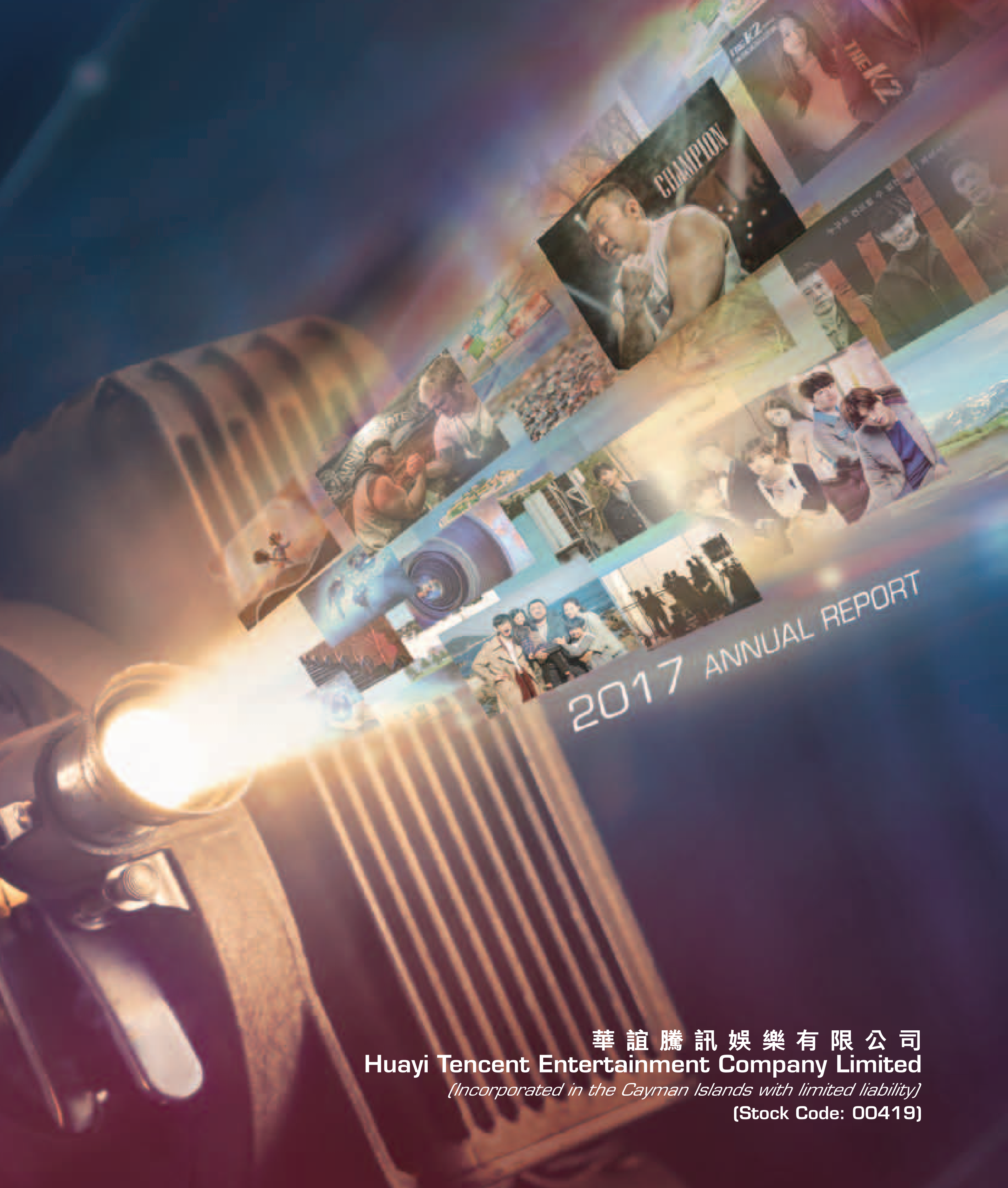
H.BROTHERS ENTERTAINMENT
華誼騰訊娛樂




# 2017 ANNUAL 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)**

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

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

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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**

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

**Independent Non-Executive Directors**

Dr. WONG Yau Kar, David, *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

Woo Kwan Lee & Lo
Guantao Law Firm

## REGISTERED OFFICE

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Cayman Islands

## PRINCIPAL OFFICE IN HONG KONG

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Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
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## WEBSITE

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# CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2017.

The Chinese film market showed clear signs of recovery in 2017, with gross box office receipts recording a year-on-year increase of 13.45% to RMB55.911 billion, a significant improvement over the marginal growth of 3% in 2016. In addition, we are pleased to realise that the audience is focusing more on film quality, as evidenced by the popularity of quality productions. Word of mouth among the audience has been showing greatly enhanced influence on box-office performance. Take *Youth (《芳華》)* for example, according to statistics from Maoyan (a box office database in Mainland China), the film still claimed 17.1% of the box office receipts on 1 January 2018 – the 18th day since its first release – second only to *The Ex-File 3: The Return of the Exes (《前任3:再見前任》)* In 2017, many films with positive reviews, including *Youth* and *The Ex-File 3: The Return of the Exes* – both distributed by Huayi Brothers Media Corporation ("Huayi Brothers") – gained more screenings with good reviews, which ultimately led to extremely satisfactory box-office performance. This indicates that the Chinese film industry has officially entered an era where box office is driven by content. After the introduction of Huayi Brothers and Tencent Holdings Limited ("Tencent") as our controlling shareholders in 2016, we have confirmed the strategy to build the Group into a listing platform for those engaged in the development of overseas media and entertainment industry. The Group has been actively seeking opportunities to invest in projects from Hollywood and South Korea ever since, with a view to creating quality international productions in collaboration with celebrated directors/studios from overseas. The Group remains affirmative that producing and accumulating quality content products is the only way to build and enhance industry influence. Therefore, the Group is primarily concentrated on opportunities for acquisitions, mergers and collaborations overseas, so as to readily obtain and accumulate resources of quality contents.

To jointly establish the Huayi-Warner Contents Fund (the "Fund") with relevant parties, including, among others, Warner Bros. Korea Inc. ("Warner Bros."), the Group contributed capital of KRW1 billion in April 2017, representing 10% of the Fund's total initial capital investment. Through the Fund, the Group can participate in the investment of quality local film projects in Korea to be produced and distributed by Warner Bros. The Korean film industry performed exceptionally in 2017, with a number of acclaimed productions being released, which reported good box-office performance in the local and other markets in the Asia-Pacific region. Local cinema attendance in Korea approximated 220 million, with Korean films claiming more than half of the nation-wide screenings for the 7th consecutive year, reaching 53% – a true testimony to the Koreans' preference for their local films. In addition to its strong track record in the investment and distribution of Korean films, Warner Bros. is also known for its distinct capability in film marketing and its extensive network of brands in Korea. The Group is confident that film projects to be produced and invested by Warner Bros. will fully seize opportunities in the marketplace and report satisfactory box-office performance. *V.I.P.* – the first film in which the Fund has invested – was released in Korea in August 2017. As a phenomenal film in the summer holidays, not only did it become a heated topic by topping the Korea box office chart over the first weekend with an attendance of 1.08 million, the film also brought public interests in films featuring the relationship between North and South Korea. In light of the great performance of *V.I.P.*, the Group remains optimistic about development opportunities for the Korean film market, and it has confidence in the quality films to be produced and distributed by Warner Bros.. Building on its preparation and deployment in 2017, the Fund will accelerate its investment in premium film projects in 2018. The Fund is expected to release five films of diversified topics and genres during the year, which it believes will cater to the needs of an audience with different preferences, and generate good box-office performance.

The global distribution for *Rock Dog* – the first Sino-U.S. original 3D animated comedy film which the Group invested in – across North America, Europe, Asia, Latin America, Africa and other regions was completed in 2017. The distribution of *Rock Dog* through cable TV and DVD in North America was carried out by Summit Entertainment – a subsidiary of Lionsgate Entertainment. Through its investment in *Rock Dog*, the Group accumulated valuable experience in collaborating with master directors and studios from Hollywood, as well as top – level international distributors. Going forward, the Group will keep taking the initiative to seek suitable opportunities for expanding its collaboration with Hollywood directors and studios, while looking for quality film projects with a prudent investment approach.

Adequate capital support is essential for investing in film projects, as well as seizing opportunities for acquisitions, mergers and strategic collaborations in the international arena. Therefore, having confirmed its entertainment and media operations as the core business development, the Group plans on gradually ceasing non-core operations to obtain and concentrate liquidity on the development of its core operations. In July 2017, the Group disposed of the entire equity interest in the online healthcare business that it held to an independent third party, at a cash consideration of RMB10 million, the whole proceeds from which would be used as working capital of the Group. As at the date of this report, the disposal has been completed, and the Group has ceased operation of the online healthcare business.

Performance of China's film industry was surprisingly satisfactory in 2017: not just for its rebound to double-digit growth, but more importantly, for what this growth represented – a wide expansion of content production and a recovery in cinema attendance. As the Chinese film market enters the phase of rational and stable development, a positive link has been established between box office receipts and film reviews. Owing to the breakthrough made by mainstream films, audience enthusiasm is no longer backed by the fast-growing number of cinema screens or discount movie tickets, but the quality of film itself. Similarly, imported films also reported exceptional performance during 2017, delivering single-film box office 3.7 times higher than their domestic counterparts. 9 of the imported films reported gross box office receipts exceeding RMB1 billion, proving that sequels of acclaimed Hollywood blockbusters and those with outstanding visual effects were still very well received by the audience. We look forward as China's film market enters a golden age driven by the thorough development of content creation, and we have every faith that film productions with global perspectives and well-developed contents will gain wide acceptance in the Chinese market. Looking ahead, the Group will continue to strengthen its collaborations with production companies from North America and South Korea, with a view to bringing more quality films and TV programmes to a global audience. In the meantime, the Group will also keep a close eye on opportunities to invest in the pan-entertainment industry, including games and music, so as to complete its layout in the cultural and entertainment industry, thereby strengthening profitability and delivering stable yet sustainable development.

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

**WANG Zhongjun**
*Chairman*
**Huayi Tencent Entertainment Company Limited**

Hong Kong, 26 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

### Financial Performance

Major indicators of the financial results for the year ended 31 December 2017 are summarized in the table below:

| | 2017<br>HK$'000 | 2016<br>HK$'000<br>(Restated) |
|---|---|---|
| **Continuing operations:** | | |
| Total sales revenue | **167,666** | 128,324 |
| Gross profit | **10,696** | 17,797 |
| Loss before finance costs and taxation | **(140,733)** | (124,664) |
| Loss for the year | **(141,123)** | (124,517) |
| Loss attributable to equity holders of the Company | **(142,528)** | (125,244) |
| Profit/(loss) for the year from discontinued operations | **38,859** | (14,262) |
| Loss for the year | **(102,264)** | (138,779) |

### Business Review

| | Sales Revenue | | Segment Results | |
|---|---|---|---|---|
| | 2017<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | 2016<br>HK$'000 |
| **Continuing operations** | | | | |
| Entertainment and media operations | **52,039** | 11,825 | **(157,442)** | (36,317) |
| Offline healthcare and wellness services | **115,627** | 116,499 | **(14,870)** | 7,828 |
| **Total** | **167,666** | 128,324 | **(172,312)** | (28,489) |

During the year ended 31 December 2017 (the "year under review") and following the disposal of the online healthcare business, the Group's continuing operations are segmented into Entertainment and Media Operations and Offline Healthcare and Wellness Services. During the year under review, the Group's continuing operations contributed approximately HK$167,666,000 in total revenue, representing a year-on-year growth of approximately 31%. Major revenue growth driver is from the Entertainment and Media Operations, whose revenue grew by 3.4 times during the year under review. Consolidated net loss was approximately HK$102,264,000, considerably narrower than the HK$138,779,000 in 2016, primarily due to appreciation of Chinese Renminbi and Korean Won against Hong Kong dollars, leading to a significant exchange gain during the year under review.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### Financial Performance *(Continued)*

As one of China's first media and entertainment giants to explore globalisation, our controlling shareholder Huayi Brothers has maintained longstanding strategic partnerships with high-calibre producers overseas and has gradually built out its own platform for integrating resources from around the world. With the help of its controlling shareholder's resource platform, the Group is actively seeking out notable film projects overseas as well as other investment opportunities. During the year under review, the Group has set up a dedicated fund in collaboration with Warner Bros. to provide capital support for Korean film projects invested, produced and distributed by Warner Bros., which marked another successful step in the Group's pipeline in the South Korean film industry following its stake investment in HB Entertainment Co., Ltd. ('HB Entertainment') in 2016. On content investment, the Group's first film investment, *Rock Dog*, was released during the year under review in cinemas, on cable television and DVDs in North America by Summit Entertainment (a subsidiary of Lionsgate Entertainment), followed by worldwide distribution across Russia, Turkey, Ukraine, Poland, Greece, Brazil and South Africa, and it achieved approximately US$23.13 million in global box office receipts. Accordingly, revenue generated from the Entertainment and Media Operations grew by 3.4 times to approximately HK$52,039,000 (2016: HK$11,825,000) during the year. However, segment loss worsened to approximately HK$157,442,000 (2016: HK$36,317,000), as certain provision for impairment of film rights, prepayments and programme and film production in progress of approximately HK$41,195,000, HK$15,572,000 and HK$64,725,000 respectively was made during the year. Please refer to Financial Review section and Notes 14, 20 and 21 to the consolidated financial statements for details.

In terms of healthcare services, the Group disposed of its entire shareholding in Beijing Bayhood No.9 Cloud Health Technology Company Limited ("Cloud Health") to an independent third party for a consideration of RMB10 million. The disposal marked the completion of the disentanglement of the online healthcare business and contributed working capital for the future development of the Group's core operations. During the year under review, the Group continued to provide offline healthcare and wellness services in Mainland China through the operation of "Beijing Bayhood No.9 Club", a high-end healthcare and wellness centre; and the operation of another healthcare and wellness centre in Beijing featuring themes of dining, leisure and healthcare which mainly targets middle-end customers. These operations recorded an annual segment revenue of approximately HK$115,627,000, representing a slight decrease of 1% on the previous year, mainly due to the more competitive operating environment in this sector.

### Business Review

In 2017, the Chinese economy was on a track of quality development at mid-to-high speed with quality effectiveness on the rise, while its consumer spending recorded stable growth. Gross domestic product grew 6.9% year-on-year to RMB82,712.2 billion and domestic per capita disposable income reached RMB25,974, while that of urban residents stood at RMB36,396. Domestic consumption level continued to increase as per capita consumer spending achieved a growth of 7.1% compared with last year to approximately RMB18,322. Quality of life showed sustained improvement as entertainment options evolved and expanded. In addition, cultural and entertainment spendings recorded high single-digit and double-digit growths in a number of categories, with average per capita expenditure on films and theatrical performances in China increasing at an annualised rate of 9.5%.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Business Review** *(Continued)*

According to statistics from the Film Bureau under the State Administration of Press, Publication, Radio, Film and Television, as of 31 December 2017, China's gross box office receipts reached RMB55.911 billion, representing a year-on-year growth of over 13.45%. Of this, aggregated box office receipts of RMB25.81 billion were contributed by imported films, representing approximately 46.2% of the total figure. A total of 92 films recorded box office receipts over RMB100 million, 45% of which were imported films. Quality imported blockbusters, in particular Hollywood productions with wow factors and good reviews, which remained extremely popular during the year under review, became 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 year under review, the number of cinemas in China reached 9,169, with an additional 9,597 screens. With a total of 50,776 cinema screens nationwide, China has secured its position as the world's biggest film market. Against the background of an improving overall economic atmosphere in China, we have witnessed consistent growths in both per capita disposable income and per capita consumer spending, coupled with a substantial rise in enthusiasm as well as demand for quality films among audiences, which continuously drives the development and prosperity of the Group's entertainment and media business. While domestic films in China have stepped up their game massively in 2017, their imported counterparts have maintained the lead, widening the difference in box-office receipts to a 3.7-fold gap in terms of single film box office. In view of this, the Group remains optimistic about the demand for quality overseas films in the Chinese market, and will continue its global pursuit of quality film projects and other investment opportunities. In order to generate consistent and steady revenue, it will capitalise on the globalising film industry, coupled with an active effort in accumulating overseas intellectual property rights to enrich the Group's film and cultural resources worldwide.

With regard to the North American film market, its gross box office receipts amounted to US$11.12 billion in 2017, representing a year-on-year decline of 2.3%. Notwithstanding its underperforming gross box office receipts and cinema attendance, North America remains the biggest film market worldwide, with an absolute advantage in content export. 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, nine out of the ten best performing films in 2017 were distributed by Hollywood studios. The sustained rapid growth in box office and cinema attendance in China have attracted keen competition over the Chinese market from film producers and distributors across the globe; yet, China has shown no sign of expanding its quota on film imports. Co-productions, as a result, have become a stepping stone into the market for many overseas producers. Studios and producers overseas actively seeking a way into the Chinese market are expected to create many investment opportunities for the Group, including overseas acquisitions, mergers and collaborations.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Business Review** *(Continued)*

According to statistics released by the Korean Film Council, the Korean film market set a new record of approximately 220 million cinema attendance in 2017, with Korean films reaching cinema attendance of approximately 114 million and capturing a 53% market share, taking up over half of the market for the seventh consecutive year. Local films have been well received by viewers, which will ensure keen demand for Korean films in the local market. In addition, the recent years have seen a number of well-favoured Korean films, along with an enduring popularity of the Korean trend. Data showed that, in 2017, fans of the Korean trend have grown in number by 14 million to 73.12 million year-on-year, providing a huge and solid audience base for Korean films in the Asian and global markets. The Group maintains an optimistic outlook on the demand for Korean films in the local and overseas markets and is therefore confident in the future development of its investment in Huayi-Warner Contents Fund and HB Entertainment.

