H.BROTHERS ENTERTAINMENT

華誼騰訊娛樂

2017 INTERIM REPORT

華誼騰訊娛樂有限公司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00419)

CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the six months ended 30 June 2017 (the "period" or the "first half of 2017") are summarized in the table below:

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Continuing operations:		
Total sales revenue	**67,332**	64,419
Gross (loss)/profit	**(29,824)**	28,073
Loss before finance costs and taxation	**(72,413)**	(57,603)
Loss before income tax	**(72,426)**	(57,803)
Loss for the period	**(72,770)**	(58,643)
Loss for the period before impairment provision	**(9,681)**	(58,643)
Discontinued operation:		
Profit for the period	**97**	—

Business Review

	Sales Revenue Six months ended 30 June		Segment Results Six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Continuing operations				
Entertainment and media operations	**5,569**	2,363	**(71,374)**	1,910
Online healthcare services	**5,845**	4,024	**(3,497)**	(7,955)
Offline healthcare and wellness services	**55,918**	58,032	**(7,874)**	2,920
Total	**67,332**	64,419	**(82,745)**	(3,125)

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

During the period under review, entertainment and media operations and online healthcare services both recorded significant growths in revenue, while the revenue from offline healthcare and wellness services reported a moderate decline, driving the Group to record a total revenue of approximately HK$67,332,000, representing a period-on-period increase of approximately 5%. However, the Group recorded a consolidated net loss of HK$72,770,000 during the period under review, primarily due to impairment provisions for certain film rights assets, prepayments and investment in an associate during the period under review. Entertainment and media operations recorded a segment loss of approximately HK$71,374,000.

Having devoted years of hard work to accumulate considerable and extensive resources in the media and entertainment industry, Huayi Brothers Media Corporation ("Huayi Brothers"), a controlling shareholder of the Group, has laid down a solid foundation based on which the Group can collaborate with renowned leaders in the international media and entertainment industry, as well as engage in the investment and production of quality film & TV projects. During the period under review, the Group contributed capital of KRW1 billion (equivalent to approximately HK$6.8 million) to jointly establish the Huayi-Warner Contents Fund with relevant parties including, among others, Warner Bros. Korea Inc., a subsidiary of Warner Bros. Entertainment Inc., whereby the Group intended to invest in premier Korean film projects to be produced and distributed by Warner Bros. Korea Inc. In addition, *Rock Dog* – an original Sino-U.S. 3D animated comedy film that the Group invested in, was distributed in the North American region by Lionsgate Entertainment and Summit Entertainment during the period under review. Featured in over 2,000 screens in North America on 24 February 2017, *Rock Dog* recorded box office receipts of approximately US$9.42 million, whose distribution via cable TV and DVD release in the North American region is also being carried out by Lionsgate Entertainment for the time being. Global distribution of *Rock Dog* also took place during the first half of 2017, whereby the film was introduced to continents such as Asia, Europe, Latin America and Africa, covering countries like Russia, Turkey, Ukraine, Poland, Greece, Brazil and South Africa.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

In terms of healthcare services, the Group provided online and offline healthcare solutions in Mainland China during the period under review, which mainly comprised of "Beijing Bayhood No.9 Club", a high-end healthcare and wellness centre and operations of "Kangxun Xuetang", an online healthcare service platform. During the period under review, the offline healthcare and wellness services generated an income of HK$55,918,000, representing a moderate decrease of approximately 4% as compared to the same period in prior year; for online healthcare services, despite its revenue boosted by approximately 45% comparing to the same period in prior year to HK$5,845,000, it still recorded a segment loss of HK$3,497,000. In July 2017, the Group conditionally disposed of its entire shareholding in Beijing Bayhood No.9 Cloud Health Technology Company Limited ("Cloud Health") at a cash consideration of RMB10 million. The disposal proceeds will be used as the Group's working capital for promoting the development of its core business. Following completion of the disposal, the Group will discontinue the operation of its online healthcare services.

Business Review

During the first half of 2017, China's economy forged forward while maintaining stability. Its gross domestic product increased by 6.9% period-on-period to RMB38,149 billion, 0.2 percentage point higher than that of prior year, ranking at the top among the world's key economies. Overall, the Chinese economy is on a track of quality development at mid-to-high speed, with its consumer spending recording stable growth and investment growth accelerating, while the most noticeable recovery came from its export growth. According to statistics published by the National Bureau of Statistics, production index of China's tertiary industry maintained its rapid development during the first half of 2017, with a period-on-period increase of 8.3%, indicating that the industry remained in the expansion stage of its economic cycle. During the period under review, per capita disposable income of Chinese residents recorded an actual increase of 7.3% period-on-period to RMB12,932, while per capita disposable income of urban residents increased by, on an actual basis, 6.5% to RMB18,332. China's per capita consumer spending achieved an actual growth of 6.1% period-on-period to approximately RMB8,834, with educational, cultural and entertainment spending as well as healthcare spending both recording double-digit growths, which increased by 10.0% and 11.9% to RMB869 and RMB718, respectively. Against the overall background of a steadily recovering world economy and an improving overall economic atmosphere in China, we have witnessed consistent growths in both per capita disposable income and per capita consumer spending, creating a suitable marketplace for the Group's entertainment and media operations and healthcare services.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

According to statistics from the State Administration of Press, Publication, Radio, Film and Television, as of 30 June 2017, China's gross box office receipts reached RMB27.346 billion during the first half year, representing a period-on-period growth of over 11%. Of this, aggregated box office receipts of RMB16.72 billion were contributed by imported films, representing approximately 61.5% of the total figure. A total of 41 films recorded box office receipts over RMB100 million, close to 60% of which were imported films. Quality imported blockbusters, in particular Hollywood productions with wow factors and good reviews, remained extremely popular during the period under review, becomes the main contributors of China's box office receipts. Furthermore, the accelerated development in film infrastructure provided a solid ground for the increasingly expanded scale of the film market. During the period under review, 864 new cinemas were opened in China, with an additional 5,040 screens, representing an average daily increase of 28 screens. With over 46,000 cinema screens nationwide, China currently has more screens than the entire North American region, securing its position as the world's biggest film market. Targeting the collaboration with master directors from Hollywood and top studios, the Group aims to invest in the development of film and TV projects or engage in their production, and to reserve a large amount of quality resources in the form of overseas intellectual property (IP) rights. The robust development of the domestic film market in China, as well as an unquenchable enthusiasm that the Chinese audience has for Hollywood blockbusters, will be the base on which the Group drives its core business to deliver rapid development.

