銀仕來

SILVERMAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1616)

2016
ANNUAL REPORT

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Corporate Information

Executive Directors

Mr. LIU Dong *(Chairman)*
Mr. LIU Zongjun *(Chief Executive Officer)*
Ms. CHEN Chen
Mr. HE Han
Mr. TAN Bin

Independent Non-executive Directors

Mr. PAN Hongye *(resigned on 6 March 2017)*
Mr. LAM Kai Yeung
Mr. GAO Gordon Xia
Mr. WANG Liangliang *(appointed with effect from 6 March 2017)*

Company Secretary

Ms. CHAN Yin Wah, *FCS, FCIS, FCCA*

Authorised Representatives

Mr. LIU Dong
Ms. CHAN Yin Wah

Audit Committee

Mr. LAM Kai Yeung *(Chairman)*
Mr. PAN Hongye *(resigned on 6 March 2017)*
Mr. GAO Gordon Xia
Mr. WANG Liangliang *(appointed with effect from 6 March 2017)*

Remuneration Committee

Mr. WANG Liangliang *(Chairman) (appointed with effect from 6 March 2017)*
Mr. PAN Hongye *(resigned on 6 March 2017)*
Mr. LIU Dong
Mr. GAO Gordon Xia

Nomination Committee

Mr. GAO Gordon Xia *(Chairman)*
Mr. PAN Hongye *(resigned on 6 March 2017)*
Mr. LIU Dong
Mr. WANG Liangliang *(appointed with effect from 6 March 2017)*

Registered Office

P.O. Box 309, Ugland House,
Grand Cayman, KY1-1104,
Cayman Islands

Head Office, Headquarters and Principal Place of Business in the PRC

Yinlong Village,
Economic Development Zone,
Boshan District, Zibo City,
Shandong Province,
The PRC

Middle Section, West Guojing Road,
Boshan District, Zibo City,
Shandong Province,
The PRC

Principal Place of Business in Hong Kong

18th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

Legal Adviser to the Company (Hong Kong Law)

Howse Williams Bowers
27/F Alexandra House
18 Chater Road
Central, Hong Kong

Corporate Information

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central,
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

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

Cayman Islands Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall,
Cricket Square,
Grand Cayman, KY1-1102,
Cayman Islands

Principal Banker

Bank of China Limited
Zibo Boshan Branch
63, Center Road,
Boshan District,
Zibo City,
Shandong Province,
The PRC

Stock Code

1616

Company's Website Address

http://www.ysltex.com

Chairman’s Statement

Dear Shareholders,

It is my pleasure to present on behalf of the Board of Directors (the “**Board**” or “**Board of Directors**”) of Silverman Holdings Limited (“**Silverman**” or the “**Company**”) the audited consolidated results of the Company together with its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016 (the “**Year**” or “**Period Under Review**”).

2016 witnessed opportunities and challenges for the Group. In this year, the Group’s original businesses in textiles and media presented different development trends respectively.

Against the backdrop of sluggish global economy, declining market demand at home and abroad, increasing domestic production cost in 2016, the textile industry faced grim challenges instead of obvious improvements. Under such circumstances, the Group adhered to a strategy of initiative and innovation. We explored and utilized the advantages of differential positioning and innovation, implemented activities of controlling costs through technical transformation, energy conservation and consumption reduction and downsizing staff and improving efficiency, which ensured normal production and operations. However, due to the increase of the raw material price and the rising of costs of factors such as staff cost and logistics, the Group’s textile business have underperformed, with net profits decrease by a large margin.

Compared to the textile industry, as the “13th Five-year Plan” period is ushered in, the film and television media industry, hailed as the “pillar industry in national economy,” received national policy support and presented good development momentum, in part due to its unique anti-periodic nature.

Since entering the film and television media industry at the end of 2015, the Group has made good progress in the film sector of its business. Relying on acute management insight into the film and television media industry and accurate understanding of prospects for internet drama and IP drama, the Group acquired 65% stake of Beijing Starrise Pictures Co., Ltd. (formerly known as Beijing Yingsheng Cultural Investments Co., Ltd.) (hereinafter called “**Starrise Pictures**”) in 2016 after the takeover of Solid Will Limited and its subsidiary Beijing Huasheng Taitong Media Investment Company Limited (hereinafter called “**Huasheng Media**”) last year. Starrise Pictures is a diversified film and television media company centering on operation of IP dramas. Since its founding, Starrise Pictures has consistently focused on original work and drama targeting the demographic of the younger age groups, and continuously accumulated IP resources. In joining the Group, Starrise Pictures forms a complementary companion to the Group’s Huasheng Media, which is focused on creating orthodox historical dramas promoting major themes and positivity. The perfect combination of traditional television series and Internet drama supports the development of our media business and increases our market share, thus improving the media business of the Group.

In 2016, the Group adopted various ways of financing, including equity bonds to raise the funds, and the proceeds from shares issuance and issuance of convertible bonds amounted to approximately RMB350 million. In addition, the Group signed a convertible bond subscription agreement of HKD300 million in December 2016, and the fund has been available on 28 February 2017. The aforesaid fund raised will be used for development of the Group’s film and television drama series, providing a solid financial security for the Group’s film and television business.

In 2016, the Group’s main business revenue was approximately RMB811.3 million, representing an increase of approximately 24.0% as compared with approximately RMB654.0 million in the previous year. In 2016, the Group’s profit was approximately RMB31.1 million, representing an increase of approximately 323.4% for the year as compared with approximately RMB7.3 million in the previous year. Thereinto, the textile contributed income of RMB691.0 million and profit of RMB0.3 million respectively; while the film and television business contributed income of RMB120.3 million and profit of RMB42.0 million to the Group. An increase of revenue was mainly due to the significant increase of the film and television business as compared to that of 2015; profit attributable to equity shareholders of the Company was approximately RMB24.5 million, representing an increase of approximately 234.3% as compared with RMB7.3 million in 2015. The increase in profit was mainly due to the increase of profit from film and television business.

Chairman's Statement

2017 is a crucial year in which the "13th Five-year Plan" will be implemented, and structural reform of supply side will be deepened. Together with members of the Board of Directors, I will keep an eye on the influence of macro economy policy on the Group, positively deploy development strategy, promote technological progress, energy conservation, and environmental protection, and strive to improve innovation and profitability in our textile business. Meanwhile, we will make full use of our resources in our film and television business, develop a great number of mature films, television plays and reserved IP resources, expedite the launch of "quality drama" and Super IP drama, stress the production quality and audience rating of film and television drama and accelerate turnover rate of return on investment to enhance the core competitiveness of the Group so as to reward shareholders.

Finally, I would like to take this opportunity to express my gratitude to the directors, shareholders, loyal customers and employees for their support and contribution.

By order of the Board
Silverman Holdings Limited
LIU Dong
Chairman

Shandong, the PRC
29 March 2017

Financial Summary

in RMB'000	2016	2015	2014	2013	2012
		For the year ended 31 December			
RESULTS					
Turnover	**811,324**	654,037	759,800	774,577	871,395
Profit before taxation	**34,254**	10,039	8,602	32,122	91,144
Income tax	**3,186**	2,702	968	10,551	17,110
Profit for the year	**31,068**	7,337	7,634	21,571	74,034

in RMB'000	2016	2015	2014	2013	2012
		As at 31 December			
ASSETS AND LIABILITIES					
Total assets	**1,747,482**	1,476,040	1,024,446	1,028,050	1,039,920
Total liabilities	**647,588**	590,500	423,012	426,650	455,091
Net assets	**1,099,894**	885,540	601,434	601,400	584,829

Management Discussion and Analysis

Industry and Business Overview

According to the National Bureau of Statistics, China's gross domestic product, or GDP, reached RMB74,412.7 billion in 2016, representing a 6.7% growth from last year based on comparable prices. The slow growth was accompanied by the upgrading of the nation's economic structure. In 2016, the added-value contributed by the tertiary industry, or the service sector, accounted for 51.6% in total GDP, up 1.4 percentage points from last year, or 11.8 percentage points above secondary industry;and consumption expenditure contributed 64.6% of the GDP growth. Both the service sector and consumption played a pivotal role in expediting GDP growth. Whilst traditional industries were posed with problems including destocking, structural adjustment and environmental cost pressure in general, the textile industry also experienced a period of adjustment where investment in fixed assets grew at a single-digit percentage, a deep dive from 30.0% in the past few years. The plunge came mostly from the decrease in the growth pace of chemical fiber and cotton textile, the latter of which captured growth mostly from industrial transfer. The room for development of the industry was quite confined in general.

As regards foreign trade and exports, China's import and export trade was largely subject to global economic development, as the nation is the top player in global textile trading. The worldwide slackening of economic recovery, which is not likely to alleviate in the near future, will however be great hurdle to the development of China's import and export trade. On the other hand, under economic globalization, labour cost and production efficiency are among key drivers for industrial transfer. As a labour-intensive sector, the textile industry witnessed synchronous transfer from China to the neighboring Vietnam, Malaysia, India etc., in view of China's falling demographic dividend and diminishing cost advantage supported by the abundant supply of cheap labour.

In the midst of a multitude of adverse factors, China's aggregate export of textile and apparel in 2016 totalled USD262.5 billion, or a 7.5% decrease year-on-year, in which the export of textile products accounted for USD105.0 billion, or a 4.1% decrease year-on-year. This manifested the lackluster international demand for textile products and the severity of the general conditions, when the global economy was still undergoing a period of deep adjustment since the international financial crisis.

Against the backdrop of the weak growth and uncertain development prospects of the Group's textile segment, the film and television industry came as a readily-strong performer in 2016 with its resistance to economic cycle. On the one hand, the film and television industry reported steady growth in general. According to Wind Statistics, in 2016, China's national total box office increased by 3.7% year-on-year to reach RMB45.7 billion, and production records of national television series grew by 5,561 episodes from year 2015 to reach 48,638 episodes in 2016, both testifying the generally positive trend of the development of film and television dramas. On the other hand, the industry experienced intensive structural adjustment. Internet dramas and premium IP dramas came on stage to endorse the change and upgrading of the film, television and media industry. Since internet dramas were rolled out in 2014, they have become hot topics on the internet and attracted wide concerns and recognitions. In merely three years, the internet drama market already showed exponential growth in 2016. According to the statistics from entgroup.cn (藝恩), "the total traffic growth was on a promising track, with a total of 38.0 billion total broadcast traffic achieved by the Top 50 internet dramas in 2016, or an increase of 78.0% from 2015."

With its penetrating insights into the market of internet dramas, the management pursued the development vision of stocking up on internet drama series and capturing a greater share of the internet drama market by completing the acquisition of 65% equity interest in Starrise Pictures in 2016. Starrise Pictures is a company principally engaged in the film and television businesses, specializing in content production, project investment and consultation, operation of copyrights, film promotion, entertainment marketing, artist management and other businesses in the entire industry chain of the creative film and television industry. Since its establishment, Starrise Pictures has been involved in the investment and production of the following drama series: a television drama series "The Unforgettable Years (念念不忘的歲月)", a youth internet drama "Goddess From the Future (燃血女神)", IP movies "Li Lei and Han Meimei (李雷與韓梅梅)", "Care and Fear (提著心吊著膽)", "Goodbye to Time (再見時光)" and "Love @ You (愛@你)". The substantial amount of internet dramas and inventory of IP dramas of Starrise Pictures offered support and momentum for the Group's rapid development in a year of internet drama boom.

Huasheng Media, also achieved remarkable results in the investment and production of its traditional television drama series:

The large-scale anti-Japanese war epic drama, "The Great Eastern Battlefield (東方戰場)" was awarded the "1st Script-Writing Award (首屆劇本創作獎)", the "First-Class Award for Excellent Play and Script Supporting Project (優秀劇目暨劇本一類扶持大獎)" and the "Top Ten Television Series Award (十佳優秀電視劇大獎)". The series premiered simultaneously on Jiangsu Satellite TV and Hubei Satellite TV on 23 June 2016, with the average ratings on Jiangsu Satellite TV at 0.762 as of the end of the airing, ranking among the top three in terms of average ratings in the nation. Throughout the websites of the video media, as many as 1.3 billion hits were recorded. In particular, the video streaming on Tencent's webpage alone saw more than 1 billion hits, setting a new record for epic television series based on revolution history. Meanwhile, in the 11th Top Ten National Television Award Ceremony (第十一屆全國電視製片業十佳表彰大會) held in Beijing on 19 February 2017, the television dramas titled "The Great Eastern Battlefield (東方戰場)" has won the several awards, including "Top Ten Television Series Award (十佳優秀電視劇)". Besides, He Wei (何煒), an experienced television media professional from Hubei Television (湖北廣播電視臺) who was the producer of the two television drama series has won the "Top Ten National Television Producer Award (全國十佳電視劇製片人)". Meng Fei (蒙飛), the production supervisor, and Zhang Jianzhi (張建志), the lighting designer, have each won the "Top Ten National Television Creative Award (全國十佳電視劇主創)".

The large-scale television series, "Yichang Defense (宜昌保衛戰)", premiered during prime time on CCTV-8 on 19 September 2016. According to the statistics of the largest state-owned media in the PRC, the national average ratings on the internet since airing stood at 1.7%, with the average share of audience at 5.81%. During the 12-day period from the start to the end of the broadcasting, the average ratings of the series came first among programs in the same time slot in the nation every day. In particular, the average ratings on the day the last episode was aired reached 2.11%, with the share of audience at 6.67%, achieving the excellent result of average ratings exceeding 2. As of the end of the broadcasting on 30 September 2016, the series ranked third in terms of average ratings among the prime-time dramas on all channels of CCTV for the year. In addition, the series also won the "Best Audience Choice Award 2016 (二零一六年度觀眾最喜愛獎)" in the Domestic TV Series Ceremony (國劇頒獎典禮) "The Star of City (城市之星)" on 25 February 2017, which proved again the high popular and fine quality of the series. Apart from the Best Audience Choice Award, Meng Fanyao (孟凡耀), the producer of the series, and Tong Lei (童蕾), the heroine of the series, won the "Best Producer of 2016 (二零一六年度最佳製片人)" and the "Best Actress (最佳女主角)" respectively. It was honored that the series won three awards in total.

In 2016, Huasheng Media completed the shooting for two television drama series, "Qiao's Grand Courtyard 2 (喬家大院2)" and "March in River City (江城三月)", which are currently going through post-production and are due to air in 2017.

Currently, the business structure of the Group's film and television segment consists of both Huasheng Media and Starrise Pictures, each of the two companies having its own focus. By expanding the Group's film, television and media business at multiple levels, Huasheng Media and Starrise Pictures will enlarge the audience of film and television, thereby diversifying and boosting the Group's income, which is in the interests of our Group and shareholders as a whole.

During the Period Under Review, the Group's main business revenue was approximately RMB811.3 million, representing an increase of approximately 24.0% as compared with approximately RMB654.0 million in the previous year. The profit of the Company was approximately RMB31.1 million, representing an increase of approximately 323.4% as compared with approximately RMB7.3 million in the previous year. The increase of the revenue and net profit were mainly due to the expansion of the Group's film and television business since 2015.

Profit attributable to equity shareholders of the Company was approximately RMB24.5 million, representing an increase of approximately 234.3% as compared with approximately RMB7.3 million in the previous year. The increase in profit was mainly due to the increase of the profit attributed from the Group's film and television segment. During the Period Under Review, the film and television business contributed revenue of RMB120.3 million and profit of RMB42.0 million to the Group.

Financial Review

Turnover, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin of its major business categories for the years ended 31 December 2016 and 2015:

	For the year ended 31 December					
	2016			2015		
	Turnover RMB'000	**Gross profit RMB'000**	**Gross profit margin %**	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %
Textile business	**691,013**	**99,483**	**14.4%**	646,545	98,246	15.2%
Film and television business	**120,311**	**64,270**	**53.4%**	7,492	2,818	37.6%
Total	**811,324**	**163,753**	**20.2%**	654,037	101,064	15.5%

The gross profit margin of the Group increased by approximately 4.7 percentage points, from approximately 15.5% for the year 2015 to approximately 20.2% for the year 2016. The increase of overall gross profit margin was mainly due to the increase in film and television's gross profit. Due to the increase of the cost of the Group's textile business, the gross profit margin of textile business declined by 0.8 percentage points over 2015; while the gross profit margin of film and television business increased by 15.8 percentage points over 2015, benefiting from the rapid growth of the national film and television industry. In addition, the Group developed new and special products according to the market demand, and further optimized the product mix and implement flexible and effective marketing strategy in order to maximize the Group's gross profit margin.

Other net gains and losses

Other net gains and losses mainly included change in fair value of derivatives embedded in convertible bonds, net gain on sale of raw materials and scrap materials, net loss on disposal of equipment, government grants, net gain from short-term investments and others. The total amount of other net gains for the Period Under Review decreased by approximately RMB4.4 million to approximately RMB–0.3 million as compared to approximately RMB4.1 million in the previous year. Such decrease was mainly due to the change in fair value of derivatives embedded in convertible bonds.

Distribution costs

For the year ended 31 December 2016, total distribution costs of the Group increased by approximately RMB1.4 million to approximately RMB16.6 million as compared to that of the corresponding period in previous year. Such increase was mainly due to the increase in staff cost, marketing expenses and transportation expenses of the Group during the Period Under Review when compared to that of the corresponding period in previous year.

Administrative expenses

For the year ended 31 December 2016, the administrative expenses of the Group was approximately RMB86.1 million, representing an increase of approximately 31.7% when compared to that of approximately RMB65.4 million in 2015. The increase was mainly due to the expenditures related to the acquisition of media business, the forming of new companies, the increase of staff cost and rental expense for our film and television business.

Net finance costs

During the year ended 31 December 2016, the net finance cost of the Group were approximately RMB25.7 million, representing an increase of approximately RMB11.1 million as compared to approximately RMB14.5 million in 2015, which was mainly due to the increase in finance cost and the decrease of finance income. For the year ended 31 December 2016, the finance cost of the Group was approximately RMB26.8 million, representing an increase of approximately RMB9.3 million as compared to approximately RMB17.5 million in 2015. It was mainly due to the increase in interest expenses relating to the convertible bonds and the increase of foreign exchange loss. The finance income was approximately RMB1.1 million, representing a decrease of approximately RMB1.8 million as compared to approximately RMB3.0 million in 2015, which was mainly due to the decrease in interest income of the Group's bank deposits in 2016.

Taxation

Taxation of the Group was increased by approximately 18.0% from approximately RMB2.7 million in 2015 to approximately RMB3.2 million during the Period Under Review. This was mainly due to the increase of taxable income.

Profit attributable to the equity shareholders of the Company

For the year ended 31 December 2016, the profit attributable to the equity shareholders of the Company was approximately RMB24.5 million, representing an increase of approximately 234.3%, from approximately RMB7.3 million in 2015. The increase was mainly due to the increase of the revenue resulting from the Group's film and television drama series business. Based on the aforementioned factors, the gross profit margin for the year ended 31 December 2016 increased to approximately 20.2%, or by 4.7 percentage points, from that of approximately 15.5% in 2015. As a consequence, the gross profit increased by approximately 62.0%, or approximately RMB62.7 million, to approximately RMB163.8 million for the year ended 31 December 2016 from approximately RMB101.1 million in the previous year.

Management Discussion and Analysis

Liquidity and financial resources

As at 31 December 2016, cash and cash equivalents of the Group were approximately RMB173.0 million, representing an increase of approximately 52.7% from approximately RMB113.3 million as at 31 December 2015. This was mainly due to the increase of bank deposits of the Company as a result of the issuance of the convertible bonds.

For the year ended 31 December 2016, the Group's net cash generated from operating activities was approximately RMB90.4 million (2015: approximately RMB119.2 million), net cash used in investing activities was approximately RMB66.3 million (2015: approximately RMB19.1 million) and net cash generated from financing activities was approximately RMB33.4 million (2015: net cash used in financing activities was approximately RMB109.7 million). In view of the period, cash and cash equivalents of the Group increased by RMB57.5 million in 2016 (2015: decreased by approximately RMB9.6 million). The Board believes that the Group will maintain a sound and stable financial position, and will maintain sufficient liquidity and financial resources for the Group's business need.

The Group's customers, who have set up long-term business relationship with us and have well settlement history and sound reputation, have been waived the requirement for deposit payment and granted a credit period typically ranging from 30 to 180 days pursuant to the payment terms of the purchase or processing orders. The length of credit period depends on various factors such as financial strength, size of the business and settlement history of those customers. For the year ended 31 December 2016, the average trade receivables (including bills receivable) turnover period of the Group was approximately 49 days, approximately flat with 49 days for the year ended 31 December 2015. The Group's granting of a steady credit period to customers led to a fair turnover period of the average trade receivables.

For the year ended 31 December 2016, inventory turnover period of the Group increased to 105 days from 103 days in the previous year. This was mainly because of the increase of inventory level of finished goods resulted from the prolonging of delivery cycle by customers of the Group. In particular, the finished goods increased to approximately RMB59.8 million as at 31 December 2016 from approximately RMB49.3 million as at 31 December 2015 (the inventory of the textile business).

As at 31 December 2016, the Group's borrowings of approximately RMB185.0 million (2015: approximately RMB189.5 million) bore fixed interest at rates at 4.4% (2015: 4.4% to 5.1%) per annum. As at 31 December 2016, the Group's borrowings (including obligations under finance lease) of approximately RMB23.9 million (2015: approximately RMB35.8 million) bore floating interest at rates at 5.5% to 6.1% (2015: 4.9% to 6.2%). The Group's debt of the convertible bonds is approximately RMB161.5 million, with annual interest rate of 18.9% (2015: Nil).

Trade and bill receivables

Trade and bill receivables were approximately RMB120.1million as at 31 December 2016 (approximately RMB99.4 million as at 31 December 2015). The increase was mainly due to the increase of the Group's revenue.

Earnings per share

Calculating based on the weighted average of 1,007,852,437 shares in issue, basic earnings per share of the Company were approximately RMB0.0243 for the year ended 31 December 2016 (2015: approximately RMB0.0091).

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period under Review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital structure

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

For the year ended 31 December 2016, the debts of the Group were mainly borrowings, promissory note, convertible bonds and obligations under finance leases with a total amount of approximately RMB405.0 million (2015: approximately RMB392.8 million). As at 31 December 2016, cash and bank was approximately RMB198.0 million (2015: approximately RMB113.3 million). As at 31 December 2016, the gearing ratio was approximately 18.8% (2015: approximately 31.6%), which was calculated by dividing total debt (i.e. interest-free borrowings, promissory note, convertible bonds and obligations under finance lease, after deducting cash and bank) by total equity.

