H.BROTHERS | ENTERTAINMENT

華誼騰訊娛樂

2018 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.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Zhongjun *(Chairman)*
Mr. CHENG Wu *(Vice Chairman)*
Mr. WANG Zhonglei
Mr. LIN Haifeng
Mr. HU Junyi
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

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

PRINCIPAL OFFICE IN HONG KONG

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

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

WEBSITE

www.huayitencent.com

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 2018.

2018 saw the Chinese film market progressing into maturity against the backdrop of the soaring gross box office (a year-on-year growth of 9.06% to around RMB60.976 billion) and attendance of the urban cinemas (a year-on-year growth of 5.93% to around 1.716 billion). A steady pace of growth is expected to continue. In fact, the Chinese box office surpassed that of North America in the first quarter of 2018, a milestone which bears testimony to the significant share and the growing influence of Chinese films in the global market. In addition to the palpable effect of economies of scale and the pulling power of blockbusters, the Chinese audience's appetite for high-quality films is on the rise after the burgeoning expansion of the market between 2008 and 2018, quality productions will therefore become the aspiration of the Chinese film industry, as a film's content becomes the decisive factor of its performance of the box office. In light of this trend, the Group stands ready to this and has invested in projects with diverse content in North America, Europe and Korea. These projects, being rich in elements tailor-made for the Chinese film market in addition to those for global audience, are expected to delight the viewers in different ways in the coming year or two. Furthermore, noting the enthusiasm in Mainland China for acclaimed films with great box-office performance overseas, the Group will collaborate with Huayi Brothers International Limited ("Huayi Brothers") in distributing in Mainland China four films produced by Lions Gate International (UK) Limited ("Lionsgate") et al. The four films feature various genres, including mystery, biography, science fiction, action and fantasy adventure. The aforementioned partnership is therefore expected to generate substantial revenue and cinema attendance for the Group.

On the other hand, the Group has been looking for investment opportunities in the market of Korean films and television dramas, which are enjoying global popularity, in particular amongst the Asian viewers. The Huayi-Warner Contents Fund, established by the Group, Warner Bros. Korea Inc. ("Warner Bros. Korea") et al., had distributed three films in Korea and the Asia-Pacific Region in 2018 and harvested considerable acclaims and box-office success. Amongst them, the science fiction film *The Witch* was the top performer and plans for a sequel are underway, as it amassed over 3 million in cinema attendance, topping the daily box office for six days in a row and grossing US$24 million in box office. Besides, HB Entertainment Co., Ltd. ("HB Entertainment"), in which the Group invested in 2016, has also triumphed with the three television drama series produced and aired during 2018. *Sky Castle*, making its debut at the end of 2018, has recorded a highest-ever viewership rating of 23.779% in Korea, breaking the record set by *Guardian: The Lonely and Great God* in 2017. Although the absence of Korean contents in the Chinese mass media in the recent two or three years has an implication on the producers' financial performance, we are of the view that the situation may gradually improve. Thanks to the outstanding production capability of Warner Bros. Korea and HB Entertainment as well as the robust distribution network of the Group and its major shareholders in China, once their export to China is resumed, the Group will have a head start in reintroducing splendid Korean film and television contents to the Chinese audience.

Looking ahead, the Group will, apart from further bolstering its content investment in North America and Korea, team up with production studios from different countries so as to offer more quality films and television dramas to the global and Chinese audience. In addition, we will also keep a close watch on the investment opportunities from different fields of the pan-entertainment industry, such as games and music, to complement the footprint of the Group in the cultural and entertainment industry, boost its profitability as well as to achieve a balanced and sustainable development.

May I also take this opportunity to, on behalf of the Board, express heartfelt gratitude to the shareholders, investors and business partners for the unfailing trust and support, and to all our staff for their diligence and contribution towards the advancement of the Group.