With regard to the North American film market, its gross box office receipts amounted to US$4.706 billion (equivalent to approximately RMB31.905 billion) during the first half of 2017, representing a period-on-period decline of 6.6%. Notwithstanding a slight decline in its local market, North America easily remains as the single biggest market for internationally-distributed films. According to the latest statistics from Box Office Mojo, a box-office reporting website under Amazon.com, on the basis of global box office performance, the ten best performing films during the first half of 2017 were all distributed by five major studios in Hollywood.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

In terms of the Korean film market, according to statistics from the *First Half Report on the 2017 Korean Film Industry* ("Report") issued by the Korean Film Commission ("KOFIC"), box office receipts of Korean films for the first half of 2017 set a new record, which grew by 3.4% period-on-period to approximately KRW783.6 billion, with cinema attendance increasing by 2.8% period-on-period to 97.29 million. Cinema attendance for local Korean films decreased by 5% period-on-period to approximately 41.62 million, driving the local films' market share to decrease 3.5 percentage points period-on-period to 42.8%. On the other hand, cinema attendance for overseas films recorded a nearly 10% period-on-period increase to approximately 55.67 million, with the attendance for U.S. films taking approximately 48.8% of the total. Despite a long succession of Hollywood blockbusters that hit the Korean market, which put the box office receipts of local films under pressure during the period under review, four of the ten biggest box-office winners were still local Korean films, with *Confidential Assignment* and *The King* ranking at the top and the second. In addition, the KOFIC also predicted in the Report that local Korean films would join forces to stage a rebound in the second half, reclaiming their lost market share. Based on the *2016 Survey on Film Consumers* previously issued by the KOFIC, over 53% of the Korean audience preferred local productions. Huayi-Warner Contents Fund, a fund jointly established during the period under review by the Group and Warner Bros. Korea Inc., etc., is a designated fund for investing in quality local Korean film projects produced and distributed by Warner Bros. Korea Inc. Based on the enthusiasm and support that the Korean audience has for local productions, it is expected that film projects to be invested in by the fund will bring contributions to the Group.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) Entertainment and Media Operations

Compared with the North American region, the largest film market in the world, China has caught up in terms of infrastructure of the film industry, but is still lagging behind in terms of box office receipts. That also means that China's film market still has considerable room for future development. Hollywood films have always been well received by the Chinese audience for their major IP and high quality. China has been the largest overseas market for Hollywood films in terms of box office receipts since 2012. With a view to capitalizing on the golden age of China's film and entertainment industry, and having an insight into the substantial business opportunity of Hollywood films in China, the Group brought in Huayi Brothers and Tencent as its strategic shareholders in 2016. The Group's core business will be cooperating with internationally renowned industry leaders, famous directors and top studios from Hollywood and seeking to invest in quality international film projects. By combining the investment channels for international film and TV projects and extensive filmmaker network of Huayi Brothers, and the internet channel resources of Tencent, the Group aims to build a comprehensive platform which integrates content production and online and offline entertainment channels, and becomes a new media business company with a leading position in China and is recognized in the international community.

During the period under review, the ten film production projects in collaboration with China Lion Entertainment were in progress smoothly as planned. Of these, *Kill Me Now*, an action comedy directed by Peter Segal, and *Spaghetti VS. Noodle*, a gourmet and romantic comedy screenwritten by Pete Chiarelli, will be starring top celebrities from China and the U.S., and are scheduled to be released globally in 2018. China Lion Entertainment is the largest producer and distributor of Chinese films and TV programmes in North America, owning an extensive network locally. The cooperation with China Lion Entertainment can ensure a talented production team and attract top celebrities from China and the U.S., thereby ensuring the box office performance.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) Entertainment and Media Operations (Continued)

Rock Dog, the first Sino-U.S. original 3D animated comedy which the Group invested in, was distributed worldwide across North America, Europe, Asia, Latin America, Africa, etc. in the first half of 2017. The distribution of *Rock Dog* in North America was carried out by Lionsgate Entertainment and Summit Entertainment and recorded total box office receipts of approximately US$9.4 million. Lionsgate Entertainment and Summit Entertainment will continue to distribute *Rock Dog* through cable TV and DVDs in North America and are expected to contribute revenue to the Group on an ongoing basis in the second half of 2017.

V.I.P., the first film invested by Huayi-Warner Contents Fund, which was jointly established by the Group and Warner Bros. Korea Inc., etc. during the period under review, was released in South Korea on 23 August 2017. Starring famous Korean celebrities including Jang Dong-gun and Lee Jong-suk, *V.I.P.* was directed by renowned Korean director Park Hoon-jung, who had been nominated for Baeksang Arts Awards and Dae Jong Film Awards three times, nominated for Blue Dragon Film Awards twice and received an award of Best Screenplay for the film *The Unjust* in 2011. *V.I.P.* is distributed by Warner Bros. Korea Inc., whose film *The Age of Shadows* was ranked the fourth on the Korean box office chart for 2016. Given its theme of politics and crimes, which are popular topics in recent years, the film has attracted extensive attention and become a hot topic in South Korea before it is released. Therefore, the film is believed to record excellent box office performance, and will be the first step forward for the Group to enter the film market of South Korea and increase its brand awareness gradually. Being one of the largest producers of film and TV programmes in the world, Warner Bros. Korea Inc. recorded total box office receipts of US$136 million (equivalent to approximately HK$1.06 billion) from films distributed in South Korea in 2016. Through Huayi-Warner Contents Fund, the Group will be able to participate in a large number of Korean quality film projects of excellent box office performance and reputation.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(1) Entertainment and Media Operations (Continued)

The Group has also invested in HB Entertainment Co., Ltd. ("HB Entertainment"), a well-known private producer of TV series in South Korea in 2016. The Group currently holds approximately 22% of the enlarged issued share capital of HB Entertainment, and will increase its shareholding to more than 30% gradually by early 2018. As Mainland China maintains the restriction on the import of Korean film and TV productions during the period under review, resulting in significant impact on the export of Korean film and TV productions to Mainland China. With a prudent view on the industry environment, HB Entertainment has intentionally slowed down the pace of launching new productions, with no new film or TV projects released in the first half of 2017. However, it will capitalize on opportunities to accelerate the pace of launching new productions in the year ahead, and actively explore opportunities for cooperation in international markets other than Mainland China.

(2) Healthcare and Wellness Services

During the period under review, the Group's healthcare and wellness services segment included the operations of "Beijing Bayhood No.9 Club", an offline healthcare and wellness centre, and "Kangxun Xuetang", an online platform targeted at managing chronic diseases such as diabetes.

As one of the top green health clubs in China, "Beijing Bayhood No.9 Club" comprises a comprehensive range of facilities, including a standard 18-hole golf course, lakeside golf course private VIP rooms, a spa facility, and Asia's first PGA-branded golf academy. Currently, the Group continues to operate "Beijing Bayhood No.9 Club", the healthcare and wellness centre, through a leasing arrangement, providing high-net-worth corporate and individual customers with professional and quality offline healthcare and wellness services. During the period under review, the number of members of "Beijing Bayhood No.9 Club" remained stable. In the first half of 2017, the offline healthcare business contributed revenue of approximately HK$55,918,000 to the Group, representing a slight decrease of 4% comparing to the same period in prior year.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(2) Healthcare and Wellness Services *(Continued)*

After three years of investment, the Group's online healthcare business has taken an initial shape. However, as the mobile healthcare industry of China is still groping its way towards the right direction, even the industry leaders in this sector have yet to figure out a suitable profit-making model. The Group's online healthcare business has been loss-making for the third consecutive year, posting a loss of approximately HK$3,497,000 for the period under review. Considering the development and prospect of the industry in a prudent manner, the Group disposed of the entire equity interest in Cloud Health to an independent third party on 14 July 2017. The whole of the proceeds will be used as working capital of the Group for the development of its core business. Following the completion of the disposal, the Group will cease the operation of the online healthcare business.