As at 31 December 2016, the debts of the Group that will become due within a year were approximately RMB198.9 million (2015: RMB389.0 million).

As at 31 December 2016, the Group's cash and bank was mainly held in Renminbi, US dollars, HK dollars, of which, approximately RMB132.1 million (2015: RMB99.4 million) or 66.7% (2015: 87.7%) of the cash and bank was held in Renminbi.

Furthermore, the Group had finance lease liabilities of approximately RMB3.9 million as at 31 December 2016 (31 December 2015: 20.8 million) bearing floating interest rates ranging from 5.5% to 6.1% (2015: 5.9% to 6.2%). The carrying amounts of bank loans were denominated in RMB. For the year ended 31 December 2016, no financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments.

Capital commitments

Save as disclosed in the note to the financial statements, the Group did not have any other significant capital commitments as at 31 December 2016 (2015: Nil).

Employee and remuneration policy

As at 31 December 2016, the Group had a total of approximately 2,577 employees (2015: 2,677), the decrease in the number of staff as compared to that of the previous year was mainly because the Group improves efficiency by downsizing staffs according to the operating conditions.

For the year ended 31 December 2016, labour costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB125.7 million (2015: approximately RMB119.2 million). The increase of labour costs was mainly because the increase of staff headcount for film and television business.

The Group continues to provide training to staff members to improve their operation skill. Meanwhile, the Group enhanced the work efficiency and average income of the staff through post-consolidation, process reorganization and improvement of working and living environment of the staff. The remuneration of the employees of the Group was subject to their working performance, experience and the industry practices. The management of the Group will also periodically review the remuneration policy and details.

Management Discussion and Analysis

Exposure to foreign exchange risk

The Group adopted a prudent policy in managing its exchange rate risks. The imports and exports of the Group were settled in US dollars. The Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in the currency exchange rates during the Period Under Review. The Board believes that the Group will have sufficient foreign currency to meet its requirements.

The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2016 (2015: Nil).

Charges on assets

Save as the pledged bank deposits as presented in the consolidated statement of financial position, the Group pledged its machinery and equipment with net book value of approximately RMB28.5 million (2015: RMB13.3 million) to banks as securities for the bank loans as at 31 December 2016. Besides, machinery and equipment with net book value of approximately RMB35.6 million (2015: RMB40.1 million) were held under finance lease as at 31 December 2016.

Significant investments held

Save as disclosed in the note to the financial statements, the Group did not hold any significant investment in equity interest in any company during the year ended 31 December 2016.

Future plans for material investments and capital assets

The Group did not have any plans for material investments and capital assets.

Acquisitions and disposals of subsidiaries and affiliated companies

On 30 September 2016, the Group obtained control of Star Will Investments Ltd. ("**Star Will**"), which is an investment holding company and its subsidiaries are principally engaged in production and distribution of film and television drama series in the PRC, by acquiring 65% of its interest. Taking control of Star Will will enable the Group to strengthen the business development in the media industry in the PRC and broaden the sources of the Group's revenue. During the year ended 31 December 2016, Star Will contributed revenue of RMB34.6 million and profit of RMB18.7 million to the Group's results. The consideration for the acquisition is HKD78,340,000 (equivalent to RMB67,448,000), which was satisfied by a promissory note with a face value of HKD78,340,000. No contingent consideration was agreed between the Group and the selling shareholder.

Events after the reporting period

Subsequent to the reporting period, the Company issued convertible bonds in the aggregate principal amount of HKD300,000,000 on 28 February 2017. The convertible bonds bear a nominal interest rate of 5% per annum and are with a maturity date on the second anniversary of the issue date. The initial convertible price of the convertible bonds in HKD1.21 per share (subject to adjustments) and assuming full conversion, the convertible bonds will be converted into 247,933,884 shares of the Company. Further details of the convertible bonds issue are set out in the Company's announcements dated 22 December 2016, 30 December 2016 and 28 February 2017.

Management Discussion and Analysis

Outlook

2017 is important for implementing the 13th "Five-year Plan" and deepening structural reform of supply side; under the guidance of the keynote of "making progress while maintaining stability", China's economy will focus on advancing the structural reform of supply side and continuing to tackle industrial overcapacity of traditional industries such as the coal, steel, and textile industries by eliminating ineffective and unnecessary supply and creating effective supply fit for new demand. China's economy will continue its steady growth. However, with the new U.S. administration being characterized as one of trade protectionism and mercantilism, and with uncertainty in Federal interest rate hikes, the impact of increasing costs of US dollar financing is emerging. Along with the shift in the previous balance of low interest rate, low increase and high debt, the depreciation of RMB, and cross border flow of capital, there is strong downward pressure on China's economy. 2017 shall be a year of reforms and risks.

On 28 September 2016, the Ministry of Industry and Information Technology released the Textile Industry Development Plan (2016–2020), which determined a focus on advancing the reform of supply side and emphasize on the strategy of increasing variety, improving quality and inventing brand (the "**strategy**"), strengthening the innovation capability of enterprises, creating new competitive advantages, development direction towards high and mid-end industry, improving the innovation capability of the industry, implementing the "strategy", propelling intelligent manufacturing of textile, and speeding up the process of green development. The direction, tasks and measures specified by the "Plan" accords with the strategic development direction adhered to by textile sector of the Group. Despite the fact that the textile industry was affected by global economy and industry downturn, the Group will further explore and improve its intrinsic value of the traditional industry, enhance innovation, intensify cooperation with Chinese and foreign universities and research and development institutions, and continuously improve the innovation ability of products of the Group in 2017. In the meantime, the Group will deepen precision management, reduce operation cost, increase revenue, and cut expenditure in order to lower and absorb the negative influence of downward pressure on the operation of the Group and maintain long-term and sustainable development.

Against the background of sluggish macro economy, the culture industry, as a pillar industry in national economy in 2020, is impacted by culture industrial policy and reform policy of supply side, and film and television drama industry will demonstrate distinct development trends. First, statistics of State Administration of Radio, Film and Television of People's Republic of China shows that Class A television drama certificates were only granted to 132 companies in 2016 nearly equal to the number of 2015. It may be expected that television drama production companies truly capable of producing television drama will be widely favored by the market in the future. Secondly, the number of television dramas, of which the playback counts in new media surpasses 10 billion, increased to 10 in 2016, from just 1 in 2015. Forecasting based on this trend, the playback volume of television drama in new media will grow drastically. Thirdly, while traditional television drama is prospering, internet plays also demonstrate great development potential. Internet drama will grow from quantity orientation to quality orientation after the primitive explosion in 2014 and 2015 and mature transition in 2016. With the normalized development of internet drama, it will gradually take up an excellence- oriented route and discard cheap copy drama. Meanwhile, normalized development of internet drama will attract more television and film stars to engage in Internet drama.

The Company signed a convertible bond subscription agreement of HKD300 million with Dragon Capital Entertainment Fund One LP on 21 December 2016. The fund has been available on 28 February 2017. When the fund is fully ensured, the Company will increase investment in the film and television drama business and expand our market share based on the fund to strengthen competitive edges and ensure steady growth of performance.

The Board believes that there is broad development space for film and television drama, having paid close attention to and studied the film media industry. Acute perception and full use of IP resources will help develop our film media sector as the industry increases its focus on content. The Company will utilize our excellent ability of producing and distributing television drama and diverse distribution channels of television drama of Huasheng Media through platform of the subsidiaries, accelerate the launch of "Quality drama" and television drama targeted at different audiences and raise release, distribution and turnover rate of television drama in 2017. Moreover, under the market environment with Internet drama rapidly developing, the Company will intensify strategic cooperation with IP incubating enterprises and release IP and SIP drama through the platform of Starrise Pictures. Our film and television business has accelerated industrial consolidation and merger and acquisition in recent years due to the influence of "One Drama to be broadcast on two Satellites" policy of the industry. Therefore, the Company will engage in and expand our film and television drama business, and select potential film and television companies as acquisition targets to expand market share and improve the overall business performance of the Group.

At present, the Group's preparatory plans and filming work are undergoing smoothly. Starrise Pictures joined the Group to open up new performance growth channel for the media film and television segment, which is also conducive to structure optimization of the media film and television segment of the Group.

The production schedule of film and television series of the Group is as follows:

No.	Name	Subject matter	Planned boot time	Remark
1	Wudang Yijian	Martial arts drama	18 February 2017	Shooting started
2	Those Voices	Science fiction network drama	The first half of 2017	The script is completed
3	When Love Fades Away	Science fiction romantic network drama	The first half of 2017	The script is completed
4	Boyfriend Upgrade	Science fiction romantic network drama	The first half of 2017	The script is completed
5	The Echoes of Xibaipo	Crime suspense	The first half of 2017	The script is completed
6	The Heavenly Emperor	Mythical fantasy network drama	The first half of 2017	The script is completed
7	Detectives for Shiling	Science fiction suspense	The second half of 2017	The script is completed
8	Ma Beier	The Republic of China drama	The second half of 2017	The script is completed
9	Wudang	The Republic of China drama	2018	The script is completed
10	The New Big Head Son and The Little Head Father	Situation comedy	The first half of 2017	Script writing is undergoing
11	Jigong Mountain 1938	Spy suspense	The second half of 2017	Script writing is undergoing
12	The Myth of Wudang	Mythical fantasy drama	The second half of 2017	Script writing is undergoing
13	The Financial Empire	Historical drama	2017/2018	Script writing is undergoing
14	Qiao's Grand Courtyard 3	Historical story drama	2018	Script writing is undergoing
15	The Most Adorable Guard	Costume Kung Fu Comedy	The second half of 2017	Script writing is undergoing
16	The Otaka Girl, Detective Guixiang	Detective suspense network drama	The second half of 2017	Script writing is undergoing

Management Discussion and Analysis

In conclusion, 2017 will be a year for the Group to innovate, develop and make breakthroughs. Under the leadership of the management, all the employees will unite together, proactively engaging and developing the business of textile section, endeavor to reduce energy consumption, improve operation performance and maintain the competitiveness of textile industry. At the same time, the Group will fully take the advantages of film and television business, expedite to publish "Quality Drama" and films and television series targeted at different audiences by virtue of the large amount of mature films, television plays and IP reserved resources owned while paying attention to their producing quality and audience viewing status. The Group will also pay close attention to the development trends of the film and television media industry. For instance, since the audience of internet film and television dramas has formed their payment habits, the Group will pay attention to improving the operation and development ability of head IP. While putting emphasis on research and development competencies, the Group will closely grasp the trends of the times and find the guiding direction for its diversified development.

The Group's management will be bound to fulfill our duties, continuously improving our profitability and core competitiveness so as to advance the steady development of our businesses and improve returns to our shareholders.

Directors and Senior Management Profile

Our Board of Directors is responsible and has general powers for the management and conduct of the business. The Board currently consists of eight directors (the "**Directors**", each a "**Director**"), including five executive Directors, and three independent non-executive Directors. The following table sets forth information regarding members of the Board for the year ended 31 December 2016 and up to the date of this annual report:

Name	**Appointment Date**
Executive Directors	
LIU Dong *(Chairman)*	24 February 2010
LIU Zongjun *(Chief Executive Officer)*	26 June 2012
CHEN Chen	24 September 2015
HE Han	8 November 2016
TAN Bin	8 November 2016
Independent non-executive Directors	
PAN Hongye *(resigned on 6 March 2017)*	3 November 2015
LAM Kai Yeung	26 June 2015
GAO Gordon Xia	25 November 2015
WANG Liangliang	6 March 2017

Executive Directors

Mr. LIU Dong (劉東), aged 48, is the Chairman, an executive Director of our Company appointed on 24 February 2010, and one of our substantial shareholders. Mr. LIU has been with our Group since the acquisition of the equity interest of Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司) ("**Yinshilai Textile**") by Zibo Yinshan Chemical Fiber Co., Ltd. (淄博銀杉化纖有限公司) ("**Yinshan Chemical Fiber**") in June 2005. Mr. LIU is currently the legal representative and a director of Yinshilai Textile and was firstly appointed to such posts in September 2005. Mr. LIU was appointed as a Director of our Company on 24 February 2010. He is also a director of each subsidiary of our Group (except Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司) ("**Huiyin Textile**")). He is primarily responsible for overall business development, strategic planning and business development of our Group. Mr. LIU has accumulated 20 years of experience in the textile industry in the PRC, which can be traced back to 1996 when he was appointed as the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司). Mr. LIU had served as a deputy general manager of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), and subsequently as a director and general manager (between December 1998 and December 2001) and the chairman of the board of director (between December 2001 and November 2004) of Shandong Wanjie High-Tech Co. Ltd. (山東萬杰高科技股份有限公司) ("**Wanjie High-Tech**"). Mr. LIU studied in College of Textile Engineering of Shandong (山東紡織工學院) majoring in management and subsequently obtained a master of business administration degree from the Chinese Academy of Social Science in November 1998.

Directors and Senior Management Profile

Mr. LIU was recognized as "Model Worker of the Textile Industry of the PRC" (全國紡織工業勞動模範) by the Ministry of Personnel of the PRC (中華人民共和國人事部) and China National Textile and Apparel Council (中國紡織工業協會) in 2006, "Outstanding Entrepreneur of the Zibo Municipality for the year 2006" (2006年度淄博市優秀企業家), "Outstanding Entrepreneur of the Zibo Municipality for the year 2008" (2008年度淄博市優秀企業家) and "Outstanding Entrepreneur of the Zibo Municipality for the year 2009" (2009年度淄博市優秀企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People's Government of Zibo Municipality (淄博市人民政府) in 2007 and 2010, respectively, "Star Entrepreneur of the Zibo Municipality for the year 2010" (2010淄博市明星企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People's Government of Zibo Municipality (淄博市人民政府) in 2011, "Outstanding Entrepreneur of the Shandong Province" (山東省優秀企業家) by Shandong Enterprise Confederation (山東省企業聯合會), Shandong Entrepreneur Association (山東省企業家協會), Shandong Industrial and Economics Confederation (山東省工業經濟聯合會) and Shandong Quality Association (山東省質量協會) in 2011, "Award for Outstanding Entrepreneurs of the Textile Industry of the Shandong Province" (山東省紡織企業家創業獎) by the Shandong Textile Industry Office (山東省紡織工業辦公室) and the Shandong Textile Enterprise Management Association (山東紡織企業管理協會) in 2007, one of the "Twelve Batch of Outstanding Young Entrepreneurs of the Zibo Municipality" (第十二屆淄博市傑出青年企業家) by the Zibo Municipal Committee of the Communist Youth League (共青團淄博市委), Zibo Municipal Economy and Trade Committee (淄博市經濟貿易委員會), the Zibo Municipal Administration for Industry and Commerce (淄博市工商行政管理局), the Zibo Municipal Department of Environmental Protection (淄博市環境保護局), the Zibo Municipal Association of Entrepreneur (淄博市企業家協會) and the Zibo Municipal Association of Young Entrepreneur (淄博市青年企業家協會) in 2007, "Outstanding Persons of the Textile Brand Culture Development of the PRC for the year 2010" (2010中國紡織品牌文化建設傑出人物) by China National Textile and Apparel Council (中國紡織工業協會) and the Chinese Association for Textile Enterprises Culture Construction (中國紡織企業文化建設協會) in 2010, and "Boshan Star Entrepreneur for the year 2008" (2008年度博山區明星企業家), "Boshan Star Entrepreneur for the year 2010" (2010年度博山區明星企業家) and "Boshan Star Enterpreneur for the year 2011" (2011年度博山區明星企業家) by the Boshan District Committee of the Chinese Communist Party (中共博山區委) and the People's Government of Boshan District (博山區人民政府) in 2009 and 2011, respectively. Mr. LIU is a representative of the Fourteenth People's Congress of Zibo City (淄博市第十四屆人民代表大會).

Mr. LIU Zongjun (劉宗君), aged 46, is an executive Director of our Company appointed on 26 June 2012, and chief executive officer appointed on 1 April 2015. He joined our Group as assistant to the chairman of the board of directors, deputy general manager and manager of the human resources department of Yinshilai Textile since April 2010. Mr. LIU was appointed as a director of Huiyin Textile in March 2012.

Mr. LIU is experienced in administrative management and has accumulated 17 years of experience in the textile industry. Between July 1993 and June 1994, Mr. LIU worked in the Shanghai office of Weifang Economic and Trade Centre (濰坊經濟貿易中心) governed by the Shandong Weifang Municipality Economic Committee (山東濰坊市經濟委員會). Between September 1994 and October 2004, Mr. LIU worked with Wanjie Group Co., Ltd. and held a series of positions including the role of executive in foreign economy and trade department of the Shanghai office, assistant to the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬傑纖維有限公司) and assistant to the general manager and human resources manager of Wanjie High-Tech. Between October 2004 and April 2010, Mr. LIU served as general manager of Zibo Tianhao Weaving and Dyeing Co., Ltd (淄博天浩織染有限公司).

Mr. LIU graduated from Shanghai Textile College (上海紡織高等專科學校) in July 1993, majoring in textile material chemical processing. He obtained a Bachelor's degree in Chinese literature from Shandong University of Technology (山東理工大學) in January 2007. He also obtained Executive Master of Business Administration (EMBA) from Donghua University (東華大學) in December 2014.

Directors and Senior Management Profile

Ms. CHEN Chen (陳辰), aged 37, is an executive Director appointed on 24 September 2015. Ms. CHEN has more than 10 years of experience in the field of finance and investment. From April 2006 to October 2011, Ms. CHEN was a vice president of Haitong Securities Co., Ltd (Investment Banking Division, Shenzhen Branch). From November 2011 to May 2014, Ms. CHEN was the vice president in charge of investment of the Shenzhen branch company of Haitong Kaiyuan Investment Company Limited (海通開元投資有限公司). From June 2014 to November 2014, Ms. CHEN was the assistant to the president and the finance controller of the Energy Management Contracting department of NVC Lighting (China) Co., Ltd. Ms. CHEN held position as a senior vice president of Beijing Ying Sheng Culture Investment Limited (北京瀛晟文化投資有限公司) from February 2015 to September 2015. Ms. CHEN has studied German literature in the Beijing Foreign Studies University and obtained a master degree in business administration from the University of Mainz in Germany.

Mr. HE Han (何漢), aged 45, is an executive Director appointed on 8 November 2016 and is an experienced filmmaker and a member of board of directors of the Beijing Film Academy. He has been the president of Beijing Starrise Pictures Co., Ltd. (北京星宏影視文化有限公司) (formerly known as Beijing Yingsheng Cultural Investments Co., Ltd. (北京瀛晟文化投資有限公司)) since October 2015. Beijing Starrise Pictures Co., Ltd. is a wholly-owned subsidiary acquired by the Company in July 2016. Prior to joining our Group, Mr. He served as the vice president of CITIC Culture Media Group (中信文化傳媒集團) and the chief director of the planning division of Century Heroes Film Investment Co., Ltd. (世紀英雄電影投資有限公司) from 2001 to 2005. Mr. He also acted as the general manager of Beijing Airmedia Corporation Limited (北京航美影視文化有限公司), the president of Beijing Xinghe Lianmeng Entertainment Co., Ltd. (北京星河聯盟影視發行有限公司) and the publisher of the "Cinema World (電影世界)" magazine between 2005 and 2015. Mr. He graduated from the Beijing Film Academy with a Bachelor's degree in public service administration (film and television).

Mr. TAN Bin (譚彬), aged 35, is an executive Director appointed on 8 November 2016 and has worked in the investment banking and capital markets sectors for many years, and is experienced in corporate financing and merger and acquisitions matters. He has been involved in numerous corporate finance projects. Mr. Tan joined our Group in August 2016 and is currently serving as a senior finance officer of our Group. Prior to joining our Group, he served as a director of Huatai Financial Holdings (Hong Kong) Limited (華泰金融控股(香港)有限公司) from 2015 to 2016. During the period from 2008 to 2014, he held several positions in BOC International Holdings Limited (中銀國際亞洲有限公司) including analyst, manager and associate director. Mr. Tan graduated from the Beijing University of Technology with a Bachelor's degree in applied physics. He has also obtained a Master's degree in telecommunication engineering and a Master's degree in digital communications from Monash University in Australia.

Independent non-executive Directors

Mr. PAN Hongye (潘洪業), aged 71, currently serves as a professional instructor of the School of Economics and Management of Communication University of China. He has ceased to be an independent non-executive Director since 6 March 2017. He has over fifty years' experience in the industry of cultural industry, and has planned/produced more than fifty television drama series. He was the general manager of Beijing Chang' an Culture and Entertainment Centre (北京市長安文化娛樂中心), the director of the Exchange Centre of Television Programs and the Film and Television Centre of Beijing Television Station (北京電視臺電視節目交流中心、影視劇中心) and the general manager of Combined Television (Hainan) Company Limited (匯視(海南)股份有限公司). He is now the general manager of Beijing Dong Wang Cultural Development Company Limited (北京東王文化發展有限公司).

Mr. PAN was granted the title of "Excellent Worker of the National Cultural System" by the Ministry of Culture and the Ministry of Personnel of the PRC (中華人民共和國文化部、人事部) in 1995, has been appointed as the vice-president of the Television Production Committee of China Radio and Television Association (中國廣播電視協會電視製片委員會) since 2001, was granted the 5th "National Top Ten Excellent Producers" (全國十佳製片人) in 2002, and was invited to be a judge in the first Rainbow Asia awards (香港亞洲彩虹獎) in 2010.

Directors and Senior Management Profile

Mr. LAM Kai Yeung (林繼陽), aged 47, is a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. LAM obtained a bachelor degree of accounting from Xiamen University (廈門大學) in July 1990 and a master degree in business administration from Oxford Brookes University in the United Kingdom in July 2010.

Mr. LAM was the company secretary and qualified accountant of Hunan Nonferrous Metals Corporation Limited (湖南有色金屬股份有限公司) (a company which was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with its then stock code of 2626 and had delisted from the Stock Exchange in March 2015) from July 2006 to August 2013. Mr. LAM was an independent non-executive director of Northeast Tiger Pharmaceutical Company Limited (東北虎藥業股份有限公司) (a company listed on the GEM of the Stock Exchange, stock code: 8197) from August 2008 to June 2015 and a non-executive director of Ping Shan Tea Group Limited (坪山茶業集團有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 364) from December 2014 to May 2015. Mr. LAM has been an independent non-executive director of Silverman Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1616) since June 2012; an independent non-executive director of Highlight China Lot International Limited (高銳中國物聯網國際有限公司) (formerly known as Ford Glory Group Holdings Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 1682) since August 2014; an independent non-executive director of Sunway International Holdings Limited (新威國際控股有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 58) since May 2015; an independent non-executive director of Finsoft Financial Investment Holdings Limited (a company listed on GEM of the Stock Exchange, stock code: 8018) since June 2015; an independent non-executive director of Kong Shum Union Property Management (Holding) Limited (港深聯合物業管理有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8181), since October 2015, and an independent non-executive director of Holly Futures (弘業期貨股份有限公司), a company listed on the GEM of the Stock Exchange (stock code: 3678), since June 2015.