WANG Zhongjun
Chairman
Huayi Tencent Entertainment Company Limited

Hong Kong, 21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the year ended 31 December 2018 are summarized in the table below:

	2018	2017
	HK$'000	HK$'000
Continuing operations:		
Total revenue	**109,168**	167,666
Gross profit	**38,214**	10,696
Loss before finance costs and taxation	**(66,314)**	(140,733)
Loss for the year	**(66,455)**	(141,123)
Loss attributable to equity holders of the Company	**(67,026)**	(142,528)
Profit for the year from discontinued operations	**140,763**	38,859
Profit/(loss) for the year	**74,308**	(102,264)

Business Review

	Sales Revenue		**Segment Results**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Continuing operations				
Entertainment and media operations	**1,139**	52,039	**(21,118)**	(157,442)
Offline healthcare and wellness services	**108,029**	115,627	**(15,254)**	(14,870)
Total	**109,168**	167,666	**(36,372)**	(172,312)

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Financial Performance *(Continued)*

During the year ended 31 December 2018 (the "year under review"), the revenue from the Entertainment and Media Operations dropped by 98% to approximately HK$1,139,000 (2017: HK$52,039,000) due to the lack of theatrical release of new films by the Group in the year. Meanwhile, the revenue from the operations of healthcare and wellness services recorded a slight drop by 7% to approximately HK$108,029,000 (2017: HK$115,627,000) as the Group had disposed 51% of its equity interest in Beijing Si Hai Jun Tian Trading Company Limited to an independent third party. As a result, during the year under review, the Group's revenue from continuing operations amounted to approximately HK$109,168,000, representing a year-on-year decrease by about 35%. In spite of the drop in revenue, the Group has turned around from a net loss of approximately HK$102,264,000 for the prior year to a net profit of approximately HK$74,308,000 during the year under review. This is mainly due to the reduction in impairment provision and the completion of disposal of the entire equity interest of Beijing Hao You Media Culture Co., Ltd to Hainan Radio and TV Station Ltd with a net gain of approximately HK$141 million.

HB Entertainment, in which the Group holds a stake of 31%, produced and aired three television dramas during the year under review, namely *Partners for Justice*, *Lovely Horribly* and *Sky Castle*, all of which achieved strong performance. *Sky Castle*, making its debut at the end of 2018, has been particularly popular, with the series recording a viewership rating of 23.779% in Korea, overtaking the all-time high set by *Guardian: The Lonely and Great God* in 2017. Apart from producing television dramas and managing artistes, during the year under review, HB Entertainment has also invested in a film production company set up by Kim Seong-hun, the director of the film *Confidential Assignment*, so as to step up its development in the field of film production. Considering the HB Entertainment's excellent ability in production of films and television dramas, the Group is confident that HB Entertainment will further establish itself in the film and television industry in South Korea. On the other hand, the Huayi-Warner Contents Fund, which was jointly established by the Group, Warner Bros. Korea et al., will continue to invest in quality Korean film projects produced and distributed by the Warner Bros. During the year under review, the three Korean films in which the Huayi-Warner Contents Fund invested, namely *Champion*, *The Witch* and *Jin-Roh*, have all delivered impressive box office performance. The Group will continue to produce and invest in quality films and television dramas, as well as to seek opportunities of collaboration with top and world-renowned film studios in North America, Europe, Korea, etc. While the revenue of the Entertainment and Media Operations dropped by 98% to approximately HK$1,139,000 (2017: HK$52,039,000) due to the lack of theatrical release of new films by the Group in the year, the segment loss from the Entertainment and Media Operations has been slashed by 87% to approximately HK$21,118,000 (2017: HK$157,442,000) as a result of the reduction in impairment provision.

For the healthcare and wellness services, "Beijing Bayhood No.9 Club" was the major source of revenue. Originally concentrating on high-end customers, it has gradually reinvented its position by extending its target customer group to the mid-end ones. In May 2018, the Group had disposed of 51% of its equity interest in Beijing Si Hai Jun Tian Trading Company Limited to an independent third party for RMB4,080,000. The competition in the market with respect to the healthcare and wellness business remains stiff, resulting in a year-on-year drop in revenue from the relevant operations during the year under review by 7% to approximately HK$108,029,000 (2017: HK$115,627,000) and a slight 3% increase of segment loss to HK$15,254,000 (2017: HK$14,870,000).