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

On film project investments, *Rock Dog*, the first Sino-U.S. original 3D animated comedy film which the Group invested in, was distributed in cinemas worldwide across North America, Europe, Asia, Latin America and Africa in the first half of 2017, followed by its release on cable television and DVDs in the second half of the year by North American distributor Summit Entertainment (a subsidiary of Lionsgate Entertainment), which contributed HK$52,039,000 in revenue to the Group during the year under review, a significant 3.4 times growth comparing to the prior year. *Rock Dog* was the Group's first attempt at investing in international film projects, and it provided valuable experience for future investments in content projects. The maturing audience in the Chinese market has driven a rapid increase in demand for film quality along with influence of movie reviews on screening arrangements and box office, showing a clearer trend towards a content-oriented market, all of which are in line with the Group's long-standing judgement regarding the industry. We expect competition in the industry to intensify and not just among industry leaders with sufficient quality IP resources, but also high-calibre producers and studios of niche films. This will present many challenges for the Group, but at the same time open up a wider investment horizon with further potential investment projects and collaboration opportunities. In the future, the Group will continue to adopt a prudent investment approach in identifying suitable quality film projects.

In addition to prime film projects, the Group has always sought opportunities of purchase, merger and acquisition, and collaboration in the overseas film and TV entertainment business. On top of being a shareholder of HB Entertainment, the Group also made significant progress in cooperation with other excellent overseas film and TV entertainment companies during the year under review. In April 2017, the Group invested KRW1 billion in cooperation with Warner Bros. to establish the Huayi-Warner Contents Fund, enabling the Group to invest in Korean film projects invested and distributed by Warner Bros. *V.I.P.*, the first film funded by Huayi-Warner Contents Fund, was released during the year under review on 996

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Business Review** *(Continued)*

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

screens in South Korea, attracting an audience of 1.373 million and hitting total box-office receipts of KRW10.957 billion. This film was also shown in Hong Kong and other regions, drawing attentions of audience from the Asia-Pacific region. In 2017, the first year for the Huayi-Warner Contents Fund, only one film, *V.I.P.*, was released. In 2018, the pace will be accelerated to release more films; five films, namely *Champion, Bad Lieutenant, The Witch*, *Jin-Roh*, and *Best Friend*, covering different genres and themes of science fiction and action, thriller, family comedy and crime, are planned to be released. These five films are directed by directors with excellent track records and starred by many appealing actors and actresses, ensuring quality, high market focus and high recognition of audience. *Champion* is starred by Ma Dong-seok, who has taken leading roles in many popular films, such as *Along with the Gods: The Two Worlds*, *Train to Busan*, and *The Outlaws*. *Bad Lieutenant* is directed by Director Lee Jeong-beom, who directed *The Man from Nowhere*, the box-office champion of South Korea in 2010. *The Witch* is co-starred by Jo Min-soo, who won Best Actress in the 49th Daejong Film Awards and the 4th KOFRA Film Awards for her performance in *Pieta*, and Choi Woo-sik, who won Actor of the Year in the 19th Busan International Film Festival for his performance in *Set Me Free*. *Jin Roh* is written and directed by Kim Jee-woon, who wrote and directed *The Age of Shadows*, which competed for nominee for the best foreign language film at the 89th Academy Awards, and produced by producer Lewis Taewan Kim, who produced *Sea Fog* and *The Host*. *Best Friend* is directed by director Lee Hwan-kyung, who directed *Miracle in Cell No. 7*, the 8th film in South Korea to break the audience record of 10 million, and starred by Oh Dal-su, who took leading roles in hit films including *Along with the Gods*: *The Two Worlds, Assassination*, and *Veteran*, all of which attracted an audience of more than 10 million.

During the year under review, the Group made progress in cooperation with China Lion Entertainment and also in their joint investment film projects as planned. Related film projects shall be launched to market at proper times. In terms of cooperation with HB Entertainment, Mainland China still held restrictions on film and TV entertainment from South Korea, affecting the export of Korean films and TV programmes to Mainland China. After a prudent review on the industry environment, HB Entertainment deliberately slowed its pace for releasing new films, thus no new film or TV programme was released in 2017. However, HB Entertainment will seize the opportunities in 2018, accelerating the release of new films based on local market demands and stepping up to explore other international markets besides China. As data mentioned above shows, the Korean trend still enjoys a non-fading popularity in the world. A growth trend is even expected, particularly in South East Asia, where Korean films and TV programs catch tremendous attention and attract a great stable audience. As a result, the Group is very confident about the long term performance of HB Entertainment and Warner Bros., believing that they will both produce critically acclaimed productions with great market potentials, based on their excellent performance in the past and their deep understanding about the local market in South Korea.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Business Review** *(Continued)*

***(2) Healthcare and Wellness Service***

In 2017, the Group disposed of its online healthcare services business. Revenue in healthcare and wellness service is mainly contributed by the operation of offline healthcare and wellness centers in Beijing. Affected by government policies, high-end service business is struggling, while the industry as a whole still suffers from difficult operating conditions resulted from weakened demands. In view of changes in market environment, "Beijing Bayhood No.9 Club" gradually shifted its focus from serving only high-end customers to including the middle-end customers as its target customer group. Faced with intense competition in market and mounting pressure from growing costs of labor force and water, revenue in the offline healthcare and wellness segment amounted to approximately HK$115,627,000 during the year under review, representing a 1% year-on-year decrease. Segment results were shifted from profit to loss, recording a loss of approximately HK$14,870,000.

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. At present, the Group continues to operate "Beijing Bayhood No. 9 Club" in form of renting, offering professional and quality offline healthcare and wellness services to enterprises and individual clients. The Group also operates another healthcare and wellness centre located in Chaoyang district, Beijing, through a 51% owned subsidiary. Featuring themes of dining, leisure and healthcare, the centre mainly serves middle-end customers. Since the Group plans to concentrate resources on the development of its core entertainment and media business, no further investment shall be made to the healthcare management and wellness business. The management will continue its ongoing efforts to strengthen control over costs, with a view to maintaining profit margin and stabilising operation.

After three years' exploration and investment, the Group has established the online healthcare business of scale, but not yet found the proper profit model. In addition, following the introduction of Huayi Brothers and Tencent as its strategic shareholders, the Group has shifted its development focus to the entertainment and media business. As a result, the Group disposed of its entire equity interest in the online healthcare business to an independent third party at a consideration of RMB10 million after a prudent review on China's mobile medical industry and the development outlook of its online healthcare service. The disposal was completed in October 2017, and the disposal proceeds will be used for core business development in whole. At present, the Group has ceased the operation of its online healthcare management business.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### Business Outlook

During the past five years, more than 5,000 screens were added every year in China's film market. In 2017, the number of new screens hit 9,597, demonstrating the thriving momentum of China's film and TV entertainment market. Global film market also maintained a year-on-year growth. In 2017, world-wide box office receipts stood at a record high of US$39.92 billion, representing a year-on-year increase of 3%. PwC estimates that the Asia Pacific region will become the driving force for global film products development. Box office receipts in Asia are estimated to reach US$20.4 billion in 2021, while those in North America are expected to hit US$12 billion. Despite its lower growth rate in box office than the Asia Pacific Region, North America is still the global film production center filled with the world-leading technology and top talent resources. In the coming years, therefore, the Group will actively work to seize the golden opportunities in the thriving film market in China, seek quality film projects for investment, as well as opportunities to acquire, merge and cooperate with excellent overseas producers, well-known directors and studios in an active and prudent way, particularly in North America and South Korea, aiming at bringing about more prime international films to the Chinese audience to deliver long term and great returns for the Group.

In addition to driving core business, the Group will continue to seek appropriate opportunities to dispose of the assets associated with non-core business, including Travel Channel, and assign resources and capital to core business for a faster development.

Further, in view of that Huayi Brothers and Tencent, being the controlling shareholders, have both achieved great progress in building the "Pan-Entertainment Ecosystem" and that remarkable synergy effects are brought about by industry chain integration, the Group will keep an eye on investment opportunities in the pan-entertainment industry chain, including game, music and others, expand its revenue channels and improve its profitability, forming a more favorable and sustainable business development model for the Group so as to bring long term and stable earnings for its shareholders.

### Environmental & Social Responsibilities

*a)* ***Environmental responsibilities***

Committed to building an "eco-friendly" enterprise, the Group strictly abides by – throughout its daily operations – laws and regulations on environmental protection in jurisdictions where its operations are located. We have implemented various environmental management measures to ensure that exhaust gas, sewage and office waste are properly recycled and processed, with a view to minimizing the environmental impact of our business operations, and to protecting the invaluable natural environment.

The Group remains devoted to exploring and applying initiatives to increase energy efficiency and reduce consumption, so as to practice environmentally friendly principles while lowering operating costs. Meanwhile, the Group actively spreads the message of environment protection to promote environmental awareness among its stakeholders, including employees and customers, with a view to collectively honouring its commitment to protecting the natural environment.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Environmental & Social Responsibilities** *(Continued)*

b) ***Social responsibilities***

As a responsible corporate citizen, the Group keeps close communication with all of its stakeholders, so as to maintain collaborative relations based on mutual benefit and trust, aiming to deliver synergistic growths in social and economic benefits.

The Group regards its staff members as the most valuable asset and is committed to a "people-centric" talent strategy, through which it sets out to deliver corporate growth along with staff development. In order to safeguard the legal rights of its staff, the Group abides by laws and regulations on human resource management in all jurisdictions where it operates, and it is dedicated to lawful and legitimate employment practices. To ensure the physical and mental well-being of staff members, not only do we strive to provide them with a safe and comfortable workplace, and those on particular tasks with worker protection facilities and equipment, we also organise safety drills on a regularly basis. In addition, to help our staff live up to their potentials and advance their careers, we have offered them a diversified range of training programmes and established a clear career path.

The Group has in place strict standards for supplier selection to ensure that the business qualifications, management capabilities, service and product quality, as well as pricings of suppliers comply with its requirements on products and services. Through on-site investigation, the Group conducts a comprehensive assessment to ensure the stability in its supplier performance levels, which covers, including among others, production and supply capabilities, as well as credentials on safety and environmental management. The Group also regularly evaluates the compliance of suppliers, as well as the fulfilment of their environmental and social responsibilities, thereby ensuring a sustainable supply chain.

The Group is committed to providing customers with a satisfactory experience through the delivery of premium services and quality products. The Group attaches great importance to requests and suggestions made by its customers, we have therefore set up customer hotlines to collect and follow up on customer feedback in a timely manner, with a view to ensuring that their requests are properly addressed. To ensure that all films and TV products comply with local laws and regulations, the Group conducts a thorough investigation and analysis at the early stage in the development of its media investment operation. Recognising the impact of media & entertainment products on public opinions, we emphasise the positive influence of values demonstrated in our content productions, and we are committed to promoting positive culture.

In addition to strictly complying with laws and regulations against corruption, bribery, fraud and money laundering in jurisdictions where its operations are located, the Group also strengthens management on corporate internal control to prevent corruptions, thereby fulfilling its responsibilities towards stakeholders, including investors, shareholders and governing authorities.

Having acknowledged its corporate social responsibilities, the Group fully leverages on its strengths in resource reserve to drive the development of local communities. In an effort to care for vulnerable groups, the Group does its best to give back to the society, such as by making donations and providing employment opportunities.

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

**Environmental & Social Responsibilities** *(Continued)*

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

As a company listed on the Hong Kong Stock Exchange, the Group strictly complies with the disclosure requirements of the HKEx. Therefore, our Environmental, Social and Governance (ESG) Report for the year will be disclosed separately. As one of the platforms that we use to communicate with stakeholders, the ESG report will deliver a comprehensive view on what the Group has accomplished in the establishment of environmental, social and governance systems, as well as its performance during 2017.

## FINANCIAL REVIEW

**Continuing Operations**

Revenue for the year ended 31 December 2017 amounted to approximately HK$167,666,000 (2016: HK$128,324,000), being a 31% increase comparing to the prior year. The revenue growth is mainly driven by the "Entertainment and Media" segment, whose revenue grew significantly by 3.4 times to approximately HK$52,039,000 for the year ended 31 December 2017 because of the worldwide release of "Rock Dog" movie in 2017. The proportion of revenue from "Entertainment and Media" segment also increased to 31% (2016: 9%) of the Group's revenue during the year. Yet, 69% (2016: 91%) of the revenue during the year still arose from the "Offline Healthcare and Wellness Services" segment, which recorded a slight 1% decrease in revenue during the year.

Cost of sales for the year ended 31 December 2017 amounted to approximately HK$156,970,000 (2016: HK$110,527,000), being a 42% increase comparing to the prior year. The significant increase is mainly attributed to the increased film right amortization expense of approximately HK$30,238,000 (2016: HK$5,779,000) and the Group's share of distribution fees during the year due to the worldwide release of "Rock Dog" movie in 2017. In view of the actual box office performance of certain film right distribution in certain markets during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2017. By using the latest available information and best estimates as at 31 December 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. 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: HK$44,051,000) and HK$15,572,000 (2016: nil) was recognized for the year ended 31 December 2017, and was included in cost of sales and administrative expenses respectively during the year.

Other income and other gains, net, for the year amounted to approximately HK$48,065,000 (2016: other expenses and other losses, net, of approximately HK$40,308,000), which comprised mainly exchange gain of approximately HK$46,996,000 arising from the significant appreciation of Renminbi and South Korea Won against Hong Kong dollars during the year. On the other hand, there was an exchange loss of HK$39,803,000 recognized in the prior year as Renminbi depreciated against Hong Kong dollars significantly in 2016.

## FINANCIAL REVIEW *(Continued)*

**Continuing Operations** *(Continued)*

Marketing and selling expenses for the year ended 31 December 2017 amounted to approximately HK$26,599,000 (2016: nil). The amount represented the Group's share of marketing, print & advertising expenses for the worldwide release of "Rock Dog" movie in 2017.

Administrative expenses for the year ended 31 December 2017 amounted to approximately HK$156,482,000 (2016: HK$103,777,000), being a 51% increase comparing to the prior year. The fluctuation is mainly due to the following factors:

– As mentioned above, a provision for impairment of prepayments of approximately HK$15,572,000 (2016: nil) was recorded during the year ended 31 December 2017

– A provision for impairment of certain long-outstanding programmes and film production in progress of approximately HK$64,725,000 (2016: nil) was recorded during the year ended 31 December 2017, after management assessment of current market conditions, settlement record and age of investments; and

– The Group has incurred legal and professional fees, most of which was incurred for the share subscription completed in February 2016, of approximately HK$32,488,000 in the prior year, while legal and professional fees from continued operations for the year ended 31 December 2017 amounted to approximately HK$1,608,000 only.

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

Provision for impairment of interest in an associate (i.e. HB Entertainment) of approximately HK$12,970,000 (2016: nil) was recorded during the year ended 31 December 2017, mainly due to the 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.

Finance costs, net for the year ended 31 December 2017 amounted to approximately HK$26,000 (2016: finance income, net of approximately HK$233,000). Such amounts represented imputed finance income/costs on discounting non-current rental deposits received/paid and are all non-cash items in nature. The Group has not incurred any borrowing as of 31 December 2017.

## FINANCIAL REVIEW *(Continued)*

### Discontinued Operations

The profit/(loss) from discontinued operations for the year ended 31 December 2017 comprises the following:

(i) the intended disposal of the entire shareholding in Hao You (including the Travel Channel operations) following the completion of step acquisition on 1 December 2016. Further details of the intended disposal are disclosed in Note 28(a) to the consolidated financial statements.

(ii) The completed disposal of the entire interests in the online healthcare services segment in October 2017. As a gain of disposal of approximately HK$8,500,000 was recognized upon the completion of disposal, the results from discontinued operations improved significantly comparing to the prior year. Further details of the completed disposal are disclosed in Note 28(b) to the consolidated financial statements.

(iii) Reversal of over-provision of PRC capital gain tax of approximately HK$43,075,000 and accrual of professional fee of approximately HK$4,385,000 in relation to Offline Healthcare and Wellness Services-Beijing Healthcare and Wellness Si He Yuan and Hotel Project that has been disposed of in year 2015.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 31 December 2017, the Group held cash and cash equivalents of approximately HK$128,369,000 (2016: HK$70,842,000), being a 81% increase comparing to the balance as at 31 December 2016.

The Group is at net current asset position of HK$420,965,000 as at 31 December 2017 (2016: HK$336,963,000). The current ratio, representing the total current assets to the total current liabilities, increase from 5.39 as at 31 December 2016 to 26.37 as at 31 December 2017, indicating a very healthy liquidity position of the Group.

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

## LIQUIDITY AND CAPITAL RESOURCES *(Continued)*

### Foreign Currency Exchange Exposure

The Group has operations and investments in China, South Korea, the USA and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and South Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the year, appreciation in Chinese Renminbi and South Korean Won against Hong Kong dollars resulted in the significant exchange gain of approximately HK$46,996,000 (2016: exchange loss of HK$39,803,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and South Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

### Capital Structure

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

During the year ended 31 December 2017, the Company has not issued new ordinary shares. During the year ended 31 December 2016, the Company has issued 6,837,620,000 new ordinary shares upon completion of share subscriptions at HK$0.08 per share.

## CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2017 and 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 31 December 2017, the Group employed a total of 31 (2016: 72) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 385 (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.

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2017, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the "CG Code") with the exception of the following deviation:–

### Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman ("Chairman") and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. During the period from 1 January 2017 to the date of this report, the roles of Chairman and CEO have not been separated.

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

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine directors of the Company ("Directors") whose biographical details, as well as the relationship amongst them (if any), are set out on pages 29 to 33 of this Annual Report.

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

The Board should meet regularly at least four times a year at approximately quarterly intervals and holds additional meetings as and when the Board thinks appropriate. During the year, a total of four Board meetings were held.

Directors play an active role in participating in the Company's meetings. The composition of the Board as at the date of this report and their attendance at the Company's meetings during year 2017 is as follows:

| Directors | Director Categories | Board Meetings | General Meetings | Audit Committee Meetings | Remuneration Committee Meetings | Corporate Governance Committee Meetings | Nomination Committee Meetings | Executive Committee Meetings |
|---|---|---|---|---|---|---|---|---|
| Mr. WANG Zhongjun | Chairman, Chief Executive Officer and Executive Director | 4/4 | 1/1 | – | member 1/1 | chairman 1/1 | chairman 1/1 | chairman 2/2 |
| Mr. LAU Seng Yee | Vice Chairman and Executive Director | 3/4 | 1/1 | – | – | – | – | member 2/2 |
| Mr. WANG Zhonglei | Executive Director | 4/4 | 1/1 | – | – | – | – | – |
| Mr. LIN Haifeng | Executive Director | 3/4 | 1/1 | – | – | – | – | – |
| Ms. WANG Dongmei | Executive Director | 4/4 | 1/1 | – | – | – | – | – |

## BOARD OF DIRECTORS *(Continued)*

| Directors | Director Categories | Board Meetings | General Meetings | Audit Committee Meetings | Remuneration Committee Meetings | Corporate Governance Committee Meetings | Nomination Committee Meetings | Executive Committee Meetings |
|---|---|---|---|---|---|---|---|---|
| Mr. YUEN Hoi Po | Executive Director | 4/4 | 1/1 | – | – | – | – | – |
| Dr. WONG Yau Kar, David | Independent Non-executive Director | 4/4 | 1/1 | member 2/2 | chairman 1/1 | – | member 1/1 | – |
| Mr. YUEN Kin | Independent Non-executive Director | 4/4 | 1/1 | chairman 2/2 | member 1/1 | member 1/1 | – | – |
| Mr. CHU Yuguo | Independent Non-executive Director | 4/4 | 1/1 | member 2/2 | – | member 1/1 | member 1/1 | – |
| Total number of meetings held | | 4 | 1 | 2 | 1 | 1 | 1 | 2 |

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

## BOARD COMMITTEES

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

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

### Strategy Committee

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

### Executive Committee

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

During the year, two meetings were held by the Executive Committee. These meetings are to approve the investment in Huayi-Warner Contents Fund and the closure of securities accounts.

## BOARD COMMITTEES *(Continued)*

### Corporate Governance Committee

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

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

### Nomination Committee

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

During the year, one meeting was held by the Nomination Committee to conduct the annual review of the structure, size and composition of the Board; to assess independence of Independent Non-executive Directors; to recommend the Board's rotation schedule for 2017 annual general meeting, and to review the Board Diversity Policy.

### Remuneration Committee

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

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

## BOARD COMMITTEES *(Continued)*

### Audit Committee

The Audit Committee is mainly responsible for the following:

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

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

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

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

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

## BOARD DIVERSITY POLICY

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

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

## CONTINUOUS PROFESSIONAL DEVELOPMENT

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

| Directors | Attending Seminars | Reading Regulatory Updates | Giving Speeches |
|---|---|---|---|
| Mr. WANG Zhongjun | | ✓ | ✓ |
| Mr. LAU Seng Yee | | ✓ | ✓ |
| Mr. WANG Zhonglei | | ✓ | ✓ |
| Mr. LIN Haifeng | | ✓ | |
| Ms. WANG Dongmei | | ✓ | |
| Mr. YUEN Hoi Po | | ✓ | |
| Dr. WONG Yau Kar, David* | ✓ | ✓ | ✓ |
| Mr. YUEN Kin* | ✓ | ✓ | |
| Mr. CHU Yuguo* | | ✓ | |

* Independent Non-executive Directors

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. WANG Zhongjun has been appointed as the Executive Director and serves as the Chairman and CEO of the Company. It is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a CEO.

## NON-EXECUTIVE DIRECTORS

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT PERSONS

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

## EXTERNAL AUDITOR

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

| Nature of the services | 2017<br>HK'000 | 2016<br>HK'000 |
|---|---|---|
| Audit and review services | **2,980** | 2,980 |
| Non-audit services | | |
| – Tax advisory services | **4,385** | – |
| – Other non-audit services | **744** | 1,724 |
| | **8,109** | 4,704 |

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

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibilities of the Directors in relation to the consolidated financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 43 to 51 which acknowledges the reporting responsibilities of the external auditor.

### Annual Report and Financial Statements

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

### Accounting Policies

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

### Accounting Records

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

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

### Safeguarding Assets

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

### Going Concern

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

## RISK MANAGEMENT AND INTERNAL CONTROL

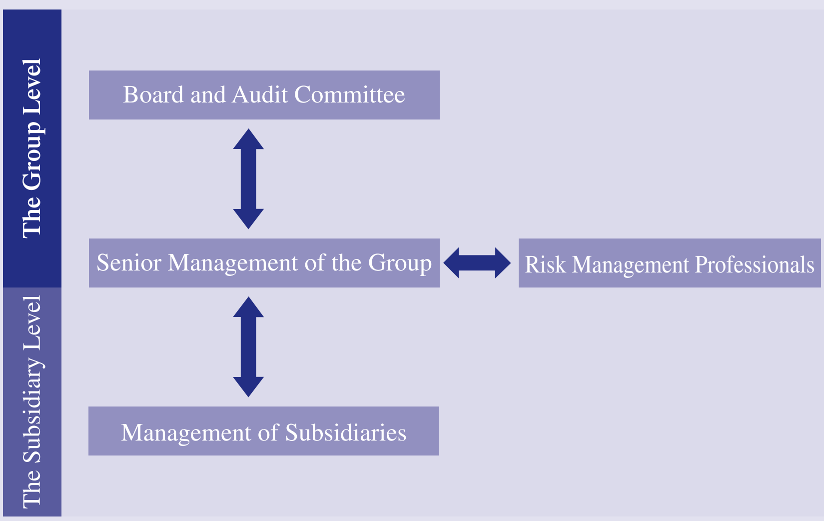
### Responsibilities

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

### Risk Management and Internal Control Systems

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

**Risk Management Structure**



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

**Risk Management and Internal Control Systems** *(Continued)*

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

**Board and its Audit Committee**

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

**Senior Management of the Group**

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

**Risk Management Professionals**

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

**Management of Subsidiaries (Operational Level)**

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

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

**Risk Management and Internal Control Systems** *(Continued)*

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

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

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

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

**Review on the Risk Management and Internal Control Systems in 2017**

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems for the year. The review covers all material aspects of control, including financial, operational and compliance controls. During the year ended 31 December 2017, the Board has finished reviewing the Group's risk management and internal control systems and is satisfied with the results. The Board has also reviewed the adequacy of resources, staff qualifications and experiences, training programmes for staff and relevant budgets for the Group's accounting, internal audit and financial reporting functions, and is satisfied with the results.

In addition, a regular dialogue is maintained between the Audit Committee and the Group's external auditor so that both parties are aware of the significant factors which may affect their respective scope of work. Reports from the external auditor on internal controls and relevant financial reporting matters are to be presented to the Audit Committee, and, as appropriate to the Board. These reports are reviewed and appropriate actions are taken.

## COMPANY SECRETARY

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

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

According to Rule 3.29 of the Listing Rules, Mr. HAU has taken no less than 15 hours of relevant professional training during the year. His biography is set out on page 33 of this Annual Report.

## INVESTOR RELATIONS

The Board is committed to providing clear and full performance information of the Group to shareholders through different publications and financial reports. Shareholders and investors may access the Corporate Communications via the Group's website (www.huayitencent.com).

## COMMUNICATION WITH SHAREHOLDERS

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

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

The chairman of the Board has attended the annual general meeting of the Company in year 2017 (the "AGM"). He has also invited the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the AGM. In case of their absence, he would invite another member of the committee or failing this his duly appointed delegate, to attend. These persons are available to answer questions at the AGM.

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

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

## COMMUNICATION WITH SHAREHOLDERS *(Continued)*

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

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

## CONSTITUTIONAL DOCUMENTS

During the year, there were no changes in the constitutional documents of the Company, a copy of which has been uploaded to the websites of the Stock Exchange and the Company.

## SHAREHOLDERS' RIGHTS

**1. Procedures for Shareholders to convene an EGM:**

- An annual general meeting of the Company ("AGM") shall be held in each year.
- Each general meeting, other than AGM, shall be called an extraordinary general meeting ("EGM").
- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.
- The requisition signed by the requisitionist(s) shall set out the matters for consideration at the meeting to be called. It shall be deposited at the principal office of the company located at Suite 908, 9/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
- In case of joint holdings, it would be sufficient if only one of the joint holders has signed the requisition.
- The requisition may consist of several documents in like form, each signed by one or more requisitionist(s).
- The requisition will be verified with the Company's Share Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionist(s) concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.
- The EGM shall be held within two (2) months after the deposit of such requisition.
- If within twenty-one (21) days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## SHAREHOLDERS' RIGHTS *(Continued)*

**2. Procedures for Shareholders to make proposals at AGM:**

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

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

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

The contact details of the Company Secretary are as follows:

| | | |
|---|---|---|
| Address | : | Suite 908, 9/F<br>Tower Two, Lippo Centre<br>89 Queensway, Hong Kong |
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| Tel | : | 3690 2050 |
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By Order of the Board

**WANG Zhongjun**
*Chairman*

Hong Kong, 26 March 2018

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

**Mr. WANG Zhongjun**

**Director since 2016**
**Chairman, Chief Executive Officer and Executive Director**

Mr. WANG Zhongjun, aged 57, currently serves as Chairman of the Board, Chief Executive Officer and Executive Director of the Company. He is the Chairman of Nomination Committee, Corporate Governance Committee, Executive Committee and Strategy Committee as well as a member of Remuneration Committee. He received a Master of Mass Media from the State University of New York, USA. Mr. WANG Zhongjun had worked as a press-photographer for the Press of China Administration of Goods and Materials, a manager of the advertising department of China Yongle Cultural Development Co., Ltd., the general manager of Beijing Huayi Brothers Advertising Co., Ltd., and the chairman of Beijing Huayi Brothers Film Investment Co., Ltd. He has been serving as the chairman and director of Huayi Brothers Media Corporation, a substantial shareholder of the Company and a company listed on the Shenzhen Stock Exchange (SZSE: 300027). Mr. WANG Zhongjun is the brother of Mr. WANG Zhonglei.

**Mr. LAU Seng Yee**

**Director since 2016**
**Vice Chairman and Executive Director**

Mr. LAU Seng Yee, aged 51, currently serves as Vice Chairman of the Board and Executive Director of the Company. He is a member of Executive Committee and Strategy Committee. Mr. LAU concurrently holds the positions of senior executive vice president (SEVP), chairman of Tencent Advertising and chairman of Group Marketing and Global Branding within the Tencent Holdings Limited, a substantial shareholder of the Company and a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 700) ("Tencent Holdings Limited"). Already an SEVP, he assumed the joint chairmanship responsibilities in 2017, committing himself to bring a new vision and dynamism to the company's advertising endeavors. Mr. LAU has set himself the mission of enhancing the company's brand presence on a global scale, all while maintaining existing, and developing new, world-wide strategic partnerships.

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

## BOARD OF DIRECTORS *(Continued)*

**Mr. LAU Seng Yee** *(Continued)*

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

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

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

**Mr. WANG Zhonglei**

**Director since 2016**
**Executive Director**
Mr. WANG Zhonglei, aged 47, currently serves as Executive Director and director of several subsidiaries of the Company. He received a college degree from Beijing Youth Politics College. Mr. WANG Zhonglei had served for China Mechanical and Electrical Equipment Corporation, and worked as the chief executive officer of Beijing Huayi Exhibition & Advertising Company, the vice-general manager of Beijing Huayi Brothers Advertising Co., Ltd. and the general manager of Beijing Huayi Brothers Film Investment Co., Ltd. He has been serving as the vice-chairman and general manager of Huayi Brothers Media Corporation (a substantial shareholder of the Company) and as a non-executive director of Guru Online (Holdings) Limited, a company listed on the GEM Board of the Hong Kong Stock Exchange (Stock Code: 8121). Mr. WANG Zhonglei is also serving as a director of Huayi Brothers International Limited, a wholly-owned subsidiary of Huayi Brothers Media Corporation (a substantial shareholder of the Company) and a director of Huayi Brothers Korea Co., Ltd., a company listed on the Korea Exchange (KOSDAQ: 204630). Mr. WANG Zhonglei is the brother of Mr. WANG Zhongjun.

## BOARD OF DIRECTORS *(Continued)*

**Mr. LIN Haifeng**

**Director since 2016**
**Executive Director**

Mr. LIN Haifeng, aged 41, currently serves as Executive Director and director of several subsidiaries of the Company. He received a Bachelor of Engineering from Zhejiang University and an MBA from the Wharton School of the University of Pennsylvania. Mr. LIN is serving as the general manager of the merger and acquisitions department of Tencent Holdings Limited (a substantial shareholder of the Company) and he has strong experience in investment, strategy and finance for 13 years. Since joining Tencent Holdings Limited in 2010, Mr. LIN has led investment initiatives in e-commerce, internet finance, media and content areas, solidifying Tencent Holdings Limited's endeavor in building a healthy ecosystem. Prior to joining Tencent Holdings Limited, Mr. LIN held various senior positions in finance, strategy, and operating management at Microsoft and Nokia.

Mr. LIN is currently an employee of a wholly-owned subsidiary of Tencent Holdings Limited (a substantial shareholder of the Company) and a non-executive director of China Literature Limited (Stock Code: 772), a company listed on The Stock Exchange of Hong Kong Limited.

**Ms. WANG Dongmei**

**Director since 2016**
**Executive Director**

Ms. WANG Dongmei, aged 41, currently serves as Executive Director of the Company. She holds a Master of Laws from China University of Political Science and Law. Ms. WANG Dongmei had worked as a paralegal in Duebound Law Firm, the legal counsellor of TOM Group International Limited Beijing Office and the legal manager of Eastdawn Digital Technology Co., Ltd. She is currently serving as the legal director of Huayi Brothers Media Corporation (a substantial shareholder of the Company).

**Mr. YUEN Hoi Po**

**Director since 2010**
**Executive Director**

Mr. YUEN Hoi Po, aged 55, currently serves as Executive Director of the Company. Mr. YUEN is the sole member and the sole director of Smart Concept Enterprise Limited which is a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance and a director of several subsidiaries of the Company. Mr. YUEN currently serves as a member of the standing committee of the Beijing Youth Federation. Mr. YUEN has acquired extensive experiences in the commercial sector when he engaged in businesses, including trading, real estates, tourism and services, since 1990. Given his outstanding records in the commercial field and strong personal influence over the society, Mr. YUEN has been nominated as the members of the Beijing Youth Federation and its standing committee for many years.

## BOARD OF DIRECTORS *(Continued)*

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

**Director since 2000**
**Independent Non-Executive Director**
Dr. WONG Yau Kar, David, GBS, JP, aged 60, currently serves as Independent Non-executive Director of the Company. He is the Chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee. Dr. Wong received a doctorate in Economics from the University of Chicago in 1987. Dr. Wong has extensive experience in manufacturing, direct investment and international trade. Dr. Wong is active in public service. He is a Hong Kong deputy of the 13th National People's Congress of the People's Republic of China (第十三屆全國人民代表大會). He is also the Chairman of the Land and Development Advisory Committee and Mandatory Provident Fund Schemes Authority. Dr. Wong was appointed a Justice of Peace (JP) in 2010 and was awarded a Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region in 2017 for his valuable contribution to the society.

Dr. Wong is currently an independent non-executive director of Concord New Energy Group Limited (Stock code: 182), Redco Properties Group Limited (Stock code: 1622), Guangnan (Holdings) Limited (Stock code: 1203), Shenzhen Investment Limited (Stock code: 604) and Sinopec Kantons Holdings Limited (Stock code: 934), the shares of which are listed on The Stock Exchange of Hong Kong Limited. He had served as an independent non-executive director of Yunfeng Financial Group Limited (Stock code: 376), a company listed on The Stock Exchange of Hong Kong Limited, and resigned in November 2017.

**Mr. YUEN Kin**

**Director since 2004**
**Independent Non-Executive Director**
Mr. YUEN Kin, aged 63, currently serves as Independent Non-executive Director of the Company. He is the Chairman of Audit Committee of the Company and a member of Remuneration Committee and Corporate Governance Committee. Mr. YUEN holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. YUEN is currently an independent non-executive director of Lafe Corporation Limited (SGX: AYB), a company listed on The Singapore Stock Exchange and an independent non-executive director of Emerson Radio Corporation (NYSEMKT: MSN), a company listed on The New York Stock Exchange. He is also an executive director of Culturecom Holdings Limited (Stock Code: 343), a company listed on The Stock Exchange of Hong Kong Limited. He had served as a non-executive director of Kong Sun Holdings Limited (Stock code: 295), a company listed on The Stock Exchange of Hong Kong Limited, and resigned in November 2017.