Mr. LAM is a licensed person for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Mr. GAO Gordon Xia (高峽), aged 48, is an independent non-executive Director appointed on 25 November 2015. Mr. GAO holds a master of business administration from Fordham University in the United States. He obtained his bachelor degree in management of information system from the Beijing Information Engineering Institute (北京資訊工程學院) in 1992.

Mr. GAO has worked in various entities including the PRC government, enterprises in the PRC and the United States, listed companies and financial institutions for many years. He is experienced in the information technology, telecommunications and media industries. Mr. GAO currently serves as the chief operating officer and chief executive officer of Groupon China (gaopeng.com) (高朋團購) and a consultant at Tencent (騰訊) group providing commercialization consultancy to Wechat division. Mr. GAO joined Roosevelt Foundation as the Asia investment partner from July 2003 to July 2007. He was the founder, chief executive officer and director of CBCom Inc. (西康電訊) (listed on NASDAQ in the United States in 2001, stock code: CBCI) from June 1996 to December 2001.

Mr. WANG Liangliang (王亮亮), aged 34, has been appointed as an independent non-executive Director with effect from 6 March 2017. He holds a Master of Laws from the Graduate School of the Academy of Social Sciences (中國社會科學院研究生院) in Beijing. He obtained his bachelor degree in Human Resource Management from Soochow University (蘇州大學) in 2004. Mr. Wang has ten years of legal professional experience. He was qualified as a legal practitioner in the People's of Republic of China in 2006. Mr. Wang joined Jingtian & Gongcheng (Beijing) (北京競天公誠律師事務所) in March 2007 and became a partner of the firm in April 2014. He specialises in securities, funds, private equity, mergers and acquisitions, restructuring, anti-trust and foreign investment. In relation to his capital markets practice, Mr. Wang represented a number of companies and underwriters in overseas and domestic listing projects.

Directors and Senior Management Profile

Senior Management

Our executive Directors and senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management as at this annual report:

Name	Age	Positions within the Company
TIAN Chengjie	48	Secretary to the Board
SONG Shuli	41	Chief Financial Officer
SUN Hongchun	53	Vice President of Production and Technology
GONG Jianpei	55	Chief Designer
SUN Qiaoyun	47	Finance Controller

Mr. TIAN Chengjie (田成杰), aged 48, is the secretary to the Board. Mr. Tian has been a deputy general manager of Yinshilai Textile in March 2005. In May 2006, he was also appointed as a deputy general manager and a director of Huiyin Textile. Between June 2012 and September 2015, Mr. TIAN had been an executive Director and the secretary to the Board. He is primarily responsible for administration, planning and human resources of our Group. Mr. TIAN has accumulated more than 20 years of experience in the textile industry in the PRC. Mr. TIAN had worked with Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) since December 1993 and held a series of positions including the role of workshop manager, the head of the spinning department, the head of the quality control department, the head of the business administration bureau, and an assistant to the general manager, and subsequently with Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司) serving as the head of the business administration bureau. Between December 1996 and November 2004, Mr. TIAN held a series of positions including the role of director and supervisor of Wanjie High-Tech. Mr TIAN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) in July 1990 majoring in chemical fiber studies and obtained a master of business administration degree from the Guanghua School of Management of the Peking University (北京大學光華管理學院) in May 2004. Mr. TIAN was awarded the second prize of the "Modern and Innovative and Excellent Application of Enterprises Management of the Shandong Province Award" (山東省企業管理現代化創新及優秀應用二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010.

Mr. SONG Shuli (宋樹利), aged 41, has been our Chief Financial Officer since July 2011 and is responsible for our Group's financial and accounting functions, and overseeing the financial reporting and accounting functions. Mr. SONG obtained a bachelor degree in laws from the Shandong Normal University (山東師範大學) in December 2009. Mr. SONG was qualified as a certified tax adviser, a qualified property valuer and a qualified accountant in China in September 2005, September 2005 and October 2005, respectively. Mr. SONG worked in a number of professional accounting firms in China prior to joining our Group.

Directors and Senior Management Profile

Ms. SUN Hongchun (孫紅春), aged 53, is our Company's vice president of production and technology. Ms. SUN served as a general manager of Yinshilai Textile since March 2005, primarily responsible for the implementation of enterprise routine management and business plan. Ms. SUN was appointed as a director of Yinshilai Textile in September 2005. Ms. SUN has accumulated 23 years of experience in the textile industry which can be traced back to 1990, including serving as a factory supervisor, head of production technology department of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), deputy factory supervisor, deputy general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) and general manager of Wanjie Knitting Company (萬杰織造公司). Ms. SUN was recognized as the "Model Worker of the Textile Industry of the PRC" (全國紡織工業勞動模範) by the Ministry of Human Resources and Social Security (人力資源和社會保障部) and China Textile and Apparel Council (中國紡織工業協會) in 2010, the "Outstanding Manager of the Shandong Province for the year 2010" (二零一零年度山東省優秀經營管理者) by the Shandong Economic and Information Technology Committee (山東省經濟和信息化委員會), the second prize of the "Modern Innovation and Excellent Application of Enterprises Management of the Shandong Province Award" (山東省企業管理現代化創新及優秀應用成果二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010, and "the Honour of Excellent Innovative Leader of the Boshan District" (博山區優秀創新帶頭人榮譽) by the Peoples's Government of Boshan District (博山區人民政府). Ms. SUN has also participated in a chemical fiber technology development project which was recognized as a "Spark Program Achievement at the National Level" (國家級星火計劃科技成果) by the Science and Technology Commission of Shandong Province (山東省科學技術委員會) in December 1993.

Ms. SUN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) with a bachelor degree majoring in textile engineering in June 1990.

Mr. GONG Jianpei (龔建培), aged 55, joined our Group in August 2011 when he was appointed as our chief designer on a part-time basis. His duties include conducting market research and analysis as to textile products, assisting us in new products design and development, providing training to the staff in our research and development and product design department, and assisting us in the planning of design competition and headhunting. Mr. GONG is experienced in textile fabric design. He was awarded the first-class theses award by the National Textile Design Competition And Theory Seminar (2001全國紡織品設計大賽暨理論研討會) in 2001, a silver prize in the "Fourth National Interior Design Competition" (全國第四屆室內設計大賽) by China Interior Decoration Association (中國室內裝飾協會) in 2002, a silver prize for his thesis in the "Chinese International Household Textile Design Competition" (中國國際家用紡織品設計大賽) by China Home Textile Association (中國家用紡織品行業協會), The Sub-Council of Textile Industry, CCPIT (中國國際貿易促進委員會紡織行業分會), Messe Frankfurt (HK) Ltd (法蘭克福展覽(香港)有限公司), and The People's Government of Hianing, Zhejiang Province (浙江省海寧市人民政府) in 2003, an award of excellence for his thesis in the Chinese Fashion Colour Association (中國流行色協會) in December 2003, the "First Prize Teaching Achievement Award" (教學成就一等獎) by the Nanjing Art Institute (南京藝術學院) in 2004, and the "Second Prize Achievement Award for Undergraduates Teaching in Jiangsu Province for 2004" (2004年江蘇省高等教育教學成果獎二等獎) by the Education Department of Jiangsu Province (江蘇省教育廳) in 2005, respectively.

Mr. GONG is currently holding a number of posts in professional institutes in relation to design and textile. He is also a qualified designer of the Designer Chapter of the Chinese Household Textile Association (中國家紡協會設計師分會), a specialist of the Textile & Garment Chamber of Commerce, All-China Association of Industry & Commerce (中華全國工商業聯合會紡織服裝業商會), a councilor of the International Natural Dyeing Association (國際自然染色協會), and a councilor of the Chinese Fashion Colour Association (中國流行色協會).

Directors and Senior Management Profile

Ms. SUN Qiaoyun (孫巧雲), aged 47, is our finance controller. Ms. SUN joined our Group as the chief of the accounting and finance department of Yinshilai Textile in November 2004 and was appointed as a director of Yinshilai Textile in March 2006. Ms. SUN has accumulated 23 years of experience in finance and management which can be traced back to 1991 when she served as the manager of the finance department of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司).

Ms. SUN undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party (中共山東省委黨校) and obtained a bachelor degree in economic management in December 2004.

As at the date of this annual report, save as disclosed above, each of our Directors and our senior management members has confirmed that he or she has not held any directorship in other listed public companies or major appointments in the past three years.

Company Secretary

Ms. CHAN Yin Wah (陳燕華), aged 41, is an associate director of SW Corporate Services Group Limited. She has over 15 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She worked for various international professional firms and listed companies in Hong Kong. Ms. CHAN holds a Bachelor's degree in economics and a master's degree in professional accounting. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Corporate Governance Report

Corporate Governance

Adapting and adhering to the recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

For the year ended to 31 December 2016, the Company had adopted and complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except slightly deviating from compliance with Code Provisions A.1.8 during the period starting from 1 January 2016 to 11 January 2016 as more particularly described below.

Code Provision A.1.8 stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. During the period starting from 1 January 2016 to 11 January 2016, the Company did not arrange such insurance coverage for the Directors as the Board was of the opinion that sound and effective corporate governance within the Group would suffice in monitoring and mitigating legal and compliance risks. Since 12 January 2016, the Company has arranged appropriate insurance cover in respect of legal action against its directors and senior officers. Consequently, the Company has complied with Code Provisions A.1.8 since 12 January 2016.

Chairman and Chief Executive Officer

For the year ended to 31 December 2016, the Company had adopted and complied with the Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Liu Dong had been the Chairman of the Company and Mr. Liu Zongjun had been the Chief Executive Officer of the Company.

Board Diversity Policy

Code Provision A.5.6 stipulates that the nomination committee (the "**Nomination Committee**") (or "**the Board**") should have a policy concerning diversity of Board members, and should disclose the policy or a summary of the policy in the corporate governance report (The code provision was effective from1 September 2013).

With an aim to achieve diversity on the Board, the Board has approved and adopted a Board Diversity Policy (the "**Policy**") and revision to the terms of reference of the Nomination Committee of the Board to ensure the appropriate implementation of the Policy. The Policy was made with a view to achieving a sustainable and balanced development of the Company, of which, among others, all Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to selecting the best person to be members of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, length of service) will be disclosed in the Corporate Governance Report annually.

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Model code for securities transaction by the directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have compiled with the required standards of dealing as set out in the Model Code during the year.

The Board of Directors

Composition

As at the date of the annual report, the Board comprises eight Directors, of which Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han and Mr. TAN Bin are executive Directors; and Mr. LAM Kai Yeung, Mr. GAO Gordon Xia and Mr. WANG Liangliang are independent non-executive Directors. For the year ended 31 December 2016 and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:
LIU Dong *(Chairman)*
LIU Zongjun *(Chief Executive Officer)*
CHEN Chen
HE Han *(appointed with effect from 8 November 2016)*
TAN Bin *(appointed with effect from 8 November 2016)*

Independent non-executive Directors:
PAN Hongye *(resigned on 6 March 2017)*
LAM Kai Yeung
GAO Gordon Xia
WANG Liangliang *(appointed with effect from 6 March 2017)*

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 17 to 23.

Board meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such regular Board meetings do not involve the way of written resolutions approved by the Board. During the year ended 31 December 2016, five Board meetings, three Audit Committee meetings, two Nomination Committee meetings, two Remuneration Committee meetings and annual general meeting ("**AGM**") were held and the attendance records of individual Directors are set out below:

	Directors' attendance/meetings held (for the year ended 31 December 2016)				
	Board of Directors	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive Directors					
LIU Dong *(Chairman)*	5/5	N/A	2/2	2/2	1/1
LIU Zongjun	5/5	N/A	N/A	N/A	1/1
CHEN Chen	5/5	N/A	N/A	N/A	1/1
HE Han *(appointed on 8 November2016)*	N/A	N/A	N/A	N/A	N/A
TAN Bin *(appointed on 8 November2016)*	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors					
LAM Kai Yeung	5/5	3/3	N/A	N/A	1/1
PAN Hongye *(resigned on 6 March 2017)*	5/5	3/3	2/2	2/2	1/1
GAO Gordon Xia	5/5	3/3	2/2	2/2	1/1

There are three independent non-executive Directors and they represent over one third of the Board, and one of them, Mr. LAM Kai Yeung has the appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

Responsibilities of the Board and management

The Board is primarily overseeing and managing the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company's corporate governance policies which include: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) to review the Company's disclosure in the Corporate Governance Report.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and the audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, *inter alia*, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 63 to 140 were prepared on the basis set out in note 1 to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on pages 56 to 62.

There is no non-compliance with rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. Except as disclosed in the section "Directors and Senior Management Profile" above, there is no financial, business, family or other material relationship among members of the Board.

Confirmation of independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Continuous professional development

During the year ended 31 December 2016, all Directors, namely, Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han, Mr. TAN Bin, Mr. PAN Hongye, Mr. LAM Kai Yeung and Mr. GAO Gordon Xia have been given relevant guidance materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Continuing briefings and professional development to all Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with paragraph A.6.5 of the Code Provisions.

Independent non-executive Director

All independent non-executive Directors have entered into a letter of appointment with the Company for a specific term of three years, subject to retirement by rotation and re-election.

In accordance with the articles of association of the Company, at each AGM, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the name of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. Such retiring Directors may, being eligible, offer themselves for re-election at the AGM. All Directors appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

Nomination Committee

The Company established the Nomination Committee on 26 June 2012 with written terms of reference in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; access the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. For the year ended 31 December 2016, the Nomination Committee comprises three members and two of them are independent non-executive Directors, namely Mr. GAO Gordon Xia (being the Chairman), Mr. PAN Hongye and one Executive Director, namely Mr. LIU Dong.

During the year ended 31 December 2016, two Nomination Committee meetings were held during this period. The Nomination Committee meetings were held on 29 March 2016 and 8 November 2016, *inter alia*, reviewing the structure, size and composition of the Board and the independence of independent non-executive Directors as well as discussing the matters regarding retirement and re-election of Directors.

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 26 June 2012 with written terms of reference in compliance with the Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with paragraph B.1.2 of the Code Provisions. Its terms of reference are available from the websites of the Company and the Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. For the year ended 31 December 2016, the Remuneration Committee consists of three members and two of them are independent non-executive Directors, namely Mr. PAN Hongye (being the Chairman), Mr. GAO Gordon Xia and one executive Director, namely Mr. LIU Dong.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the numbers of the senior management by band for the Period is set out below:

Remuneration band (HK$)	**Number of individuals**
Nil to 100,000	1
100,001 to 500,000	4

Details of remuneration of Directors are set out in note 7 to the Financial Statements. No director has waived or agreed to waive any emoluments during the year ended 31 December 2016 (2015: nil).

During the year ended 31 December 2016, two meetings were held by the Remuneration Committee. The Remuneration Committee meetings were held on 29 March 2016 and 8 November 2016 for, *inter alia*, reviewing the overall remuneration policy and structure relating to all Directors and senior management of the Group.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management and make recommendation to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Director passed on 26 June 2012 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraph C.3.3 and C.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange. The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control procedures of the Company. For the year ended 31 December 2016, the Audit Committee consists of three independent non-executive Directors, namely Mr. LAM Kai Yeung (being the Chairman), Mr. PAN Hongye and Mr. GAO Gordon Xia.

During the year, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also met with the external auditors and reviewed the draft annual and interim reports of the Company. The Audit Committee was satisfied that the audited consolidated financial statements of the Company were prepared in accordance with applicable accounting standards and presented fairly the financial position and results of the Group for the Year.

During the year ended 31 December 2016, three meetings were held by the Audit Committee and all the members of Audit Committee had attended the meeting.

During the year ended 31 December 2016, the Board has not taken a different view from the Audit Committee on the selection, appointment, resignation or dismissal of external auditors.

Corporate governance functions

The Board developed and reviewed the Company's policies and practices on corporate governance and made recommendations.

Auditor's remuneration

During the Year, the Company engaged KPMG as the external auditors. The fees charged by KPMG for the year ended 31 December 2016 were amounted to approximately RMB2.7 million, including RMB2.2 million of the audit service charge as well as RMB0.5 million of the other service charges.

The reporting responsibilities of KPMG are set out in the Independent Auditors' Report on pages 56 to 62.

Company secretary

Ms. CHAN Yin Wah of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as the company secretary since September 2011, her biographical detail is set out in the section headed "Directors and Senior Management Profiles" in this annual report. Ms. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the Year. The primary contact person of the Company is Mr. TIAN Chengjie, the secretary to the Board of the Company in relation to any corporate secretarial matters.

Risk management and internal controls

The Board is responsible for maintaining a sound and effective risk management and internal control systems in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Company implemented various policies and procedures to ensure effective risk management at each aspect of its operation, including drafting a comprehensive risk management policy to specify the risk management responsibilities, formulating the risk management plan to manage effectively the identification, assessment, response and control of the risk as well as the provision of on-site inspection, administration of daily operation, financial reporting and recording, compliance with applicable laws and regulations on environmental protection and workplace safety.

The internal audit department monitors compliance with policies and procedures and the effectiveness of risk management and internal control structures across the Group and its principal divisions. The internal audit department reports directly to the Audit Committee and ensure the internal controls are in place and functioning properly as intended.

The Board has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the systems of risk management and internal control is an ongoing process and the Board will continue to assess the effectiveness of the Group's risk management and internal controls by considering reviews performed by the Audit Committee and executive management.

The Company formulated the inside information policy. The Company regularly reminds the directors and employees about due compliance with all policies regarding the inside information (as defined under the SFO). Also, the Company keeps directors, senior management and employees acquire the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements.

Shareholders' rights

The shareholders of the Company may make requisition for the convening of an extraordinary general meeting ("**EGM**") of the Company in accordance with the procedures set out in the Articles of Association as follows:

(1) Any two or more shareholders, or any one or more shareholders which is a recognized clearing house (or its nominee) holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Principal place of business of the Company in Hong Kong

Address: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Attention: Mr. TIAN Chengjie

Head office of the Company in the PRC

Address: Yinlong Village, Economic Development Zone, Boshan District, Zibo City, Shandong, province, the PRC
Attention: Mr. TIAN Chengjie

(3) The requisition will be verified with the Company's branch share registrars in Hong Kong on the shareholding and upon their confirmation that such requisition is proper and in order, the Board will convene an EGM within 21 days from the date of deposit of the requisition, such EGM to be held within a further 21 days.

(4) If within 21 days of such deposit, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner as that in which meetings may be convened by the Board, such EGM to be held within three months from the date of deposit of the requisition, 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.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address: Yinlong Village, Economic Development Zone, Boshan District, Zibo City, Shandong, province, the PRC
Email: tian@ysltex.com
Tel: (86) 533 7918168
Fax: (86) 533 4656266
Attention: Mr. TIAN Chengjie

There is no provision in the Companies Law of the Cayman Islands or in the Articles of Association giving shareholders a right to propose resolutions at a general meeting, shareholders who wishes to propose a resolution must make requisition for the convening of a general meeting in accordance with the procedures set out above.

Investor relations and communication

The Board recognizes the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2016 has been provided in this annual report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (http://www.ysltex.com) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the year ended 31 December 2016, there has been no significant change in the Company's constitutional documents.

Environmental-Aspect A1: Emissions

The Group's textile sector is a low pollution link in the industry chain it belongs to. The main emission is waste water and a small amount of coal gas. The Group always strongly advocates green textile, low carbon lifestyle and also puts it into practice. The Group advocates water conservation. It took strict management to control water consumption and was equipped with advanced waste water treatment system which processed all the waste water from production and life and realized reuse of return water. The small amount of discharged waste water also conformed to national and local water discharging standards.

The Group accepted the guidance and supervision of local environmental protection departments and installed online real-time monitoring devices targeted at the emissions of coal-fired boilers so as to make sure that the content of sulfur dioxide, carbon and oxygen compound and other substances met emission standards. The Group's shipping vehicles bought and used for public affairs, employ transport and cargo all conformed to national emission standards.

The Group believes that its adopted environmental measures are sufficient and effective for meeting national and local environmental protection regulations and standards.

Environmental-Aspect A2: Use of Resources

Energy saving and consumption reduction not only benefit environmental optimization, but also can reduce enterprise cost. Thus, it was one of the control measures consistently implemented by the Group over the past years. In order to strengthen energy consumption management, the Group formulated strict energy consumption indexes for various departments and carried out inspection and assessment. The Group also established an energy management center audited and approved by local government, which could implement professional and exclusive management about the Group's internal energy consumption and accept the supervision of society and governmental organizations.

Electricity is the main source of energy of the Group. Over the years, the Group not only spared no effort in improving the consuming efficiency of electricity, but also continuously reduced electricity consumption through many measures including adopting energy-saving lighting, equipment, conducting technical renovation and introducing new technology. The Group also made full use of workshop roof resources to install solar power systems, which not only reduced emission, but also reduced the operation cost.

The Group consistently believes that the dedication to the effective and efficient resource utilization is one of the basic conditions for the Group's sustainable development and is also a consistent strategy of the Group.

Environmental-Aspect A3: Environment and Natural Resources

Whether it is the control of emission conducted by the Group or the efficient utilization of resources, the Group is intended to ensure all of its operation activities and incurred outcome are environment friendly, which embodies the Group's willing to undertake social and civic responsibilities. To this end, the Group has passed the certification of the ISO14001 environment management system, and will closely pay attention to the technology development and changes of laws and regulations about energy saving and emission reduction. The Group also implements systematic management, strict and meticulous training, education and assessment so as to ensure this concept is continuously, in-depth and extensively implemented.

Social-Aspect B1: Employment

In the aspect of staff employment and its relevant policies, the Group strictly complies with the regulations and requirements of the Labor Law of the PRC and other labor laws and regulations. There was no violation on any relevant rules, laws and regulations:

1. Staff employment, demission, dismissing, retirement arrangement, procedures all strictly comply with national regulations;

2. Employee salary is not lower than local minimum salary;

3. Employee vacation, statutory paid leave, overtime working arrangement, payment of overtime pay and related welfare all complies with national regulations;

4. There is no discrimination stipulation about staff employment, wages and promotion of all the posts. Every employee is equally treated, not discriminated and influenced by ethnicity, race, gender, nationality, age, religion, political faction, marital status, sex orientation and other social status differences;

5. Based on the property and characteristics of various posts, piecework or timing working system is applied. For instance, piecework system is fulfilled for production related posts while timing system is adopted for administrative posts in order to give consideration to both equality and employee competence difference while conforming to requirements of labor regulations.