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review

China maintained its medium-to-high rate of economic growth in 2018. With the improvement in quality and effectiveness as well as the steady growth of consumption, GDP rose by 6.6% year-on-year to RMB90 trillion. The average per capita disposable income was RMB28,228, while that of urban residents reached RMB39,251. The standard of consumption continued to rise, with the average per capita spending increasing by 8.4% year-on-year to RMB19,853. The quality of living has improved, and there are more varieties in recreational activities, where the spending on many of these activities grew by a high single-digit or double-digit rate. Amongst them, the average per capita spending on educational, cultural and entertainment climbed by 6.7% year-on-year to RMB2,226.

According to the statistics of China Film Administration, the gross box office in China reached RMB60.976 billion (i.e. a year-on-year growth of over 9.06%) for year 2018. During the year under review, the total number of cinema screens in China soared by 9,303 to 60,079, confirming China's undisputed status as the world's biggest market. The continuous blossom of the Entertainment and Media Operations of the Group is backed by the economic boom in China, the steady growth of the average per capita disposable income and consumption, as well as the remarkable surge of passion and demand of watching high-quality films. During the year under review, the imported films contributed to approximately 37.8% of the total domestic box office. Amongst the 82 films which grossed over RMB100 million, 46.3% of them were imported films. The premium imported blockbusters during the year under review, in particular those Hollywood ones with gimmicks and raving reviews, were extremely popular, and half of the annual top-ten highest grossing films were imported films. The Group therefore remains optimistic about the Chinese market's demand for quality films from overseas, and will continue its extensive global quest for prime films and television dramas or other investment opportunities. By making the best of the current trend of the internationalisation of films, it will also look to acquire sustainable and stable revenue by actively hoarding a vast array of overseas intellectual properties and enriching its film and cultural resources across the globe.

The film market of North America remained the biggest one in the world in 2018, with the total box office rising year-on-year by 7.4% to US$11.89 billion. It has also retained its overwhelming superiority with regard to the export of contents. According to the latest statistics from Box Office Mojo, a box-office reporting website under Amazon.com, in terms of global box office, the 12 films with the best performance in 2018 were all distributed by movie studios from Hollywood. The sustained rapid growth in box office and cinema attendance in China (the total attendance and sessions of the urban cinemas were 1.716 billion and 111 million respectively) means that the market attracts huge attention from film producers and distributors across the globe, and the aspiration of studios and producers overseas to make inroads into the market is expected to create many investment opportunities of overseas acquisition, merger and collaboration for the Group.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

According to the figures released by the Korean Film Council, the highest grossing film in Korea in 2018 was *Along with the Gods: The Last 49 Days*, which pulled a cinema attendance of 12 million and grossed approximately US$91 million in box office, some US$2 million more than the Hollywood blockbuster *Avengers: Infinity War*. In addition, there were four Korean films in the top-ten list of best box-office performance in Korea during the year under review. It is hence obvious that the local films are highly recognised by the audience, and such phenomenon guarantees the robust demand for these local films in the Korean market. The successful global distribution of highly acclaimed Korean film productions in recent years lays the ground for its massive and stable audience base in the Asia-Pacific Region as well as across the globe. The Group maintains its optimism with regard to the local and overseas demand for Korean films and television dramas, and is therefore certain and confident about the future of the Huayi-Warner Contents Fund and HB Entertainment in which the Group invests.

