Target Company"), a wholly-owned subsidiary of the Vendor; and (ii) the Group agreed to assign to the Purchaser the benefit and interest in a loan due from the Target Company to the Vendor of approximately HK$1,076 million (the "Shareholder's Loan") upon completion of the transactions in accordance with the terms and conditions of the S&P Agreement (the "Completion") free from encumbrances. The total consideration payable for the sale and purchase of the entire shareholding interest in the Target Company and the assignment of the Shareholder's Loan is agreed at HK$1,650 million in aggregate (the "Consideration"). The Consideration shall be settled as to (i) HK$60 million of the Consideration which has been paid in cash by the Purchaser upon signing of the S&P Agreement as the refundable deposit and will be applied as partial payment of the Consideration upon Completion; (ii) on Completion, HK$540 million of the Consideration which shall be paid in cash by the Purchaser; and (iii) on Completion, the Purchaser shall in accordance with the instructions of the Vendor issue to the Company the SEN, which shall entitle the SEN holder the right to call for the issue of 1,500,000,000 new ordinary shares of HK$0.01 each of the Purchaser at an issue price of HK$0.70 per share.

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2015 *(Continued)*

The Target Company and its subsidiaries (the "Target Group") is principally engaged in the provision of offline healthcare and wellness services through the management of "Beijing Bayhood No. 9 Club", a membership-based luxury club which comprises of business hotel facilities, an 18-hole golf course, driving range facilities, theme restaurants and cafes, spa facilities, retail shops, and the first PGA branded and managed golf academy in Asia. "Beijing Bayhood No. 9 Club" is located near the city centre of Beijing, PRC. The major assets owned by the Target Group are i) the rights to construct and operate the club facilities of "Beijing Bayhood No. 9 Club" up to 31 December 2051; and ii) the rights to develop and operate a piece of 580 Chinese acres land adjacent to "Beijing Bayhood No. 9 Club" (the "Subject Land") up to 30 January 2062. Construction of "Beijing Healthcare and Wellness Si He Yuan and Hotel" project with an approved total gross floor area of 80,000 square meters on the Subject Land is in progress.

The Group and the Purchaser also entered into a club lease agreement (the "Club Lease Agreement") pursuant to which the assets relevant to the operations of "Beijing Bayhood No. 9 Club" (the Purchaser was entitled to the right to operate "Beijing Bayhood No. 9 Club" through its ownership in the Target Company) are leased to the Group for a term of twenty years (can be further extended to 31 December 2051 upon request by the Group) upon completion, and the Group continues to operate the businesses of "Beijing Bayhood No. 9 Club" during the period. There are four rental periods during the term of 20 years of five years each. In addition, the Group has an option to early terminate the Club Lease Agreement by giving notice to the lessor at least six months prior to the expiry of each rental period.

The disposal transaction was completed on 6 October 2015 (the "Completion Date"), and the Club Lease Agreement came into effect on the same date. The Group continues to operate Beijing Bayhood No. 9 Club pursuant to the Club Lease Agreement and account for it as a continuing operation.

Analysis of cumulative income or expense recognized in other comprehensive income relating to the disposal group classified as held for sale is as follows:

	2015 HK$'000
Currency translation differences	(406)

As the operation of offline healthcare and wellness services – Beijing Healthcare and Wellness Si He Yuan and Hotel Project is considered as a separate major line of business, they are accounted for as discontinued operations.

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2015 *(Continued)*

Analysis of the result of discontinued operations in relation to offline healthcare and wellness services - Beijing Healthcare and Wellness Si He Yuan and Hotel project is as follows:

	2015 HK$'000
Other income and other gains, net	99
Administrative expenses	(133)
Loss before tax of discontinued operations	(34)
Taxation	7
Loss of discontinued operations	(27)
Loss on disposal of the Target Group	(364,324)
Loss for the year from discontinued operations	(364,351)

Analysis of the cash flows of discontinued operations in relation to offline healthcare and wellness services - Beijing Healthcare and Wellness Si He Yuan and Hotel project is as follows:

	2015 HK$'000
Operating cash flows	(5,650)
Investing cash flows	(25,848)
Financing cash flows	–
Total cash flows	(31,498)

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2015 *(Continued)*

Analysis of loss on disposal of the Target Group is as follows:

	As at 6 October 2015 HK$'000
Cash consideration	
– cash received upon disposal	432,000
– deposit received in prior year	60,000
– amount withheld by the Purchaser (Note (i))	108,000
Total cash consideration	600,000
SEN (Note (ii))	727,500
Total consideration	1,327,500
Direct transaction costs in relation to the disposal	(54,293)
Net consideration	1,273,207
Net assets as at the Completion Date	
Property, plant and equipment	523,699
Goodwill	308,427
Intangible assets	1,216,933
Deferred income tax assets	3,546
Prepayments, deposits and other receivables	82,994
Inventories	9,292
Cash and cash equivalents	54,563
	2,199,454
Trade payables	(2,903)
Receipt in advance, other payables and accrued liabilities	(141,045)
Current income tax payables	(71,535)
Deferred revenue	(95,409)
Deferred income tax liabilities	(327,484)
	(638,376)
Net assets disposed of	1,561,078
Less:	
– release of exchange reserve upon disposal	(19,075)
– capital gain tax arising from the disposal	(57,378)
Loss on disposal of the Target Group	(364,324)

30 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

For the year ended 31 December 2015 *(Continued)*

Note (i): Pursuant to the Club Lease Agreement, RMB90,000,000 (equivalent to approximately HK$108,000,000) was withheld by the Purchaser from the cash consideration to offset against club lease prepayment for the first 5-year period after the Completion Date.

Note (ii): Fair value of the SEN received was determined by market price as at the Completion Date of 1,500,000,000 ordinary shares of the Purchaser which are traded in The Stock Exchange of Hong Kong Limited.

Note (iii): Cash consideration of HK$500,000,000 and the SEN were distributed to entitled shareholders of the Company immediately after completion of the disposal (Note 11).

31 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2016	2015
	HK$'000	HK$'000
Property, plant and equipment	**–**	2,112

(b) Operating lease commitments

(i) As lessor

The Group leases certain equipment and sub-leases certain commercial premises under non-cancellable operating lease agreements. Total commitments receivable under these operating lease agreements are analyzed as follows:

	2016	2015
	HK$'000	HK$'000
Not later than one year	**40,308**	34,775
Later than one year and not later than five years	**129,528**	111,060
Later than five years	**98,018**	102,698
	267,854	248,533

31 COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

(ii) As lessee

At 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016 **HK$'000**	2015 HK$'000
Not later than one year	**19,823**	21,894
Later than one year and not later than five years	**71,139**	80,536
Later than five years	**82,014**	118,089
	172,976	220,519

32 RELATED PARTY TRANSACTIONS

(i) Remuneration for key management personnel, including amounts paid to the Company's directors, is disclosed in Note 34 and certain of the highest paid employees is disclosed in Note 12.

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**80,720**	80,720
Investment in an associate	**191,657**	–
Available-for-sale financial assets	**12,101**	–
Loans advance to subsidiaries	**914,683**	446,942
	1,199,161	527,662
Current assets		
Prepayments, deposits and other receivables	**13,523**	4,158
Cash and cash equivalents	**40,596**	126,030
	54,119	130,188
Total assets	**1,253,280**	657,850
EQUITY AND LIABILITIES		
Equity		
Share capital	**269,962**	133,210
Reserves (Note (a))	**977,724**	516,551
Total equity	**1,247,686**	649,761
Liabilities		
Current liabilities		
Other payables and accrued liabilities	**5,594**	8,089
Total liabilities	**5,594**	8,089
Total equity and liabilities	**1,253,280**	657,850

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

WANG Zhongjun	**LAU Seng Yee**
Director	*Director*

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Equity component of convertible notes HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	1,825,800	10,139	16,267	1,206	–	(968,388)	885,024
Loss for the year	–	–	–	–	–	(357,293)	(357,293)
Issuance of shares upon exercise of share options	33,020	–	(14,381)	–	–	–	18,639
Issuance of shares upon conversion of convertible notes	1,048	(1,159)	–	–	–	–	(111)
Capital reduction	–	–	–	–	170,859	1,026,933	1,197,792
Dividend paid	(1,056,641)	–	–	–	(170,859)	–	(1,227,500)
Lapse of share options	–	–	(1,886)	–	–	1,886	–
Redemption of convertible notes	–	(8,980)	–	–	–	8,980	–
At 31 December 2015	803,227	–	–	1,206	–	(287,882)	516,551
At 1 January 2016	**803,227**	**–**	**–**	**1,206**	**–**	**(287,882)**	**516,551**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**50,916**	**50,916**
Issuance of shares	**410,257**	**–**	**–**	**–**	**–**	**–**	**410,257**
At 31 December 2016	**1,213,484**	**–**	**–**	**1,206**	**–**	**(236,966)**	**977,724**

34 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and chief executive of the Company for the year ended 31 December 2016 is set out as follows:

Name	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Housing allowance HK$'000	Estimated money value of other benefits HK$'000	Retirement benefit contributions HK$'000	Total HK$'000
Director and chief executive							
Mr. WANG Zhongjun (iii)	–	–	–	–	–	–	–
Directors							
Mr. LAU Seng Yee (iii)	–	–	–	–	–	–	–
Mr. WANG Zhonglei (iii)	–	–	–	–	–	–	–
Mr. LIN Haifeng (iii)	–	–	–	–	–	–	–
Ms. WANG Dongmei (iii)	–	–	–	–	–	–	–
Mr. YUEN Hoi Po	–	–	–	–	–	–	–
Mr. ZHANG Changsheng (ii)	–	–	–	–	–	–	–
Mr. Edward Tian Suning (ii)	–	–	–	–	–	–	–
Mr. Hugo SHONG (ii)	–	–	–	–	–	–	–
Dr. WONG Yau Kar David	200	–	–	–	–	–	200
Mr. YUEN Kin	200	–	–	–	–	–	200
Mr. CHU Yuguo	200	–	–	–	–	–	200
	600	–	–	–	–	–	600

The remuneration of each of the Directors and chief executive of the Company for the year ended 31 December 2015 is set out as follows:

Name	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Housing allowance HK$'000	Estimated money value of other benefits HK$'000	Retirement benefit contributions HK$'000	Total HK$'000
Director and chief executive							
Mr. YUEN Hoi Po	–	–	–	–	–	–	–
Directors							
Mr. ZHANG Changsheng (ii)	–	2,147	–	–	–	–	2,147
Mr. Edward Tian Suning (ii)	–	–	–	–	–	–	–
Mr. Hugo SHONG (ii)	–	–	–	–	–	–	–
Professor WEI Xin (i)	150	–	–	–	–	–	150
Dr. WONG Yau Kar David	200	–	–	–	–	–	200
Mr. YUEN Kin	200	–	–	–	–	–	200
Mr. CHU Yuguo	200	–	–	–	–	–	200
	750	2,147	–	–	–	–	2,897

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Note:

(i) Vacated on 7 October 2015

(ii) Resigned on 5 February 2016

(ii) Appointed on 5 February 2016

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2015: Nil).

(c) Consideration provided to third parties for making available directors' services

During the financial year ended 31 December 2016, the Company does not pay consideration to any third parties for making available directors' services (2015: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2016, there are no loans, quasi-loans and other dealing arrangements entered into by the Company or subsidiary undertaking of the Company in favour of directors, controlled bodies corporate by and controlled entities with such directors (2015: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

On 10 December 2015, Mr. YUEN Hoi Po ("Mr. YUEN"), an executive director of the Company and then chairman of the Board, and the Company entered into agreements with Huayi Brothers, Tencent and each of the Other Investors (together, "Subscribers"), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and allot, a total of 6,837,619,860 subscription shares at an issue price of HK$0.08 per subscription share to the Subscribers in an aggregate gross amount of approximately HK$547,010,000.

Mr. YUEN, through Rich Public Limited and Smart Concept Enterprise Limited, companies incorporated in British Virgin Islands and wholly-owned by Mr. YUEN directly or indirectly, is beneficially interested in a total of 1,976,492,607 shares, representing approximately 29.67% of the issued share capital of the Company as of 10 December 2015.

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(e) Directors' material interests in transactions, arrangements or contracts *(Continued)*

Pursuant to the subscription agreements with Huayi Brothers and Tencent, Mr. YUEN undertakes to and covenants with Huayi Brothers and Tencent that, unless with the prior written consent of Huayi Brothers and Tencent, he shall not, and he shall procure any other person, who directly or indirectly control or is controlled by or under direct or indirect common control with him ("Affiliates"), not to, during the period commencing on 10 December 2015 until the expiry of 18 months from the date on which the Subscription is completed, directly or indirectly, including by or through his Affiliates:

(1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, whether directly or indirectly, the 1,976,492,607 shares beneficially owned by Mr. YUEN (collectively referred to as the "Locked-up Shares"); or

(2) enter into a swap or other arrangement that would have (i) the same economic consequences as paragraph (1) above or (ii) the effect of transferring to another party any of the economic benefits of ownership of the Locked-up Shares, for the purpose of hedging his or any of his Affiliate's economic or beneficial ownership in, or holdings of, the Locked-up Shares.