Social-Aspect B2: Health and Safety

Based on the characteristics of various production procedures and processes, the Group carries out sufficient training and education for employees and implements proper protection measures so as to ensure employees' occupational health and safety, such as, regularly dispensing masks and ear plugs for the front production line workers exposed to noise and cotton fiber and urging them to equip; equipping electricians, welders and other special process workers with exclusive outfits and tools and supervising them to strictly follow safety regulations when working; equipping enough air conditioners to ensure proper temperature and humidity in workshops in summer and so on.

The Group has passed the certification of the occupational health and safety management system.

Social-Aspect B3: Development and Training

The Group invests sufficient resources into employee training and development. From new employees training for factory entry, safety, operation training before on-boarding, to professional, skill and extension training for employee growth, promotion and job rotation and law, regulation and professional training for special posts including management, finance, sales, technology R&D, every training is serialized to ensure that every employee can master proper skills, knowledge and competencies for their working fulfillment and growth. These are not only the need of employee growth, but also the basis for the Group to continuously improve operation performance and quality.

In 2016, the average training time of each employee of the Group was 5 working days.

Social-Aspect B4: Labor Standards

The Group prohibits child labor and forced labor, strictly complies with the Labor Protection Clauses of UN, the Labor Law of the PRC, the Special Regulations on Labor Protection of Female Employees of the PRC and other relevant regulations and rules so as to protect employees' rights and interests. The Group always believes that sticking to labor policies and human rights protection is a must for enterprise's benign development, which can also advance social progress.

Social-Aspect B5: Supply Chain Management

Based on the ISO9000 management system, the Group takes strict management and control about the procurement process and suppliers of main material, such as, raw material, auxiliary material, machine material, accessories and so on. The Group establishes and implements systems for supplier selection, appraisal and tracking. The appraisal involves suppliers' quality assurance ability, credit, supplying and servicing ability, intelligence property protection, environmental protection and fulfillment of social responsibilities. Suppliers can only be registered in the Group's qualified supplier list after meticulous and comprehensive audit and evaluation. Even so, the Group still inspects all the material from qualified suppliers and only the qualified material can be received and used. Furthermore, the Group tracks their practical efficiency and quality stability during usage and inputs as the information for suppliers' regular evaluation so as to make sure the selected suppliers have the ability to meet the Group's long-term and stable procurement requirement.

Social-Aspect B6: Product Responsibility

Product quality is the basis of brand, also the prerequisite of determining whether an enterprise can survive for a long-term. Although the Group's product structure is featured with new products and diversified categories, which remarkably increases the difficulty in product quality control, the Group has established a quality management system based on ISO9000 standards and realized effective control of all the procedures including staff, procurement, equipment, operation, inspection, storage, transport, sales and service, thereby fully guaranteeing product quality of the Group. Product quality is ultimately determined by the market. The Group has an excellent reputation and influence in the market for many years, which indicates the Group's product quality is excellent, stable and obtains customers' recognition.

Social-Aspect B7: Anti-corruption

Beside strict and meticulous systems, regulations and working inspection, the Company also prevents and reduces the occurrence of corruptive actions through the complete personnel education and training, especially for the posts vulnerable to corruptive and secret-divulging misconduct, such as, management, finance, technology, purchasing, marketing and so on. The Group also signs confidentiality agreements and anti bribery and corruption guarantees with related staff so as to prevent the occurrence of bribery and corruption misconducts.

Social-Aspect B8: Community Investment

The Group also pays attention to community construction and public welfare warm heartedly. Every year the Group allocates certain amount of funds to support the elderly in neighborhoods and sponsors activities for helping students and the handicapped. The Group also proactively participates in public welfare donation activities organized by local civil affair authorities. As for the facilities and demand involving employees and community members' living, education, environment, traffic, culture, entertainment, safety and other aspects, such as, living environment, fitness equipment, children's schooling and safe transport, cultural entertainment place construction, the Group also continuously complements, improves or provides support and aid of staff, finance and material so as to promote the community harmony and serve the society.

Report of the Directors

The Directors have pleasure in presenting their directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016 (the "**Financial Statements**").

Principal Activities

The principal activities of the Company is investment holding and those of the principal subsidiaries of the Company are set out in note 14 to the Financial Statements.

Use of Proceeds

The entire net proceeds from the initial public offering of the Company have been fully utilized. For details of the use of the proceeds raised from IPO, please refer to the prospectus and the announcement of the Company dated 23 January 2013.

The Company has placed an aggregate of 88,105,000 placing shares to not less than six placees at the placing price of HKD2.50 per placing share under specific mandate in June 2016. The net proceeds from the Placing were all applied as follows: (i) repay the promissory notes issued as part of the consideration for the acquisition of Solid Will Limited and its subsidiaries; and (ii) general working capital. As of 31 December 2016, the net proceeds have been used for the intended purpose. For more information on this Placing, please refer to the circular dated 11 April 2016 and the announcements dated 4 February 2016, 27 April 2016 and 7 June 2016.

In October 2016, the Company has placed the convertible bonds to CCB International Overseas Limited under general mandate. The proceeds were used for (i) working capital for development of the Company's television drama series (if additional funds are required); (ii) general working capital of the Group's film and television media business. As of 31 December 2016, the Company has used the proceeds of HKD120.9 million for the above disclosed purposes; while the surplus proceeds has been kept in the Company's bank account. For details of this Placing, please refer to the announcements of the Company dated 3 October 2016 and 14 October 2016.

At the same time, the Company placed the convertible bonds under the special mandate in December 2016 for the production of television drama series of the Group. The proceeds raised from this Placing were received on 28 February 2017. The net proceeds are currently intended to use. For details of this Placing, please refer to the announcements of the Company dated 21 December 2016 and 28 February 2017.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group as at 31 December 2016 are set out in the Consolidated Financial Statements on pages 63 to 140.

The year of 2017 is essential for the development of the Company. The traditional textile business needs to overcome the unfavorable conditions due to the downtrend of industry development, and make positive efforts to deal with. At the same time, the media business in its critical development and consolidation also need further investment. Therefore, the Board doesn't recommend the payment of a final dividend for the year ended 31 December 2016. At this point, the Board is committed to make the best efforts to seek the development of the Company in future years, in order to get a better return for the shareholders of the Company.

5-year Financial Summary

A summary of the results and assets and liabilities of the Group for the last 5 financial years ended 31 December 2012 to 31 December 2016 is set out on page 6. This summary does not form part of the Financial Statements.

Share Capital

Details of movements in share capital of the Company during the Year are set out in note 28 to the Financial Statements.

Share Option Scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our shareholders passed on 26 June 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board approve from time to time.

Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries; (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 July 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix VI to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 26 June 2012 and remains in force until 25 June 2022. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("**Date of Grant**") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HKD1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the Date of Grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 7.65% of the shares in issue of the Company as at the date of this annual report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Listing Rules.

During the year ended 31 December 2016, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme.

Apart from the aforesaid share option schemes, at no time during the year ended 31 December 2016 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

Distributable Reserves

The Company was incorporated in the Cayman Islands on 24 February 2010. As at 31 December 2016, the Company had distributable reserves of approximately RMB537.0 million available for distribution to the shareholders.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 28.6% of the total sales for the year ended 31 December 2016 and sales to the largest customer included therein accounted for approximately 8% thereof. Purchases from the Group's five largest suppliers accounted for approximately 23.6% of the total purchases for the year ended 31 December 2016 and purchases from the largest supplier included therein accounted for approximately 6% thereof.

To the best knowledge and belief of the Directors, neither the Directors or their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

Subsidiaries and Associated Companies

The details of the major subsidiaries and associated companies of the Group are set out in notes 14 and 15 to the Financial Statements.

Fixed Assets

During the year ended 31 December 2016, the Group's total capital expenditure amounted to approximately RMB39.0 million (2015: approximately RMB26.8 million) which was mainly used for acquisition of buildings, machinery and equipment. The details of the changes in the properties, plant and equipment and leasehold land of the Group during the year are set out in note 11 to the Financial Statements.

Borrowings

Particulars of borrowings of the Group as at the end of the reporting period are set out in notes 24 and 25 to the Financial Statements. Save as disclosed in note 20 to the Financial Statement, the Group pledged its machinery and equipment with net book value of approximately RMB28.5 million (2015: approximately RMB13.3 million) to bank as securities for the bank borrowings as at 31 December 2016. Besides, machinery and equipment with net book value of approximately RMB35.6 million (2015: RMB40.1 million) were held under finance lease as at 31 December 2016.

Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors

The Directors during the year ended up to the date of this annual report are:

LIU Dong *(Chairman)*
LIU Zongjun *(Chief Executive Officer)*
CHEN Chen
HE Han *(appointed as an executive Director with effect from 8 November 2016)*
TAN Bin *(appointed as an executive Director with effect from 8 November 2016)*
LAM Kai Yeung
PAN Hongye *(resigned as an independent non-executive Director with effect from 6 March 2017)*
GAO Gordon Xia
WANG Liangliang *(appointed as an independent non-executive Director with effect from 6 March 2017)*

Directors and Directors' Service Contracts

The executive Director of Mr. LIU Dong has entered into a service contract with the Company on 26 June 2015 for a term of three years. The executive Director of Mr. LIU Zongjun has entered into a service contract with the Company on 26 June 2015 for a term of three years. The executive Director of Ms. CHEN Chen has entered into a service contract with the Company on 24 September 2015 for a term of three years. The executive Director of Mr. HE Han has entered into a service contract with the company on 8 November 2016 for a term of three years. The executive Director of Mr. TAN Bin has entered into a service contract with the company on 8 November 2016 for a term of three years.

The independent non-executive Director of Mr. WANG Liangliang has entered into a letter of appointment with the Company on 6 March 2017 for a term of three years. The independent non-executive Director of Mr. LAM Kai Yeung has entered into a letter of appointment with the Company on 26 June 2015 for a term of three years. The independent non-executive Director of Mr. GAO Gordon Xia has entered into a letter of appointment with the Company on 25 November 2015 for a term of three years.

No Director has a service contract which is not determinable by the Company or any of its subsidiaries within 1 year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

In accordance with the Company's Articles of Association, one third of the existing Directors shall retire from office, at the forthcoming AGM.

Biographies of Directors and Senior Management

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Directors and Senior Management Profile" on pages 17 to 23 of this annual report.

Non-competition Undertaking by Controlling Shareholders

The Company has entered into the deed of non-competition in favour of the Company with Mr. LIU Dong and Excel Orient limited (the "**Controlling Shareholders**"). Each of the Controlling Shareholders has made an annual declaration in respect of their compliance with the terms of non-competition undertaking.

The independent non-executive Directors had reviewed and confirmed that the Controlling Shareholders have complied with the non-competition undertaking and the non-competition undertaking has been enforced by the Company in accordance with its terms, and that there was no New Opportunity (as defined in the Prospectus headed "Relationship with Controlling Shareholders — Non-compete undertakings") referred by the Controlling Shareholders as provided under the non-competition undertaking.

Interests and Short Positions of Directors and Chief Executives of the Company in the Shares, Underlying Shares or Debentures of the Company or Its Associated Corporations

As at 31 December 2016, the Directors and chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**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:

Name of Directors	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. LIU Dong *(Note 2)*	The Company	Interest of a controlled corporation	273,609,836 shares (L)	26.16%
	Excel Orient Limited	Beneficial owner	1 share (L)	100%
Mr. HE Han	The Company	Beneficial owner	14,008,000 shares (L)	1.34%

Notes:

1. *The letter "L" denotes the Directors' long position in the shares or the relevant associated corporation.*

2. *The shares are held by Excel Orient Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. LIU Dong.*

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

Interest Discloseable under the SFO and Substantial Shareholders

As at 31 December 2016, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Excel Orient Limited *(Note 2)*	The Company	Beneficial owner	273,609,836 shares (L)	26.16%
Ms. WANG Lingli *(Note 3)*	The Company	Family interest	273,609,836 shares (L)	26.16%
Aim Right Ventures Limited *(Note 4)*	The Company	Beneficial owner	202,472,656 shares (L)	19.36%
Mr. LIU Zhihua *(Note 5)*	The Company	Interest of a controlled corporation	202,472,656 shares (L)	19.36%
Ms. ZOU Guoling *(Note 6)*	The Company	Family interest	202,472,656 shares (L)	19.36%
Central Huijin Investment Ltd. *(Note 7)*	The Company	Interest of a controlled corporation	165,289,256 shares (L)	15.81%
China Construction Bank Corporation *(Note 7)*	The Company	Interest of a controlled corporation	165,289,256 shares (L)	15.81%
Dragon GP Partner Co *(Note 8)*	The Company	Interest of a controlled corporation	247,933,884 shares (L)	23.71%
Dragon Capital Entertainment Fund One LP *(Note 8)*	The Company	Interest of a controlled corporation	247,933,884 shares (L)	23.71%
Mr. ZHAI Jun *(Note 8)*	The Company	Interest of a controlled corporation	247,933,884 shares (L)	23.71%

Notes:

1. *The letter "L" denotes the long position of the persons/entities (other than the Directors or chief executives of the Company) in the shares of our Company or the relevant Group member.*

2. *Excel Orient Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. LIU Dong. Therefore, Mr. LIU Dong is also deemed to have the interest owned by Excel Orient Limited.*

3. *Ms. WANG Lingli is the spouse of Mr. LIU Dong. Therefore, Ms. WANG Lingli is deemed, or taken to be interested in the shares which Mr. LIU Dong is interested in for the purpose of the SFO.*

4. *Aim Right Ventures Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. LIU Zhihua. Therefore, Mr. LIU Zhihua also deemed to have the interest owned by Aim Right Ventures Limited.*

5. *These Shares are held by Aim Right Ventures Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. LIU Zhihua.*

6. *Ms. ZOU Guoling is the spouse of Mr. LIU Zhihua. Therefore, Ms. ZOU Guoling is deemed, or taken to be interested in the shares which Mr. LIU Zhihua is interested in for the purpose of the SFO.*

7. *Pursuant to a subscription agreement between the Company and CCBI on 3 October 2016, assuming the conversion rights attaching to the convertible bonds are exercised in full at the conversion price of HK$1.21 per conversion share, 165,289,256 conversion shares will fall to be issued to CCBI. The entire issued share capital of CCBI was owned by Central Huijin Investment Ltd..*

8. *Pursuant to a subscription agreement between the Company and Dragon Capital Entertainment Fund One LP on 21 December 2016, assuming the conversion rights attaching to the convertible bonds are exercised in full at the conversion price of HK$1.21 per conversion share, 247,933,884 conversion shares will fall to be issued to Dragon Capital Entertainment Fund One LP. The entire issued share capital of Dragon Capital was owned by Dragon Capital Entertainment Fund One LP, and Dragon GP Partner Co is the GP of Dragon Capital Entertainment Fund One LP to manage it. The entire issued share capital of Dragon GP Partner Co was owned by Mr. ZHAI Jun.*

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company, its Group members or associated corporations which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

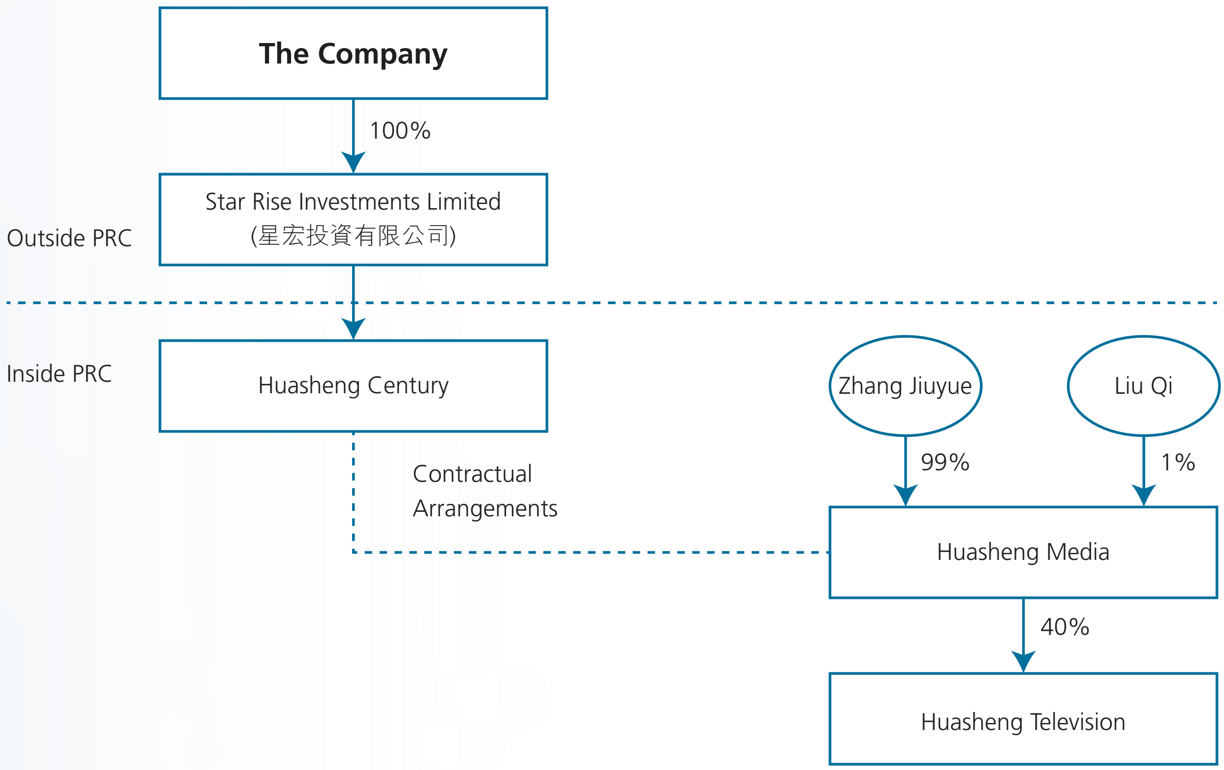
Contractual Arrangements

The Huasheng Media Contractual Arrangements (as defined hereinafter) and the Starrise Pictures Contractual Arrangement (as defined hereinafter) (together with Huasheng Media Contractual Arrangements, the "**Contractual Arrangements**") had been effective during the year ended 31 December 2016. The brief description of the major terms of the structured contracts under the Contractual Arrangements are as follows:

The Contractual Arrangements of Huasheng Media

1. Diagram of the Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from Huasheng Media to the Company under the Huasheng Contractual Arrangements:



2. Structured Contracts of Huasheng Media

A series of contractual arrangements ("**Huasheng Media Contractual Arrangements**") was entered into on 6 July 2015 between Beijing Huasheng Century Media Technology Company Limited ("**Huasheng Century**"), Huasheng Media and its shareholders, namely, the exclusive technology support and service agreement ("**Exclusive Technology Support and Services Agreement 2015**"), the exclusive option agreement ("**Exclusive Option Agreement 2015**"), the equity pledge agreement ("**Equity Pledge Agreement 2015**") and the power of attorney ("**Power of Attorney 2015**"). The current "**Registered Shareholders**" of Huasheng Media are Ms. Zhang Jiuyue and Ms. Liu Qi.

(1) Exclusive Technology Support and Services Agreement 2015

Huasheng Century, Huasheng Media and the Registered Shareholders entered into the Exclusive Technology Support and Services Agreement, pursuant to which Huasheng Media agrees to engage Huasheng Century as its exclusive technology and service provider. The Exclusive Technology Support and Services Agreement is for an initial term of 10 years commencing from the date of the agreement (i.e. 6 July 2015), which can be extended for another 10 years at the option of Huasheng Century on a recurring basis, until it is terminated by Huasheng Century by giving a prior written notice of termination. Huasheng Media and the Registered Shareholders are not contractually entitled to terminate the Exclusive Technology Support and Services Agreement.

(2) Exclusive Option Agreement 2015

Huasheng Century, the Registered Shareholders and Huasheng Media entered into the Exclusive Option Agreement, pursuant to which the Registered Shareholders irrevocably grant to Huasheng Century or the person as designated by Huasheng Century exclusive options to purchase, to the extent permitted by PRC laws and regulations, their equity interests in Huasheng Media, entirely or partially, at the minimum purchase price permitted by PRC laws and regulations.

(3) Equity Pledge Agreement 2015

Huasheng Century, the Registered Shareholders and Huasheng Media entered into the Equity Pledge Agreement, pursuant to which the Registered Shareholders shall pledge all of their respective equity interests in Huasheng Media to Huasheng Century to secure the performance of all their obligations and the obligations of the Registered Shareholders and Huasheng Media under the Contractual Arrangements. Under the Equity Pledge Agreement, if any of the Registered Shareholders and/or Huasheng Media breaches any obligation under the Contractual Arrangements, Huasheng Century, as the pledgee, is entitled to request the Registered Shareholders to transfer the pledged equity interests, entirely or partially to Huasheng Century and/or any entity or person as designated by Huasheng Century.