(1) Entertainment and Media Operations

For investments in film projects, in view of the appetite of the audience of Mainland China on reputable films with commendable box office receipts overseas, the Group has, at a cost of approximately HK$41,594,000 in total, secured 50% of the right of distribution revenue in Mainland China for four films produced by Lionsgate et al. These four films will be distributed in Mainland China in collaboration with Huayi Brothers. They involve different genres such as mystery, biography, science fiction, action and fantasy adventure. Amongst the four films, three are produced by Lionsgate, namely *A Simple Favor*, *Chaos Walking* and *Kingkiller Chronicle: The Name of the Wind*. Lionsgate is known as the biggest and most successful film producer in North America apart from the "Big Six" Hollywood film studios, and it has produced and distributed numerous top-grossing films, such as *The Hunger Games* and *La La Land*. The latter, which was screened in Mainland China in 2017, had raked in more than RMB250 million in total. As for the fourth film, titled *Radioactive*, it was produced by STUDIOCANAL, whose recent production *Paddington 2* was released in Mainland China in 2017 and delivered impressive box office receipts of RMB210 million. It can therefore be expected that films produced by Lionsgate and STUDIOCANAL will succeed in terms of the box office in Mainland China. The Group believes that such collaboration in distribution will attain satisfactory box office and at the same time enrich its global resource in film and entertainment business. Meanwhile, the Group has been actively looking for investment opportunities across the globe in quality films and television dramas. It is currently working along with top film studios and producers from the United States, Canada, Europe and Korea on developing different projects, expecting to bring pleasant surprises to the audience in different ways in the coming year or two.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

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

The Korean films are very popular in the flourishing local market. Amongst the ten films with the best box office performance in Korea in the year 2018, four were Korean films. Many Korean blockbusters took the global box office by storm and earned rave reviews in recent years. For example, *Along With the Gods: The Two Worlds*, a Korean fantasy film screened in 2017, scooped US$110 million in box office in total and became the talk of the town. Its sequel, *Along with the Gods: The Last 49 Days*, was screened in Korea in August 2018, and it followed the success by grossing US$93 million in box office. The Huayi-Warner Contents Fund, which was jointly established by the Group, Warner Bros. Korea et al., has seized the opportunity and speeded up the release of new films. During the year under review, the Fund invested in three films altogether, namely *Champion*, *The Witch* and *Jin-Roh* and they have already been screened in Korea. By gathering veteran and successful directors and many appealing actors and actresses, the quality of these films, the attention paid by the market and the high recognition of the audience have been secured. For these three films, *Champion*, starring Ma Dong-seok who rose to stardom after his break out performance in *Train to Busan*, was screened in South Korea on 1 May 2018 and attracted a total cinema attendance of 1.12 million in the country. Meanwhile, *The Witch*, a science fiction film which was 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*, was released in June 2018 and attained laudable results: the total audience exceeded 3 million and the gross box office receipts was US$24 million, and it was the top-grossing daily box office for six days in a row. The Group's business in Korean films is maturing and it serves as the cornerstone for the brand image and the increase in financial returns. The Group hopes to identify more top-rated and fitting investment projects through the Huayi-Warner Contents Fund and is actively looking for opportunities to cooperate with Korean producers on investing directly in premium Korean film projects.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

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

HB Entertainment, in which the Group holds a stake of 31%, is principally engaged in the production of and the investment in films and television dramas, as well as the management of artistes in South Korea. *Partners for Justice*, HB Entertainment's television drama which premiered in Korea on 14 May 2018, was directed by Noh Do-chu, the director of *The Emperor: Owner of the Mask*. The production team also included Min Jue-un and Won Yeong-sil, screenwriters of *Cinderella with Four Knights*. According to the viewership rating statistics of MBC of Korea, the highest and average ratings of *Partners for Justice* stood at 9.6% and 6.86% respectively. Now being televised in different regions in Southeast Asia, including Hong Kong, Taiwan, Singapore, Malaysia, Indonesia and Brunei, it has received positive comments from the viewers. Two more television dramas produced by HB Entertainment were aired in the second half of 2018, including the thrilling comedy *Lovely Horribly* starring Park Si-hoo and Song Ji-hyo. It was already premiered on 13 August 2018 simultaneously in Korea and Hong Kong through KBS and myTV Super respectively. AGB's statistics showed that its highest viewership reached 6.2%. The other television drama, namely *Sky Castle*, was premiered in November 2018. Starring excellent actors and actresses like Yum-Jung-ah, Yoon Se-ah, Lee Tae-ran and Choi Won-young, the drama mocks the contemporary helicopter parents who put their ambition upon their children, and has soon become a hot topic. It is considered as a fascinating masterpiece, and it has topped the chart of ratings and most talk-about dramas for many weeks. In addition, the last episode, which was aired on 1 February 2019, became the highest-rated Korean dramas ever (23.779%), surpassing the previous record (18.68%) set by *Guardian: The Lonely and Great God* in 2017. During the year under review, HB Entertainment has also invested in a film production company founded by Kim Seong-hun, the director of the film *Confidential Assignment*, so as to step up its development in the field of film production, and pursue paralleled development of its film and television entertainment businesses.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Review *(Continued)*