## BOARD OF DIRECTORS *(Continued)*

**Mr. CHU Yuguo**

**Director since 2012**
**Independent Non-Executive Director**

Mr. CHU Yuguo, aged 52, currently serves as Independent Non-executive Director of the Company. He is a member of Audit Committee, Nomination Committee and Corporate Governance Committee. Mr. CHU is a PhD fellowship of Peking University. He was a lecturer of the Department of Computer Science & Technology of Peking University, deputy head and head of office of admission of Peking University Office of Educational Administration, head of asset management office of Peking University, and the chairman and general manager of Peking University Science Park. He is a director of Beida Jade Bird; a director of Beijing Science Park Culture Education Development Co., Ltd; the chairman of Beida Jade Bird Culture and Education Group and the vice president of Institute of Examinations, Peking University.

## SENIOR MANAGEMENT

**Mr. HAU Wai Man, Raymond**

Mr. HAU Wai Man, Raymond, aged 43, is the Chief Financial Officer, Qualified Accountant, Company Secretary and director of several subsidiaries of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. He holds an MBA degree from The Hong Kong University of Science and Technology, and has over 10 years of experience in international accounting firms and corporates in Hong Kong and China before joining the Company in 2006.

# REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to submit its report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services. Details of the principal activities of the Company's principal subsidiaries as at 31 December 2017 are set out in Note 33 to the consolidated financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 15 of this Annual Report.

## RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on pages 52 to 53 of this Annual Report.

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2017.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 134 of this Annual Report.

## DONATIONS

No donation was made by the Group during the year (2016: HK$80,000).

## SHARE ISSUED IN THE YEAR

Details of the shares of the Company issued in the year ended 31 December 2017 are set out in Note 24 to the consolidated financial statements.

## DIRECTORS

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

Mr. WANG Zhongjun (Chairman & CEO)[1]
Mr. LAU Seng Yee (Vice Chairman)[1]
Mr. WANG Zhonglei[1]
Mr. LIN Haifeng[1]
Ms. WANG Dongmei[1]
Mr. YUEN Hoi Po[1]
Dr. WONG Yau Kar, David, *GBS, JP* [2]
Mr. YUEN Kin[2]
Mr. CHU Yuguo[2]

1. Executive Director
2. Independent Non-executive Director

In accordance with Article 87 of the Company's Articles of Association, Mr. WANG Zhonglei, Mr. YUEN Hoi Po and Mr. CHU Yuguo shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offers themselves for re-election.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and Senior Management as at the date of this report are set out on pages 29 to 33 of this Annual Report.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST-PAID INDIVIDUALS

Particulars of the emoluments of the Directors and the five highest-paid individuals of the Group during the year are set out in Notes 12 and 32(a) to the consolidated financial statements.

## EQUITY–LINKED AGREEMENTS

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

### Share Option Scheme

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

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide appropriate incentives or rewards to eligible participants for their contributions or potential contributions to the Group and to promote the success of the business of the Group. The eligible participants of the Share Option Scheme 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.

## EQUITY–LINKED AGREEMENTS *(Continued)*

**Share Option Scheme** *(Continued)*

Each grant of options to a participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the Share Option Scheme must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who or whose associate is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an Independent Non-executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders in general 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 year, 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 31 December 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 this Annual Report.

## COMPETING BUSINESS

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

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017, calculated under the Companies Law of the Cayman Islands and the Company's Articles of Association, amounted in total to HK$692,245,000 (2016: HK$976,518,000), representing the share premium of HK$1,213,484,000 (2016: HK$1,213,484,000) less the accumulated losses of HK$521,239,000 (2016: HK$236,966,000). The Company may make distributions to its members out of the share premium in certain circumstances subject to the Articles of Association of the Company.

## MAJOR SUPPLIERS AND MAJOR CUSTOMERS

For the year ended 31 December 2017, the Group's aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers were less than 30% of the Group's total revenue from sales of goods or rendering of services. The percentages of purchases of goods and services from its major suppliers are as follows:

| | | |
|---|---|---|
| – | The largest supplier | 16.6% |
| – | Five largest suppliers in aggregate | 42.2% |

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

## RETIREMENT BENEFIT SCHEME

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

## DIRECTORS' SERVICE CONTRACTS

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

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

Save as the details disclosed in Note 32(e) to the consolidated financial statements, there is no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 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 |

Note:

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

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

As at 31 December 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 1) |
|---|---|---|---|---|
| Huayi Brothers Media Corporation | Interest of a controlled corporation (Note 2) | 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 3) | Corporation interest | 2,116,251,467 | 15.68 |
| YUEN Hoi Po | Beneficial owner and interest of controlled corporations (Note 4) | Beneficial and corporation interest | 2,115,492,607 | 15.67 |
| Smart Concept Enterprise Limited | Beneficial owner | Beneficial interest | 1,837,000,000 | 13.61 |
| Rich Public Limited | Beneficial owner (Note 5) | Beneficial interest | 139,492,607 | 1.03 |
| Ming Bang Limited | Interest of a controlled corporation (Note 6) | 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:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the 31 December 2017.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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 31 December 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.

## RELATED PARTY TRANSACTIONS

Details of the transactions carried out with related parties are set out in Note 30 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

## TAX RELIEF

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

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

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

## MANAGEMENT CONTRACTS

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

## INDEMNITY OF DIRECTORS

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

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

A separate corporate governance report prepared by the Board on its corporate governance practices is set out on pages 16 to 28 of this Annual Report.

## AUDITOR

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

## OTHER CHANGES IN DIRECTORS' INFORMATION

Except the followings, 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 2017 Interim Report are set out below.

1. Mr. LIN Haifeng has been appointed as a non-executive director of China Literature Limited (Stock Code: 772);
2. Dr. WONG Yau Kar, David has resigned as an independent non-executive director of Yunfeng Financial Group Limited (Stock Code: 376);
3. Dr. WONG Yau Kar, David has been appointed as an independent non-executive director of Guangnan (Holdings) Limited (Stock Code: 1203);
4. Mr. YUEN Kin has resigned as a non-executive director of Kong Sun Holdings Limited (Stock Code: 295);
5. Mr. YUEN Kin has been appointed as an executive director of Culturecom Holdings Limited (Stock Code: 343).

On behalf of the Board

**WANG Zhongjun**
*Chairman*

Hong Kong, 26 March 2018

羅兵咸永道

**TO THE SHAREHOLDERS OF HUAYI TENCENT ENTERTAINMENT COMPANY LIMITED**
(incorporated in Cayman Islands with limited liability)

**Opinion**

*What we have audited*

The consolidated financial statements of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 133, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

*Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

*Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

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

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

- Impairment assessment for film right
- Subsidiary classified as held for sale
- Impairment assessment for interest in an associate
- Impairment assessment for programmes and film production in progress

**Key Audit Matters** *(Continued)*

| Impairment assessment for film right | How our audit addressed the Key Audit Matter |
|---|---|
| *Refer to note 14 to the consolidated financial statements.*<br><br>As at 31 December 2017, the carrying amount of film right was HK$3,498,000 (2016: HK$74,931,000). Impairment of film right recognised for the year ended 31 December 2017 amounted to HK$41,195,000 (2016: HK$44,051,000).<br><br>In view of the actual box office performance of the film right distribution during the year being below expectation, management performed an impairment assessment for the film right as at 31 December 2017 and the carrying value was written down to its recoverable amount, measured at the higher of fair value less costs of disposal and value in use.<br><br>Management determined the recoverable amount using the value in use method, which was calculated based on the present value of future cash flows directly generated by the film right. The forecast of future cash flows involves judgements regarding the future cash inflows generated from forecast revenue, which included revenue streams for different distribution channels, the correlation between different types of revenue stream and actual box office performance and the duration of various revenue streams.<br><br>We consider the impairment assessment of the film right as a key audit matter due to the significant judgements and estimates made by management on the recoverability of the film right. | We have performed the following procedures in relation to the impairment assessment for film right:<br><br>• We understood, evaluated and tested the key controls over the recoverability assessment performed by management on the film right.<br><br>• We assessed the methodology used by management in determining the recoverable amount by referencing industry practice and market conditions.<br><br>• We evaluated management's assessment on the expected revenue to be generated by the film right based on historical data and our knowledge on the market and industry. We tested the expected revenue from distribution of home video, television syndication, merchandising and franchising by comparing with market information of other similar types of films in the market, including revenue streams for different distribution channels, the correlation between different types of revenue stream and actual box office performance, and the duration of various revenue streams.<br><br>• We evaluated management's assumptions in respect of the estimated distribution costs to be incurred by comparing the ratio of these budgeted costs to the budgeted revenue with other comparable films in the industry.<br><br>We found the assumptions and judgements made by management in respect of the recoverability of the film right to be reasonable based on the available evidence. |

**Key Audit Matters** *(Continued)*

| Subsidiary classified as held for sale | How our audit addressed the Key Audit Matter |
|---|---|
| *Refer to note 28 to the consolidated financial statements.*<br><br>As at 31 December 2017, the Group has recorded assets and liabilities of the disposal group classified as held for sale of HK$262,741,000 (2016: HK$245,441,000) and HK$2,205,000 (2016: HK$2,068,000), respectively.<br><br>In view of management's intention to dispose of Beijing Hao You Media Culture Co. Ltd. ("Hao You"), a wholly-owned subsidiary of the Group, and that the sale was highly probable, the assets and liabilities of Hao You were classified as a disposal group held for sale as at 1 December 2016.<br><br>As at 31 December 2017, the disposal was still going through the necessary regulatory approval process with the local government authorities and is yet to complete over a year later than its initial classification date. As management is of the view that the delay was caused by extended approval procedures from local government authorities; a firm purchase commitment is highly probable within one year; and the Group remains committed to the disposal plan, the assets and liabilities of Hao You have continued to be classified as a disposal group held for sale in accordance with HKFRS 5.<br><br>As at 31 December 2017, management assessed the disposal group at lower of their carrying amounts and the fair value less costs to sale.<br><br>We determined the extended classification of assets and liabilities of Hao You as a disposal group held for sale to be a key audit matter due to the significant judgements and assumptions made by management on whether the assets and liabilities of Hao You meet the criteria to continue to be classified as a disposal group held for sale, and whether the fair value less costs to sell is able to support the carrying amount of the disposal group held for sale. | We have performed the following procedures to assess the extended classification of the assets and liabilities of Hao You as a disposal group held for sale as at 31 December 2017:<br><br>• We obtained the Board of directors' plan and approval for the potential disposal of Hao You, discussed with management the status of negotiations with the potential buyer in assessing the probability of disposing Hao You within one year from the balance sheet date, and examined the non-binding letter of intent between the potential buyer and the Group.<br><br>• We interviewed the potential buyer to corroborate the reason for the delay in the approval progress by the local government authorities being beyond the Group's and potential buyer's control, and their plan of completing the potential transaction within one year from the balance sheet date. We also researched the approval procedures usually completed by local government authorities for similar types of transaction to corroborate our understanding obtained from the client. We also obtained representation from directors of the Group that the Group is still committed to the disposal plan.<br><br>• We evaluated management's assessment on the measurement of the disposal group held for sale which is held at the lower of its carrying amount and fair value less costs to sell with reference to the indicated consideration noted from the non-binding letter of intent.<br><br>• We checked the balances being classified as a disposal group held for sale to the amounts calculated by management to assess the accuracy and appropriateness of such presentation and disclosure made in the consolidated financial statements.<br><br>We considered the extended classification of the assets and liabilities of Hao You as a disposal group held for sale and the measurement of the disposal group held for sale to be supportable by the available evidence. |

**Key Audit Matters** *(Continued)*

<table>
<tr><th>Impairment assessment for interest in an associate</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>
Refer to note 15 to the consolidated financial statements.
As at 31 December 2017, the carrying amount of the interest in an associate was HK$177,619,000 (2016: HK$190,501,000).
In view of the actual financial results of the associate being below expectation during the year, management performed an impairment assessment on their interest in the associate as at 31 December 2017 and the carrying value was written down to its recoverable amount, which was measured at the higher of fair value less costs of disposal and value in use. Based on the impairment assessment, an impairment loss of HK$12,970,000 was recognised during the year.
We focused on the impairment assessment on the interest in the associate due to the significance of the balance, and the significant judgement and assumptions used during the impairment assessment to determine the recoverable amount of the interest in the associate.
</td><td>
We have performed the following procedures in relation to the impairment of the interest in an associate:
<ul>
<li>We evaluated the appropriateness of the value-in-use calculation methodology adopted by the Group's management with the involvement of our internal valuation experts, and tested the mathematical accuracy of the underlying calculation;</li>
<li>We evaluated the reasonableness of key assumptions used in the valuation such as revenue growth rate, terminal growth rate and discount rate of the associate based on our knowledge of the business and industry;</li>
<li>We discussed with management of the Group and the associate to understand the associate's budgeting methods and process; and</li>
<li>We reconciled the data input for the cash flow forecasts to the budgets approved by management of the associate and assessed the reasonableness of these budgets by comparing to historical information and the approved business plan.</li>
</ul>
Based on the above procedures performed, we found that the key judgement and assumptions applied by management in relation to the impairment assessment of interest in an associate were supported by the available evidence.
</td></tr>
</table>

**Key Audit Matters** *(Continued)*

| Impairment assessment for programmes and film production in progress | How our audit addressed the Key Audit Matter |
|---|---|
| *Refer to note 20 to the consolidated financial statements.*<br><br>As at 31 December 2017, the Group had invested in programmes and film production in progress classified as financial assets at a gross amount of HK$69,510,000 (2016: HK$50,252,000) with a film production company with fixed return rate over a specific investment period, of which HK$47,853,000 (2016: Nil) was past due. Management performed an impairment assessment on the programmes and film production in progress based on information, including but not limited to, the ageing of the investments, subsequent settlement status and the investee's ability to repay with reference to the status of its films production. Management made a provision for impairment of programmes and film production in progress of HK$64,725,000 (2016: Nil) based on their assessment.<br><br>We focused on this area due to the significance of the balance as at year end and the significant judgement needed by management in evaluating the recoverability of the programmes and film production in progress. | We have performed the following procedures in relation to the impairment of programmes and film production in progress:<br><br>• We understood the status of each of the programme and film production investments through discussions with management;<br><br>• We checked the ageing profile of the investments as at 31 December 2017 and tested the subsequent settlement made by the investee, by tracing to the investment contracts and bank records. We also understood the procedures undertaken by management to attempt recovery of the overdue balances and obtained the legal letter of demand issued to the investee by the Group for the settlement of overdue investments; and<br><br>• We evaluated management's assessment on the investee's ability to repay the investment balances that were past due as at 31 December 2017 and those that will be subsequently due after the year end by corroborating management's assessment and explanations with supporting evidence, such as settlement history of the investee, latest correspondence with the investee and public search of the investee's profile.<br><br>Based on the procedures performed, we found that management's judgements and estimates used to perform the impairment assessment for programmes and film production in progress were supported by the available evidence. |

### Other Information

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

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

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

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

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements** *(Continued)*

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

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

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

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

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements** *(Continued)*

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

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

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 26 March 2018

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 (Restated) (Note 28) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | **167,666** | 128,324 |
| Cost of sales | | **(156,970)** | (110,527) |
| Gross profit | | **10,696** | 17,797 |
| Other income and other gains/(losses), net | 5 | **48,065** | (40,308) |
| Marketing and selling expenses | | **(26,599)** | – |
| Administrative expenses | | **(156,482)** | (103,777) |
| Share of results of an associate | 15 | **(3,443)** | 1,624 |
| Provision for impairment of interest in an associate | 15 | **(12,970)** | – |
| | | **(140,733)** | (124,664) |
| Finance (costs)/income, net | 7 | **(26)** | 233 |
| Loss before taxation | 8 | **(140,759)** | (124,431) |
| Taxation | 9 | **(364)** | (86) |
| Loss for the year from continuing operations | | **(141,123)** | (124,517) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year from discontinued operations | 28 | **38,859** | (14,262) |
| Loss for the year | | **(102,264)** | (138,779) |
| Attributable to: | | | |
| Equity holders of the Company | | | |
| – continuing operations | | **(142,528)** | (125,244) |
| – discontinued operations | | **38,859** | (14,262) |
| | | **(103,669)** | (139,506) |
| Non-controlling interest | | | |
| – continuing operation | | **1,405** | 727 |
| | | **(102,264)** | (138,779) |

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 (Restated) (Note 28) |
|---|---|---|---|
| Loss per share attributable to the equity holders of the Company for the year | | **HK Cents** | HK Cents |
| Basic (loss)/earnings per share | 10 | | |
| – from continuing operations | | **(1.06)** | (0.98) |
| – from discontinued operations | | **0.29** | (0.11) |
| | | **(0.77)** | (1.09) |
| Diluted (loss)/earnings per share | 10 | | |
| – from continuing operations | | **(1.06)** | (0.98) |
| – from discontinued operations | | **0.29** | (0.11) |
| | | **(0.77)** | (1.09) |