(4) Power of Attorney 2015

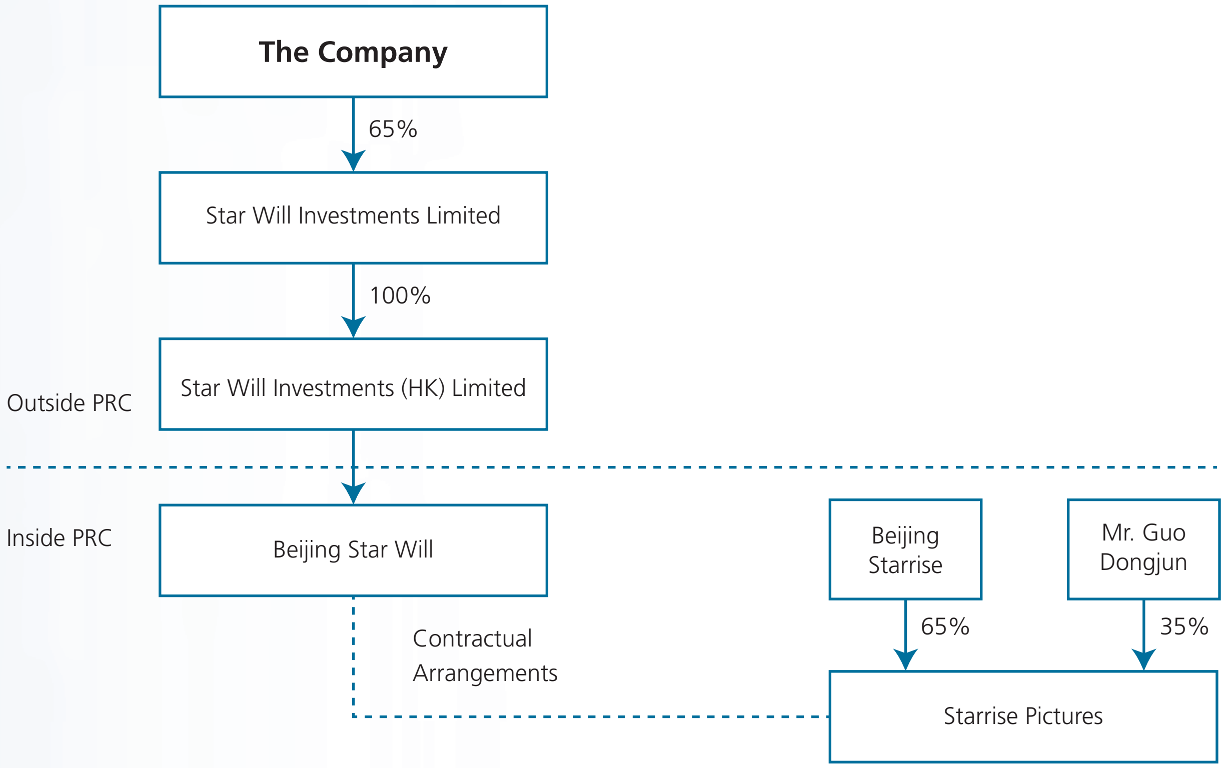
Each of the Registered Shareholders has issued a power of attorney in favor of Huasheng Century, pursuant to which they irrevocably authorize Huasheng Century to exercise all of their rights and powers as shareholders of Huasheng Media, including (i) rights to attend shareholders' meeting and sign relevant shareholders' resolutions; (ii) rights to exercise shareholders' rights including without limitation voting rights, nomination rights and appointment rights in a shareholders' meeting; (iii) rights to file documents with relevant governmental authorities or regulatory bodies; (iv) rights to receive dividends relating to, dispose of, transfer, pledge or deal with all or part of the equity interests of Huasheng Media or to be entitled to any distribution upon liquidation of Huasheng Media; and (v) any other rights as shareholders of Huasheng Media.

For details of the Contractual Arrangements, please refer to the section headed "Structured Contracts" in the announcement of the Company dated 9 December 2015 and the section headed " Information on the Contractual Arrangements" in the circular of the Company dated 11 April 2016.

The Contractual Arrangements of Starrise Pictures

1. Diagram of the Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from Starrise Pictures (together with Huasheng Media, the "**PRC Operational Entities**") to the Company under the Starrise Pictures Contractual Arrangements:



2. Structured Contracts of Starrise Pictures

A series of contractual arrangements ("**Starrise Pictures Contractual Arrangements**") was entered into on 22 December 2016 between Beijing Star Will Pictures Cultural Co., Ltd.("**Beijing Star Will**"), Starrise Pictures and its Shareholders, namely, the exclusive technology support and service agreement ("**Exclusive Technology Support and Services Agreement 2016**"), the exclusive option agreement ("**Exclusive Option Agreement 2016**"), the equity pledge agreement ("**Equity Pledge Agreement 2016**") and the power of attorney ("**Power of Attorney 2016**"). The current registered shareholders of Starrise Pictures ("**Starrise Shareholders**") are Beijing Starrise Culture Development Limited ("**Beijing Starrise**") and Mr. Guo Dongjun.

(1) Exclusive Technology Support and Services Agreement 2016

Beijing Star Will, Starrise Pictures and the Starrise Shareholders entered into the Exclusive Technology Support and Services Agreement on 22 December 2016, pursuant to which Starrise Pictures agrees to engage Beijing Star Will as its exclusive technology and service provider. The Exclusive Technology Support and Services Agreement is for an initial term of 10 years commencing from the date of the agreement, which can be extended for another 10 years at the option of Beijing Star Will on a recurring basis, until it is terminated by Beijing Star Will by giving a prior written notice of termination. Starrise Pictures and the Starrise Shareholders are not contractually entitled to terminate the Exclusive Technology Support and Services Agreement.

(2) *Exclusive Option Agreement 2016*

Beijing Star Will, Starrise Pictures and the Starrise Shareholders entered into the Exclusive Technology Support and Services Agreement on 22 December 2016, pursuant to which the Starrise Shareholders irrevocably grant to Beijing Star Will or the person as designated by Beijing Star Will exclusive options to purchase, to the extent permitted by PRC laws and regulations, their equity interests in Starrise Pictures, entirely or partially, at the minimum purchase price permitted by PRC laws and regulations.

(3) *Equity Pledge Agreement 2016*

Beijing Star Will, Starrise Pictures and the Starrise Shareholders entered into the Exclusive Technology Support and Services Agreement on 22 December 2016, pursuant to which the Starrise Shareholders shall pledge all of their respective equity interests in Starrise Pictures to Beijing Star Will to secure the performance of all their obligations and the obligations of the Starrise Shareholders and Starrise Pictures under the Contractual Arrangements. Under the Equity Pledge Agreement, if any of the Starrise Shareholders and/or Starrise Pictures breaches any obligation under the Contractual Arrangements, Beijing Star Will, as the pledgee, is entitled to request the Starrise Shareholders to transfer the pledged equity interests, entirely or partially to Beijing Star Will and/or any entity or person as designated by Beijing Star Will.

(4) *Power of Attorney 2016*

Each of the Starrise Shareholders has issued a power of attorney in favor of Beijing Star Will, pursuant to which they irrevocably authorize Beijing Star Will to exercise all of their rights and powers as shareholders of Starrise Pictures, including (i) rights to attend shareholders' meeting and sign relevant shareholders' resolutions; (ii) rights to exercise shareholders' rights including without limitation voting rights, nomination rights and appointment rights in a shareholders' meeting; (iii) rights to file documents with relevant governmental authorities or regulatory bodies; (iv) rights to receive dividends relating to, dispose of, transfer, pledge or deal with all or part of the equity interests of Starrise Pictures or to be entitled to any distribution upon liquidation of Starrise Pictures; and (v) any other rights as shareholders of Starrise Pictures.

Such agreement will be valid and effective from the date of the agreement until the termination of Exclusive Technology Support and Services Agreement 2016.

Apart from the above, there are no new contractual arrangements entered into, renewed or reproduced between the Group, Huasheng Media and Starrise Pictures during the year ended 31 December 2016. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2016.

During the year ended 31 December 2016, none of the structured contracts mentioned above has been unwound as none of the restrictions that led to the adopted of structured contracts under the Contractual Arrangements has been removed.

Particulars of the PRC Operational Entities as at 31 December 2016:

Name of the PRC Operational Entities	Date of Establishment	Type of legal entity/place of establishment and operation	Registered owners	Business activities
Huasheng Media	July 2004	Limited liability company/the PRC	99.00% by Ms. Zhang 1.00% by Ms. Liu	Investment, production and distribution of television series and related businesses.
Starrise Pictures	December 2014	Limited liability company/the PRC	65.00% by Beijing Star Rise Culture Development Limited 35.00% by Mr. Guo	Production and distribution of films, television series and related businesses.

The PRC Operational Entities are significant to the Group as they hold certain licenses and permits that are essential to the operation of the business of the Group, such as the Radio and Television Program Production and Business Operation License (廣播電視節目製作經營許可證), the Teleplays Distribution License (電視劇發行許可證). In addition, most of the intellectual property rights, including film and television broadcast rights, audio and video products distribution rights of film and television series, information network publication rights of film and television series, are held by the PRC Operational Entities.

The revenue and the total asset of the PRC Operational Entities subject to the Contractual Arrangements amounted to approximately RMB120.3 million for the year ended 31 December 2016 and approximately RMB764.8 million as at the year ended 31 December 2016.

The PRC Operational Entities have undertaken to the Company that, for so long as the shares of the Company are listing on the Stock Exchange, the PRC Operational Entities will provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions as contemplated under the Contractual Arrangements.

Risks Relating to the Contractual Arrangements

The PRC Government may consider the Contractual Arrangements to be not in compliant with applicable PRC laws and regulations

The Group's PRC legal advisor had advised that there is a possibility that the PRC government may have different opinions on the interpretation of the applicable PRC regulations and would not agree that the Contractual Arrangements comply with PRC licensing, registration or other legal or regulatory requirements, existing policies or requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of the Contractual Arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. The Company could not assure that the Contractual Arrangements would not be found to be in violation of any current or future PRC laws and regulations.

If the Company is found to be in violation of any existing or future PRC laws or regulations, including the MOFCOM Security Review Rules and any future regulations regarding the use of the VIE structure promulgated by any PRC government authority, the relevant regulatory authorities would have broad discretion in dealing with such breach or violation. Such action could have a material adverse impact on the Group's business, financial condition and results of operations. In the event that the Board is aware of any of such material adverse impact, the Company will publish announcement(s) as soon as possible.

The Contractual Arrangements may not be as effective as direct ownership

Due to the PRC's legal restrictions on foreign investment in the television series production industry, the Company control the PRC Operational Entities through the Contractual Arrangements rather than by equity ownership. Huasheng Media and Starrise Pictures are each one of the Group's principal operating entities in the PRC and the holders of the key licenses required to operate television series production business in the PRC.

However, the Contractual Arrangements may not be as effective in exercising control over the PRC Operational Entities as equity ownership. For example, the PRC Operational Entities and their shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If the Group had direct ownership of the PRC Operational Entities, the Group would be able to exercise their rights as shareholders to effect changes in their boards of directors, which in turn could affect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Contractual Arrangements, the Group would need to rely on their contractual rights thereunder to affect such changes or designate new shareholders for the PRC Operational Entities.

Reasons for and Benefits of the Contractual Arrangements

The Company, through the Contractual Arrangements, conducts the television series production business in the PRC in order to comply with the applicable PRC laws and regulations and asserts management control over the operations of, and enjoys all of the economic benefits of the PRC Operational Entities.

According to the Provision for the Administration of the Production and Distribution of Radio and Television Programmes (《廣播電視節目製作經營管理規定》), PRC incorporated companies with foreign investment, namely, the sino-foreign equity joint venture enterprises, the sino-foreign cooperative joint venture enterprises and the wholly owned foreign- invested enterprises, are not allowed to apply for the Radio and Television Programmes Production and Operation License, which is required for the operations of PRC Operational Entities' principal business.

As a result of the foregoing, the Group has entered into the Contractual Arrangements with the PRC Operational Entities to conduct the television series production business in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all of the economic benefits of the PRC Operational Entities. The Contractual Arrangements are designed specifically to confer upon the Group's right to enjoy all the economic benefit of the PRC Operational Entities, to exercise management control over the operations of the PRC Operational Entities, and to prevent leakages of assets and values of the PRC Operational Entities to the registered shareholders of the PRC Operational Entities.

The Company's PRC legal advisor has opined that the Contractual Arrangements are legally binding on and enforceable against each party of each of the agreements in accordance with their terms and provisions under PRC laws and regulations, and do not violate the articles of association of Huasheng Century/Beijing Star Will and the PRC Operational Entities.

The Directors therefore believe that save as disclosed, the Contractual Arrangements are enforceable under the relevant laws and regulations in the PRC, and that the Contractual Arrangements provide a mechanism that enables the Company to exercise effective control over the PRC Operational Entities.

The Board believes that the Contractual Arrangements have been narrowly tailored to achieve the Company's business purpose and to minimize the potential conflict with relevant PRC laws and regulations. The PRC Operational Entities' principal businesses are considered to be production of television series in the PRC, a sector where foreign investment is significantly restricted pursuant to the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) and Provision for the Administration of the Production and Distribution of Radio and Television Programmes (《廣播電視節目製作經營管理規定》). In addition, Radio and Television Programmes Production and Operation License is required for the operation of the PRC Operational Entities' principal businesses can only be obtained by domestic companies incorporated in the PRC without foreign investments. Since the Company was incorporated in the Cayman Islands, any investment made by the Company directly or through any of its subsidiaries, including Huasheng Century/Beijing Star Will, is regarded as foreign investment under PRC laws. Therefore, the Company and its subsidiaries are not eligible to apply for the licenses and approvals required for the operation of the television series production business, nor could they acquire equity interests of any company which has already held these licenses under the PRC laws. In order to comply with the applicable PRC laws, the licenses and permits that are essential to the operation of the principal business are held by the PRC Operational Entities'. The Group entered into the Contractual Arrangements with the PRC Operational Entities' to conduct their principal businesses in the PRC and to assert management control over the operations of, and enjoy all of the economic benefits of the PRC Operational Entities'.

Settlement of Potential Dispute Arising from the Contractual Arrangements

The structured contracts under the Contractual Arrangements are governed by the PRC laws. When a dispute arises under any of the structured contracts under the Contractual Arrangements, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the structured contracts under the Contractual Arrangements provide that such dispute to be submitted to the China International Economic and Trade Arbitration Commission for arbitration. The decision of such arbitration is final and binding on the parties concerned. The structured contracts under the Contractual Arrangements contain dispute resolution clauses that provide for arbitration and that arbitrators may award remedies over the equity interests or assets of the PRC Operational Entities, injunctive relief (for example, for the conduct of business or to compel the transfer of assets) or order the winding up of the PRC Operational Entities.

Protection of the Interests of Our Group in the Event of Death, Bankruptcy or Divorce of the PRC Operational Entities

As advised by the Company's PRC Legal Advisor, the provisions set out in the Contractual Arrangements are also binding on any successors of the PRC Operational Entities Shareholders as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents. Any breach by the successors would therefore be deemed to be a breach of the Contractual Arrangements. In case of a breach, Huasheng Century or Beijing Star Will can exercise its rights against the successors. Pursuant to the Contractual Arrangements, any successor of the PRC Operational Entities Shareholders shall assume any and all rights and obligations of the PRC Operational Entities Shareholders under the Contractual Arrangements as if the successor was a signing party to such Contractual Arrangements.

As advised by the Company's PRC Legal Advisor: (i) the Contractual Arrangements provide protection to our Group even in the event of death, divorce or bankruptcy of any of the PRC Operational Entities Shareholders; (ii) the death, divorce or bankruptcy of such Registered Shareholder would not affect the validity of the Contractual Arrangements, and the successors of such Registered Shareholder would be bound by the Contractual Arrangements; and (iii) there will not be any practical difficulties in enforcing the Contractual Arrangements.

Arrangements to Address Potential Conflicts of Interests

Each of the Registered Shareholders has given their irrevocable undertakings in the powers of attorney in favour of Huasheng Century or Beijing Star Will, and has given certain restrictive covenants under the Contractual Arrangements which address potential conflicts of interests that may arise in connection with the Contractual Arrangements.

Internal Control Measures

In order to have effective control over and to safeguard the assets of the PRC Operational Entities, the Contractual Arrangements provide that, without the prior written consent of Huasheng Century or Beijing Star Will, the Registered Shareholders shall not at any time sell, transfer, mortgage or dispose of in any manner any assets, legitimate interests in the business or revenue of the PRC Operational Entities, or allow any encumbrance thereon of any security interest. The PRC Operational Entities and the Registered Shareholders shall always operate all of the PRC Operational Entities' businesses in the ordinary and usual course of business and shall maintain the asset value of the PRC Operational Entities and refrain from any action/omission that may adversely affect the PRC Operational Entities' operating status and asset value.

In addition to the abovementioned internal control measures as provided in the Contractual Arrangements, following Completion, the Company intends to implement, through Huasheng Century or Beijing Star Will, additional internal control measures on the PRC Operational Entities with reference to the internal control measures adopted by the Group from time to time, which may include (without limitation):

(i) requiring the PRC Operational Entities to make available monthly management accounts and submit key operating data and bank statements after each month-end and provide explanations on any material fluctuations to Huasheng Century or Beijing Star Will;

(ii) requiring the PRC Operational Entities to assist and facilitate Huasheng Century or Beijing Star Will to conduct quarterly onsite internal audit on the PRC Operational Entities; and

(iii) if required, engaging legal advisers and/or other professionals to deal with specific issues arising from the Contractual Arrangements and ensure that the operation of the PRC Operational Entities will from time to time comply with applicable laws and regulations.

Connected Transactions

The Company had not entered into any non-exempt connected transaction during the year, which is required to be disclosed under the Listing Rules. Related party transactions entered into by the Group during the year ended 31 December 2016, which do not constitute non-exempt connected transactions required to be disclosed under the Listing Rules, are disclosed in note 32 to the Consolidated Financial Statements.

Competition and Conflict of Interests

During the year ended 31 December 2016, save as disclosed in the Prospectus of the Company dated 29 June 2012, none of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

Permitted Indemnity Provision

Under the Articles of Association, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the Year and as at the date of this report.

Directors' Material Interests in Transactions, Arrangement or Contracts

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

Equity-Linked Agreements

Other than the share option scheme of the Company as well as the issue of convertible bonds of the Company disclosed in the paragraph of "Use of Proceeds" in the Report of the Director on page 36, no equity-linked agreements were entered into by the Company during the year.

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 ended 31 December 2016.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

Pre-Emptive Rights

There is no provision for the pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sufficiency of Public Float

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

Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 24 to 32 in this annual report.

Business Review

Overview

The fair review of the Group's business is detailed in the Management Discussion and Analysis on pages 7 to 9 of this annual report. The discussion constitutes a part of this report of this Directors' Report.

Principal Risks and Uncertainties

The Board closely monitors factors which may affect the revenue of fabric business and television business, particularly the macroeconomic situation and the trend of industry and the external economic environment that would be regarded as principal risks.

Important Events after the Reporting Period

The important events after the reporting period of the Group are detailed in the events after the reporting period under the Management Discussion and Analysis on pages 13 of this annual report. The report constitutes a part of this Report of the Directors.

Future Development

The future developments of the Group are detailed in the Management Discussion and Analysis on pages 14 to 16 of this annual report. The report constitutes a part of this Report of the Directors.

Key Performance Indicators

The key performance indicators are detailed in the financial review under Management Discussion and Analysis on page 9 to 13 of this annual report. The financial review constitutes a part of this Directors' Report.

Environmental Policies and Performance

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. To the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands that a better future depends on everyone's participation and contribution. It has encouraged all employees to participate in environmental and social activities which benefit the community as a whole.

Thanks to its active engagement in the enhancement of management measures and technology improvement, the Group incurred less unit electricity consumption and expenses in production as compared to that of last year. The Group also advocated conservation of resources in office and encouraged employees to develop good habits, conserve resources and energy to build a green and comfortable office environment.

Compliance with Laws and Regulations

During the year ended 31 December 2016, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 12 June 2017.

Relationships with Employees

Employees are regarded as the most important and valuable assets of the Group. The Group provides bonuses and incentives based on their performances to encourage and motivate its staff to strive for better performance and will promote career development and progression to staff members by appropriate training and providing opportunities within the Group according to their respective skill requirements.

Relationships with Customers and Suppliers

The Group's principal customers are from textile and television business. The Group has the mission to provide excellent customer service in textile and television business whilst maintaining long term profitability, business and asset growth. Various means have been established by the Group to strengthen the communications between the customers and the Group in provision of excellent customer service towards market penetration and expansion.

Sound relationships with key service vendors of the Group are important in supply chain, meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long tern business benefits.

Annual general meeting

The AGM will be held on Friday, 16 June 2017. Shareholders should refer to details regarding the AGM in the circular of the Company to be dispatched in April 2017 and the notice of the AGM and form of proxy accompanying thereto.

Auditor

The financial statements for the year ended 31 December 2016 have been audited by KPMG, which retires and, being eligible, offers itself for re-appointment at the 2017 AGM. A resolution to re-appoint KPMG and to authorise the Directors to fix its remuneration will be proposed at the 2017 AGM.

By order of the Board
Silverman Holdings Limited
LIU Dong
Chairman

Shandong Province, the PRC
29 March 2017

Independent Auditor's Report

Independent Auditor's Report to the shareholders of
Silverman Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Silverman Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 63 to 140, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Timing of revenue recognition: licensing income from television drama series

Refer to note 3 to the consolidated financial statements and the accounting policies on page 81.

The Key Audit Matter

Revenue from licensing of the Group's television drama series is recognised when the Group delivers the television drama series to customers in accordance with the terms of the relevant licensing contracts.

The Group's television drama series licensing contracts with customers, which principally comprise various owners of television channels and networks, have a variety of terms relating to acceptance of the television drama series and the right of return of the master tapes for the television drama series. Such terms may affect the timing of the recognition of licensing income from customers. The Group evaluates the terms of individual contracts in order to determine the appropriate timing for revenue recognition.

We identified the timing of revenue recognition from the licensing of television drama series as a key audit matter because each contract with customers may have different terms and conditions and there is a risk that revenue may be recognised in the incorrect accounting period and also because revenue is one of the key performance indicators of the Group which gives rise to an inherent risk that revenue could be subject to manipulation to meet expectations or targets.

How the matter was addressed in our audit

Our audit procedures to assess the timing of revenue recognised from the licensing of television drama series included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;
- inspecting key licensing contracts to identify key terms and conditions, including the customer's acceptance of the television drama series and the right of return, and assessing the Group's accounting policies for the recognition of revenue with reference to the requirements of the prevailing accounting standards;
- inspecting underlying documentation for manual journal entries raised during the reporting period relating to revenue which were considered to be material or met other specific risk-based criteria;
- comparing, on a sample basis, specific revenue transactions recorded before and after the reporting date with underlying documentation, including the relevant sales agreement or licensing contract, the customer's acknowledgement of acceptance of the master tapes and broadcast schedules, to determine whether the related revenue had been recognised in the appropriate accounting period; and
- inspecting sales adjustments made after the reporting date and evaluating whether the related adjustments to revenue had been recorded in the appropriate accounting period.

Accounting for a subsidiary arising from a contractual agreement

Refer to note 30 to the consolidated financial statements and the accounting policies on page 69.

The Key Audit Matter

The Group has expanded its media business through acquisitions with one acquisition transaction being completed during the current reporting period. The acquisition transaction entered into during the current reporting period enables the Group to exercise control over the investee through contractual agreement, the legal terms of which may be different from common investment agreements, and is complicated. The investee is considered to be a subsidiary of the Group and is consolidated.