(2) Healthcare and Wellness Services

During the year under review, the Group's business of the healthcare and wellness services focused on the operations of "Beijing Bayhood No. 9 Club", a healthcare and wellness centre. It is a top green health club in China with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia's first PGA-branded golf academy, offering enterprises and individual clients professional and quality healthcare and wellness services. In May 2018, the Group had disposed of 51% of its equity interest in Beijing Si Hai Jun Tian Trading Company Limited to an independent third party for RMB4,080,000, leading to a year-on-year drop of 7% in the revenue from the healthcare and wellness business during the year under review to approximately HK$108,029,000 (2017: HK$115,627,000). In face of the keen competition in the market and the rise of costs (such as staff cost, water charge, etc.), the Group's healthcare and wellness business during the year under review recorded a segment loss of HK$15,254,000 (2017: a segment loss of HK$14,870,000), being a slight 3% increase as compared with the corresponding segment loss in 2017.

Instead of making further investments in the healthcare and wellness business, the Group plans to pool its resources together for the development of the core Entertainment and Media Operations. The management will remain vigilant on cost controls so as to guarantee the profit margin and steadiness of the healthcare and wellness business. The Group expects that the healthcare and wellness business will continue to generate stable revenue and cash flows in the future.

Business Outlook

The future looks bright for the Chinese film industry, as the Chinese are now more willing to spend on films and entertainment on the back of their continuous and rapid increase of income, the notable improvement in their consumption standard and the enhancement of their living quality. The emerging group of consumption, which mainly comprises the post-1980 and post-1990 generations, attaches more importance on the quality of the products, thereby supporting the growth of relevant quality films. According to public research (www.pwc.com/outlook), there are 33 cinema screens for every 1 million Chinese, while the corresponding figure for every 1 million Americans is 124. In other words, there is much room for expansion. It is expected that China will continue its astonishing pace of cinema construction between 2018 and 2022, and by 2022 the number of cinema screens in China will be nearly double in number of that the United States currently has. Watching films will become a major entertainment for the Chinese by then.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Business Outlook *(Continued)*

There are signs that the popularity of the Korean wave is getting more phenomenal, particularly in the Southeast Asia region. As the Korean films and television dramas are receiving a lot of attention and enjoying a broad and stable base of audience, the Group is confident of the performance of HB Entertainment and Huayi-Warner Contents Fund in the long run. Apart from the collaboration with HB Entertainment and Warner Brothers Korea, the Group is also actively working along with Korean producers and looking for further opportunities and advancements so as to increase its revenue.

As the Chinese film and entertainment industry is approaching the stage of a more diversified development, the Group is determined to, through the knowledge and backing of its controlling shareholders Huayi Brothers and Tencent Holdings Limited ("Tencent"), continue its global development and invest in quality movie projects, as well as to look for opportunities of collaboration with well-established and internationally-renowned film studios.

In the future, the Group will also keep a close eye on investment opportunities in the pan-entertainment industry (such as the gaming, eSports and music), with a view to reinforcing its deployment in the cultural and entertainment industry.

The healthcare and wellness business is expected to generate stable revenue for the Group in the future.

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. In addition to implementing various environmental management actions, we also use fertiliser and pesticide products that comply with national standards in relation to environmental protection, so as 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.