The notes on pages 59 to 133 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 (Restated) (Note 28) |
|---|---|---|---|
| Loss for the year | | **(102,264)** | (138,779) |
| Other comprehensive income: | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| – Change in value of available-for-sale financial assets | 17 | **56** | – |
| – Currency translation differences | 25 | **(25,703)** | 18,784 |
| Other comprehensive (loss)/income for the year, net of tax | | **(25,647)** | 18,784 |
| Total comprehensive loss for the year | | **(127,911)** | (119,995) |
| Total comprehensive (loss)/income attributable to: | | | |
| Equity holders of the Company | | | |
| – continuing operations | | **(179,300)** | (111,143) |
| – discontinued operations | | **50,037** | (9,702) |
| Non-controlling interest | | | |
| – continuing operation | | **1,352** | 850 |
| | | **(127,911)** | (119,995) |

The notes on pages 59 to 133 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2017*

| | Notes | As at 31 December 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **7,059** | 15,940 |
| Film right and film production in progress | 14 | **212,853** | 367,602 |
| Other intangible assets | | **5** | 10 |
| Interest in an associate | 15 | **177,619** | 190,501 |
| Available-for-sale financial assets | 17 | **18,971** | 12,101 |
| Deferred income tax assets | 9 | **1,091** | 2,142 |
| Prepayments, deposits and other receivables | 21 | **52,708** | 91,834 |
| | | **470,306** | 680,130 |
| **Current assets** | | | |
| Trade receivables | 18 | **10,877** | 73 |
| Inventories | 19 | **–** | 6,942 |
| Programmes and film production in progress | 20 | **4,785** | 50,252 |
| Prepayments, deposits and other receivables | 21 | **30,787** | 40,164 |
| Cash and cash equivalents | 22 | **128,369** | 70,842 |
| | | **174,818** | 168,273 |
| Assets of disposal group classified as held for sale | 28 | **262,741** | 245,441 |
| | | **437,559** | 413,714 |
| **Total assets** | | **907,865** | 1,093,844 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Equity attributable to the equity holders of the Company | | | |
| Share capital | 24 | **269,962** | 269,962 |
| Reserves | 25 | **606,150** | 735,413 |
| | | **876,112** | 1,005,375 |
| Non-controlling interest | 25 | **(154)** | (1,506) |
| **Total equity** | | **875,958** | 1,003,869 |

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2017*

| | Notes | As at 31 December 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other payables | 23 | **15,060** | 12,221 |
| Deferred income tax liabilities | 9 | **253** | 1,003 |
| | | **15,313** | 13,224 |
| **Current liabilities** | | | |
| Trade payables | 23 | **–** | 2,518 |
| Receipt in advance, other payables and accrued liabilities | 23 | **14,386** | 14,787 |
| Income tax liabilities | | **3** | 57,378 |
| | | **14,389** | 74,683 |
| Liabilities of disposal group classified as held for sale | 28 | **2,205** | 2,068 |
| | | **16,594** | 76,751 |
| **Total liabilities** | | **31,907** | 89,975 |
| **Total equity and liabilities** | | **907,865** | 1,093,844 |

The financial statements on pages 52 to 133 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

**WANG Zhongjun**
*Director*

**LAU Seng Yee**
*Director*

The notes on pages 59 to 133 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from/(used in) operations | 26 | **65,467** | (453,631) |
| PRC capital gain tax paid | | **(14,300)** | – |
| **Net cash generated from/(used in) operating activities** | | **51,167** | (453,631) |
| **Cash flows from investing activities** | | | |
| Bank interest received | | **945** | 894 |
| Purchases of property, plant and equipment | | **(3,504)** | (8,691) |
| Disposals of subsidiaries, net of cash disposed of | 26 | **11,371** | (7) |
| Proceeds from disposals of joint ventures | | **–** | 191 |
| Repayment received from a then joint venture | | **–** | 1,190 |
| Proceeds from disposals of property, plant and equipment | | **10** | 29 |
| Net cash used through acquisition of a subsidiary | 27 | **–** | (89,953) |
| Investment in an associate | 15 | **–** | (191,656) |
| Purchase of available-for-sale financial assets | | **(6,814)** | (12,101) |
| **Net cash generated from/(used in) investing activities** | | **2,008** | (300,104) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of subscription shares | | **–** | 547,009 |
| Dividends paid | | **–** | (1,701) |
| **Net cash generated from financing activities** | | **–** | 545,308 |
| Net increase/(decrease) in cash and cash equivalents | | **53,175** | (208,427) |
| Cash and cash equivalents at 1 January | | **70,993** | 280,400 |
| Currency translation differences | | **4,458** | (980) |
| Cash and cash equivalents at 31 December | | **128,626** | 70,993 |
| Analysis of cash and cash equivalents | | | |
| Cash and cash equivalents of the Group | | **128,626** | 70,993 |
| Reclassification to assets of disposal group held for sale | 28 | **(257)** | (151) |
| | 22 | **128,369** | 70,842 |

The notes on pages 59 to 133 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2017*

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Other reserves** HK$'000 | **Accumulated losses** HK$'000 | **Non-controlling interest** HK$'000 | **Total equity** HK$'000 |
| Balance at 1 January 2016 | 133,210 | 1,745,796 | (1,299,795) | (2,356) | 576,855 |
| Comprehensive income: | | | | | |
| – (Loss)/profit for the year | – | – | (139,506) | 727 | (138,779) |
| Other comprehensive income: | | | | | |
| Currency translation differences | | | | | |
| – Group | – | 21,163 | – | 123 | 21,286 |
| – Associate (Note 15) | – | (2,779) | – | – | (2,779) |
| – Recycling upon disposal of subsidiaries | – | 277 | – | – | 277 |
| Total comprehensive income/(loss) | – | 18,661 | (139,506) | 850 | (119,995) |
| Transactions with owners in their capacity as owners: | | | | | |
| – Issuance of subscription shares | 136,752 | 410,257 | – | – | 547,009 |
| Total transactions with owners in their capacity as owners | 136,752 | 410,257 | – | – | 547,009 |
| Balance at 31 December 2016 | 269,962 | 2,174,714 | (1,439,301) | (1,506) | 1,003,869 |
| Balance at 1 January 2017 | **269,962** | **2,174,714** | **(1,439,301)** | **(1,506)** | **1,003,869** |
| Comprehensive income: | | | | | |
| – (Loss)/profit for the year | **–** | **–** | **(103,669)** | **1,405** | **(102,264)** |
| Other comprehensive income: | | | | | |
| Change in value of available-for-sale financial assets | **–** | **56** | **–** | **–** | **56** |
| Currency translation differences | | | | | |
| – Group | **–** | **(29,041)** | **–** | **(53)** | **(29,094)** |
| – Associate (Note 15) | **–** | **3,531** | **–** | **–** | **3,531** |
| – Recycling upon disposal of a subsidiary (Note 28) | **–** | **(140)** | **–** | **–** | **(140)** |
| Total comprehensive (loss)/income | **–** | **(25,594)** | **(103,669)** | **1,352** | **(127,911)** |
| Balance at 31 December 2017 | **269,962** | **2,149,120** | **(1,542,970)** | **(154)** | **875,958** |

The notes on pages 59 to 133 are an integral part of these consolidated financial statements.

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

These consolidated financial statements are presented in thousand Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2018.

## 2 PRINCIPAL ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair values.

The preparation of these consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

### (a) Basis of preparation

#### *(i) Changes in accounting policies and disclosures*

*New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

| | |
|---|---|
| HKFRSs (amendments) | Annual improvements to HKFRS standards 2014-2016 cycle |
| HKAS 7 (amendments) | Disclosure initiative |
| HKAS 12 (amendments) | Recognition of deferred tax assets for unrealized losses |

The adoption of these amendments did not have any impact on the amounts recognized in prior periods. Most of the amendments will also not affect the current period.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

#### *(i) Changes in accounting policies and disclosures* (Continued)

*New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been early adopted by the Group in preparing these consolidated financial statements. None of these new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except those set out below:

HKFRS 9 Financial Instruments

HKFRS 9 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 Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- The unlisted securities that are currently classified as available-for-sale will be reclassified as fair value through profit or loss; and

- Debt instruments currently measured at amortized cost which meet the condition for classification at amortized cost under HKFRS 9.

Investment in unlisted securities do not meet the criteria to be classified neither as at fair value through other comprehensive income or at amortized cost and HK$18,971,000 will have to be reclassified to financial asset at fair value through profit or loss. Related net fair value gain of HK$56,000 will have to be transferred from the available-for-sales financial assets reserve to retained earnings.

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 rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortized cost, contract assets under HKFRS 15 'Revenue from Contracts with Customers', trade receivables, lease receivables and loan commitments. Based on the assessments undertaken to date, the Group does not expect material change to provision for impairment of programmes and film production in progress, trade receivables and debts investments held at amortized cost.

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.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

#### *(i) Changes in accounting policies and disclosures* *(Continued)*

*New standards and interpretations not yet adopted* (Continued)

HKFRS 9 Financial Instruments *(Continued)*

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 Revenue from Contracts with Customers

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and 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.

At this stage, the Group has commenced an assessment of the impact of HKFRS 15 and does not expect a significant impact on its results of operations and financial position based on the current business model.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$180,795,000.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

#### *(i) Changes in accounting policies and disclosures* *(Continued)*

*New standards and interpretations not yet adopted* (Continued)

HKFRS 16 Leases *(Continued)*

The standard will be mandatory for adoption by the Group for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### (b) Group accounting

#### *(i) Consolidation*

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

#### *(ii) Subsidiaries*

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

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been charged where necessary to ensure consistency with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet, respectively.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Group accounting *(Continued)*

#### *(iii) Business combinations*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Group accounting *(Continued)*

#### *(iv) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

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

#### *(v) Separate financial statements*

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Group accounting *(Continued)*

#### *(vi) Associates*

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

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

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

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

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Group accounting *(Continued)*

#### *(vii) Joint arrangements*

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

Joint operations arise where the investors have joint control and their direct rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets and liabilities. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

#### *(viii) Segment reporting*

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

### (c) Foreign currency translation

#### *(i) Functional and presentation currency*

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

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Foreign currency translation *(Continued)*

#### *(ii) Transactions and balances (Continued)*

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

Non-monetary items that are measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

#### *(iii) Group companies*

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

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

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

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

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

#### *(iv) Disposal of foreign operation and partial disposal*

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

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Property, plant and equipment

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

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

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

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

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

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

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

### (e) Intangible assets

***Film rights***

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

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

Upon the release of the films, film rights are amortized using diminishing balance method at rates calculated to write off the costs over their estimated useful lives.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (f) Film production in progress

Fees paid in advance under agreements for production of film are accounted for as film production in progress. Film production in progress are recognized when payment was made. Upon receipt of the film, the film production in progress would be transferred to film rights and the remaining payable balances will be recorded as a liability, if any. Provision for impairment loss is made against the advance to the extent that film rights will not be received and the advance is not recoverable in the future.

In case where the Group is unable to exercise the rights under an agreement because the film producer fails to complete the film, the Group writes off the difference between the advances made and the estimated recoverable amount from the film producer.

### (g) Impairment of non-financial assets

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

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

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

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Non-current assets (or disposal groups) held for sale and discontinued operations *(Continued)*

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

Upon the reclassification of disposal group held for sales, the amortization of intangible assets and depreciation of property, plant and equipment are ceased.

### (i) Financial assets

***Classification***

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

*(i) Financial assets at fair value through profit or loss*

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

*(ii) Loans and receivables*

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

*(iii) Available-for-sale financial assets*

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (i) Financial assets *(Continued)*

***Recognition and measurement***

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

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

Gains or losses on an available-for-sale financial assets are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, translation differences related to changes in amortized cost of the security are recognized in profit or loss (Note 2(c)(ii)), until the financial assets are derecognized. At that time, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

### (j) Offsetting financial instruments

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of financial assets

#### *(i) Assets carried at amortized cost*

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

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

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

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

#### *(ii) Assets classified as available-for-sale*

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of financial assets *(Continued)*

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

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

### (l) Inventories

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

### (m) Trade and other receivables

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

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

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

### (n) Cash and cash equivalents

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (o) Share capital

Ordinary shares and preference shares are classified as equity.

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

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

### (p) Dividend distribution

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

### (q) Trade and other payables

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

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

### (r) Current and deferred income tax

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

#### *(i) Current income tax*

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (r) Current and deferred income tax *(Continued)*

#### *(ii) Deferred income tax*

*Inside basis difference*

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

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

*Outside basis differences*

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

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

#### *(iii) Offsetting*

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (s) Provisions

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

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

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

### (t) Revenue recognition

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

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

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition *(Continued)*

(iii) Food and beverage income and club activities income are accounted for when the services are rendered. Members' annual fees and membership entrance fees are recognized on an agreed calculation basis pursuant to the club lease agreement that the Group and the lessor entered into. Such food and beverage income and club activities income are reported under "Offline Healthcare and Wellness Services" segment.

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

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

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

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (u) Employee benefits

#### *(i) Retirement benefit costs*

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

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

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

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

#### *(ii) Termination benefits*

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

#### *(iii) Profit-sharing and bonus plans*

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

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (u) Employee benefits *(Continued)*

#### *(iv) Employee leave entitlements*

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

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

### (v) Operating leases

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

## 3 FINANCIAL RISK MANAGEMENT

### (i) Financial risk factors

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

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

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

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for financial assets and liabilities that represent the major floating interest-bearing positions.

Based on the simulations performed on cash balances placed with banks carried at floating interest rate, if the interest rate increased/decreased by 60 basis-point with all other variables held constant, loss attributable to the equity holders of the Company for the year ended 31 December 2017 would decrease/increase by HK$770,000 (2016: HK$425,000).

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (i) Financial risk factors *(Continued)*

#### *(b) Credit risk*

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

In addition, the Group reviews regularly the recoverable amount of deposits and other receivable and programme and film production in progress to ensure that adequate impairment losses are made for irrecoverable amounts.

For banks and financial institutions, only rated parties with a minimum rating of 'A' are accepted.

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

#### *(c) Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and net monetary assets and liabilities are denominated in Renminbi ("RMB") and United States Dollars ("USD") (2016: RMB) that is not the functional currency of the relevant group entity.

The Group has not used any forward contracts, currency borrowings and other means to hedge its foreign currency exposure but manages through constant monitoring to limit as much as possible its net exposure.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against Hong Kong dollars with all other variables held constant, the loss for the year would decrease/increase by HK$39,138,000 (2016:HK$37,412,000), mainly as a result of foreign exchange gains/losses on translation of loans and receivables denominated in RMB and recorded in group entities with functional currency in HK$.

In respect of USD, the Group considers that minimal risk arises as the rate of exchange between HK$ and USD is controlled within a tight range under the Hong Kong's Linked Exchange Rate System.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (i) Financial risk factors *(Continued)*

#### *(d) Liquidity risk*

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

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

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

| | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2017** | | | | |
| Trade payables, other payables and accrued liabilities | **6,274** | **–** | **164** | **4,289** |
| **At 31 December 2016** | | | | |
| Trade payables, other payables and accrued liabilities | 10,213 | – | 154 | 4,386 |

### (ii) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. As at 31 December 2017, the Group did not have any outstanding borrowing and its gearing ratio was nil (2016: nil).

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (iii) Fair value estimation

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

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

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

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| Available-for-sale financial assets (Note 17) | **–** | **–** | **18,971** | **18,971** |
| **At 31 December 2016** | | | | |
| Available-for-sale financial assets (Note 17) | – | – | 12,101 | 12,101 |

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer (CFO).

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

Specific valuation techniques used to value level 3 financial instrument include techniques such as discounted cash flow analysis.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (iii) Fair value estimation *(Continued)*

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2016 and 2017:

| | Available-for-sale financial asset | | |
|---|---|---|---|
| | **– Convertible preference stock** Note (i) HK$'000 | **– Huayi-Warner Contents Fund** Note (ii) HK$'000 | **Total** HK$'000 |
| **As at 1 January 2016** | – | – | – |
| Addition | 12,101 | – | 12,101 |
| **As at 31 December 2016** | 12,101 | – | 12,101 |
| **As at 1 January 2017** | **12,101** | **–** | **12,101** |
| Addition | **–** | **6,814** | **6,814** |
| Fair value loss through other comprehensive income | **(703)** | **(287)** | **(990)** |
| Exchange realignment | **531** | **515** | **1,046** |
| **As at 31 December 2017** | **11,929** | **7,042** | **18,971** |

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

i. Available-for-sale financial asset – Convertible preference stock

The key unobservable assumptions used in the valuation of the unlisted investment fund as at 31 December 2017 are:

| **Valuation techniques** | **Unobservable inputs** | **As at 31 December 2017** |
|---|---|---|
| Discounted cash flow analysis | Compound annual growth rate of revenue in five-year period | 53.2% |
| | Annual growth rate beyond the five-year period | 3.5% |
| | Discount rate | 14.9% |

ii. Available-for-sale financial asset – Huayi-Warner Contents Fund

The Group has determined that the audited net asset value approximates fair value of the unlisted investment fund.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (i) Income taxes

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

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

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

For the year ended 31 December 2017, the Group has recognized provision for impairment of film right of approximately HK$41,195,000 (2016: HK$44,051,000) and no provision for impairment of film production in progress was recognized (2016: nil).

### (iii) Amortization of film right

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

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

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

For the year ended 31 December 2017, the Group has recognized provision for impairment of programmes and film production in progress of approximately HK$64,725,000 (2016: nil).

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (v) Net realizable value of inventories

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

### (vi) Impairment of prepayments

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

For the year ended 31 December 2017, the Group has recognized provision for impairment of prepayments of approximately HK$15,572,000 (2016: nil).