Accounting for the subsidiary arising from contractual agreement involves the exercise of management judgement in assessing the Group's control over the investee. The key elements of these judgements include assessing the Group's right to receive variable returns from its involvement with the investee and the Group's ability to affect these returns through its ability to exercise power over the investee.

Accounting for the related business combination also involves management judgment in making assumptions and judgements in identifying acquired intangible assets which were previously not accounted for and in estimating the fair values of the acquired assets and liabilities.

We identified the accounting for the subsidiary arising from a contractual agreement as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management due to the complex structure of the investment and the complicated contractual terms in the investment agreement and also because of the significant degree of management judgement required in determining the fair values of the acquired assets and liabilities.

How the matter was addressed in our audit

Our audit procedures to assess the accounting for the subsidiary arising from a contractual agreement included the following:

- obtaining and reading the relevant sales and purchase agreement for the acquisition transaction entered into during the reporting period;
- discussing with management to understand the purpose and nature of the acquisition transaction entered into during the reporting period;
- assessing whether the Group's accounting treatment for the investee was in accordance with the requirements of the prevailing accounting standards, including assessing whether the Group has the ability to control the investee, has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee;
- evaluating, with the assistance of our internal valuation specialists, management's identification of acquired intangible assets and the valuation methodologies adopted by management to assess the fair values of the assets and liabilities acquired, with reference to the requirements of the prevailing accounting standards;
- evaluating, with the assistance of our internal valuation specialists, the discount rates used in estimating the fair values of acquired assets and liabilities by benchmarking against those of comparable companies in the same industry; and
- comparing the significant inputs used in estimating the fair values of the acquired assets and liabilities, including future revenue and profit margins, with the historical performance of the investees, management's forecasts, financial data of comparable companies and available external market data.

Assessing potential impairment of goodwill

Refer to note 13 to the consolidated financial statements and the accounting policies on page 71.

The Key Audit Matter

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, which are the smallest identifiable groups of assets that generate cash inflows independently, which are expected to benefit from the synergies of the combination.

The Group had a significant goodwill balance of RMB499 million as at 31 December 2016, which comprised RMB493 million arising from the acquisitions of Solid Will Ltd., Star Will Investments Ltd. and their subsidiaries, which are principally engaged in the production and distribution of television drama series in Mainland China, and RMB6 million arising from the acquisition of Zibo Yinshilai Textile Co., Ltd.

Increasing competition and the changing legal and political environment of the media industry in Mainland China may negatively impact the forecast cash flows to be generated from the Group's television drama series business and may result in the carrying amount of goodwill exceeding its recoverable amount.

Management assesses the recoverable amount of goodwill on an annual basis to determine if any impairment is required. The recoverable amounts of the CGUs to which goodwill has been allocated are determined based on value-in-use calculations using the present value of the future cash flows expected to be obtained from the CGUs. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management covering a five-year period and extrapolates cash flows beyond the five-year period using a steady growth rate applicable to the relevant businesses.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following:

- evaluating, with the assistance of our internal valuation specialists, the valuation methodology adopted by management, the identification CGUs and the allocation of assets to each identified CGU, with reference to the requirements of the prevailing accounting standards;

- evaluating, with the assistance of our internal valuation specialists, the discount rates adopted by management in the preparation of the discounted cash flow forecasts by benchmarking against those of comparable companies in the same industry;

- comparing the significant inputs used in the preparation of the discounted cash flow forecasts, including future revenue, growth rates and future profit margins, with the historical performance of the CGUs, management's forecasts, data for comparable companies in the same business and available external market data;

- assessing the historical accuracy of management's forecasting process by comparing the forecasts for the previous year with the current year's actual performance, discussing with management significant variances and considering these variances in our assessment of the current year's cash flow forecasts; and

- performing a sensitivity analysis of the both discount rates and future revenue and considering the resulting impact on the carrying amount of goodwill and whether there were any indicators of management bias.

Assessing potential impairment of goodwill (Continued)

Refer to note 13 to the consolidated financial statements and the accounting policies on page 71.

The Key Audit Matter	How the matter was addressed in our audit
The assessment of the recoverable amount of goodwill involves significant management estimation and judgement, in particular in determining the key assumptions adopted in the cash flow forecasts, which include future revenue, growth rates, future profit margins and the discount rates applied. We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because of the inherent uncertainty involved in forecasting and discounting future cash flows which involves the exercise of significant management judgement and could be subject to management bias.	

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Revenue	3	**811,324**	654,037
Cost of sales and services		**(647,571)**	(552,973)
Gross profit		**163,753**	101,064
Other net (loss)/gain	4	**(299)**	4,081
Distribution costs		**(16,641)**	(15,262)
Administrative expenses		**(86,055)**	(65,352)
Profit from operations		**60,758**	24,531
Finance income	5(a)	**1,131**	2,958
Finance costs	5(a)	**(26,799)**	(17,485)
Share of (loss)/profit of associates	15	**(836)**	35
Profit before taxation	5	**34,254**	10,039
Income tax	6	**(3,186)**	(2,702)
Profit and total comprehensive income for the year		**31,068**	7,337
Attributable to:			
Equity shareholders of the Company		**24,525**	7,337
Non-controlling interests		**6,543**	—
Profit and total comprehensive income for the year		**31,068**	7,337
Earnings per share			
Basic and diluted	10	**RMB0.0243**	RMB0.0091

The notes on pages 68 to 140 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28.

Consolidated Statement of Financial Position

at 31 December 2016

(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	*11*	**455,748**	488,066
Interests in leasehold land held for own use under operating leases	*11*	**64,281**	55,843
		520,029	543,909
Intangible assets	*12*	**3,476**	6,974
Goodwill	*13*	**499,471**	437,290
Interest in associates	*15*	**7,459**	7,293
Investments in equity securities	*16*	**1,100**	1,100
Other receivables	*19*	**2,647**	2,215
Deferred tax assets	*27*	**1,095**	296
		1,035,277	999,077
Current assets			
Inventories	*17*	**164,938**	147,905
Television drama series	*18*	**118,892**	50,690
Trade and other receivables	*19*	**228,712**	153,722
Pledged bank deposits	*20*	**1,626**	11,315
Cash and bank	*21*	**198,037**	113,331
		712,205	476,963
Current liabilities			
Trade and other payables	*22*	**227,313**	184,537
Promissory note	*23*	**—**	167,556
Bank loans	*24*	**195,000**	204,500
Obligations under finance leases	*26*	**3,850**	16,942
Current taxation	*27*	**14,221**	13,115
		440,384	586,650

The notes on pages 68 to 140 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2016

(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Net current assets/(liabilities)		**271,821**	(109,687)
Total assets less current liabilities		**1,307,098**	889,390
Non-current liabilities			
Non-current borrowings	*25*	**206,104**	—
Obligations under finance leases	*26*	**—**	3,850
Deferred tax liabilities	*27*	**1,100**	—
		207,204	3,850
Net assets		**1,099,894**	885,540
Capital and reserves			
Share capital	*28*	**66,559**	60,785
Reserves	*28*	**1,023,956**	824,755
Total equity attributable to equity shareholders of the Company		**1,090,515**	885,540
Non-controlling interests		**9,379**	—
Total equity		**1,099,894**	885,540

Approved and authorised for issue by the board of directors on 29 March 2017.

Liu Dong
Directors

Tan Bin
Directors

The notes on pages 68 to 140 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory Surplus reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		50,577	74,447	(909)	56,493	119,359	301,467	601,434	—	601,434
Changes in equity for 2015:										
Profit and total comprehensive income for the year		—	—	—	—	—	7,337	7,337	—	7,337
Shares issuance		10,208	274,161	—	—	—	—	284,369	—	284,369
Dividends approved in respect of the previous year		—	—	—	—	—	(7,600)	(7,600)	—	(7,600)
Appropriations to statutory reserve		—	—	—	1,106	—	(1,106)	—	—	—
Balance at 31 December 2015 and 1 January 2016		**60,785**	**348,608**	**(909)**	**57,599**	**119,359**	**300,098**	**885,540**	**—**	**885,540**
Changes in equity for 2016:										
Profit and total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**24,525**	**24,525**	**6,543**	**31,068**
Shares issuance	*28*	**5,774**	**174,676**	**—**	**—**	**—**	**—**	**180,450**	**—**	**180,450**
Acquisition of subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,836**	**2,836**
Appropriations to statutory reserve	*30*	**—**	**—**	**—**	**7,144**	**—**	**(7,144)**	**—**	**—**	**—**
Balance at 31 December 2016		**66,559**	**523,284**	**(909)**	**64,743**	**119,359**	**317,479**	**1,090,515**	**9,379**	**1,099,894**

The notes on pages 68 to 140 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	21	**91,394**	119,176
Income tax paid		**(970)**	—
Net cash generated from operating activities		**90,424**	119,176
Investing activities			
Acquisition of subsidiaries, net of cash acquired	30	**1,583**	2,714
Payment for the purchase of property, plant and equipment, leasehold land and intangible assets		**(42,455)**	(28,711)
Increase in fixed bank deposits		**(25,000)**	—
Proceeds from sale of equipment		**283**	88
Proceeds from repayment of other advance to third parties		**1,643**	2,660
Net proceeds from purchases and sales of short-term investments		**1,304**	2,101
Payment for acquisition of interest in an associate		**(2,000)**	—
Loans to an associate		**(2,000)**	—
Interest received		**371**	2,000
Net cash used in investing activities		**(66,271)**	(19,148)
Financing activities			
Capital element of finance lease rental paid		**(16,942)**	(20,391)
Proceeds from bank loans		**290,000**	420,857
Repayment of bank loans		**(289,500)**	(482,857)
Proceeds from shares issuance		**180,450**	—
Repayment of promissory note		**(237,327)**	—
Proceeds from issuance of convertible bonds		**172,471**	—
Repayment of advance from third parties		**(48,560)**	(2,926)
Interest element of finance lease rental paid		**(781)**	(2,524)
Other borrowing costs paid		**(16,426)**	(14,234)
Dividends paid to equity shareholders of the Company	28	**—**	(7,600)
Net cash generated from/(used in) financing activities		**33,385**	(109,675)
Net increase/(decrease) in cash and cash equivalents		**57,538**	(9,647)
Cash and cash equivalents at 1 January	21	**113,331**	122,356
Effect of foreign exchange rate change		**2,168**	622
Cash and cash equivalents at 31 December	21	**173,037**	113,331

The notes on pages 68 to 140 form part of these financial statements.

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— derivative financial instruments (see note 1(g)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1 (o), (p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1 Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investment in subsidiaries is stated at cost less impairment losses (see note 1(k)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

1 Significant Accounting Policies (Continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in equity securities and derivative financial instrument

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(v).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)). Dividend income from equity securities are recognised in profit or loss in accordance with the policy set out in notes 1(v).

1 Significant Accounting Policies (Continued)

(g) Other investments in equity securities and derivative financial instrument (Continued)

When the investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)):

— buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 1(j)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— machinery and equipment	5–10 years
— office equipment	3–5 years
— motor vehicles	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant Accounting Policies (Continued)

(h) Property, plant and equipment (Continued)

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the statement of financial position at cost less impairment losses (see note 1(k)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (see note 1(x)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— non-competition agreement is amortised over the shorter of the unexpired term of the agreement and its estimated useful lives.

— trademarks and patent	5–10 years
— computer software	5 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

1 Significant Accounting Policies (Continued)

(j) Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— construction in progress;

— intangible assets;

— goodwill;

— television drama series; and

— investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— ***Recognition of impairment losses***

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Television drama series

Television drama series represent completed television drama series and television drama series in production.

Completed television drama series are stated at cost less any identified impairment losses (note 1(k)). Cost of completed television drama series comprise fees paid and payable under agreements, direct costs/expenses incurred during the production of television drama series. The costs of completed television drama series are recognised as an expense based on the proportion of actual income earned from a television drama series during the year to the total estimated income from the distribution of television drama series.

Television drama series in production represents television drama series under production and is stated at cost less any impairment losses (note 1(k)). The costs include all direct costs associated with the production of television drama series. Costs are transferred to completed television drama series upon completion.

1 Significant Accounting Policies (Continued)

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a derivatives. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the bonds is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(g)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(g). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

1 Significant Accounting Policies (Continued)

(o) Convertible bonds (Continued)

(ii) Other convertible bonds (Continued)

If the bonds is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bonds is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant laws and regulations in the People's Republic of China are charged to profit or loss when incurred.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

1 Significant Accounting Policies (Continued)

(t) Income tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax asset arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future ,or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant Accounting Policies (Continued)

(t) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the relevant services are rendered.

1 Significant Accounting Policies (Continued)

(v) Revenue recognition (Continued)

(iii) Licensing of television drama series

Income from licensing television drama series is recognised upon the delivery of the television drama series concerned in accordance with the terms of the contracts.

(iv) Television drama series production, distribution and related services

Television drama series production and related services revenue is recognised when the relevant services are rendered.

(v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

(vi) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(viii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

1 Significant Accounting Policies (Continued)

(w) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

1 Significant Accounting Policies (Continued)

(y) Related parties (Continued)

(b) (Continued)

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

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

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

2 Accounting Judgement and Estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements in relation to the subsidiaries arising from contractual agreements.

The Group's subsidiaries has entered into certain contractual arrangements ("the Contractual Arrangements") with Beijing Star Rise Culture Development Co., Ltd. ("Beijing Star Rise") and Beijing Star Rise Pictures Co., Ltd. ("Beijing Star Rise Pictures") respectively, and their equity holders, which enable the Group to:

— exercise effective financial and operational control over Beijing Star Rise and Beijing Star Rise Pictures;

— exercise equity holders' voting rights of Beijing Star Rise and Beijing Star Rise Pictures;

— receive substantially all of the economic interest returns generated by Beijing Star Rise and Beijing Star Rise Pictures.

2 Accounting Judgement and Estimates (Continued)

(a) Critical accounting judgements in applying the Group's accounting policies (Continued)

The Group does not have any equity interest in Beijing Star Rise and Beijing Star Rise Pictures. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Beijing Star Rise and Beijing Star Rise Pictures and has the ability to affect those returns through its power over Beijing Star Rise and Beijing Star Rise Pictures and is considered to control Beijing Star Rise and Beijing Star Rise Pictures respectively. Consequently, the Company regards Beijing Star Rise and Beijing Star Rise Pictures, and their subsidiaries as indirect subsidiaries. The Group has consolidated the financial position and results after the completion of acquisition of Beijing Star Rise and Beijing Star Rise Pictures, and their subsidiaries in the consolidated financial statements of the Group for the year ended 31 December 2016.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Beijing Star Rise and Beijing Star Rise Pictures and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Beijing Star Rise and Beijing Star Rise Pictures. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(b) Sources of estimation uncertainty

Note 13 and note 29 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key source of estimation uncertainty are as follows:

(i) Impairment of non-current assets

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable and goodwill is tested for impairment at least annually. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

2 Accounting Judgement and Estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(ii) Depreciation and amortisation

Property, plant and equipment and leasehold land are depreciated/amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the property, plant and equipment and leasehold land regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) Impairment of trade and other receivables

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

(v) Television drama series

The Group is required to estimate the projected revenue of the television drama series in order to ascertain the amount of television drama series recognised as an expense for each reporting period. The appropriateness of the estimate requires the use of judgement and assumptions with reference to the prevailing and future market conditions to estimate total projected revenue. Changes in these estimates and assumptions could have a material effect on the expense.

At the end of the reporting period, the management of the Group assesses the impairment on television drama series with reference to its recoverable amount. The recoverable amount of the television drama series is determined based on the present value of the expected future revenue generated from the television drama series less future cost of sales and service. If the recoverable amount is lower than the carrying amount, the carrying amount of the television drama series will be written down to its recoverable amount.

(vi) Taxation

The Group files income taxes, including the dividend withholding tax in the People's Republic of China, with a number of tax authorities. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determinations are uncertain during the ordinary course of business, where the final tax outcomes of these matters are different from the amounts originally recorded, the differences may impact the current income tax and deferred income tax provisions in the period in which the final tax outcomes become available.

3 Revenue and Segment Report

(a) Revenue

The principal activities of the Group are manufacturing and sales of textile products and provision of related processing service, and the production and distribution of television drama series.

Revenue represents the sales value of goods supplied to customers, income from licensing of television drama series and related service income (net of sales tax, value-added tax and discounts). The amount of each significant category of revenue recognised is as follows:

	2016	2015
	RMB'000	RMB'000
Sales of textile products	**646,077**	604,421
Licensing of television drama series	**86,467**	7,492
Provision of textile products processing service	**44,936**	42,124
Provision of television drama series production, distribution and related services	**33,844**	—
	811,324	654,037

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2016 (2015: Nil).

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Textile: this segment manufactures and sells textile products, and provision of related processing service. Currently the Group's activities in this segment are carried out in the People's Republic of China ("the PRC").

- Media: this segment produces, distributes and licenses television drama series and provision of related services. Currently the Group's activities in this segment are carried out in the PRC.

3 Revenue and Segment Report (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBT" i.e. "adjusted earnings before taxes". To arrive at adjusted EBT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration.

In addition to receiving segment information concerning adjusted EBT, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

3 Revenue and Segment Report (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

	Textile		Media		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**691,013**	646,545	**120,311**	7,492	**811,324**	654,037
Inter-segment revenue	**—**	—	**—**	—	**—**	—
Reportable segment revenue	**691,013**	646,545	**120,311**	7,492	**811,324**	654,037
Reportable segment profit (adjusted EBT)	**261**	9,880	**42,031**	1,708	**42,292**	11,588
Interest income on bank deposits	**346**	2,000	**25**	—	**371**	2,000
Interest expenses	**10,680**	13,765	**1,987**	—	**12,667**	13,765
Depreciation and amortisation for the year	**58,796**	59,531	**4,154**	93	**62,950**	59,624
Net impairment of trade and other receivables	**957**	1,706	**778**	—	**1,735**	1,706
Impairment of associates	**—**	—	**998**	—	**998**	—
Reportable segment assets (including investment in associates)	**919,456**	944,260	**764,805**	528,951	**1,684,261**	1,473,211
Interest in associates	**—**	—	**7,459**	7,293	**7,459**	7,293
Additions to non-current segment assets during the year (excluding acquisitions of subsidiaries and associates)	**35,610**	26,832	**3,389**	—	**38,999**	26,832
Reportable segment liabilities	**322,717**	493,447	**135,794**	96,850	**458,511**	590,297

3 Revenue and Segment Report (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**811,324**	654,037
Elimination of inter-segment revenue	**—**	—
Consolidated revenue	**811,324**	654,037
Profit		
Reportable segment profit	**42,292**	11,588
Elimination of inter-segment profits	**—**	—
Reportable segment profit derived from the Group's external customers	**42,292**	11,588
Finance costs	**3,555**	—
Other net loss	**(6,408)**	—
Unallocated head office and corporate expenses (net)	**(5,185)**	(1,549)
Consolidated profit before taxation	**34,254**	10,039
Assets		
Reportable segment assets	**1,684,261**	1,473,211
Elimination of inter-segment receivables	**(1,100)**	—
	1,683,161	1,473,211
Unallocated head office and corporate assets	**64,321**	2,829
Consolidated total assets	**1,747,482**	1,476,040
Liabilities		
Reportable segment liabilities	**458,511**	590,297
Elimination of inter-segment payables	**(1,100)**	—
	457,411	590,297
Unallocated head office and corporate liabilities	**190,177**	203
Consolidated total liabilities	**647,588**	590,500

3 Revenue and Segment Report (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information

The Group principally operates in the PRC and its major assets are located in the PRC. The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	2016 RMB'000	2015 RMB'000
The PRC	753,230	598,236
Overseas	58,094	55,801
	811,324	654,037

4 Other Net (Loss)/Gain

	2016 RMB'000	2015 RMB'000
Change in fair value of derivatives embedded in convertible bonds	(6,408)	—
Net gain on sale of raw materials and scrap materials	3,902	1,014
Net loss on disposal of equipment	(3,253)	(2,427)
Government grants	2,126	4,175
Net gain from short-term investments	1,304	2,101
Others	2,030	(782)
	(299)	4,081

5 Profit Before Taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance income and finance costs

	2016 RMB'000	2015 RMB'000
Finance income		
Interest income on bank deposits	371	2,000
Foreign exchange gain arising on settlement or translation of foreign currency monetary items	760	958
	1,131	2,958
Finance costs		
Interest on bank loans and other borrowings	18,964	14,383
Less : interest capitalised into property, plant and equipment*	—	(618)
Interest expenses	18,964	13,765
Finance charges on obligations under finance leases	781	2,524
Foreign exchange loss arising on settlement or translation of foreign currency monetary items	5,931	512
Other finance charges	1,123	684
	26,799	17,485

* *The borrowing costs have been capitalised at a rate of 5.24% per annum for the year ended 31 December 2015.*

(b) Staff costs

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	121,695	116,484
Contributions to defined contribution retirement plan	3,988	2,682
	125,683	119,166

5 Profit Before Taxation (Continued)

(b) Staff costs (Continued)

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the Group is required to make contributions to the Schemes at certain percentages of the eligible employees' salaries for the years ended 31 December 2016 and 2015. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees. The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

(c) Other items

	2016 RMB'000	2015 RMB'000
Depreciation	58,064	58,304
Amortisation		
— leasehold land	1,351	1,215
— intangible assets	3,535	105
Operating lease charges: minimum lease payments for properties	4,522	30
Impairment losses on trade and other receivables	2,075	3,565
Reversal of impairment losses on other receivables	(340)	(1,859)
Impairment losses on interest in associates	998	—
Auditors' remuneration		
— audit services	2,200	1,700
— other services	500	—
Cost of inventories	568,178	523,834
Cost of television drama series	47,601	4,597

6 Income Tax

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for the year	2,076	2,744
Deferred tax		
Origination and reversal of temporary differences	1,110	(42)
	3,186	2,702

6 Income Tax (Continued)

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents: (Continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

(ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the years ended 31 December 2016 and 2015, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.

(iii) For the year ended 31 December 2016, the Group's PRC subsidiaries are subject to income tax rate of 25% (2015: 25%).

(iv) Dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd., Huiyin (HK) Ltd., Star Rise Investments Ltd., and Star Will Investments (HK) Ltd., Hong Kong subsidiaries of the Company, would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

(v) Pursuant to the PRC Enterprise Income Tax preferential policies in Horgos of Xinjiang province, Horgos Star Rise Culture Media Co., Ltd. and Horgos Yingsheng Film and TV Culture Co., Ltd., subsidiaries of the Company located in Horgos of Xinjiang province and are principally engaged in the production and distribution of television drama series, are entitled to a tax holiday of 5-year full exemption on Enterprise Income Tax commencing from the first revenue-generating year. The first exemption year is 2016.