The Group remains devoted to exploring and applying initiatives to increase energy efficiency, save water 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, among others, 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, to stay updated on demands and expectations of relevant stakeholders, and to keep improving its mechanism for stakeholder engagement, 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 and its operations abide by laws and regulations on human resource management in all jurisdictions where they operate, while maintaining fair and transparent employment relations. 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, with a channel to enable smooth staff communication.

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 a number of channels, including group chats on WeChat and customer hotlines, so as to collect and follow up on customer feedback in a timely manner, with a view to ensuring that their requests are properly addressed. The Group conducts thorough investigation and analysis at the early stage of its media investment, and it has also established a Greenlight Committee which is responsible for reviewing investment projects.

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.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Environmental & Social Responsibilities *(Continued)*

b) Social responsibilities *(Continued)*

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.

As a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"), the Group strictly complies with the disclosure requirements of SEHK. 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 2018.

FINANCIAL REVIEW

Continuing Operations

Revenue for the year ended 31 December 2018 amounted to approximately HK$109,168,000 (2017: HK$167,666,000), being a 35% decrease comparing to the prior year. Revenue from the "Entertainment and Media" segment dropped by 98% to approximately HK$1,139,000 (2017: HK$52,039,000) due to the lack of theatrical release of new films by the Group during the year, while in the prior year the "Rock Dog" movie was in worldwide release. On the other hand, revenue from the "Offline Healthcare and Wellness Services" segment for the year ended 31 December 2018 amounted to approximately HK$108,029,000 (2017: HK$115,627,000), being a slight 7% drop comparing to the prior year due to the disposal of the Group's 51% interests in Beijing Si Hai Jun Tian Trading Company Limited, a then subsidiary of the Group in May 2018.

Cost of sales for the year ended 31 December 2018 amounted to approximately HK$70,954,000 (2017: HK$156,970,000), being a 55% decrease comparing to the prior year. The significant decrease is because there was a much higher film rights amortization expense and the Group's share of distribution fees in the prior year due to the worldwide release of "Rock Dog" movie in 2017, while in the current year there was no theatrical release of new films by the Group. In addition, impairment of film rights and prepayments and other receivables reduced significantly to approximately HK$2,253,000 (2017: HK$41,195,000) and HK$7,639,000 (2017: HK$15,572,000) respectively for the year ended 31 December 2018 by using the latest available information and best estimate of the management, and were included in cost of sales and administrative expenses respectively.

FINANCIAL REVIEW *(Continued)*

Continuing Operations *(Continued)*

Other income and other losses, net, for the year amounted to approximately HK$3,887,000 (2017: other income and other gains, net, of approximately HK$48,065,000), which mainly comprised: 1) exchange loss of approximately HK$8,798,000 (2017: exchange gain of HK$46,996,000) arising from the depreciation of Renminbi and South Korea Won against Hong Kong dollars during the year; 2) gain on disposal of the Group's 51% interests in Beijing Si Hai Jun Tian Trading Company Limited in May 2018 amounting to approximately HK$3,188,000 (2017: nil); and 3) interest income of approximately HK$2,096,000 (2017: HK$945,000). On the other hand, the amount in the prior year mainly comprised the exchange gain of approximately HK$46,996,000 arising from the significant appreciation of Renminbi and South Korea Won against Hong Kong dollars in 2017.

Marketing and selling expenses for the year ended 31 December 2018 amounted to approximately HK$296,000 (2017: HK$26,599,000), being a 99% decrease comparing to the prior year. As mentioned above, there was no theatrical release of new films by the Group in 2018, while the prior year 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 2018 amounted to approximately HK$99,111,000 (2017: HK$156,482,000), being a 37% decrease comparing to the prior year. The fluctuation is mainly because a provision for impairment of certain long-outstanding programmes and film production in progress of approximately HK$64,725,000 was recorded during the year ended 31 December 2017 after management assessment of current market conditions, settlement record and age of investments, while there was a reversal of this provision of approximately HK$1,168,000 during the year ended 31 December 2018 upon collection of such receipts.