### (vii) Impairment of interest in an associate

The Group assesses at the end of each reporting period whether there is any indication for impairment on the interest in an associate and further assesses if they have suffered any impairment, in accordance with the accounting policy stated in Note 2(e). The recoverable amount has been determined by value-in-use calculation of present value of expected future cash flows. The calculation requires the use of estimates.

For the year ended 31 December 2017, the Group has recognized provision for impairment of interest in an associate of approximately HK$12,970,000 (2016: nil).

### (viii) Classification of joint arrangements

The Group has entered into joint arrangements to produce and distribute films. The Group has participating interests ranging from 10% to 12% in these joint arrangements. The Group has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The Group's joint arrangements involve the joint control by the venturers of the assets contributed to the joint arrangement and dedicated to the purposes of the joint arrangement. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint arrangements do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Therefore, these arrangements are classified as joint operations of the Group. The determination of the relevant activities under joint operations requires management's significant judgement.

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

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services. The online healthcare services operations was disposed of during the year (Note 28). Revenue recognized during the year are as follows:

| | **2017** **HK$'000** | 2016 HK$'000 (Restated) |
|---|---|---|
| Revenue | | |
| Entertainment and media | | |
| – Film exhibition | **52,039** | – |
| – Return of investment in programmes and film production in progress and others | **–** | 11,825 |
| Offline healthcare and wellness services | | |
| – Club activities income | **40,797** | 43,999 |
| – Membership fees | **32,810** | 35,051 |
| – Rental income | **25,944** | 23,741 |
| – Food and beverage | **16,076** | 13,708 |
| | **167,666** | 128,324 |
| Other income and other gains/(losses), net | | |
| Interest income | **945** | 894 |
| Realized loss on financial assets at fair value through profit or loss, net | **–** | (4,700) |
| Gain on disposals of subsidiaries | **–** | 1,694 |
| Gain on disposal of a joint venture | **–** | 12 |
| Exchange gains/(losses), net | **46,996** | (39,803) |
| Miscellaneous | **124** | 1,595 |
| | **48,065** | (40,308) |

## 6 SEGMENT INFORMATION

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

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

Segment assets exclude cash and cash equivalent and other unallocated head office and corporate assets which are managed on a group basis. Segment liabilities exclude income tax liabilities and other unallocated head office and corporate liabilities which are managed on a group basis.

There are no sales between the operating segments in the year ended 31 December 2017 (2016: nil).

## 6 SEGMENT INFORMATION *(Continued)*

### (a) Business segment

*For the year ended 31 December 2017*

| | Entertainment and Media HK$'000 | Offline Healthcare and Wellness Services HK$'000 | Total continuing operations HK$'000 | Discontinued operations: Entertainment and Media – Beijing Hao You Media Culture Co., Ltd. ("Hao You") HK$'000 | Discontinued operations: Online Healthcare Services HK$'000 | Discontinued operations: Offline Healthcare and Wellness Services – Beijing Healthcare and Wellness Si He Yuan and Hotel Project (Note 28(c)) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 52,039 | 115,627 | 167,666 | – | 8,308 | – | 175,974 |
| Share of result of an associate | (3,443) | – | (3,443) | – | – | – | (3,443) |
| Provision for impairment of interest in an associate | (12,970) | – | (12,970) | – | – | – | (12,970) |
| Segment results | (157,442) | (14,870) | (172,312) | 103 | 5 | (4,385) | (176,589) |
| Exchange gain, net | | | 46,996 | – | 61 | – | 47,057 |
| Unallocated expenses, net | | | (15,417) | – | – | – | (15,417) |
| | | | (140,733) | 103 | 66 | (4,385) | (144,949) |
| Finance cost, net | | | (26) | – | – | – | (26) |
| (Loss)/profit before taxation | | | (140,759) | 103 | 66 | (4,385) | (144,975) |
| Taxation | | | (364) | – | – | 43,075 | 42,711 |
| (Loss)/profit for the year | | | (141,123) | 103 | 66 | 38,690 | (102,264) |
| Non-controlling interest | | | (1,405) | – | – | – | (1,405) |
| (Loss)/profit attributable to the equity holders of the Company | | | (142,528) | 103 | 66 | 38,690 | (103,669) |

## 6 SEGMENT INFORMATION *(Continued)*

### (a) Business segment *(Continued)*

***For the year ended 31 December 2017*** *(Continued)*

| | Entertainment and Media HK$'000 | Offline Healthcare and Wellness Services HK$'000 | Total continuing operations HK$'000 | Discontinued operations: Entertainment and Media – Beijing Hao You Media Culture Co., Ltd. ("Hao You") HK$'000 | Discontinued operations: Online Healthcare Services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Segment assets | 441,669 | 87,799 | 529,468 | 262,741 | – | 792,209 |
| Unallocated assets | | | 115,656 | – | – | 115,656 |
| Total assets | | | 645,124 | 262,741 | – | 907,865 |
| Segment liabilities | 4,299 | 22,834 | 27,133 | 2,205 | – | 29,338 |
| Unallocated liabilities | | | 2,569 | – | – | 2,569 |
| Total liabilities | | | 29,702 | 2,205 | – | 31,907 |
| Other information: | | | | | | |
| Purchases of property, plant and equipment | | | | | | |
| – Allocated | 24 | 1,849 | 1,873 | – | 1,604 | 3,477 |
| – Unallocated | | | 27 | – | – | 27 |
| Depreciation | | | | | | |
| – Allocated | 134 | 3,615 | 3,749 | – | 2,509 | 6,258 |
| – Unallocated | | | 677 | – | – | 677 |
| Amortization of other intangible assets | – | 5 | 5 | – | – | 5 |
| Amortization of film right | 30,238 | – | 30,238 | – | – | 30,238 |
| Impairment of film right | 41,195 | – | 41,195 | – | – | 41,195 |
| Impairment of prepayment | 15,572 | – | 15,572 | – | – | 15,572 |
| Impairment of programmes and film in progress | 64,725 | – | 64,725 | – | – | 64,725 |
| Impairment of interest in an associate | 12,970 | – | 12,970 | – | – | 12,970 |

## 6 SEGMENT INFORMATION *(Continued)*

### (a) Business segment *(Continued)*

For the year ended 31 December 2016

| | Entertainment and Media HK$'000 | Offline Healthcare and Wellness Services HK$'000 | Total continuing operations HK$'000 (Restated) | Discontinued operations: Entertainment and Media – Hao You HK$'000 | Discontinued operations: Online Healthcare Services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Revenue | 11,825 | 116,499 | 128,324 | – | 7,309 | 135,633 |
| Share of result of an associate | 1,624 | – | 1,624 | – | – | 1,624 |
| Segment results | (36,317) | 7,828 | (28,489) | 21 | (14,283) | (42,751) |
| Exchange losses, net | | | (39,803) | – | – | (39,803) |
| Unallocated expenses, net | | | (56,372) | – | – | (56,372) |
| | | | (124,664) | 21 | (14,283) | (138,926) |
| Finance income, net | | | 233 | – | – | 233 |
| (Loss)/profit before taxation | | | (124,431) | 21 | (14,283) | (138,693) |
| Taxation | | | (86) | – | – | (86) |
| (Loss)/profit for the year | | | (124,517) | 21 | (14,283) | (138,779) |
| Non-controlling interest | | | (727) | – | – | (727) |
| (Loss)/profit attributable to the equity holders of the Company | | | (125,244) | 21 | (14,283) | (139,506) |

## 6 SEGMENT INFORMATION *(Continued)*

### (a) Business segment *(Continued)*

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

| | Entertainment and Media HK$'000 | Offline Healthcare and Wellness Services HK$'000 | Total continuing operations HK$'000 (Restated) | Discontinued operations: Entertainment and Media – Hao You HK$'000 | Discontinued operations: Online Healthcare Services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Segment assets | 652,013 | 101,440 | 753,453 | 245,441 | 17,019 | 1,015,913 |
| Unallocated assets | | | 77,931 | – | – | 77,931 |
| Total assets | | | 831,384 | 245,441 | 17,019 | 1,093,844 |
| Segment liabilities | 3,285 | 17,863 | 21,148 | 2,068 | 8,371 | 31,587 |
| Unallocated liabilities | | | 58,388 | – | – | 58,388 |
| Total liabilities | | | 79,536 | 2,068 | 8,371 | 89,975 |
| Other information: | | | | | | |
| Purchases of property, plant and equipment | | | | | | |
| – Allocated | – | 3,422 | 3,422 | – | 3,280 | 6,702 |
| – Unallocated | | | 1,989 | – | – | 1,989 |
| Purchases of film right and film production in progress | 536,250 | – | 536,250 | – | – | 536,250 |
| Depreciation | | | | | | |
| – Allocated | 292 | 3,018 | 3,310 | – | 3,212 | 6,522 |
| – Unallocated | | | 142 | – | – | 142 |
| Amortization of other intangible assets | | | 10 | – | – | 10 |
| Amortization of film right | 5,779 | – | 5,779 | – | – | 5,779 |
| Impairment of film right | 44,051 | – | 44,051 | – | – | 44,051 |

## 6 SEGMENT INFORMATION *(Continued)*

### (b) Geographical information

The geographical information for the year ended 31 December 2017 and 2016 are as follows:

| | Revenue from external customers | | Non-current assets Note | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 |
| The People's Republic of China (the "PRC") | **115,627** | 120,925 | **46,104** | 97,962 |
| Hong Kong | **–** | – | **10,144** | 26,508 |
| Other countries | **52,039** | 7,399 | **203,945** | 320,624 |
| | **167,666** | 128,324 | **260,193** | 445,094 |

Note Non-current assets exclude interest in an associate, available-for-sale financial asset, deferred income tax assets and non-current portion of deposits and other receivables.

## 7 FINANCE (COSTS)/INCOME, NET

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Finance costs** | | |
| Imputed finance cost on discounting non-current rental deposits received | **(126)** | (33) |
| **Finance income** | | |
| Imputed finance income on discounting non-current rental deposits paid | **100** | 266 |
| Finance (costs)/income, net | **(26)** | 233 |

## 8 LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

| | 2017<br>HK$'000 | 2016<br>HK$'000<br>(Restated) |
|---|---|---|
| Depreciation of property, plant and equipment (Note 13) | **4,426** | 3,452 |
| Amortization of film right (Note 14) | **30,238** | 5,779 |
| Auditor's remuneration | | |
| – Audit services | **2,980** | 2,980 |
| – Non-audit services | **744** | 1,724 |
| Operating lease rentals | **43,015** | 45,638 |
| Provision for impairment of | | |
| – Film right | **41,195** | 44,051 |
| – Prepayments | **15,572** | – |
| – Interest in an associate | **12,970** | – |
| – Programmes and film production in progress | **64,725** | – |
| Loss on disposal of property, plant and equipment | **233** | 162 |
| Employee benefit expense: | | |
| Directors' fees | **600** | 600 |
| Wages and salaries | **12,628** | 10,021 |
| Contributions to defined contribution pension schemes | **1,594** | 1,018 |
| | **14,822** | 11,639 |

## 9 TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2016: same). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

## 9 TAXATION *(Continued)*

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | – | – |
| – PRC corporate income tax | – | – |
| Deferred income tax | 364 | 86 |
| Income tax expense | 364 | 86 |

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

| | 2017<br>HK$'000 | 2016<br>HK$'000<br>(Restated) |
|---|---|---|
| Loss before taxation | (140,759) | (124,431) |
| Tax calculated at domestic tax rates applicable to the profit or loss in respective countries | (26,861) | (19,511) |
| Tax effects of an associate and joint ventures, results reported net of tax | – | (268) |
| Income not subject to tax | (13,182) | (29,950) |
| Expenses not deductible for tax purposes | 34,883 | 34,380 |
| Utilization of previously unrecognized tax losses | (380) | (404) |
| Tax losses not recognized | 5,904 | 15,839 |
| Income tax expense | 364 | 86 |

The weighted average applicable tax rate was 19.08% (2016: 15.68%). The change in weighted average applicable tax rate was mainly caused by a change in mix of profits earned/losses incurred.

## 9 TAXATION *(Continued)*

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

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Deferred income tax assets to be recovered after more than 12 months | **1,091** | 2,142 |
| Deferred income tax liabilities to be recovered after more than 12 months | **(253)** | (1,003) |
| Deferred income tax assets, net | **838** | 1,139 |

The movement on the deferred income tax account is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| At the beginning of the year | **1,139** | 1,305 |
| Charged to the consolidated income statement | **(364)** | (86) |
| Exchange difference | **63** | (80) |
| At the end of the year | **838** | 1,139 |

## 9 TAXATION *(Continued)*

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

**Deferred tax assets**

| | **Amortization of operating lease** HK$'000 |
|---|---|
| At 1 January 2016 | 2,012 |
| Credited to the consolidated income statement | 266 |
| Exchange differences | (136) |
| At 31 December 2016 and 1 January 2017 | **2,142** |
| Credited to the consolidated income statement | **178** |
| Exchange differences | **156** |
| At 31 December 2017 | **2,476** |

**Deferred tax liabilities**

| | **Unrealized earning** HK$'000 | **Amortization of operating lease** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2016 | – | (707) | (707) |
| Charged to the consolidated income statement | – | (352) | (352) |
| Exchange differences | – | 56 | 56 |
| At 31 December 2016 and 1 January 2017 | **–** | **(1,003)** | **(1,003)** |
| Charged to the consolidated income statement | **(241)** | **(301)** | **(542)** |
| Exchange differences | **(12)** | **(81)** | **(93)** |
| At 31 December 2017 | **(253)** | **(1,385)** | **(1,638)** |

Deferred tax assets are recognized for tax losses carry-forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2017, the Group had unrecognized tax losses of approximately HK$344,853,000 (2016: HK$316,618,000) to carry forward against future taxable income, subject to agreement by the Inland Revenue Department of Hong Kong and local tax bureau of the PRC. The tax losses of the PRC subsidiaries have an expiry period of five years, while the tax losses of Hong Kong subsidiaries have no expiry date.

## 9 TAXATION *(Continued)*

**Deferred tax liabilities** *(Continued)*

The Group did not recognize deferred income tax assets of approximately HK$2,571,000 (2016: HK$2,951,000) in respect of tax losses of approximately HK$10,282,000 (2016: HK$11,804,000) that will expire in five years from the year incurred. The remaining tax losses of approximately HK$334,571,000 (2016: HK$304,814,000) can be carried forward indefinitely to offset against future taxable income.

Deferred income tax liabilities of HK$2,306,000 (2016: HK$6,415,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries and joint ventures. Total unremitted earnings amounted to HK$23,059,000 as at 31 December 2017 (2016: HK$64,148,000).

## 10 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted loss per share for the years ended 31 December 2017 and 2016 were the same as basic loss per share as the Company had no potentially dilutive ordinary shares in issue during these years.

| | **2017** | 2016 (Restated) |
|---|---|---|
| Weighted average number of ordinary shares in issue (thousands) | **13,498,107** | 12,844,236 |
| Loss from continuing operations attributable to equity holders of the Company (HK$'000) | **(142,528)** | (125,244) |
| Basic and diluted loss per share from continuing operations attributable to equity holders of the Company (HK cents per share) | **(1.06)** | (0.98) |
| Profit/(loss) from discontinued operations attributable to equity holders of the Company (HK$'000) | **38,859** | (14,262) |
| Basic and diluted earnings/(loss) per share from discontinued operations attributable to equity holders of the Company (HK cents per share) | **0.29** | (0.11) |
| Loss per share attributable to equity holders of the Company (HK cents per share) | **(0.77)** | (1.09) |

## 11 DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: nil).

## 12 EMPLOYEE BENEFIT EXPENSE

**Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include no (2016: nil) director whose emoluments are reflected in the analysis shown in Note 32(a). The emoluments payable to the five (2016: five) individuals during the year are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries, bonuses, allowances and benefits in kind | 5,042 | 5,245 |
| Contributions to defined contribution pension schemes | 304 | 281 |
| | 5,346 | 5,526 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2017 | 2016 |
| Emolument bands | | |
| HK$500,001 – HK$1,000,000 | 4 | 4 |
| HK$2,000,001 – HK$2,500,000 | 1 | 1 |
| | 5 | 5 |

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Machinery and equipment HK$'000 | Furniture, computer and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book amount | 678 | 6,140 | 1,239 | 6,654 | 1,023 | – | 15,734 |
| Additions | – | 3,398 | 1,132 | 2,692 | 1,469 | – | 8,691 |
| Acquisition of subsidiary (Note 27) | 904 | – | 119 | – | 92 | – | 1,115 |
| Disposals | – | – | (44) | – | (147) | – | (191) |
| Disposals of a subsidiary (Note 26(b)) | (671) | (2) | – | – | – | – | (673) |
| Depreciation | – | (2,603) | (797) | (3,005) | (259) | – | (6,664) |
| Reclassification to assets of disposal group held for sale (Note 28) | (898) | – | (118) | – | (91) | – | (1,107) |
| Exchange differences | (13) | (417) | (79) | (354) | (102) | – | (965) |
| **Closing net book amount** | **-** | **6,516** | **1,452** | **5,987** | **1,985** | **-** | **15,940** |
| **At 31 December 2016** | | | | | | | |
| Cost | – | 9,128 | 4,411 | 10,749 | 3,455 | 6,348 | 34,091 |
| Accumulated depreciation and impairment | – | (2,612) | (2,959) | (4,762) | (1,470) | (6,348) | (18,151) |
| **Net book amount** | **-** | **6,516** | **1,452** | **5,987** | **1,985** | **-** | **15,940** |

## 13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Machinery and equipment HK$'000 | Furniture, computer and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | |
| Opening net book amount | 6,516 | 1,452 | 5,987 | 1,985 | 15,940 |
| Additions | 2,828 | 339 | 247 | 90 | 3,504 |
| Disposals | – | (102) | (141) | – | (243) |
| Disposal of a subsidiary (Note 26(b)) | (5,797) | (183) | – | – | (5,980) |
| Depreciation | (2,615) | (322) | (3,600) | (398) | (6,935) |
| Exchange differences | 355 | 98 | 192 | 128 | 773 |
| **Closing net book amount** | 1,287 | 1,282 | 2,685 | 1,805 | 7,059 |
| **At 31 December 2017** | | | | | |
| Cost | 1,470 | 3,156 | 11,610 | 3,791 | 20,027 |
| Accumulated depreciation | (183) | (1,874) | (8,925) | (1,986) | (12,968) |
| **Net book amount** | 1,287 | 1,282 | 2,685 | 1,805 | 7,059 |

Depreciation expenses of approximately HK$4,426,000 (2016: HK$3,452,000) and HK$2,509,000 (2016: HK$3,212,000) have been charged in administrative expenses and discontinued operation, respectively.