Save for contracts amongst group companies and the aforementioned arrangement, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

Name	Place of incorporation/ establishment and kind of legal entity	Particulars issued share capital/ registered capital	Interest held	Principal activities and place of operation
Anglo Alliance Co., Ltd (1)	British Virgin Islands, limited company	US$2 ordinary	100%	Investment holding
北京華億浩歌傳媒文化有限公司 Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (3)	PRC, co-operative joint venture	RMB136,651,563	100%	Investment holding and licensing of films and TV drama in the PRC
北京浩游傳媒文化有限公司 Beijing Hao You Media Culture Co., Ltd. (formerly known as "Asia Union Film and Media") (3)	PRC, limited liability company	RMB120,000,000	100%	Investment holding
北京華億千思廣告有限公司 Beijing Hua Yi Qian Si Advertising Company Limited (3)	PRC, limited liability company	RMB5,000,000	100%	Advertising agency in the PRC
Unique Talent Group Limited (1)	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
北京四海君天商貿有限公司 Beijing Si Hai Jun Tian Trading Company Limited (3)	PRC, limited liability company	RMB8,000,000	51%	Provision of offline health and wellness services through operation of wellness centre in the PRC
Horizon Partner Holdings Limited (1)	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
China Jiuhao Health Management Limited (2)	Hong Kong, limited company	HK$1 ordinary	100%	Investment holding
北京北湖九號雲科技有限公司 Beijing Bayhood No.9 Cloud Technology Company Limited (3)	PRC, wholly-owned foreign enterprise	US$2,000,000	100%	Internet and information technology in the PRC

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Particulars issued share capital/ registered capital	Interest held	Principal activities and place of operation
北京北湖九號雲健康科技有限公司 Beijing Bayhood No.9 Cloud Health Technology Company Limited (3)	PRC, limited liability company	RMB10,000,000	100%	Health management services in the PRC
Huayi Tencent Entertainment International Limited (formerly known as "China Jiuhao Limited") (1)(2)	Hong Kong, limited company	HK$1,053,580,345	100%	Investment holding and licensing of films in Hong Kong
China Jiuhao (Haikou) Investment Company Limited (1)	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
中國9號健康產業(海口)有限公司 China Jiuhao Health Industry Corporation (Haikou) Limited (2)(3)	Hong Kong, limited company	HK$1 ordinary	100%	Investment holding
海口九號酒店管理有限公司 Haikou Jiuhao Hotel Management Company Limited (3)	PRC, wholly-owned foreign enterprise	HK$150,000	100%	Hotel management and provision of offline health and wellness services in the PRC
Huayi Tencent Entertainment Inc. (1)	United States of America, limited company	US$1 ordinary	100%	Investment holding

(1) Shares held directly by the Company.

(2) The statutory financial statements of these companies for the year ended 31 December 2016 are audited by PricewaterhouseCoopers.

(3) The names of the companies referred to above represent management's best effort in translating the Chinese names of the companies as no English names for these companies have been registered.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, are summarized below.

	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Revenue – continuing operations	**135,633**	122,838	110,137	126,192	165,068
(Loss)/profit before finance costs and taxation – continuing operations	**(138,947)**	(127,813)	27,231	(24,969)	31,309
Finance (costs)/income, net – continuing operations	**233**	(220)	20,569	(6,653)	(87,776)
(Loss)/profit before taxation – continuing operations	**(138,714)**	(128,033)	47,800	(31,622)	(56,467)
Taxation – continuing operations	**(86)**	(4,612)	4,235	(1,402)	(12,633)
Non-controlling interests – continuing operations	**(727)**	3,326	4,049	–	–
(Loss)/profit from continuing operations attributable to the equity holders of the Company	**(139,527)**	(129,319)	56,084	(33,024)	(69,100)
Profit/(loss) from discontinued operation attributable to the equity holders of the Company	**21**	(364,351)	(906)	(132,698)	25,511
(Loss)/profit attributable to the equity holders of the Company	**(139,506)**	(493,670)	55,178	(165,722)	(43,589)
Property, plant and equipment	**15,940**	15,734	9,513	390,219	318,117
Film right and film production in progress	**367,602**	23,872	–	13,990	29,971
Other intangible assets	**10**	15	21	1,631,273	1,617,028
Interests in joint ventures	**–**	179	62,823	70,910	377,924
Interest in an associate	**190,501**	–	–	–	–
Available-for-sale financial assets	**12,101**	–	–	–	–
Other non-current assets	**93,976**	88,640	37,828	55,199	47,447
Current assets	**413,714**	546,584	2,934,729	821,558	635,269
Total assets	**1,093,844**	675,024	3,044,914	2,983,149	3,025,756
Current liabilities	**76,751**	85,953	743,543	423,838	417,977
Non-current liabilities	**13,224**	12,216	6,997	760,248	1,010,882
Total liabilities	**89,975**	98,169	750,540	1,184,086	1,428,859
Net assets	**1,003,869**	576,855	2,294,374	1,799,063	1,596,897