Share of results of an associate for the current year represented the share of results of HB Entertainment is a 31%-owned (2017: 22%-owned) associated company of the Group. Although the financial performance of HB Entertainment is still partially affected by the prominent decrease in the export of TV drama contents to the People's Republic of China (the "PRC") since the fourth quarter of 2016, gradual improvement was noted as the Group's share of the losses during the year ended 31 December 2018 reduced significantly by 64% to approximately HK$1,234,000 (2017: HK$3,443,000), and no further provision for impairment of interest in an associate was made during the year ended 31 December 2018 (2017: HK$12,970,000). *Sky Castle*, produced by HB Entertainment and making its debut at the end of 2018, has been particularly popular, with the series recording a viewership rating of 23.779% in Korea, overtaking the all-time high set by *Guardian: The Lonely and Great God* in 2017.

Finance costs, net for the year ended 31 December 2018 amounted to approximately HK$11,000 (2017: HK$26,000). Such amounts represented imputed finance income/costs on discounting non-current rental deposits received/paid arising from the operations of Beijing Si Hai Jun Tian Trading Company Limited (which has been disposed of in May 2018), and are all non-cash items in nature. The Group has not incurred any borrowing as of 31 December 2018 and 2017.

FINANCIAL REVIEW *(Continued)*

Discontinued Operations

The profit from discontinued operations for the year ended 31 December 2018 represented the gain on disposal (including the recycling of the relevant currency translation reserve upon disposal) of the entire shareholding in Hao You (including the Travel Channel operations) completed on 27 December 2018 amounting to approximately HK$140,763,000. Further details of the disposal are disclosed in Note 26(a) to the consolidated financial statements.

The profit from discontinued operations for the year ended 31 December 2017 comprised 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 26(a) to the consolidated financial statements;

(ii) The completed disposal of the entire interests in the online healthcare services segment in October 2017. Further details of the completed disposal are disclosed in Note 26(b) to the consolidated financial statements; and

(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 2018, the Group held cash and cash equivalents of approximately HK$362,490,000 (2017: HK$128,369,000), being a 182% increase comparing to the balance as at 31 December 2017.

The Group is at net current asset position of HK$435,115,000 as at 31 December 2018 (2017: HK$420,965,000). The current ratio, representing the total current assets to the total current liabilities, increase from 26.37 as at 31 December 2017 to 37.91 as at 31 December 2018, 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 2018 and 2017. The Group has no borrowing as at 31 December 2018 and 2017.

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, depreciation (2017: appreciation) in Chinese Renminbi and South Korean Won against Hong Kong dollars resulted in an exchange loss of approximately HK$8,798,000 (2017: exchange gain of HK$46,996,000). 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 2018 and 2017, the Company has not issued new ordinary shares.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, 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 2018, the Group employed a total of 26 (2017: 31) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 384 (2017: 385) 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 2018, 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 and chief executive officer of the Group should be separate and should not be performed by the same individual. During the period from 1 January 2018 to the date of this report, the roles of chairman ("Chairman") and chief executive officer ("CEO") have not been separated.

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

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine directors ("Directors") whose biographical details, as well as the relationship amongst them (if any), are set out on pages 30 to 34 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 nine Board meetings were held.

BOARD OF DIRECTORS *(Continued)*

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 2018 are as follows:

		Meetings		Committee Meetings			
Directors	Director Categories	Board	General	Audit	Remuneration	Corporate Governance	Nomination
Mr. WANG Zhongjun	Chairman, Chief Executive Officer and Executive Director	9/9	1/1	–	member 1/1	chairman 1/1	chairman 3/3
Mr. CHENG Wu[1]	Vice Chairman and Executive Director	5/5	N/A	–	–	–	–
Mr. WANG Zhonglei	Executive Director	9/9	1/1	–	–	–	–
Mr. LIN Haifeng	Executive Director	6/9	0/1	–	–	–	–
Mr. HU Junyi[2]	Executive Director	1/1	N/A	–	–	–	–
Mr. YUEN Hoi Po	Executive Director	8/9	1/1	–	–	–	–
Dr. WONG Yau Kar, David	Independent Non-executive Director	8/9	1/1	member 2/2	chairman 1/1	–	member 3/3
Mr. YUEN Kin	Independent Non-executive Director	8/9	1/1	chairman 2/2	member 1/1	member 1/1	–
Mr. CHU Yuguo	Independent Non-executive Director	8/9	1/1	member 2/2	–	member 1/1	member 3/3
Mr. LAU Seng Yee[3]	Vice Chairman and Executive Director	1/4	0/1	–	–	–	–
Ms. WANG Dongmei[4]	Executive Director	7/8	1/1	–	–	–	–
Total number of meetings held		9	1	2	1	1	3