## 14 FILM RIGHT AND FILM PRODUCTION IN PROGRESS

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

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

| | Film right HK$'000 | Film production in progress HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2017** | | | |
| Opening net book amount | 74,931 | 292,671 | 367,602 |
| Return of capital | – | (60,958) | (60,958) |
| Amortization | (30,238) | – | (30,238) |
| Impairment | (41,195) | – | (41,195) |
| Reclassification (Note 20) | – | (23,116) | (23,116) |
| Exchange differences | – | 758 | 758 |
| Closing net book amount | 3,498 | 209,355 | 212,853 |
| **At 31 December 2017** | | | |
| Cost | 124,761 | 209,355 | 334,116 |
| Accumulated amortization | (36,017) | – | (36,017) |
| Impairment | (85,246) | – | (85,246) |
| Net book amount | 3,498 | 209,355 | 212,853 |

Amortization of film right of approximately HK$30,238,000 (2016: HK$5,779,000) has been charged to the cost of sales in the consolidated income statement.

In view of the actual box office performance of certain film right distribution in certain markets during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2017. By using the latest available information and best estimates as at 31 December 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 other revenue streams that the film right can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. The discount rate adopted for the assessment is 19% (2016: 19%). Accordingly, impairment of film right amounting to approximately HK$41,195,000 (2016: HK$44,051,000) was recognized for the year ended 31 December 2017, and was included in cost of sales.

The Group has entered into certain joint operation arrangements to produce and distribute eleven films (2016: thirteen). The Group has participating interests ranging from 10% to 12% in these joint operations. As at 31 December 2017, the aggregate amounts of assets recognized in the consolidated balance sheet relating to the Group's interests in these joint operation arrangements are the film right and film production in progress and trade receivables of HK$212,853,000 (2016: HK$367,602,000) and HK$10,877,000 (2016: nil), respectively.

## 15 INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 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 31 December 2017 and 2016 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%** | 22% | 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 ("CPS") at the subscription price of Korean Won ("KRW") 14,042.4 million (equivalent to approximately HK$92.7 million) ("CPS Subscription") in 2 tranches; and (b) the Company will purchase 46,666 common stocks in HB Entertainment from Major Shareholder and HB Corporation. As of 16 August 2016, the Company has completed both the first CPS Subscription and share purchase. The Company currently holds approximately 22% of equity interest in HB Entertainment, and the Company's shareholdings in HB Entertainment is expected to increase to over 30% in the first half of 2018 following the completion of the second CPS Subscription and conversion of CPS.

## 15 INTEREST IN AN ASSOCIATE *(Continued)*

**Summarized financial information for material associate**

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

***Summarized balance sheet***

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 56,813 | 44,638 |
| Other current assets (excluding cash) | 37,934 | 68,395 |
| **Total current assets** | 94,747 | 113,033 |
| Current financial liabilities (excluding trade payables) | (6,842) | (26,185) |
| Other current financial liabilities | (29,219) | (31,073) |
| **Total current liabilities** | (36,061) | (57,258) |
| **Non-current** | | |
| Assets | 72,967 | 75,566 |
| Financial liabilities | (11,582) | (11,031) |
| Other liabilities | (3,876) | (4,217) |
| **Total non-current liabilities** | (15,458) | (15,248) |
| **Net asset** | 116,195 | 116,093 |
| **Non-controlling interests** | (967) | (1,261) |
| **Net asset attributable to the equity holders** | 115,228 | 114,832 |

## 15 INTEREST IN AN ASSOCIATE *(Continued)*

**Summarized financial information for material associate** *(Continued)*

***Summarized statement of comprehensive income***

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Revenue** | **72,673** | 200,000 |
| Depreciation and amortization | **666** | 345 |
| **(Loss)/profit before taxation** | **(11,776)** | 22,773 |
| Taxation | **(3,718)** | (3,946) |
| **(Loss)/profit after taxation** | **(15,494)** | 18,827 |
| Other comprehensive income/(loss) | **15,890** | (4,469) |
| **Total comprehensive income** | **396** | 14,358 |

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

Movements of interest in an associate are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Interest in an associate** | | |
| At 1 January | **190,501** | – |
| Acquisition of an associate | **–** | 191,656 |
| Impairment | **(12,970)** | – |
| Share of results | **(3,443)** | 1,624 |
| Exchange differences | **3,531** | (2,779) |
| At 31 December | **177,619** | 190,501 |

## 15 INTEREST IN AN ASSOCIATE *(Continued)*

**Reconciliation of summarized financial information**

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Summarized financial information** | | |
| Opening net assets as at 1 January 2017 and acquisition of an associate | 114,832 | 120,030 |
| (Loss) for the year/post-acquisition profit for the period | (15,494) | 7,308 |
| Exchange differences | 15,890 | (12,506) |
| Closing net assets | 115,228 | 114,832 |
| Interest in an associate | 25,606 | 25,518 |
| Goodwill | 152,013 | 164,983 |
| Carrying value | 177,619 | 190,501 |

**Impairment of interest in an associate**

For the year ended 31 December 2017, provision for impairment of interest in HB Entertainment of approximately HK$12,970,000 (2016: nil) has been charged in the consolidated 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 31 December 2017 |
|---|---|
| Compound annual growth rate of revenue in five-year period | 53.2% |
| 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 cash-generating unit.

## 16 FINANCIAL INSTRUMENTS BY CATEGORY

**Assets as per consolidated balance sheet**

| | Loans and receivables HK$'000 | Available-for-sale HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 31 December 2017** | | | |
| Programmes and film production in progress | **4,785** | **–** | **4,785** |
| Trade receivable | **10,877** | **–** | **10,877** |
| Deposits and other receivables (excluding non-financial assets) | **15,522** | **–** | **15,522** |
| Cash and cash equivalents | **128,369** | **–** | **128,369** |
| Available-for-sale financial assets | **–** | **18,971** | **18,971** |
| Total | **159,553** | **18,971** | **178,524** |
| **As at 31 December 2016** | | | |
| Programmes and film production in progress | 50,252 | – | 50,252 |
| Trade receivables | 73 | – | 73 |
| Deposits and other receivables (excluding non-financial assets) | 43,643 | – | 43,643 |
| Cash and cash equivalents | 70,842 | – | 70,842 |
| Available-for-sale financial assets | – | 12,101 | 12,101 |
| Total | 164,810 | 12,101 | 176,911 |

**Liabilities as per consolidated balance sheet**

| | Financial liabilities at amortized cost HK$'000 |
|---|---|
| **As at 31 December 2017** | |
| Other payables and accrued liabilities (excluding non-financial liabilities) | **10,451** |
| Total | **10,451** |
| **As at 31 December 2016** | |
| Trade payables | 2,518 |
| Other payables and accrued liabilities (excluding non-financial liabilities) | 11,349 |
| Total | 13,867 |

## 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following classes of financial assets:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Non-current assets** | | |
| Unlisted securities | | |
| Convertible preference stocks – HB Entertainment (Note 15) | **11,929** | 12,101 |
| Huayi-Warner Contents Fund | **7,042** | – |
| | **18,971** | 12,101 |

Available-for-sale financial assets include the host investments of the 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$7 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 year-end is the carrying value.

During the year ended 31 December 2017, the net fair value gain of HK$56,000 was recognized in other comprehensive income (2016: nil).

## 18 TRADE RECEIVABLES

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| 0-3 months | **10,877** | 73 |
| Over 1 year | **–** | 12,254 |
| | **10,877** | 12,327 |
| Provision for doubtful debts (all made against trade receivables aged over 6 months) | **–** | (12,254) |
| | **10,877** | 73 |

As at 31 December 2017, trade receivables of HK$10,877,000 (2016: nil) are recognized in the consolidated balance sheet relating to the Group's interest in joint operation arrangements as detailed in Note 14.

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

Credit risk represents the accounting loss that would be recognized at the balance sheet date if counterparties failed to perform as contracted. As at 31 December 2017, none of the trade receivables was considered impaired (2016: HK$12,254,000).

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| 0-3 months | **10,877** | 73 |

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

## 18 TRADE RECEIVABLES *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| At 1 January | **12,254** | 13,083 |
| Write-off | **(13,113)** | – |
| Exchange differences | **859** | (829) |
| At 31 December | **–** | 12,254 |

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

As at 31 December 2017, the carrying amounts of trade receivables approximate their fair values and are denominated in USD (2016: RMB).

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

## 19 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Finished goods | **–** | 6,942 |

For the year ended 31 December 2017, all inventories were disposed along with the subsidiary disposed during the year (Note 26(b)).

For the year ended 31 December 2016, the cost of inventories sold and included in cost of sales amounted to approximately HK$276,000. No provision for impairment of inventories was recognized.

## 20 PROGRAMMES AND FILM PRODUCTION IN PROGRESS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| At 1 January | **50,252** | 50,271 |
| Investment return recognized | **–** | 4,426 |
| Reclassification (Note 14) | **23,116** | – |
| Investment return withdrawn | **(5,922)** | (1,155) |
| Impairment | **(64,725)** | – |
| Exchange difference | **2,064** | (3,290) |
| At 31 December | **4,785** | 50,252 |

Programmes and film production in progress are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 31 December 2017, the average effective interest rate for the outstanding balance was 10% (2016: 10%).

As at 31 December 2017, investments amounted to HK$47,853,000 (2016: nil) was past due.

The Group assesses whether the programmes and film production in progress have suffered any impairment. Such assessment requires significant judgement. In making this judgement, the Group evaluates to current market conditions, settlement record and age of investments. If projected cash inflow from these investments deteriorates, provision for impairment may be required. For the year ended 31 December 2017, provision for impairment of certain long-outstanding programmes and film production in progress of approximately HK$64,725,000 (2016: nil) has been charged in the consolidated income statement.

## 21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Prepayments | **63,655** | 84,304 |
| Deposits and other receivables | **35,412** | 47,694 |
| | **99,067** | 131,998 |
| Less: provision for impairment of prepayments | **(15,572)** | – |
| | **83,495** | 131,998 |
| Less: non-current portion | **(52,708)** | (91,834) |
| | **30,787** | 40,164 |

## 21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| HK$ | **872** | 14,983 |
| USD | **9,047** | 24,619 |
| RMB | **73,576** | 92,396 |
| | **83,495** | 131,998 |

The carrying amounts of deposits and other receivables approximate their fair values. For the year ended 31 December 2017, provision for impairment amounting to HK$15,572,000 has been charged to the consolidated income statement due to the recoverable amount of prepayment are below its carrying value (2016: nil).

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

## 22 CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Cash and bank balances | **128,369** | 70,842 |
| Denominated in: | | |
| HK$ | **14,912** | 32,034 |
| RMB | **104,332** | 30,139 |
| USD | **9,123** | 8,667 |
| Other | **2** | 2 |
| | **128,369** | 70,842 |
| Maximum exposure to credit risk | **128,292** | 70,734 |

## 23 TRADE PAYABLES, RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Current liabilities: | | |
| Trade payables | **–** | 2,518 |
| Receipt in advance | **5,087** | 8,853 |
| Other payables and accrued liabilities (Note) | **9,299** | 5,934 |
| | **14,386** | 17,305 |
| Non-current liabilities: | | |
| Tenant deposits received and other payables | **15,060** | 12,221 |
| | **29,446** | 29,526 |

Note: Other payables and accrued liabilities mainly represented PRC tax payables and accrued operating expenses.

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| 0-3 months | **–** | – |
| 4-6 months | **–** | – |
| Over 6 months | **–** | 2,518 |
| | **–** | 2,518 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| HK$ | **3,352** | 3,797 |
| USD | **2,786** | 2,785 |
| RMB | **23,308** | 22,944 |
| | **29,446** | 29,526 |

## 24 SHARE CAPITAL

| | Ordinary shares of HK$0.02 each | | Preference shares of HK$0.01 each | | |
|---|---|---|---|---|---|
| | No. of shares '000 | HK$'000 | No. of shares '000 | HK$'000 | HK$'000 |
| **Authorized:** | | | | | |
| At 31 December 2016 and 31 December 2017 (Note a) | 150,000,000 | 3,000,000 | 240,760 | 2,408 | 3,002,408 |
| **Issued and fully paid:** | | | | | |
| At 1 January 2016 | 6,660,487 | 133,210 | – | – | 133,210 |
| Issuance of shares (Note b) | 6,837,620 | 136,752 | – | – | 136,752 |
| At 31 December 2016 and 31 December 2017 | 13,498,107 | 269,962 | – | – | 269,962 |

## 24 SHARE CAPITAL *(Continued)*

Notes:

(a) Authorized share capital

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

(b) Issuance of shares

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

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

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

**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. Pursuant to the New Option Scheme, the Company can grant options to Qualified Persons (as defined in the New Option Scheme) for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to said resolution passed on 22 April 2016, the Company can grant up to 1,349,810,657 share options to the Qualified Persons.

## 24 SHARE CAPITAL *(Continued)*

**Share Option** *(Continued)*

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the year ended 31 December 2017, no share option have been granted under the New Option Scheme (2016: nil) and no share-based payment expense has been charged to the consolidated income statement (2016: nil).

During the year ended 31 December 2017, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding share option as at 31 December 2017 (2016: Same).

## 25 RESERVES

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

## 25 RESERVES *(Continued)*

| | Share premium HK$'000 (Note ii) | Merger reserve HK$'000 (Note i) | Capital redemption reserve HK$'000 (Note iii) | Available-for-sale financial assets reserve HK$'000 | Currency translation reserve HK$'000 (Note iv) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interest HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | 1,213,484 | 860,640 | 1,206 | - | 99,384 | (1,439,301) | 735,413 | (1,506) | 733,907 |
| (Loss)/profit for the year | - | - | - | - | - | (103,669) | (103,669) | 1,405 | (102,264) |
| Change in value of available-for-sale financial assets (Note 17) | - | - | - | 56 | - | - | 56 | - | 56 |
| Currency translation differences | | | | | | | | | |
| – Group | - | - | - | - | (29,041) | - | (29,041) | (53) | (29,094) |
| – Associate | - | - | - | - | 3,531 | - | 3,531 | - | 3,531 |
| – Recycling upon disposal of subsidiaries | - | - | - | - | (140) | - | (140) | - | (140) |
| Balance at 31 December 2017 | 1,213,484 | 860,640 | 1,206 | 56 | 73,734 | (1,542,970) | 606,150 | (154) | 605,996 |

Notes:

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

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

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

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

## 26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loss before taxation from continuing operations | (140,759) | (124,431) |
| Profit/(loss) before taxation for the year from discontinued operation | 38,859 | (14,262) |
| Adjustments for: | | |
| – Share of results of an associate | 3,443 | (1,624) |
| – Gain on disposals of subsidiaries | (8,500) | (1,694) |
| – Gain on disposals of joint ventures | – | (12) |
| – Bank interest income | (945) | (894) |
| – Depreciation | 6,935 | 6,664 |
| – Loss on disposal of property, plant and equipment | 233 | 162 |
| – Provision for impairment of interest in an associate | 12,970 | – |
| – Provision for impairment of prepayments | 15,572 | – |
| – Provision for impairment of film right | 41,195 | 44,051 |
| – Provision for impairment of programmes and film production in progress | 64,725 | – |
| – Reversal of over-provision of PRC capital gain tax | (43,075) | – |
| – Amortization of intangible assets | 30,243 | 5,784 |
| – Fair value loss on financial assets at fair value through profit or loss, net | – | 4,700 |
| – Finance costs/(income), net | 26 | (233) |
| – Investment return recognized from programmes and film production in progress | – | (4,426) |
| | 20,922 | (86,215) |
| Changes in working capital: | | |
| – (Increase)/decrease in trade receivables, prepayments, deposits and other receivables | (14,329) | 9,272 |
| – Decrease in inventories | – | 177 |
| – Disposals of investment securities | – | 9,200 |
| – Additions in film right and film production in progress, net | – | (395,074) |
| – Receipt of investment return from programmes and film production in progress | 5,922 | 1,155 |
| – Return of capital of film production in progress | 60,958 | – |
| – (Decrease)/increase in trade payables, receipt in advance, other payables and accrued liabilities | (8,006) | 7,854 |
| Cash generated/(used in) from operations | 65,467 | (453,631) |

## 26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Cash flow from disposals of subsidiaries

Analysis of net gain on disposal of a subsidiary:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash consideration | **11,747** | – |
| Property, plant and equipment disposed of | **(5,980)** | (673) |
| Inventory disposed of | **(7,150)** | – |
| Net liabilities disposed of | **9,743** | 2,090 |
| | **8,360** | 1,417 |
| Release of exchange reserve upon disposal | **140** | 277 |
| Gain on disposals | **8,500** | 1,694 |

Analysis of net proceeds received from disposals of subsidiaries:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash consideration | **11,747** | – |
| Less: cash and cash equivalents included in subsidiaries disposed of | **(376)** | (7) |
| | **11,371** | (7) |

## 27 STEP ACQUISITION FROM A JOINT VENTURE TO A SUBSIDIARY

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

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

As at the date of acquisition, the subsidiary is an intermediate holding company, had not actively engaged in any business and principally being the investment holding company of 49% equity interest in Hainan Haishi Travel Satellite TV Media Co., Ltd.. Accordingly, in the opinion of management, the acquisition of Hao You constitutes an acquisition of assets and liabilities.