Business Outlook

According to the latest *Global Entertainment and Media Outlook* issued by PricewaterhouseCoopers (PwC), China has become the country with the largest number of cinemas in the world, which is still growing quickly. It is expected that there will be more than 80,000 screens in China by 2021, being twice the number of screens in the U.S., and China might become the largest film market in the world by then. The box-office growth rate of China is expected to top the world in five years. Deloitte also forecasted in *Prospects of China's Culture* and *Entertainment Industry* that China's culture and entertainment industry is expected to be worth RMB1 trillion by 2020. The Chinese film industry is going to become a RMB200 billion sector by then. Amid the gradual recovery of the world economy and the sound development of domestic economy in the phase of "new normal", the income per capita of Chinese residents will continue to grow steadily, and the demand for quality cultural products which meet their spiritual needs will be rising significantly. Meanwhile, the average spending of residents on education, culture and entertainment will also grow quickly. These create a favourable development environment for the Group to distribute quality films and TV programmes invested and produced by the Group and develop a large audience base in the Chinese market.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook *(Continued)*

In respect of the global box office receipts, according to the forecasts made by PwC, the number of screens will be on a rising trend, making the Asia-Pacific region the driver behind the global growth of film products. The box office receipts in Asia are expected to reach US$20.4 billion by 2021, and the box office receipts in North America are expected to grow to approximately US$12 billion. Though North America will see a gradual slowdown in the growth of box office receipts, it is still way ahead of other regions of the world in terms of the level of production, quality of film and TV products, application of technology, film talents, etc. In particular, Hollywood gathers the world's top film experts, and owns a large amount of cutting-edge equipment in the industry and the most sophisticated and efficient task-allocation system for film production. Hollywood blockbusters, which are highly sought after by audience worldwide, are still in a leading position in the global market, accounting for a market share of approximately 80% in most years. In view of the strong box office performance of Hollywood films, the Group will actively seek opportunities to cooperate with first-class directors and studios of great potential from Hollywood in the future, while increasing the Group's quality overseas IP resources, with an aim to obtain considerable revenue from the investments in quality film projects.

In respect of Korean film market, the favour and support of Korean audience for Korean-made films are positive for local films to maintain their market share in the Korean market. In addition, films with the theme of politics and crimes have been highly praised in recent years. The Group believes that the demand of the Korean market and other Asian markets for quality Korean films and TV programmes remains strong. Therefore, the Group will also continue to invest in selected quality Korean films and TV programmes.

In respect of healthcare and wellness services, the Group will cease the operation of the online healthcare business following the completion of the disposal of Cloud Health, and will dedicate the fund and resources formerly invested in the online healthcare business to the Group's core businesses, namely the entertainment and media. On the other hand, the Group anticipates that the operation of the offline healthcare and wellness centre "Beijing Bayhood No.9 Club" will remain steady and maintain a relatively stable revenue stream for the Group in the future.

FINANCIAL REVIEW

Continuing Operations

Sales revenue for the six months ended 30 June 2017 amounted to approximately HK$67,332,000, being an 5% increase comparing to the same period in prior year. The main growth driver attributed to the "Entertainment and Media" segment whose revenue increased by 1.4 times to approximately HK$5,569,000 (2016: HK$2,363,000), mainly due to the release of *Rock Dog* movie in the first half of 2017. Revenue from "online healthcare service" segment also increased by 45% to approximately HK$5,845,000 (2016: HK$4,024,000) for the six months ended 30 June 2017, mainly from the full operations of "Healthcare Stations" in more than 10 provinces in China in hand with insurance companies. Revenue from "Offline Healthcare and Wellness Services" segment still accounts for majority of the Group's revenue, amounting to HK$55,918,000 (2016: HK$58,032,000) for the six months ended 30 June 2017, being a 4% slight drop comparing to the same period in prior year.

Cost of sales for the six months ended 30 June 2017 amounted to approximately HK$97,156,000 (2016: HK$36,346,000), being a 1.7 time increase comparing to the same period in prior year. The significant increase is mainly attributed to the "Entertainment and Media" segment, resulting from the impairment of certain film rights amounting to approximately HK$41,195,000 (2016: nil) and the amortization of film rights of approximately HK$13,398,000 (2016: nil) in line with the corresponding release of film rights during the period. In view of the actual box office performance of certain film rights distribution in certain markets during the period was below expectation, management performed an impairment assessment for film rights as at 30 June 2017. By using the latest available information and best estimates as at 30 June 2017, the carrying value of the film rights was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film rights, including expected future box office performance in different markets around the globe, other revenue streams that the film rights can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs of these circulations and distributions. The impairment assessment was further updated with the actual box office performance up to the date of this report. Accordingly, impairment of film rights and prepayments amounting to approximately HK$41,195,000 (2016: nil) and HK$15,572,000 (2016: nil) was recognized for the six months ended 30 June 2017, and was included in cost of sales and administrative expenses respectively during the period.

Other income and other gains/(losses), net, mainly comprising of exchange differences, amounting to a net gain of approximately HK$21,444,000 (2016: a net loss of HK$14,019,000). During the six months ended 30 June 2017, Chinese Renminbi appreciates significantly against Hong Kong dollars. On the other hand, there was a material depreciation of Chinese Renminbi against Hong Kong dollars during the same period in prior year.

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

Marketing and selling expenses for the six months ended 30 June 2017 further decreased to approximately HK$1,023,000 (2016: HK$2,649,000). The marketing and selling expenses during the period were mainly attributed to the "online healthcare services" segment. As mentioned in our 2016 annual report, management has continued to place strict control on expense spending and commitment, with free or subsidized distribution of smart blood glucose meters and test strips to new subscribers being substantially limited, leading to reduction in marketing and selling expenses.

Administrative expenses for the six months ended 30 June 2017 significantly decreased to approximately HK$62,195,000 (2016: HK$69,008,000). The fluctuation is mainly due to the following factors.

(i) During the six months ended 30 June 2016, the Group has incurred legal and professional expenses of approximately HK$26 million, most of which was incurred for the share subscription completed in February 2016. On the other hand, there was no similar material legal and professional fees being incurred during the six months ended 30 June 2017, leading to the significant reduction in administrative expenses during the period;

(ii) As mentioned above, a provision for impairment of prepayments of approximately HK$15,572,000 (2016: nil) was recorded during the six months ended 30 June 2017; and

(iii) A provision for impairment of investment in an associate (ie. HB Entertainment) of approximately HK$6,322,000,(2016: nil) was recorded during the six months ended 30 June 2017, mainly due to deterioration of expected future cash flows from HB Entertainment which is affected by the prominent market drop in the export of the contents to the PRC from Korean entertainment companies since the fourth quarter of 2016.