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**34,254**	10,039
Notional tax on profit before taxation, calculated at the rates applicable to the profits in the jurisdictions concerned	**14,281**	2,964
Tax effect of tax benefits	**(1,783)**	(2,029)
Tax effect of non-deductible expenses	**1,939**	1,767
Tax effect of unused tax losses not recognised	**2,658**	—
Statutory tax concession	**(15,305)**	—
PRC dividend withholding tax	**1,100**	—
Others	**296**	—
Income tax expense	**3,186**	2,702

7 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2016 Total RMB'000
Executive directors					
Liu Dong	—	838	—	7	845
Liu Zongjun	—	437	—	14	451
Chen Chen	—	619	—	42	661
He Han[1]	—	107	—	9	116
Tan Bin[2]	—	210	—	—	210
Independent Non-executive directors					
Lam Kaiyeung	—	72	—	—	72
Pan Hongye[3]	—	54	—	—	54
Gao Gordon Xia	—	54	—	—	54
	—	2,391	—	72	2,463

1 *Appointed on 8 November 2016*
2 *Appointed on 8 November 2016*
3 *Resigned on 6 March 2017*

7 Directors' Emoluments (Continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2015 Total RMB'000
Executive directors					
Liu Dong	—	531	—	5	536
Liu Zongjun	—	276	—	9	285
Chen Chen[1]	—	27	—	—	27
Tian Chengjie[4]	—	239	—	9	248
Independent Non-executive directors					
Lam Kai Yeung	—	70	—	—	70
Pan Hongye[2]	—	8	—	—	8
Gao Gordon Xia[3]	—	5	—	—	5
Zhu Ping[5]	—	59	—	—	59
Chang Tao[6]	—	48	—	—	48
	—	1,263	—	23	1,286

1 *Appointed on 24 September 2015*
2 *Appointed on 3 November 2015*
3 *Appointed on 25 November 2015*
4 *Resigned on 24 September 2015*
5 *Resigned on 3 November 2015*
6 *Resigned on 25 November 2015*

(i) During the years ended 31 December 2016 and 2015, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

(ii) No directors of the Company waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

(iii) The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the years ended 31 December 2016 and 2015.

8 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments three (2015: three) are directors whose remuneration are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and other emoluments	**687**	304
Retirement scheme contributions	**21**	9
	708	313

The emoluments of the two (2015: two) individuals with the highest emoluments are within the following band:

	2016 Number of individuals	2015 Number of individuals
HKD Nil to HKD1,000,000	**2**	2

9 Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB8,038,000 (2015: a profit of RMB10,022,000) which has been dealt with in the financial statements of the Company.

10 Earnings Per Share

The calculation of basic and diluted earnings per share for the year ended 31 December 2016 is based on the profit attributable to equity shareholders of the Company of RMB24,525,000 (2015: RMB7,337,000) and the weighted average of 1,007,852,437 shares (2015: 803,455,225 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Issued ordinary shares at 1 January	**957,644,656**	800,000,000
Effect of shares issuance *(note 28(d))*	**50,207,781**	3,455,225
Weighted average number of ordinary shares at 31 December	**1,007,852,437**	803,455,225

For the year ended 31 December 2016, no adjustment is made in relation to the Company's outstanding convertible bonds as their assumed conversion would increase the earnings per share.

The Company has no dilutive potential ordinary shares outstanding for the year ended 31 December 2015. Therefore, there was no difference between basic and dilutive earnings.

11 Property, Plant and Equipment and Leasehold Land

(a) Reconciliation of carrying amount

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2015	170,925	765,512	10,419	10,604	35,866	993,326	55,140	1,048,466
Additions	570	17,300	416	381	3,084	21,751	5,081	26,832
Acquisition of subsidiaries	—	120	695	50	—	865	—	865
Transfer from construction in Progress	8,803	—	—	—	(8,803)	—	—	—
Disposals	—	—	—	(1,482)	(5,968)	(7,450)	—	(7,450)
At 31 December 2015	180,298	782,932	11,530	9,553	24,179	1,008,492	60,221	1,068,713
At 1 January 2016	**180,298**	**782,932**	**11,530**	**9,553**	**24,179**	**1,008,492**	**60,221**	**1,068,713**
Additions	**2,919**	**17,573**	**1,398**	**573**	**6,710**	**29,173**	**9,789**	**38,962**
Acquisition of subsidiaries	**—**	**—**	**109**	**—**	**—**	**109**	**—**	**109**
Transfer from construction in progress	**1,256**	**4,587**	**—**	**—**	**(5,843)**	**—**	**—**	**—**
Disposals	**—**	**(12,080)**	**(487)**	**(597)**	**—**	**(13,164)**	**—**	**(13,164)**
At 31 December 2016	**184,473**	**793,012**	**12,550**	**9,529**	**25,046**	**1,024,610**	**70,010**	**1,094,620**
Accumulated depreciation and amortisation:								
At 1 January 2015	(27,979)	(418,412)	(10,363)	(6,343)	—	(463,097)	(3,163)	(466,260)
Charge for the year	(8,590)	(48,592)	(91)	(1,031)	—	(58,304)	(1,215)	(59,519)
Written back on disposals	—	—	—	975	—	975	—	975
At 31 December 2015	(36,569)	(467,004)	(10,454)	(6,399)	—	(520,426)	(4,378)	(524,804)
At 1 January 2016	**(36,569)**	**(467,004)**	**(10,454)**	**(6,399)**	**—**	**(520,426)**	**(4,378)**	**(524,804)**
Charge for the year	**(8,572)**	**(47,805)**	**(638)**	**(1,049)**	**—**	**(58,064)**	**(1,351)**	**(59,415)**
Written back on disposals	**—**	**8,814**	**404**	**410**	**—**	**9,628**	**—**	**9,628**
At 31 December 2016	**(45,141)**	**(505,995)**	**(10,688)**	**(7,038)**	**—**	**(568,862)**	**(5,729)**	**(574,591)**
Net book value:								
At 31 December 2016	**139,332**	**287,017**	**1,862**	**2,491**	**25,046**	**455,748**	**64,281**	**520,029**
At 31 December 2015	143,729	315,928	1,076	3,154	24,179	488,066	55,843	543,909

11 Property, Plant and Equipment and Leasehold Land (Continued)

(b) The analysis of net book value of properties is as follows:

	2016 RMB'000	2015 RMB'000
Properties held in the PRC		
— medium-term leases	**228,659**	223,751
Representing:		
— Buildings	**139,332**	143,729
— Construction in progress	**25,046**	24,179
— Interests in leasehold land held for own use under operating leases	**64,281**	55,843

(c) Property, plant and equipment and leasehold land with aggregate net book value of RMB28,536,000 (2015: RMB13,270,000) are pledged to secure certain bank loans of the Group totalling RMB80,000,000 as at 31 December 2016 (2015: RMB60,000,000).

(d) As at 31 December 2016, the ownership certificates for buildings and leasehold land with net book value of RMB66,358,000 (2015: RMB116,749,000) have not been obtained.

(e) In addition to the leasehold land classified as being held under operating leases in note (b) above, the Group leases machinery and equipment under finance leases expiring in 2017. At the end of the lease term the Group has the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year ended 31 December 2016, there were no additions to machinery and equipment of the Group financed by new finance leases (2015: RMB nil). At the end of the reporting period, the net book value of machinery and equipment held under finance leases of the Group was RMB35,638,000 (2015: RMB40,061,000).

12 Intangible Assets

	Non-competition agreement RMB'000	Patents and trademarks RMB'000	Computer software RMB'000	Total RMB'000
Cost:				
At 1 January 2015	—	50	246	296
Acquisition of subsidiaries	7,000	—	—	7,000
At 31 December 2015	7,000	50	246	7,296
At 1 January 2016	**7,000**	**50**	**246**	**7,296**
Acquisition	**—**	**—**	**37**	**37**
At 31 December 2016	**7,000**	**50**	**283**	**7,333**
Accumulated amortisation:				
At 1 January 2015	—	(50)	(167)	(217)
Charge for the year	(78)	—	(27)	(105)
At 31 December 2015	(78)	(50)	(194)	(322)
At 1 January 2016	**(78)**	**(50)**	**(194)**	**(322)**
Charge for the year	**(3,500)**	**—**	**(35)**	**(3,535)**
At 31 December 2016	**(3,578)**	**(50)**	**(229)**	**(3,857)**
Net book value:				
At 31 December 2016	**3,422**	**—**	**54**	**3,476**
At 31 December 2015	6,922	—	52	6,974

12 Intangible Assets (Continued)

(i) The non-competition agreement represents a contract with restrictive covenants under which Mr. Meng Fanyao, who is a television drama series producer in the PRC and a member of key management, agrees not to take any role or engage business in competition against Beijing Huasheng, a subsidiary of the Company, for a time period of two years after his termination or resignation. The directors expect that the non-competition agreement will generate benefits for the Group in future and therefore identified it as an intangible asset.

(ii) The amortisation charge for the year is included in "cost of sales and services" in the consolidated statement of profit or loss.

13 Goodwill

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	**437,290**	6,394
Additions	**62,181**	430,896
At 31 December	**499,471**	437,290
Carrying amount:		
At 1 January	**437,290**	6,394
At 31 December	**499,471**	437,290

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to operating segment as follows:

	2016 RMB'000	2015 RMB'000
Textile	**6,394**	6,394
Media	**493,077**	430,896
At 31 December	**499,471**	437,290

(Expressed in Renminbi Yuan unless otherwise indicated)

13 Goodwill (Continued)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 3%) in both of the segments of textile and media. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 11% (2015: 13%) in the segment of textile, and a discount rate of 22%–23% (2015: 24%) in the segment of media. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

14 Investments in Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

				Proportion of ownership interest			
Name of company	*Note*	Place of Incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Held by Principal activities
Power Fit Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	—	Investment holding
Swift Power Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	—	Investment holding
Solid Will Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	—	Investment holding
Star Will Investments Ltd.		The British Virgin Islands	1 share of USD1 each	65%	65%	—	Investment holding
YSL (HK) Ltd.		Hong Kong	1 share of HKD1 each	100%	—	100%	Investment holding
Huiyin (HK) Ltd.		Hong Kong	1 share of HKD1 each	100%	—	100%	Investment holding
Star Rise Investments Ltd.		Hong Kong	1 share of HKD1 each	100%	—	100%	Investment holding
Star Will Investments (HK) Ltd.		Hong Kong	1 share of HKD1 each	65%	—	65%	Investment holding
Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司)	*(i)*	The PRC	USD17,400,000	100%	—	100%	Manufacturing and sales of textile products
Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司)	*(i)*	The PRC	USD15,400,000	100%	—	100%	Manufacturing and sales of textile products

(Expressed in Renminbi Yuan unless otherwise indicated)

14 Investments in Subsidiaries (Continued)

Name of company	*Note*	Place of Incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Held by Principal activities
Zibo Yinshilai Textile New Material Technology Co., Ltd. (淄博銀仕來紡織新材料科技有限公司)	*(i)*	The PRC	RMB60,000,000	100%	—	100%	Manufacturing and sales of textile products
Beijing Star Rise Culture Media Co., Ltd. (北京星宏文化傳媒有限公司)	*(i)*	The PRC	Registered capital of USD50,000,000 and paid-in capital USD9,380,000	100%	—	100%	Investment holding
Shenzhen Star Rise Film and TV Guarantee Co., Ltd. (深圳市星宏影视擔保有限公司)	*(i)*	The PRC	Registered capital of RMB10,000,000 and paid-in capital RMB Nil	100%	—	100%	Film and television drama series production, investment and guarantee
Beijing Star Rise Culture Development Co., Ltd. (北京星宏文化發展有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital RMB50,000	100%	—	—	Film and television planning
Beijing Huasheng Taitong Media Investment Co., Ltd. (北京華晟泰通傳媒投資有限公司)	*(i) (ii)*	The PRC	RMB10,050,000	100%	—	—	Television drama series production and distribution
Huasheng Taitong (Tianjin) Media Culture Co., Ltd. (華晟泰通(天津)影視文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB5,000,000	100%	—	—	Television drama series production and distribution
Horgos Star Rise Culture Media Co., Ltd. (霍爾果斯星宏文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB10,000,000	100%	—	—	Television drama series production and distribution
Leiyu (Shanghai) Artists Agency Co., Ltd. (雷宇(上海)演藝經紀有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital RMB Nil	100%	—	—	Provision of agency service to performers and event planning service

(Expressed in Renminbi Yuan unless otherwise indicated)

14 Investments in Subsidiaries (Continued)

				Proportion of ownership interest			
Name of company	*Note*	Place of Incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Held by Principal activities
Yongming (Shanghai) Media Culture Co., Ltd. (勇明(上海)影視文化有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital RMB Nil	100%	—	—	Leasing of equipment, costumes and props relating to film and television drama series production
Shenzhen Star Rise Culture Media Co., Ltd. (深圳市星宏文化傳媒有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB10,000,000 and paid-in capital RMB Nil	100%	—	—	Film and television drama series production and distribution
Beijing Star Will Pictures Co., Ltd. (北京星途影視文化有限公司)	*(i)*	The PRC	Registered capital of USD150,000 and paid-in capital USD Nil	65%	—	65%	Film and television drama series production and distribution
Beijing Starrise Pictures Co., Ltd. (北京星宏影視文化有限公司)	*(i) (ii)*	The PRC	RMB10,000,000	65%	—	—	Film and television drama series production and distribution
Horgos Yingsheng Film and TV Culture Co., Ltd. (霍爾果斯瀛晟影視文化有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB10,000,000 and paid-in capital RMB Nil	65%	—	—	Film and television drama series production and distribution

(i) *The English translation of the names is for reference only. The official names of these entities are in Chinese.*

(ii) *These are the subsidiaries arising from the Contractual Arrangements (see note 2(a) for details).*

14 Investments in Subsidiaries (Continued)

The following table lists out the information relating to Star Will Investments Ltd. and its subsidiaries, which were acquired by the Group during the year ended 31 December 2016 and have a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 RMB'000
NCI percentage	35%
Current assets	58,175
Non-current assets	1,177
Current liabilities	(32,555)
Net assets	26,797
Carrying amount of NCI	9,379
Revenue	34,618
Profit for the year	18,693
Total comprehensive income	18,693
Profit allocated to NCI	6,543
Dividend paid to NCI	—
Cash flows used in operating activities	(1,822)
Cash flows used in investing activities	(14)
Cash flows generated from financing activities	800

15 Interest in Associates

The associates are unlisted corporate entities whose quoted market price are not available and are accounted for using the equity method in the financial statements. The particulars of associates are listed as follow:

Name of associate *(note (i))*	Form of business structure	Place of incorporation and business	Particulars of registered and paid up capital RMB	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hubei Changjiang Huasheng Television Co., Ltd. (湖北長江華晟影視有限責任公司) *(Note (ii)(iv))*	Incorporated	The PRC	30,000,000	40%	—	—	Production and sales of television drama series
China Sports Insurance Broker Co., Ltd. (北京中體保險經紀有限公司) *(Note (iii)(iv))*	Incorporated	The PRC	10,000,000	30%	—	—	Provision of sports insurance brokering service

Note (i) The English translation of the names is for reference only and the official names of these entities are in Chinese.

Note (ii) Hubei Changjiang Huasheng Television Co., Ltd. operates in the PRC and is a strategic partner for the Group in production and distribution of television drama series, which the associate has an established customer base.

Note (iii) China Sport Insurance Broker Co., Ltd. operates in the PRC and is a strategic partner for the Group to obtain insurance brokering service, which the associate is with expertise.

Note (iv) The Group's interest in Hubei Changjiang Huasheng Television Co., Ltd. and China Sports Insurance Broker Co., Ltd. are held by Beijing Huasheng Taitong Media Investment Co., Ltd., a subsidiary arising from contractual agreements.

15 Interest in Associates (Continued)

Summarised financial information of associates, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below.

	Hubei Changjiang Huasheng Television Co., Ltd.		China Sports Insurance Broker Co., Ltd.		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Gross amounts of associates						
Current assets	**111,661**	124,549	**5,869**	—	**117,530**	124,549
Non-current assets	**171**	300	**559**	—	**730**	300
Current liabilities	**95,933**	63,616	**2,760**	—	**98,693**	63,616
Non-current liabilities	**—**	43,000	**—**	—	**—**	43,000
Equity	**15,899**	18,233	**3,668**	—	**19,567**	18,233
Revenue	**60,853**	—	**4,906**	—	**65,759**	—
(Loss)/profit from continuing operations and (loss)/profit for the year	**(2,334)**	88	**325**	—	**(2,009)**	88
Other comprehensive income	**—**	—	**—**	—	**—**	—
Total comprehensive income	**(2,334)**	88	**325**	—	**(2,009)**	88
Dividend received from the associates	**—**	—	**—**	—	**—**	—
Reconciled to the Group's interest in associates						
Gross amounts of the associate's net assets	**15,899**	18,233	**3,668**	—	**19,567**	18,233
Group's effective interest	**40%**	40%	**30%**	—	**30%–40%**	40%
Group's share of the associate's net assets and carrying amount in the consolidated financial statements	**6,359**	7,293	**1,100**	—	**7,459**	7,293
Gross amount of the associates' (loss)/profit and total comprehensive income	**(2,334)**	88	**325**	—	**(2,009)**	88
Group's effective interest	**40%**	40%	**30%**	—	**30%–40%**	40%
Group's share of the associates' profit in consolidated statement of profit or loss	**(934)**	35	**98**	—	**(836)**	35

During the year ended 31 December 2016, the Group entered into sale and purchase agreements with a third party to acquired 30% equity interests in China Sports Insurance Broker Co., Ltd. at a consideration of RMB2,000,000.

16 Investments in Equity Securities

	2016	2015
	RMB'000	RMB'000
Unlisted, at cost	**1,100**	1,100

The investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar investments or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment loss, if any, in the consolidated statements of financial position.

17 Inventories

Inventories in the consolidated statements of financial position comprise:

	2016	2015
	RMB'000	RMB'000
Raw materials	**56,630**	45,853
Work in progress	**47,648**	51,627
Finished goods	**59,837**	49,295
Consumables	**823**	1,130
	164,938	147,905

18 Television Drama Series

	2016	2015
	RMB'000	RMB'000
Television drama series		
— in production	**93,997**	39,690
— completed production	**24,895**	11,000
	118,892	50,690

19 Trade and Other Receivables

	Note	2016 RMB'000	2015 RMB'000
Trade debtors and bills receivable		**128,932**	106,722
Less: allowance for doubtful debts	*(b)*	**(8,819)**	(7,320)
	(a) (c)	**120,113**	99,402
Deposits, prepayments and other receivables	*(d)*	**100,218**	52,846
Amount due from an associate	*32(b)*	**9,028**	3,689
Loans to an associate	*32(b)*	**2,000**	—
		231,359	155,937
Other receivables expected to be collected or recognised as expense after more than one year		**(2,647)**	(2,215)
Trade and other receivables expected to be recovered or recognised as expense within one year		**228,712**	153,722

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as at the end of the reporting period.

	2016 RMB'000	2015 RMB'000
Current	**109,350**	90,105
Less than 3 months past due	**1,032**	185
3 to 6 months past due	**5,906**	729
6 to 12 months past due	**3,825**	8,383
Amounts past due	**10,763**	9,297
	120,113	99,402

Trade debtors and bills receivables are due within 1 to 6 months from the date of billing. Further details on the Group's credit policy are set out in note 29.

19 Trade and Other Receivables (Continued)

(b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly (see note 1(k)(i)).

The movement in the allowance of doubtful debts during the year is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**(7,320)**	(3,755)
Impairment loss recognised	**(1,700)**	(3,565)
Uncollectible amounts written off	**201**	—
At 31 December	**(8,819)**	(7,320)

As at 31 December 2016, the Group's trade debtors and bill receivables of RMB8,617,000 (2015: RMB7,320,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the whole amount of the receivables is expected to be unrecoverable. Consequently, specific allowances for doubtful debts of RMB8,617,000 (2015: RMB7,320,000) was recognised.

(c) Trade debtors and bills receivables that are not impaired

The ageing analysis of trade debtors and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**109,350**	90,105
Less than 3 months past due	**795**	185
3 to 6 months past due	**—**	729
6 to 12 months past due	**76**	8,383
	110,221	99,402

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

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

19 Trade and Other Receivables (Continued)

(d) Deposits, prepayments and other receivables

	2016 RMB'000	2015 RMB'000
Prepayments relating to purchases of raw materials	**40,450**	22,429
Prepayments and advance relating to television drama series	**37,053**	640
Prepayments relating to purchases of property, plant and equipment	**758**	2,153
Deferred expenses	**4,502**	2,893
Value-added tax recoverable	**9,195**	16,145
Other advance to third parties *(note)*	**1,522**	3,165
Other receivables	**6,738**	5,354
Other prepayments	**—**	67
	100,218	52,846

Note: The other advance to third parties were unsecured, interest-free and had no fixed repayment terms.

20 Pledged Bank Deposits

Pledged deposits can be analysed as follows:

	2016 RMB'000	2015 RMB'000
Guarantee deposits for issuance of commercial bills and bank acceptance	**1,626**	11,315

21 Cash and Cash Equivalents

(a) Reconciliation of cash and bank to cash and cash equivalents

	2016 RMB'000	2015 RMB'000
Bank deposits	**197,981**	113,200
Cash in hand	**56**	131
Cash and bank in the consolidated statement of financial position	**198,037**	113,331
Fixed bank deposits to be matured after three month but within one year	**(25,000)**	—
Cash and cash equivalents in the consolidated cash flow statement	**173,037**	113,331

21 Cash and Cash Equivalents (Continued)

(a) Reconciliation of cash and bank to cash and cash equivalents (continued)

As at 31 December 2016, the Group's cash and bank of RMB132,154,000 (2015: RMB99,428,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

As at 31 December 2016, the Group's fixed bank deposits of RMB25,000,000 would be matured within one year.