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

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

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

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

## 28 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit/(loss) for the year from discontinued operations is comprised of the followings: | | |
| Hao You (Note (a)) | **103** | 21 |
| Beijing Bayhood No. 9 Cloud Health Technology Company Limited ("Cloud Health") (Note (b)) | **66** | (14,283) |
| Beijing Healthcare and Wellness Si He Yuan and Hotel Project (Note (c)) | **38,690** | – |
| | **38,859** | (14,262) |

Notes:

**(a) Hao You**

Saved as disclosed in Note 27, Hao Ge acquired Hao You with a view to subsequently dispose of all or a majority of its equity interest in Hao You and the amount due from Hao You by Hao Ge to a potential buyer. Hao Ge has held equity interest in Hao You since 2005 and Hao You had made losses since 2014. For the year ended 31 December 2015, the Group made provision for impairment of interest in Hao You and amount due from Hao You amounting HK$164 million, which was mainly due to deterioration of expected future cash flows from Hao You. Given that the financial results of Hao You had not been satisfactory and it did not make positive contribution to the Group in recent years, management's disposal plan on Hao You represented a good opportunity to realize the Group's investment in Hao You.

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

The delay was caused by the extended approval procedures from local government authorities and the disposal to the potential buyer was expected to be completed within one year from the balance sheet date.

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

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

Notes: *(Continued)*

**(a) Hao You** *(Continued)*

***Assets of disposal group in relation to Hao You classified as held for sale***

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Property, plant and equipment | **1,185** | 1,107 |
| Interest in an associate | **95,705** | 89,435 |
| Amount due from an associate | **165,594** | 154,748 |
| Cash and cash equivalents | **257** | 151 |
| | **262,741** | 245,441 |

***Liabilities of disposal group in relation to Hao You classified as held for sale***

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Trade payables, other payables and accruals | **2,205** | 2,068 |

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

| | **For the year ended 31 December 2017**<br>**HK$'000** | From 1 December 2016 to 31 December 2016<br>HK$'000 |
|---|---|---|
| Currency translation differences | **17,072** | (1) |

As interest in Hao You was acquired exclusively with a view to resale, it is accounted for as discontinued operations as of 31 December 2017 (2016: same).

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

Notes: *(Continued)*

**(a) Hao You** *(Continued)*

***Liabilities of disposal group in relation to Hao You classified as held for sale*** *(Continued)*

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

| | **For the year ended 31 December 2017 HK$'000** | From 1 December 2016 to 31 December 2016 HK$'000 |
|---|---|---|
| Other income and other gains, net | **103** | 21 |
| Profit before taxation of discontinued operations | **103** | 21 |
| Taxation | **–** | – |
| Profit for the year from discontinued operations | **103** | 21 |

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

| | **For the year ended 31 December 2017 HK$'000** | From 1 December 2016 to 31 December 2016 HK$'000 |
|---|---|---|
| Operating cash flows | **92** | 4 |
| Investing cash flows | **–** | – |
| Financing cash flows | **–** | – |
| Total cash flow | **92** | 4 |

**(b) Cloud Health**

On 14 July 2017, Beijing Bayhood No.9 Cloud Technology Company Limited ("Cloud Technology"), an indirect wholly-owned subsidiary of the Company, Riswein Health Industry Investment Co., Ltd. ("the Purchaser") and the Company (as a guarantor) entered into a restructuring and acquisition framework agreement ("Agreement") for the disposal of the entire equity interest in Cloud Health (held by the nominee shareholders on behalf of Cloud Technology) to the Purchaser for a cash consideration of RMB10,000,000 (equivalent to approximately HK$11,747,000). The Agreement provides for the restructuring by way of transfers by Cloud Technology to Cloud Health of certain assets, intellectual property rights, contracts and staff in relation to the operation of the Online Healthcare Business, change of office rental arrangement of Cloud Health, as well as a waiver of outstanding debts due from Cloud Health to Cloud Technology.

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

Notes: *(Continued)*

**(b) Cloud Health** *(Continued)*

The consideration is payable by the Purchaser in two instalments, (i) 50% will be payable within three working days after the Agreement and certain agreements for the restructuring have been entered into and taken effect, and (ii) the remaining 50% (subject to adjustment) will be payable within three working days after all conditions precedent to completion are satisfied or waived by the Purchaser. The proceeds of the consideration received by the nominee shareholders as the registered holders of equity interest in Cloud Health from the Purchaser will be returned to Cloud Technology.

Cloud Health is principally engaged in the business of online healthcare services of the Group through the operation of online healthcare service platform.

The disposal transaction was completed on 31 October 2017.

As the operation of online healthcare and wellness service is considered as a separate major line of business during the year, they are accounted for as a discontinued operation. The comparative financial information for the year ended 31 December 2016 has been reclassified to conform with current presentation in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations".

Analysis of the result of discontinued operations in relation to Cloud Health is as follows:

| | **From 1 January 2017 to 31 October 2017 HK$'000** | For the year ended 31 December 2016 (Restated) HK$'000 |
|---|---|---|
| Revenue | **8,308** | 7,309 |
| Exchange gain | **61** | – |
| Other expense | **(127)** | (2) |
| **Expenses** | | |
| Depreciation of property, plant and equipment | **(2,509)** | (3,212) |
| Wages and salaries | **(8,284)** | (11,105) |
| Contributions to defined contribution pension schemes | **(313)** | (511) |
| Operating lease rentals – land and buildings | **(1,303)** | (1,452) |
| Others | **(4,267)** | (5,310) |
| Loss before taxation from discontinued operation | **(8,434)** | (14,283) |
| Taxation | **–** | – |
| Loss after taxation from discontinued operation | **(8,434)** | (14,283) |
| Gain on disposal of discontinued operation (Note 26(b)) | **8,500** | – |
| Profit/(loss) for the year from discontinued operation | **66** | (14,283) |

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

Notes: *(Continued)*

**(b) Cloud Health** *(Continued)*

Analysis of the cash flows of discontinued operations in relation to Cloud Health is as follows:

| | **From 1 January 2017 to 31 October 2017 HK$'000** | For the year ended 31 December 2016 HK$'000 |
|---|---|---|
| Operating cash flows | **(1,853)** | (3,207) |
| Investing cash flows | **11,371** | – |
| Financing cash flows | **–** | – |
| Total cash flow | **9,518** | (3,207) |

**(c) Beijing Healthcare and Wellness Si He Yuan and Hotel Project**

During the year ended 31 December 2015, the Group has disposed of its operation of Beijing Bayhood No.9 Club ("Bayhood") and construction of villa adjacent to Bayhood. Pursuant to Circular Public Notice (2015) No.7 issued by State Administration of Taxation of PRC, the Group is subjected to 10% withholding income tax on the capital gain derived from the disposal. As at the date of this annual report, the tax filing with the relevant tax authorities in relation to the capital gain tax and the settlement of the relevant capital gain tax were completed. As a result, a reversal of over-provision for capital gain tax of approximately HK$43,075,000 and the accrual of relevant professional expenses of approximately HK$4,385,000 were included in the consolidated income statement.

## 29 COMMITMENTS

**Operating lease commitments**

***(i) As lessor***

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

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Not later than one year | **29,186** | 40,308 |
| Later than one year and not later than five years | **167,187** | 129,528 |
| Later than five years | **69,644** | 98,018 |
| | **266,017** | 267,854 |

## 29 COMMITMENTS *(Continued)*

**Operating lease commitments** *(Continued)*

*(ii)* ***As lessee***

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Not later than one year | **21,423** | 21,667 |
| Later than one year and not later than five years | **81,904** | 78,890 |
| Later than five years | **77,468** | 91,687 |
| | **180,795** | 192,244 |

## 30 RELATED PARTY TRANSACTIONS

Remuneration for key management personnel, including amounts paid to the Company's directors, is disclosed in Note 32 and certain of the highest paid employees is disclosed in Note 12.

## 31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

**Balance sheet of the Company**

| | As at 31 December<br>2017<br>HK$'000 | <br>2016<br>HK$'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Interests in subsidiaries | **–** | 80,720 |
| Investment in an associate | **177,619** | 191,657 |
| Available-for-sale financial assets | **18,971** | 12,101 |
| Loans advance to subsidiaries | **687,690** | 914,683 |
| | **884,280** | 1,199,161 |

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

**Balance sheet of the Company** *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| **Current assets** | | |
| Prepayments, deposits and other receivables | **29** | 13,523 |
| Cash and cash equivalents | **84,335** | 40,596 |
| | **84,364** | 54,119 |
| **Total assets** | **968,644** | 1,253,280 |
| **Equity and liabilities** | | |
| **Equity** | | |
| Share capital | **269,962** | 269,962 |
| Reserves (Note (a)) | **693,507** | 977,724 |
| **Total equity** | **963,469** | 1,247,686 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Other payables and accrued liabilities | **5,175** | 5,594 |
| **Total liabilities** | **5,175** | 5,594 |
| **Total equity and liabilities** | **968,644** | 1,253,280 |

The balance sheet of the Company was approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

**WANG Zhongjun**
*Director*

**LAU Seng Yee**
*Director*

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

### NOTE (a) RESERVE MOVEMENT OF THE COMPANY

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Available-for-sale financial asset reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 803,227 | 1,206 | – | (287,882) | 516,551 |
| Profit for the year | – | – | – | 50,916 | 50,916 |
| Issuance of shares | 410,257 | – | – | – | 410,257 |
| At 31 December 2016 | 1,213,484 | 1,206 | – | (236,966) | 977,724 |
| At 1 January 2017 | **1,213,484** | **1,206** | **–** | **(236,966)** | **977,724** |
| Loss for the year | **–** | **–** | **–** | **(284,273)** | **(284,273)** |
| Other comprehensive income | **–** | **–** | **56** | **–** | **56** |
| At 31 December 2017 | **1,213,484** | **1,206** | **56** | **(521,239)** | **693,507** |

## 32 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and chief executive of the Company for the year ended 31 December 2017 is set out as follows:

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

## 32 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

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

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

Note:

(i) Resigned on 5 February 2016

(ii) Appointed on 5 February 2016

### (b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year ended 31 December 2017 (2016: nil).

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

During the year ended 31 December 2017, the Company does not pay consideration to any third parties for making available directors' services (2016: nil).

## 32 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

As at 31 December 2017, there are no loans, quasi-loans and other dealing arrangements entered into by the Company or subsidiary undertaking of the Company in favour of directors, controlled bodies corporate by and controlled entities with such directors (2016: nil).

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

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

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

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

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

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

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

## 33 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company as at 31 December 2017 and 2016 which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

| Name | Place of incorporation/ establishment and kind of legal entity | Particulars issued share capital/ registered capital | Interest held 2017 | 2016 | Principal activities and place of operation |
|---|---|---|---|---|---|
| Anglo Alliance Co., Ltd (1) | British Virgin Islands, limited company | US$2 ordinary | **100%** | 100% | Investment holding |
| 北京華億浩歌傳媒文化有限公司 Beijing Hua Yi Hao Ge Media Culture Co., Ltd. (3) | PRC, limited liability company | RMB136,651,563 | **100%** | 100% | Investment holding and licensing of films and TV drama in the PRC |
| 北京浩游傳媒文化有限公司 Beijing Hao You Media Culture Co., Ltd. (3) | PRC, limited liability company | RMB120,000,000 | **100%** | 100% | Investment holding |
| 北京華億千思廣告有限公司 Beijing Hua Yi Qian Si Advertising Company Limited (3) | PRC, limited liability company | RMB5,000,000 | **100%** | 100% | Advertising agency in the PRC |
| 北京四海君天商貿有限公司 Beijing Si Hai Jun Tian Trading Company Limited (3) | PRC, limited liability company | RMB8,000,000 | **51%** | 51% | Provision of offline health and wellness services through operation of wellness centre in the PRC |
| Horizon Partner Holdings Limited (1) | British Virgin Islands, limited company | US$1 ordinary | **100%** | 100% | Investment holding |
| China Jiuhao Health Management Limited (2) | Hong Kong, limited company | HK$1 ordinary | **100%** | 100% | Investment holding |

## 33 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ establishment and kind of legal entity | Particulars issued share capital/ registered capital | Interest held 2017 | 2016 | Principal activities and place of operation |
|---|---|---|---|---|---|
| 北京北湖九號雲科技有限公司 Beijing Bayhood No.9 Cloud Technology Company Limited (3) | PRC, limited liability company | US$2,000,000 | **100%** | 100% | Internet and information technology in the PRC |
| 北京北湖九號雲健康科技有限公司 Beijing Bayhood No.9 Cloud Health Technology Company Limited (3)(4) | PRC, limited liability company | RMB10,000,000 | **–** | 100% | Health management services in the PRC |
| Huayi Tencent Entertainment International Limited (1)(2) | Hong Kong, limited company | HK$40,000,000 | **100%** | 100% | Investment holding and licensing of films in Hong Kong |
| China Jiuhao (Haikou) Investment Company Limited (1) | British Virgin Islands, limited company | US$1 ordinary | **100%** | 100% | Investment holding |
| 中國9號健康產業(海口)有限公司 China Jiuhao Health Industry Corporation (Haikou) Limited (2)(3) | Hong Kong, limited company | HK$1 ordinary | **100%** | 100% | Investment holding |
| 海口九號酒店管理有限公司 Haikou Jiuhao Hotel Management Company Limited (3) | PRC, limited liability company | HK$150,000 | **100%** | 100% | Hotel management and provision of offline health and wellness services in the PRC |
| Huayi Tencent Entertainment Inc. (1) | United States of America, limited company | US$1 ordinary | **100%** | 100% | Investment holding |

## 33 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(1) Shares held directly by the Company.

(2) The statutory financial statements of these companies for the year ended 31 December 2017 are audited by PricewaterhouseCoopers.

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

(4) The subsidiary was disposed on 31 October 2017 (Note 28(b)).

# FINANCIAL SUMMARY

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

| | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000<br>(Restated) | HK$'000 | HK$'000 | HK$'000 |
| Revenue – continuing operations | **167,666** | 128,324 | 122,838 | 110,137 | 126,192 |
| (Loss)/profit before finance costs and taxation – continuing operations | **(140,733)** | (124,664) | (127,813) | 27,231 | (24,969) |
| Finance (costs)/income, net – continuing operations | **(26)** | 233 | (220) | 20,569 | (6,653) |
| (Loss)/profit before taxation – continuing operations | **(140,759)** | (124,431) | (128,033) | 47,800 | (31,622) |
| Taxation – continuing operations | **(364)** | (86) | (4,612) | 4,235 | (1,402) |
| Non-controlling interests – continuing operations | **(1,405)** | (727) | 3,326 | 4,049 | – |
| (Loss)/profit from continuing operations attributable to the equity holders of the Company | **(142,528)** | (125,244) | (129,319) | 56,084 | (33,024) |
| Profit/(loss) from discontinued operation attributable to the equity holders of the Company | **38,859** | (14,262) | (364,351) | (906) | (132,698) |
| (Loss)/profit attributable to the equity holders of the Company | **(103,669)** | (139,506) | (493,670) | 55,178 | (165,722) |
| Property, plant and equipment | **7,059** | 15,940 | 15,734 | 9,513 | 390,219 |
| Film right and film production in progress | **212,853** | 367,602 | 23,872 | – | 13,990 |
| Other intangible assets | **5** | 10 | 15 | 21 | 1,631,273 |
| Interests in joint ventures | **–** | – | 179 | 62,823 | 70,910 |
| Interest in an associate | **177,619** | 190,501 | – | – | – |
| Available-for-sale financial assets | **18,971** | 12,101 | – | – | – |
| Other non-current assets | **53,799** | 93,976 | 88,640 | 37,828 | 55,199 |
| Current assets | **437,559** | 413,714 | 546,584 | 2,934,729 | 821,558 |
| Total assets | **907,865** | 1,093,844 | 675,024 | 3,044,914 | 2,983,149 |
| Current liabilities | **16,594** | 76,751 | 85,953 | 743,543 | 423,838 |
| Non-current liabilities | **15,313** | 13,224 | 12,216 | 6,997 | 760,248 |
| Total liabilities | **31,907** | 89,975 | 98,169 | 750,540 | 1,184,086 |
| Net assets | **875,958** | 1,003,869 | 576,855 | 2,294,374 | 1,799,063 |