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

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

Finance cost, net, representing the net of imputed finance cost on discounting non-current rental deposits paid and received, amounted to a net cost of approximately HK$13,000 (2016: net costs of HK$200,000) during the six months ended 30 June 2017.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 30 June 2017, the Group held cash and cash equivalents of approximately HK$72,428,000, being a 2% increase comparing to the balance as at 31 December 2016.

The Group is at net current asset position of HK$334,222,000 as at 30 June 2017 (31 December 2016: HK$336,963,000). The current ratio, representing the total current assets to the total current liabilities, slight decreased from 5.39 as at 31 December 2016 to 4.90 as at 30 June 2017, still representing a very healthy liquidity position.

The debt to equity ratio, representing the sum of borrowings to total equity, is nil as at 30 June 2017 and 31 December 2016. The Group has no borrowing as at 30 June 2017 and 31 December 2016.

Foreign Currency Exchange Exposure

The Group mainly operates in China and Hong Kong and is only exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. During the period, appreciation in Chinese Renminbi against Hong Kong dollars resulted in significant exchange gain of approximately HK$21,035,000 (2016: exchange loss of approximately HK$12,232,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi but manages through constant monitoring to limit as much as possible its net exposures.

LIQUIDITY AND CAPITAL RESOURCES *(Continued)*

Foreign Currency Exchange Exposure *(Continued)*

In August 2016, the Group has completed the acquisition of a minority interests in HB Entertainment in South Korea and the investment was classified as Interests in Associates. The consideration for the acquisition was denominated in Korean Won ("KRW"). The Group has settled partial consideration of approximately KRW27.0 billion in August 2016 and is expected to make further settlement of considerations of approximately KRW12.3 billion within the next 12 months. The Group is considering of entering into forward contract arrangements or through other similar means to hedge its foreign currency exposure from KRW regarding the expected settlement.

Capital Structure

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

During the six months ended 30 June 2016, the Company has issued 6,837,619,860 subscription shares at HK$0.08 per share. There was no equity financing incurred during the six months ended 30 June 2017.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, none of the Group's assets was charged and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 30 June 2017, the Group employed a total of 70 (31 December 2016: 72) full-time employees in Hong Kong and the PRC, and continued to manage "Beijing Bayhood No. 9 Club" operations with 462 (31 December 2016: 451) full-time employees in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

OTHER INFORMATION

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

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

SHARE OPTION SCHEME

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

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

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

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

SHARE OPTION SCHEME *(Continued)*

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

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

During the period, no share options were granted, exercised, cancelled or lapsed, and there were no outstanding options under the Share Option Scheme as at 1 January 2017 and 30 June 2017. As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 1,349,810,657 which represents approximately 10% of the total issued shares of the Company at the date of refreshment of the Share Option Scheme in 2016.

OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long positions in ordinary shares of the Company:

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

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

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

Note:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 30 June 2017.

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

Save as disclosed above, as at 30 June 2017, none of the Directors, Chief Executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the following persons (other than Directors or Chief Executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note a)
Huayi Brothers Media Corporation	Interest of a controlled corporation (Note b)	Corporation interest	2,452,447,978	18.17
Huayi Brothers International Limited	Beneficial owner	Beneficial interest	2,452,447,978	18.17
Tencent Holdings Limited	Interest of a controlled corporation (Note c)	Corporation interest	2,116,251,467	15.68
MIH TC Holdings Limited	Interest of a controlled corporation (Note d)	Corporation interest	2,116,251,467	15.68
Naspers Limited	Interest of a controlled corporation (Note d)	Corporation interest	2,116,251,467	15.68
YUEN Hoi Po	Beneficial owner and interest of controlled corporations (Note e)	Beneficial and corporation interest	2,115,492,607	15.67

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

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

Name of Shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note a)
Smart Concept Enterprise Limited	Beneficial owner	Beneficial interest	1,837,000,000	13.61
Rich Public Limited	Beneficial owner (Note f)	Beneficial interest	139,492,607	1.03
Ming Bang Limited	Interest of a controlled corporation (Note g)	Corporation interest	139,492,607	1.03

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

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

Notes:

a. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 30 June 2017.

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

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

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

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

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

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

Save as disclosed above, as at 30 June 2017, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance. Throughout the six months ended 30 June 2017, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules with the exception of the following deviation:–

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period, these roles of the Company have not been separate. Mr. WANG Zhongjun has performed the roles of chairman ("Chairman") and chief executive officer ("CEO") of the Company.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT PERSONS

The Company has adopted a code of conduct for securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

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

OTHER INFORMATION

REVIEW OF INTERIM REPORT

The Audit Committee comprising of three Independent Non-executive Directors, namely Mr. YUEN Kin (Audit Committee Chairman), Mr. CHU Yuguo and Dr. WONG Yau Kar, David has reviewed the Group's unaudited interim report for the six months ended 30 June 2017 together with the Company's independent auditor and there were no disagreements with any accounting treatment.

OTHER CHANGES IN DIRECTORS' INFORMATION

Except the following, no other changes in Directors' information are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of 2016 Annual Report:

Dr. WONG Yau Kar, David was awarded a Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region in 2017.

By Order of the Board
WANG Zhongjun
Chairman

Hong Kong, 28 August 2017

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF
HUAYI TENCENT ENTERTAINMENT COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 27 to 69, which comprises the condensed consolidated interim balance sheet of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2017

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Continuing Operations			
Revenue	4	**67,332**	64,419
Cost of sales		**(97,156)**	(36,346)
Gross (loss)/profit		**(29,824)**	28,073
Other income and other gains/(losses), net	5	**21,444**	(14,019)
Marketing and selling expenses		**(1,023)**	(2,649)
Administrative expenses		**(62,195)**	(69,008)
Share of result of an associate		**(815)**	—
		(72,413)	(57,603)
Finance cost, net	6	**(13)**	(200)
Loss before taxation	7	**(72,426)**	(57,803)
Taxation	8	**(344)**	(840)
Loss for the period from continuing operations		**(72,770)**	(58,643)
Discontinued Operation			
Profit for the period from discontinued operation	18	**97**	—
Loss for the period		**(72,673)**	(58,643)
(Loss)/profit attributable to:			
Equity holders of the Company			
— continuing operations		**(73,398)**	(58,601)
— discontinued operation		**97**	—
		(73,301)	(58,601)
Non-controlling interest			
— continuing operation		**628**	(42)
		(72,673)	(58,643)

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Note	**HK Cents**	HK Cents
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted loss per share	9		
— from continuing operations		**(0.54)**	(0.48)
— from discontinued operation		**—**	—
		(0.54)	(0.48)