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**34,254**	10,039
Adjustments for:			
Depreciation	5(c)	**58,064**	58,304
Amortisation	5(c)	**4,886**	1,320
Net impairment losses on trade and other receivables	5(c)	**1,735**	1,706
Impairment losses on interest in associates	5(c)	**998**	—
Interest income	5(a)	**(371)**	(2,000)
Share of loss/(profit) of associates	15	**836**	(35)
Change in fair value of derivatives embedded in convertible bonds	4	**6,408**	—
Investment gains	4	**(1,304)**	(2,101)
Finance costs	5(a)	**19,898**	16,289
Net loss on sale of equipment	4	**3,253**	2,427
Foreign exchange loss/(gain)		**6,702**	(162)
		135,359	85,787
Changes in working capital:			
Increase in inventories		**(17,033)**	(15,528)
(Increase)/decrease in television drama series		**(47,617)**	4,597
(Increase)/decrease in trade and other receivables		**(64,790)**	40,587
Increase/(decrease) in trade and other payables		**75,786**	(923)
Decrease in guarantee deposits for issuance of commercial bills and bank acceptance		**9,689**	4,656
Cash generated from operations		**91,394**	119,176

22 Trade and Other Payables

	Note	2016 RMB'000	2015 RMB'000
Trade creditors and bills payable	*(a)*	**100,575**	43,349
Advances received		**24,231**	26,463
Other creditors and accrued charges	*(b)*	**102,507**	114,725
		227,313	184,537

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Ageing analysis

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Due within 3 months or on demand	**89,405**	39,168
Due after 3 months but within 6 months	**7,227**	2,263
Due after 6 months but within 12 months	**3,943**	1,918
	100,575	43,349

(b) Other creditors and accrued charges

	Note	2016 RMB'000	2015 RMB'000
Accrued charges		**16,071**	8,989
Tax payable other than income tax		**24,332**	13,895
Payables relating to purchases of property, plant and equipment		**10,899**	15,750
Payables relating to television drama series		**16,554**	3,931
Advance from third parties *(note)*		**15,172**	63,732
Amount due to an associate	*32(b)*	**5,479**	—
Other payables		**14,000**	8,428
		102,507	114,725

Note: The advance from third parties as at 31 December 2016 is unsecured, interest- free and had no fixed repayment terms or repayable within one year.

23 Promissory Note

Forming part of the consideration to acquire Solid Will Ltd. and its subsidiaries, the Company issued a promissory note of HKD200,000,000 on 24 December 2015. The promissory note was transferable, interest-free, unsecured and redeemable at the face value on or before 23 December 2016. The Company redeemed the promissory note on 8 June 2016.

Forming the consideration to acquire Star Will Investments Ltd. and its subsidiaries, the Company issued a promissory note of HKD78,340,000 on 30 September 2016. The promissory note was transferable, interest-free, unsecured and redeemable at the face value on or before 30 October 2016. The Company redeemed the promissory note on 27 October 2016.

24 Bank Loans

As at 31 December 2016, the bank loans were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	195,000	204,500
After 1 year but within 2 years	10,000	—
	205,000	204,500

As at 31 December 2016, the bank loans were secured as follows:

	Note	2016 RMB'000	2015 RMB'000
Bank loans			
— secured	*(a)*	80,000	60,000
— unsecured	*(b)*	125,000	144,500
		205,000	204,500

24 Bank Loans (Continued)

(a) At 31 December 2016, the banking facilities of the Group were secured by machinery and equipment with an aggregate carrying value of RMB28,536,000 (2015: RMB13,270,000) and were guaranteed by certain wholly-owned subsidiary of the Group. Such banking facilities amounted to RMB140,000,000 (2015: RMB140,000,000). The facilities were utilised to the extent of RMB80,000,000 (2015: RMB60,000,000).

(b) Included in unsecured bank loans at 31 December 2016, RMB80,000,000 (2015: RMB144,500,000) of the loans was guaranteed by certain wholly-owned subsidiary of the Group, and RMB20,000,000 (2015: RMB nil) of the loans was guaranteed by the Company.

(c) As at 31 December 2016, there is no financial covenant related to the banking facilities.

(d) The details of the Group's interest rate risk and liquidity rate risk are set out in note 29.

25 Non-Current Borrowings

(a) The analysis of the carrying amount of non-current borrowings is as follows:

	2016 **RMB'000**	2015 RMB'000
Convertible bonds *(note 25(b)(i))*		
— liability component	**161,451**	—
— derivative component	**25,941**	—
Unsecured bank loans *(note 24)*	**10,000**	—
Loans from a non-controlling shareholder *(note 25(b)(ii))*	**8,712**	—
	206,104	—

Except the derivative component of convertible bonds, which is carried at fair value, all other borrowings are carried at amortised cost. None of the borrowings is expected to be settled within one year.

25 Non-Current Borrowings (Continued)

(b) Significant terms and repayment schedule of non-bank borrowings

(i) Convertible bonds

On 14 October 2016, the Company issued convertible bonds with a face value of HKD200,000,000 and a maturity date on 14 October 2018, which is extendable to 14 October 2019 if agreed by the Company and the bondholders. The convertible bonds bear a nominal interest rate at 7% per annum and are guaranteed by Liu Dong and Liu Zhihua, shareholders of the Company.

The rights of the bondholders to convert the bonds into ordinary shares are as follows:

- Conversion rights are exercisable, wholly or partially, at any time up to maturity, or extended maturity, at the bondholders' option.

- If a bondholder exercises its conversion rights, the Company is required to deliver ordinary shares at the conversion price of HKD1.21 per share (subject to adjustments).

Bonds in respect of which conversion rights have not been exercised, will be redeemed at face value on 14 October 2018 or, if extended, on 14 October 2019.

The convertible bonds contains two components, i.e. liability component and derivative component. The effective interest rate of the liability component is 19% per annum. The derivatives embedded in convertible bonds are measured at fair value with changes in fair value recognised in the profit or loss.

(ii) Loans from a non-controlling shareholder

The loans from a non-controlling shareholder of a subsidiary is unsecured, interest-free and repayable in 2018.

26 Obligations Under Finance Leases

As at 31 December 2016, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**3,850**	**3,881**	16,942	17,723
After 1 year but within 2 years	**—**	**—**	3,850	3,881
	3,850	**3,881**	20,792	21,604
Less: total future interest expenses		**(31)**		(812)
Present value of lease obligations		**3,850**		20,792

27 Income Tax in the Consolidated Statements of Financial Position

(a) Current taxation in the consolidated statements of financial position represents:

	2016 RMB'000	2015 RMB'000
At 1 January	**13,115**	4,570
Provision for PRC Enterprise Income Tax and PRC dividend withholding tax for the year	**2,076**	2,744
Increase due to the acquisition of subsidiaries	**—**	5,801
Tax paid	**(970)**	—
At 31 December	**14,221**	13,115

27 Income Tax in the Consolidated Statements of Financial Position (Continued)

(b) Deferred tax asset and liabilities recognised

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Tax losses carry forwards RMB'000	PRC dividend withholding tax RMB'000	Total RMB'000
Deferred tax arising from:			
At 1 January 2015	(1,014)	760	(254)
Charged/(credited) to profit or loss	718	(760)	(42)
At 31 December 2015	(296)	—	(296)
At 1 January 2016	**(296)**	**—**	**(296)**
Charged to profit or loss	**10**	**1,100**	**1,110**
Increase due to the acquisition of subsidiaries	**(809)**	**—**	**(809)**
At 31 December 2016	**(1,095)**	**1,100**	**5**

(ii) Reconciliation to the consolidated statements of financial position

	2016 RMB'000	2015 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**(1,095)**	(296)
Net deferred tax liability recognised in the consolidated statement of financial position	**1,100**	—
	5	(296)

27 Income Tax in the Consolidated Statements of Financial Position (Continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of certain of its subsidiaries of RMB10,632,000 (2015: RMB Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 31 December 2016, temporary difference relating to profit earned by the Company's PRC subsidiaries amounted to RMB273,465,000 (2015: RMB220,169,000) for which no deferred tax liabilities were recognised in respect of the PRC dividend withholding tax at 10% that would be payable on the distribution of these profits to the Group's subsidiaries outside the PRC as the Company has no plan to distribute them in the foreseeable future.

Pursuant to the New Tax Law and its implementation rules, distribution of statutory surplus reserve upon liquidation shall be treated as dividend income which is subject to PRC dividend withholding tax at 10% or less if reduced tax treaties or arrangements. As at 31 December 2016, temporary differences relating to the statutory surplus reserve of the Company's PRC subsidiaries amounted to RMB50,694,000 (2015: RMB43,550,000). No deferred tax liabilities were recognised as at 31 December 2016 as the Company has no plan to liquidate these subsidiaries in the foreseeable future.

28 Capital, Reserves and Dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

28 Capital, Reserves and Dividends (Continued)

(a) Movements in components of equity (Continued)

The Company

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2015	50,577	74,447	146,736	11,720	283,480
Changes in equity for 2015:					
Profit and total comprehensive income for the year	—	—	—	17,622	17,622
Shares insurance	10,208	274,161	—	—	284,369
Dividends approved in respect of the previous year	—	—	—	(7,600)	(7,600)
Balance at 31 December 2015 and 1 January 2016	**60,785**	**348,608**	**146,736**	**21,742**	**577,871**
Changes in equity for 2016:					
Loss and total comprehensive income for the year	**—**	**—**	**—**	**(8,038)**	**(8,038)**
Shares issuance	**5,774**	**174,676**	**—**	**—**	**180,450**
Balance at 31 December 2016	**66,559**	**523,284**	**146,736**	**13,704**	**750,283**

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2016 RMB'000	2015 RMB'000
Interim dividend declared and paid of RMB nil per ordinary share (2015: RMB nil)	**—**	—
Final dividend proposed after the end of the reporting period of RMB nil per ordinary share (2015: RMB nil)	**—**	—
	—	—

28 Capital, Reserves and Dividends (Continued)

(c) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2016 **RMB'000**	2015 RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year, of RMB nil per ordinary share (2015: RMB0.0095)	**—**	7,600

(d) Share capital

Authorised and issued share capital are as follows:

	2016 **No. of shares**	**RMB'000**	2015 No. of shares	RMB'000
Authorised:				
Ordinary shares of USD0.01 each	**10,000,000,000**	**632,110**	10,000,000,000	632,110
Ordinary shares, issued and fully paid:				
At 1 January	**957,644,656**	**60,785**	800,000,000	50,577
Shares issuance *(note)*	**88,105,000**	**5,774**	157,644,656	10,208
At 31 December	**1,045,749,656**	**66,559**	957,644,656	60,785

Note: Pursuant to the share placing agreement entered into between the Company and Guotai Junan, the Company allotted and issued 88,105,000 new shares of USD0.01 each at a placing price of HKD2.50 per share on 7 June 2016. The net proceeds from the share placing were approximately HKD213,654,000 (equivalent to approximately RMB180,450,000).

Forming the consideration to acquire Solid Will Ltd., the Company allotted and issued 157,644,656 ordinary shares of USD0.01 each on 24 December 2015. The ordinary shares issued were recognised at the fair value at the date of acquisition of approximately HKD2.16 per share.

28 Capital, Reserves and Dividends (Continued)

(e) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents exchange difference arising on capital injections.

(ii) Statutory surplus reserve

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to statutory surplus reserve were made at a certain percentage of after-tax profit (after offsetting prior year losses) determined in accordance with the accounting rules and regulations of the PRC until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

(iii) Other reserve

The other reserve represents mainly the difference between the net assets value of subsidiaries acquired and the consideration paid and the waived amount of the amount due to the holding company.

(f) Distributability of reserves

Under the Company Law of the Cayman Islands, the funds in the share premium account and the retained earnings account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB536,988,000 (2015: RMB370,350,000). The directors do not recommend the payment of a final dividend (2015: RMB nil) for the year ended 31 December 2016.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate. The Group has no concentrations of credit risk in view of its large number customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

29 Financial Risk Management and Fair Values (Continued)

(b) Liquidity risk (Continued)

	2016				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank loans	204,141	10,570	—	214,711	205,000
Loans from a non-controlling shareholder of a subsidiary	—	9,500	—	9,500	8,712
Trade creditors, bills payable, other creditors and accrued charges	203,082	—	—	203,082	203,082
Convertible bonds — liability component	15,432	203,948	—	219,380	161,451
Obligations under finance lease	3,881	—	—	3,881	3,850
	426,536	224,018	—	650,554	582,095

	2015				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank loans	214,042	—	—	214,042	204,500
Trade creditors, bills payable, other creditors and accrued charges	158,074	—	—	158,074	158,074
Promissory note	167,556	—	—	167,556	167,556
Obligations under finance lease	17,723	3,881	—	21,604	20,792
	557,395	3,881	—	561,276	550,922

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

29 Financial Risk Management and Fair Values (Continued)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less pledged bank deposits and bank deposits) at the end of the reporting period.

	2016		2015	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Net fixed rate borrowings:				
Bank loans	4.35%	185,000	4.35%–5.10%	189,500
Convertible bonds — liability component	18.92%	161,451	n/a	—
Less: pledged bank deposits	1.55%	(1,626)	1.55%	(11,315)
		344,825		178,185
Variable rate borrowings:				
Obligations under finance lease	5.49%–6.11%	3,850	5.89%–6.20%	20,792
Bank loans	5.70%	20,000	4.85%	15,000
Less: bank deposits	0.30%–1.80%	(197,981)	0.30%	(113,200)
		(174,131)		(77,408)
Total net interest-bearing borrowings		170,694		100,777

(ii) Sensitivity analysis

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increase/decrease the Group's profit for the year and retained earnings by approximately RMB653,000 (2015: RMB290,000).

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Japanese Yen and Hong Kong dollars.

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of non-PRC companies comprising the Group into the Group's presentation currency are excluded.

29 Financial Risk Management and Fair Values (Continued)

(d) Currency risk (Continued)

	Exposure to foreign currencies (expressed in Renminbi)					
	2016			2015		
	USD RMB'000	**JPY RMB'000**	**HKD RMB'000**	USD RMB'000	JPY RMB'000	HKD RMB'000
Trade and other receivables	**2,141**	**—**	**—**	2,000	—	—
Cash and cash equivalents	**61,098**	**6**	**4,779**	10,259	5	3,639
Convertible bonds	**—**	**—**	**(187,392)**	—	—	—
Promissory note	**—**	**—**	**—**	—	—	(167,556)
Trade and other payables	**(5,878)**	**—**	**(920)**	—	—	—
Net exposure arising from recognised assets and liabilities	**57,361**	**6**	**(183,533)**	12,259	5	(163,917)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016			2015		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States Dollars	**5%**	**2,914**	**—**	5%	588	—
	(5%)	**(2,914)**	**—**	(5%)	(588)	—
Japanese Yen	**10%**	**—**	**—**	10%	—	—
	(10%)	**—**	**—**	(10%)	—	—
Hong Kong Dollars	**5%**	**(9,183)**	**—**	5%	(8,203)	—
	(5%)	**9,183**	**—**	(5%)	8,203	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2015.

29 Financial Risk Management and Fair Values (Continued)

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As at the end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 25(b)(i).

At 31 December 2016, it is estimated that an increase/(decrease) of 10% (2015: nil) in the Company's own share price (for the derivatives embedded in the convertible bonds), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

		2016			2015	
		Effect on profit after tax and retained profits	**Effect on other components of equity**		Effect on profit after tax and retained profits	Effect on other components of equity
		RMB'000	**RMB'000**		RMB'000	RMB'000
Change in the relevant equity price risk variable:						
Increase	**10%**	**(10,734)**	**—**	n/a	—	—
Decrease	**(10%)**	**8,945**	**—**	n/a	—	—

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the Company's own share price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period.

29 Financial Risk Management and Fair Values (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments, including derivatives embedded in convertible bonds which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held to coincide with the reporting dates twice a year.

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements				
Derivatives embedded in convertible bonds	25,941	—	—	25,941

During the years ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

29 Financial Risk Management and Fair Values (Continued)

(f) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Derivatives embedded in convertible bonds	Black Scholes model	Expected volatility	21% to 43%	38%

The fair value of the derivatives embedded in the convertible bonds is determined using Black Scholes model and the significant input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2016, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased the Group's profit after tax by RMB8,945,000.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2016 RMB'000
Derivatives embedded in convertible bonds:	
On issuance	18,180
Change in fair value	6,408
Exchange adjustments	1,353
At 31 December	25,941
Total gains or losses included in profit or loss for the year	7,761

The losses arising from the remeasurement of the derivative component of the convertible bonds are presented in "other net (loss)/income" in the consolidated statement of profit or loss.

29 Financial Risk Management and Fair Values (Continued)

(f) Fair value measurement (continued)

(ii) Fair value of financial liabilities carried at other than fair value

The carrying amounts of the Group's financial instrument carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts at 31 December 2016	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
			Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds — liability component	161,451	163,695	—	163,695	—

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the convertible bonds is estimated as being the present values of future cash flows, discounted at interest rates based on the government yield curve as at the end of the reporting period plus an adequate credit spread, adjusted for the Group's own credit risk.

30 Acquisition of Subsidiaries

On 30 September 2016, the Group obtained control of Star Will Investments Ltd. ("Star Will"), which is an investment holding company and its subsidiaries are principally engaged in production and distribution of film and television drama series in the PRC, by acquiring 65% of its interest. Taking control of Star Will will enable the Group to strengthen the business development in the media industry in the PRC and broaden the sources of the Group's revenue. During the year ended 31 December 2016, Star Will contributed revenue of RMB34,618,000 and profit of RMB18,693,000 to the Group's results. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been RMB813,047,000 and consolidated profit for the year would have been RMB28,655,000. In determining these amounts, management have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2016.

(a) Consideration transferred

The consideration for the acquisition is HKD78,340,000 (equivalent to RMB67,448,000), which was satisfied by a promissory note with a face value of HKD78,340,000. No contingent consideration was agreed between the Group and the selling shareholder.

30 Acquisition of Subsidiaries (Continued)

(b) Acquisition-related costs

The Group incurred acquisition-related costs of RMB277,000 on legal fees and due diligent costs. These costs have been included in "administrative expenses".

(c) Identifiable assets acquired and liabilities assumed

	RMB'000
Property, plant and equipment	109
Deferred tax assets	809
Television drama series	20,585
Trade and other receivables	13,405
Cash and cash equivalents	1,583
Trade and other payables	(19,776)
Loans from a non-controlling shareholder	(8,612)
Total identifiable net assets acquired	8,103

(d) Measurement of fair value

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

(i) Television drama series

Market comparison technique and cost technique: The fair value is determined based on the estimated selling price, if available, in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the television drama series. In the situation that the selling price is uncertain, the replacement cost would be considered.

(ii) Trade and other receivables

The trade and other receivables comprise gross contractual amounts due of RMB13,405,000 which was expected to be collectible at the acquisition date.

30 Acquisition of Subsidiaries (Continued)

(e) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	RMB'000
Consideration transferred	67,448
Non-controlling interest	2,836
Fair value of identifiable net assets	(8,103)
Goodwill	62,181

The goodwill is attributable mainly to the skills and the technical talent of the work force of Star Will and its subsidiaries. None of the goodwill recognised is expected to be deductible for tax purposes.

(f) Analysis of cash flow on acquisition

	RMB'000
Cash consideration	—
Cash and cash equivalents acquired	1,583
Net cash inflow	1,583

31 Commitments

(a) Capital commitments outstanding at 31 December 2016 and 2015 not provided for in the consolidated financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for		
— Purchase of property, plant and equipment	**4,410**	2,744
— Acquiring services relating to production of television drama series	**3,363**	1,000
	7,773	3,744

31 Commitments (Continued)

(b) At 31 December 2016 and 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	2,300	136
After 1 year and within 5 years	—	92
	2,300	228

Significant leasing arrangements in respect of land and buildings classified as being held under finance leases and land held under operating leases are described in note 11.

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. These leases typically run for an initial period of 3 to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

32 Material Related Party Transactions

The Group has entered into the following material related party transactions during the years ended 31 December 2016 and 2015 as follows. Some of these related party transactions constituted connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules. However these transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	3,783	1,731
Post-employment benefits	109	28
	3,892	1,759

Total remuneration is disclosed in "staff costs" (see note 5(b)).

32 Material Related Party Transactions (Continued)

(b) Financing arrangement

As at 31 December 2016 and 2015, the Group had the following balances with related parties:

	Note	2016 RMB'000	2015 RMB'000
Amount due from an associate	*(i)(ii)*	**9,028**	3,689
Amount due to an associate	*(iii)*	**5,479**	—
Loans to an associate	*(i)(iv)*	**2,000**	—

(i) No provisions for bad or doubtful debts have been made in respect of these amounts due from an associate.

(ii) The amount due from an associate is unsecured, interest-free and has no fixed term of repayment. The amount is included in "trade and other receivables" (note 19).

(iii) The amount due to an associate is unsecured, interest-free and has no fixed term of repayment. The amount is included in "trade and other payables" (note 22).

(iv) The loans to an associate is unsecured, interest-free and repayable in 2017. The amount is included in "trade and other receivables" (note 19).

(c) Material transactions with related parties

During the year of 2016 and 2015, the Group has entered into the following material transactions with related parties:

	Note	2016 RMB'000	2015 RMB'000
Television drama series distribution income from an associate	*(i)*	**7,145**	—

(i) The directors of the Group are of the opinion that these transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

33 Company-Level Statement of Financial Position

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment in subsidiaries	14	**518,913**	451,465
Current assets			
Other receivables		**357,264**	292,425
Cash and bank		**64,321**	2,829
		421,585	295,254
Current liabilities			
Promissory note		**—**	167,556
Other payables		**2,823**	1,292
		2,823	168,848
Net current assets		**418,762**	126,406
Total assets less current liabilities		**937,675**	577,871
Non-current liabilities			
Non-current borrowings		**187,392**	—
Net assets		**750,283**	577,871
Capital and reserves	28		
Share capital		**66,559**	60,785
Reserves		**683,724**	517,086
Total equity		**750,283**	577,871

(Expressed in Renminbi Yuan unless otherwise indicated)

34 Non-Adjusting Events After the Reporting Period

Subsequent to the reporting period, the Company issued convertible bonds in the aggregate principal amount of HKD300,000,000 on 28 February 2017. The convertible bonds bear a nominal interest rate of 5% per annum and are with a maturity date on the second anniversary of the issue date. The initial conversion price of the convertible bonds is HKD1.21 per share (subject to adjustments) , and assuming full conversion, the convertible bonds will be converted into 247,933,884 shares of the Company. Further details for the issuance of the convertible bonds are set out in the Company's announcements dated 22 December 2016, 30 December 2016 and 28 February 2017.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2016 (Continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2016 (Continued)

IFRS 9, Financial instruments (continued)

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(v). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2016 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition (Continued)

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 some of the Group's television drama series distribution and licensing activities that are currently recognised at a point in time may meet the IFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once IFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2016 (Continued)

IFRS 16, Leases

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.