The notes on pages 34 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period	**(72,673)**	(58,643)
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to profit or loss		
Fair value losses on available-for-sale financial assets	**(319)**	—
Currency translation differences	**(8,837)**	6,559
Other comprehensive (loss)/income for the period, net of tax	**(9,156)**	6,559
Total comprehensive loss for the period	**(81,829)**	(52,084)
Total comprehensive loss attributable to:		
Equity holders of the Company		
— continuing operations	**(82,520)**	(52,091)
— discontinued operation	**97**	—
	(82,423)	(52,091)
Non-controlling interest		
— continuing operation	**594**	7
	(81,829)	(52,084)

The notes on pages 34 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2017

	Note	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**14,172**	15,940
Film right and film production in progress	12	**313,695**	367,602
Other intangible assets		**8**	10
Interest in an associate	13	**185,058**	190,501
Available-for-sale financial assets	14	**18,596**	12,101
Deferred income tax assets		**2,300**	2,142
Prepayments, deposits and other receivables		**68,818**	91,834
		602,647	680,130
Current assets			
Trade receivables	15	**75**	73
Inventories		**7,016**	6,942
Programmes and film production in progress		**48,335**	50,252
Prepayments, deposits and other receivables		**39,062**	40,164
Cash and cash equivalents		**72,428**	70,842
		166,916	168,273
Assets of disposal group classified as held for sale	18	**253,010**	245,441
		419,926	413,714
Total assets		**1,022,573**	1,093,844

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2017

	Note	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	17	**269,962**	269,962
Reserves		**652,990**	735,413
		922,952	1,005,375
Non-controlling interest		**(912)**	(1,506)
Total equity		**922,040**	1,003,869
Liabilities			
Non-current liabilities			
Other payables		**13,354**	12,221
Deferred income tax liabilities		**1,475**	1,003
		14,829	13,224
Current liabilities			
Trade payables	16	**2,270**	2,518
Receipt in advance, other payables and accrued liabilities		**23,932**	14,787
Income tax liabilities		**57,378**	57,378
		83,580	74,683
Liabilities of disposal group classified as held for sale	18	**2,124**	2,068
		85,704	76,751
Total liabilities		**100,533**	89,975
Total equity and liabilities		**1,022,573**	1,093,844

The notes on pages 34 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash generated from/(used in) operating activities	**10,603**	(49,241)
Cash flows from investing activities		
Bank interest received	**407**	694
Disposals of investment securities	**—**	9,200
Investment in available-for-sale financial assets	**(6,814)**	—
Purchase of property, plant and equipment	**(3,185)**	(5,712)
Proceeds from disposals of property, plant and equipment	**—**	50
Purchase of film right and film production in progress	**—**	(536,250)
Repayment received from a joint venture	**—**	1,190
Proceeds from disposal of a joint venture	**—**	182
Net cash used in disposals of subsidiaries	**—**	(7)
Net cash used in investing activities	**(9,592)**	(530,653)
Cash flows from financing activities		
Proceeds from issuance of subscription shares	**—**	547,009
Dividend paid	**—**	(1,701)
Net cash generated from financing activities	**—**	545,308
Net increase/(decrease) in cash and cash equivalents	**1,011**	(34,586)
Cash and cash equivalents at 1 January	**70,842**	280,400
Currency translation differences	**779**	(334)
Cash and cash equivalents at 30 June	**72,632**	245,480
Analysis of cash and cash equivalents:		
Cash and cash equivalents of the Group	**72,632**	245,480
Reclassification to assets of disposal group held for sale	**(204)**	—
	72,428	245,480

The notes on pages 34 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(Unaudited)

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital redemption reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-Controlling Interest HK$'000	Total HK$'000
Balance at 1 January 2017	269,962	1,213,484	860,640	1,206	–	99,384	(1,439,301)	1,005,375	(1,506)	1,003,869
(Loss)/profit for the period	–	–	–	–	–	–	(73,301)	(73,301)	628	(72,673)
Other comprehensive loss	–	–	–	–	(319)	(8,803)	–	(9,122)	(34)	(9,156)
Total comprehensive (loss)/income	–	–	–	–	(319)	(8,803)	(73,301)	(82,423)	594	(81,829)
Balance at 30 June 2017	269,962	1,213,484	860,640	1,206	(319)	90,581	(1,512,602)	922,952	(912)	922,040

(Unaudited)

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital redemption reserve HK$'000	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-Controlling Interest HK$'000	Total HK$'000
Balance at 1 January 2016	133,210	803,227	860,640	1,206	80,723	(1,299,795)	579,211	(2,356)	576,855
Loss for the period	–	–	–	–	–	(58,601)	(58,601)	(42)	(58,643)
Other comprehensive income	–	–	–	–	6,510	–	6,510	49	6,559
Total comprehensive income/(loss) for the period	–	–	–	–	6,510	(58,601)	(52,091)	7	(52,084)
Transactions with owners in their capacity as owners:									
Issuance of subscription shares	136,752	410,257	–	–	–	–	547,009	–	547,009
Balance at 30 June 2016	269,962	1,213,484	860,640	1,206	87,233	(1,358,396)	1,074,129	(2,349)	1,071,780

The notes on pages 34 to 69 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in (i) entertainment and media business; and (ii) provision of online and offline healthcare and wellness services.

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

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousand Hong Kong dollars (HK$'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 28 August 2017.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT

(i) Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) New, revised and amended standards and interpretations to existing standards effective in 2017 adopted by the Group

The Group has adopted the following new, revised and amended standards and interpretations to existing standards ("new HKFRSs") that have been issued and are effective for the Group's accounting period beginning on 1 January 2017:

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

The adoption of the above new HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Accounting Policies *(Continued)*

(b) New standards and amendments to existing standards that are not effective and have not been early adopted by the Group

The following new, revised and amended standards and interpretations to existing standards have been issued, but are not effective for the financial period beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 9 (Note (i))	Financial instruments	1 January 2018
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 15 (Note (ii))	Revenue from contracts with customers	1 January 2018
HKFRS 16 (Note (iii))	Leases	1 January 2019

(i) HKFRS 9 Financial instruments

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt HKFRS 9 before its mandatory date.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Accounting Policies *(Continued)*

(b) ***New standards and amendments to existing standards that are not effective and have not been early adopted by the Group*** *(Continued)*

(i) HKFRS 9 Financial instruments (Continued)

The available-for-sale financial assets appear to satisfy the conditions for classifications at fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting of these assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Accounting Policies *(Continued)*

(b) ***New standards and amendments to existing standards that are not effective and have not been early adopted by the Group*** *(Continued)*

(i) HKFRS 9 Financial instruments (Continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) HKFRS 15 Revenue from contracts with customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Accounting Policies *(Continued)*

(b) ***New standards and amendments to existing standards that are not effective and have not been early adopted by the Group*** *(Continued)*

(ii) HKFRS 15 Revenue from contracts with customers (Continued)

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect. The Group does not expect to adopt the new standard before 1 January 2018.

(iii) HKFRS 16 Leases

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases. The standard replaces HKAS 17 'Leases' and related interpretations. The Group is a lessee of office premises, operation rights of "Beijing Bayhood No.9 Club" and healthcare and wellness centre which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2(v) to the consolidated financial statements for the year ended 31 December 2016. The Group had total future minimum lease payments under non-cancellable operating leases of HK$160,406,000, which are not reflected in the condensed consolidated interim balance sheet.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Accounting Policies *(Continued)*

(b) New standards and amendments to existing standards that are not effective and have not been early adopted by the Group (Continued)

(iii) HKFRS 16 Leases (Continued)

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the consolidated balance sheet. Instead, all non-current leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in right-of-use asset and an increase in financial liability in the consolidated balance sheet. This will affect related ratios, such as increase in debt to capital ratio. In the consolidated income statement, leases will be recognized in the future as depreciation and amortization and will no longer be recorded as property rental and related expenses. Interest expense on the lease liability will be presented separately from depreciation and amortization under finance costs. As a result, the property rental and related expenses under otherwise identical circumstances will decrease, while depreciation and amortization and the interest expense will increase. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term. The accounting for lessors will not significantly change. The new standard is not expected to apply until the financial year 2019, including the adjustment of prior years. Management expects the impacts on the Group's financial results and position upon the adoption of HKFRS16 are material.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the additional estimates that are required in determining the provision for impairment of interests in an associate.

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Estimates *(Continued)*

(a) Impairment of interest in an associate

The Group assesses at the end of each reporting period whether there is any objective evidence that the interest in an associate is impaired, in accordance with the applicable accounting policy as stated in note 2(b)(vii) to the consolidated financial statements for the year ended 31 December 2016. The recoverable amounts have been determined at the higher of fair value less costs to sell and value in use. Value-in-use calculation use cash flow projections based on financial budgets approved by management. Cash flows beyond the budget period are extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the business in which the associate operates, Management's judgement is required in assessing the ultimate realization of these investments, including the operations and the ability to generate economic benefits in the foreseeable future. If the operations of the associate was to deteriorate, resulting in an impairment of its ability to recover the carrying amount, additional impairment may be required.

For the six months ended 30 June 2017, the Group has recognized provision for impairment of interest in an associate of approximately HK$6,322,000 (2016: nil).

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Financial Risk Management and Financial Instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, foreign exchange risk, price risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since year end.

(b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

(c) Fair value estimation

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

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

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Financial Risk Management and Financial Instruments *(Continued)*

(c) Fair value estimation *(Continued)*

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 30 June 2017				
Available-for-sale financial assets	**–**	**–**	**18,596**	**18,596**
At 31 December 2016				
Available-for-sale financial assets	–	–	12,101	12,101

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

There were no transfers between levels 1, 2 and 3, and no change in valuation techniques during the period.

4. SEGMENT INFORMATION

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

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

There are no sales between the operating segments in the period (2016: nil).

4. SEGMENT INFORMATION *(Continued)*

(a) Business segment

The segment results for the six months ended 30 June 2017 are as follows:

	Entertainment and Media (Unaudited) HK$'000	Online Healthcare Service (Unaudited) HK$'000	Offline Healthcare and Wellness Services (Unaudited) HK$'000	Total Continuing Operations (Unaudited) HK$'000	Discontinued Operation: Entertainment and Media – Beijing Hao You Media Culture Co., Ltd ("Hao You") (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue	5,569	5,845	55,918	67,332	–	67,332
Share of result of an associate	(815)	–	–	(815)	–	(815)
Segment results	(71,374)	(3,497)	(7,874)	(82,745)	97	(82,648)
Exchange gains, net				21,034	–	21,034
Unallocated expenses, net				(10,702)	–	(10,702)
				(72,413)	97	(72,316)
Finance costs, net				(13)	–	(13)
(Loss)/profit before taxation				(72,426)	97	(72,329)
Taxation				(344)	–	(344)
(Loss)/profit for the period				(72,770)	97	(72,673)
Non-controlling interest				(628)	–	(628)
(Loss)/profit for the period attributable to equity holders of the Company				(73,398)	97	(73,301)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

The segment results for the six months ended 30 June 2017 are as follows: *(Continued)*

	Entertainment and Media (Unaudited) HK$'000	Online Healthcare Service (Unaudited) HK$'000	Offline Healthcare and Wellness Services (Unaudited) HK$'000	Total Continuing Operations (Unaudited) HK$'000	Discontinued Operation: Entertainment and Media – Hao You (Unaudited) HK$'000	Total (Unaudited) HK$'000
Segment assets	590,998	17,397	107,390	715,785	253,010	968,795
Unallocated assets				53,778	–	53,778
Total assets				769,563	253,010	1,022,573
Segment liabilities	3,213	8,385	30,191	41,789	2,124	43,913
Unallocated liabilities				56,620	–	56,620
Total liabilities				98,409	2,124	100,533
Other Information:						
Purchases of property, plant and equipment						
– Allocated	–	3	1,520	1,523	–	1,523
– Unallocated				5	–	5
Depreciation						
– Allocated	72	1,556	1,691	3,319	–	3,319
– Unallocated				338	–	338
Amortization	–	–	2	2	–	2
Amortization of film right	13,398	–	–	13,398	–	13,398
Impairment of film right	41,195	–	–	41,195	–	41,195
Impairment of prepayments	15,572	–	–	15,572	–	15,572
Impairment of interest in an associate	6,322	–	–	6,322	–	6,322

4. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

The segment results for the six months ended 30 June 2016 are as follows:

	Entertainment and Media (Unaudited) HK$'000	Online Healthcare Service (Unaudited) HK$'000	Offline Healthcare and Wellness Services (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue	2,363	4,024	58,032	64,419
Segment results	1,910	(7,955)	2,920	(3,125)
Exchange losses, net				(12,232)
Unallocated expenses, net				(42,246)
				(57,603)
Finance costs, net				(200)
Loss before taxation				(57,803)
Taxation				(840)
Loss for the period				(58,643)
Non-controlling interest				42
Loss for the period attributable to equity holders of the Company				(58,601)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

The segment results for the six months ended 30 June 2016 are as follows: *(Continued)*

	Entertainment and Media (Unaudited) HK$'000	Online Healthcare Service (Unaudited) HK$'000	Offline Healthcare and Wellness Services (Unaudited) HK$'000	Total (Unaudited) HK$'000
Segment assets	678,262	17,386	111,790	807,438
Interests in a joint venture	161,065	–	–	161,065
Unallocated assets				194,667
Total assets				1,163,170
Segment liabilities	3,288	8,595	25,968	37,851
Unallocated liabilities				53,539
Total liabilities				91,390
Other information:				
Purchases of property, plant and equipment				
– Allocated	7	3,091	2,608	5,706
– Unallocated				6
Purchases of film right and film production in progress	536,250	–	–	536,250
Depreciation				
– Allocated	157	1,428	1,429	3,014
– Unallocated				18
Amortization	–	–	2	2

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segment

The segment results for the six months ended 30 June 2017 and 2016 are as follow:

	Revenue from external customers		Non-current assets	
	30 June 2017 HK'000	30 June 2016 HK'000	**30 June 2017 HK'000**	30 June 2016 HK'000
The People's Republic of China (the "PRC")	**61,763**	64,419	**97,176**	119,134
Hong Kong	**—**	—	**11,166**	27
South Korea	**—**	—	**203,654**	—
Other countries	**5,569**	—	**290,651**	536,250
	67,332	64,419	**602,647**	655,411

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income	**407**	694
Realized loss on financial assets at fair value through profit or loss, net	**—**	(4,700)
Exchange gains/(losses), net	**21,034**	(12,232)
Gains on disposals of subsidiaries and a joint venture	**—**	1,697
Miscellaneous	**3**	522
	21,444	(14,019)

6. FINANCE COST, NET

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Finance cost		
Imputed finance cost on discounting non-current rental deposits received	**(60)**	(313)
Finance income		
Imputed finance income on discounting non-current rental deposits paid	**47**	113
Finance cost, net	**(13)**	(200)

7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation of property, plant and equipment (Note 11)	**3,657**	3,032
Amortization of film right (Note 12)	**13,398**	—
Provision for impairment of:		
— film right (Note 12)	**41,195**	—
— prepayments	**15,572**	—
— interest in an associate (Note 13)	**6,322**	—
Employee benefit expenses:		
Directors' fees	**300**	300
Wages and salaries	**11,090**	9,761
Contributions to defined contribution pension schemes	**1,132**	1,074
	12,522	11,135

8. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period (2016: no Hong Kong profits tax has been provided as there was no assessable profit from Hong Kong for the period). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the regions/countries in which the Group operates.

PRC Corporate Income Tax has been provided at the rate of 25% (2016: 25%) on the estimated assessable profit for the period.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
— Hong Kong profits tax	**—**	—
— PRC corporate income tax	**—**	(808)
Deferred income tax	**(344)**	(32)
Income tax expense	**(344)**	(840)

The weighted average applicable tax rate for the six months ended 30 June 2017 was 15.9% (2016: 18.3%).

9. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue (thousands)	**13,498,107**	12,183,180
Loss from continuing operations attributable to equity holders of the Company (HK$'000)	**(73,398)**	(58,601)
Basic loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**(0.54)**	(0.48)
Profit from discontinued operation attributable to equity holders of the Company (HK$'000)	**97**	—
Basic earnings per share from discontinued operation attributable to equity holders of the Company (HK cents per share)	**—**	—
Basic loss per share attributable to equity holders of the Company (HK cents per share)	**(0.54)**	(0.48)

Diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares for the six months ended 30 June 2017 (2016: same).

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2017 (2016: nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Unaudited) HK$'000	Machinery and equipment (Unaudited) HK$'000	Furniture, computer and equipment (Unaudited) HK$'000	Leasehold improvements (Unaudited) HK$'000	Motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Six months ended 30 June 2017						
Opening net book amount	–	6,516	1,452	5,987	1,985	15,940
Additions	–	1,044	228	241	15	1,528
Disposals	–	–	(234)	(420)	–	(654)
Depreciation	–	(1,407)	(228)	(1,828)	(194)	(3,657)
Exchange difference	–	193	239	525	58	1,015
Closing net book amount	–	6,346	1,457	4,505	1,864	14,172

	Buildings (Unaudited) HK$'000	Machinery and equipment (Unaudited) HK$'000	Furniture, computer and equipment (Unaudited) HK$'000	Leasehold improvements (Unaudited) HK$'000	Motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Six months ended 30 June 2016						
Opening net book amount	678	6,140	1,239	6,654	1,023	15,734
Additions	–	3,076	891	378	1,367	5,712
Disposals	–	–	(46)	–	(167)	(213)
Disposal of subsidiaries	(671)	(2)	–	–	–	(673)
Depreciation	–	(1,233)	(313)	(1,431)	(55)	(3,032)
Exchange difference	(7)	(120)	(67)	(122)	(32)	(348)
Closing net book amount	–	7,861	1,704	5,479	2,136	17,180

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses of approximately HK$1,472,000 (2016: HK$1,224,000) and HK$2,185,000 (2016: HK$1,808,000) have been charged in cost of sales and administrative expenses, respectively.

12. FILM RIGHT AND FILM PRODUCTION IN PROGRESS

	Film right (Unaudited) HK$'000	Film production in progress (Unaudited) HK$'000	Total (Unaudited) HK$'000
Six months ended 30 June 2017			
Opening net book amount	74,931	292,671	367,602
Amortization	(13,398)	–	(13,398)
Impairment	(41,195)	–	(41,195)
Exchange difference	–	686	686
Closing net book amount	20,338	293,357	313,695
At 30 June 2017			
Cost	124,761	293,357	418,118
Accumulated amortization	(19,177)	–	(19,177)
Impairment	(85,246)	–	(85,246)
Net book amount	20,338	293,357	313,695

12. FILM RIGHT AND FILM PRODUCTION IN PROGRESS *(Continued)*

	Film right (Unaudited) HK$'000	Film production in progress (Unaudited) HK$'000	Total (Unaudited) HK$'000
Six months ended 30 June 2016			
Opening net book amount	—	23,872	23,872
Additions	—	536,250	536,250
Reclassification	171,292	(171,292)	—
Exchange difference	—	(475)	(475)
Closing net book amount	171,292	388,355	559,647
At 30 June 2016			
Cost	171,292	388,355	559,647
Accumulated amortization and impairment	—	—	—
Net book amount	171,292	388,355	559,647

Amortization of film right of approximately HK$13,398,000 (2016: nil) has been charged in condensed consolidated interim income statement.

In view of the actual box office performance of certain film right distribution in certain markets during the period was below expectation, management performed an impairment assessment for film right as at 30 June 2017. By using the latest available information and best estimates as at 30 June 2017, the carrying value of the film right was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film right, including expected future box office performance in different markets around the globe, other revenue streams that the film right can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. Accordingly, impairment of film right and prepayments amounting to approximately HK$41,195,000 and HK$15,572,000, respectively, was recognized for the period ended 30 June 2017, and was included in cost of sales and administrative expenses, respectively.

13. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 30 June 2017 which, in the opinion of the directors, is material to the Group. The associate is a private company and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interest in the associate, and there are no contingent liabilities and commitments of the associate itself.

Nature of interest in an associate as at 30 June 2017 is as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2017	2016	
HB Entertainment Co., Ltd ("HB Entertainment") (Note)	South Korea, limited liability company	**22%**	N/A	Production of and investment in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea

Note: On 23 March 2016, the Company, HB Entertainment, Ms. Bo Mi Moon ("Major Shareholder") and HB Corporation entered into an investment agreement ("Investment Agreement"). Pursuant to the Investment Agreement: (a) the Company will subscribe for 23,334 convertible preferred stock at the subscription price of KRW14,042.4 million (equivalent to approximately HK$92.7 million) ("CPS Subscription"); and (b) the Company will purchase 46,666 common stocks in HB Entertainment from Major Shareholder and HB Corporation. The Company has completed both the first CPS subscription and share purchase on 16 August 2016. As of 30 June 2017, the Company holds approximately 22% of equity interest in HB Entertainment, and the Company's shareholdings in HB Entertainment will gradually increase to 30% by early 2018.

13. INTEREST IN AN ASSOCIATE *(Continued)*

Impairment of interest in an associate

For the period ended 30 June 2017, provision for impairment of interest in HB Entertainment of approximately HK$6,322,000 (2016: nil) has been charged in the condensed consolidated interim income statement, mainly due to deterioration of expected future cash flows from HB Entertainment which is affected by the prominent market drop in the export of contents to the PRC from Korean entertainment companies since the fourth quarter of 2016. Recoverable amount has been determined by value-in-use calculation of present value of expected future cash flows.

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

	As at 30 June 2017
Compound annual growth rate of revenue in five-year period	27.6%
Annual growth rate beyond the five-year period	3.5%
Discount rate	14.9%

Management determined the compound annual growth rate of revenue in five-year period and annual growth rate beyond the five-year period based on past performance, industry forecast and its budget of market development. The discount rate used reflected specific risks relating to this CGU.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Total available-for-sale financial assets	**18,596**	12,101

Available-for-sale financial assets include convertible preferred stocks issued by HB Entertainment and interests in Huayi-Warner Contents Fund (see below for details), which are unlisted securities.

On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of KRW 1 billion (equivalent to approximately HK$6.8 million) for the establishment of Huayi-Warner Contents Fund. It represented 10% of the total capital contribution to the fund up to the time of its establishment. The Fund's capital shall be invested in film projects that are produced and distributed by Warner Bros. Korea Inc.

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

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

15. TRADE RECEIVABLES

The majority of the Group's sales are on letter of credit or documents against payment. The remaining amounts are with credit terms of over 6 months and which are mostly covered by customers' standby letters of credit or bank guarantees. At 30 June 2017 and 31 December 2016, the aging analysis of the trade receivables based on invoice date were as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Trade receivables		
0–3 months	–	73
Over 1 year	12,704	12,254
	12,704	12,327
Provision for doubtful debts	(12,629)	(12,254)
	75	73

16. TRADE PAYABLES

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
0–3 months	2,270	—
4–6 months	–	—
Over 6 months	–	2,518
	2,270	2,518

17. SHARE CAPITAL

	Ordinary shares of HK$0.02 each		Preference shares of HK$0.01 each		
	Number of shares		Number of shares		Total
	'000	HK$'000	'000	HK$'000	HK$'000
Authorized:					
At 30 June 2017 (Unaudited) (Note (a))	**150,000,000**	**3,000,000**	**240,760**	**2,408**	**3,002,408**
At 31 December 2016 (Audited) (Note (a))	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2017 and 30 June 2017 (Unaudited)	**13,498,107**	**269,962**	**–**	**–**	**269,962**
At 1 January 2016	6,660,487	133,210	–	–	133,210
Issuance of subscription shares (Note (b))	6,837,620	136,752	–	–	136,752
At 30 June 2016 (Unaudited)	13,498,107	269,962	–	–	269,962

17. SHARE CAPITAL *(Continued)*

Notes:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 shares (2016: 150,000,000,000 shares) are ordinary shares with par value of HK$0.02 per share (2016: HK$0.02). 240,760,000 shares (2016: 240,760,000 shares) are preference shares with par value of HK$0.01 per share (2016: HK$0.01).

(b) Subscription shares

On 5 February 2016, the Company completed the issuance and allotment of 6,837,619,860 subscription shares, representing 50.66% of the Company's enlarged share capital, at an issue price of HK$0.08 per share subscribed for by a number of new investors ("Subscription"). The aggregate gross subscription consideration amounted to approximately HK$547,010,000. Immediately after the Subscription, the Company has 13,498,106,577 ordinary shares in issue.

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

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

17. SHARE CAPITAL *(Continued)*

Share Option

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

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the six months ended 30 June 2017, no share option (2016: Nil) have been granted under the New Option Scheme and no share-based payment expense (2016: Nil) has been charged to the condensed consolidated interim income statement.

During the six months ended 30 June 2017, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Option Scheme as at 30 June 2017 (2016: Nil).

18. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

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

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

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

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

The abovementioned transaction has not yet been completed as at the date of the interim report.

18. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION *(Continued)*

Assets of disposal group classified as held for sale as at 30 June 2017 are as follows:

	HK$'000
Property, plant and equipment	1,139
Interest in an associate	92,177
Amount due from an associate	159,490
Cash and cash equivalents	204
	253,010

Liabilities of disposal group classified as held for sale as at 30 June 2017 are as follows:

	HK$'000
Trade payables, other payables and accruals	2,124

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

	Six months ended 30 June 2017
	HK$'000
Currency translation differences	**(7,460)**

18. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION *(Continued)*

Analysis of the result of discontinued operation, and the result recognized on the re-measurement of assets, is as follows:

	Six months ended 30 June 2016 HK$'000
Other income and other gains, net	97
Profit before taxation of discontinued operation	97
Taxation	—
Profit for the period from discontinued operation	97

Analysis of the cash flows of discontinued operation is as follows:

	Six months ended 30 June 2017 HK$'000
Operating cash flows	**47**
Investing cash flows	**—**
Financing cash flows	**—**
Total cash flows	**47**

19. COMMITMENTS

(a) Capital commitment

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Property, plant and equipment	**414**	—

(b) Operating lease commitment

(i) Lessor

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Not later than one year	**28,806**	40,308
Later than one year and not later than five years	**91,785**	129,528
Later than five years	**69,487**	98,018
	190,078	267,854

19. COMMITMENTS *(Continued)*

(b) Operating lease commitment *(Continued)*

(ii) Lessee

At 30 June 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Not later than one year	**17,267**	19,823
Later than one year and not later than five years	**69,740**	71,139
Later than five years	**73,399**	82,014
	160,406	172,976

20. SUBSEQUENT EVENT

On 14 July 2017, the Group entered into a conditional Sales and Purchases Agreement to dispose of the entire equity interest in Beijing Bayhood No.9 Cloud Health Technology Company Limited, an indirect wholly-owned subsidiary, to Riswein Health Industry Investment Co., Ltd. for a cash consideration of RMB10 million (equivalent to approximately HK$12 million) (the "Disposal"). The operation of online healthcare service segment will be discontinued upon completion of the Disposal.

As of the date of this interim report, the Disposal is not yet completed.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. HAU Wai Man, Raymond

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

SOLICITORS

Baker & McKenzie
Guantao Law Firm

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL OFFICE IN HONG KONG

Suite 908, 9/F
Tower Two, Lippo Centre
89 Queensway, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

WEBSITE

www.huayitencent.com