1. Appointed on 16 August 2018.

2. Appointed on 28 December 2018.

3. Resigned on 16 August 2018.

4. Resigned on 28 December 2018.

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. CHENG Wu.

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.

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 Nomination Policy; and assessing the independence of Independent Non-executive Directors.

During the year, three meetings were held by the Nomination Committee to evaluate candidates replacing the resigning directors, and 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 2018 annual general meeting, and to review the Board Diversity Policy.

BOARD COMMITTEES *(Continued)*

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.

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, and to approve the terms of engagement 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 financial reporting system, 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 NOMINATION POLICY

The Nomination Policy of the Company sets out the process of nomination as well as the criteria for selection and recommendation of director candidates as adopted by the Nomination Committee. Conditions considered in the nomination criteria include but are not limited to the candidate's qualifications, skills, experience, independence and compliance with the Board Diversity Policy. The Board has the final decision on all matters in respect of recommending candidates to be elected or re-elected at a general meeting.

BOARD DIVERSITY POLICY

The Group adopted a Board Diversity Policy in 2013. A summary of this policy, together with the measurable 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, the Board takes into consideration a number of measurable factors, including but not limited to gender, age, cultural and educational background, or professional experience 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 according to such criteria, and has 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. CHENG Wu	✓	✓	✓
Mr. WANG Zhonglei	✓	✓	✓
Mr. LIN Haifeng	✓	✓	✓
Mr. HU Junyi	✓	✓	
Mr. YUEN Hoi Po	✓	✓	
Dr. WONG Yau Kar, David*	✓	✓	✓
Mr. YUEN Kin*	✓	✓	
Mr. CHU Yuguo*	✓	✓	
Mr. LAU Seng Yee[1]	✓		✓
Ms. WANG Dongmei[2]	✓		

* Independent Non-executive Directors

1. Resigned on 16 August 2018.

2. Resigned on 28 December 2018.

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. The Board believes that it is appropriate and in the interests of the Company and its shareholders as a whole for the same individual to serve as the Chairman and CEO because it helps ensure consistent leadership within the Group and enable more effective and efficient overall strategic planning for the Group.

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 or 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 EMPLOYEES

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 2018.

The Code of Conduct applies to all the relevant employees 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	2018 HK'000	2017 HK'000
Audit and review services	2,980	2,980
Non-audit services		
– Tax advisory services	–	4,385
– Other non-audit services	828	744
	3,808	8,109

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 45 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 operations. 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 Operations
✓ Identifying and evaluating operational risks, designing, executing and monitoring the risk management and internal control systems implemented at operations ✓ 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 Organizations 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 2018

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 2018, the Board has finished reviewing the Group's risk management and internal control systems and is satisfied with the results. The Board and the management have also reviewed the adequacy of resources, staff qualifications and experiences, training programmes for staff and relevant budgets for the Group's accounting, internal audit and financial reporting functions, and is satisfied with the results.

COMPANY SECRETARY

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

The Company Secretary is mainly responsible for assisting the chairmen of the Board and its committees to prepare agendas for meetings and to prepare and disseminate meeting material to the Directors and committees' members in a timely and comprehensive manner; ensuring every Director complies 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 34 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 2018 (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.

DIVIDEND POLICY

The Company has developed and adopted its Dividend Policy. The policy specifies that the Board will declare reasonable dividend to shareholders on a semi-annual basis or as of any date in consideration of the Group's financial performance, shareholders' interests, business strategy, reserves of the Company, taxation, compliance and other factors. The payment of dividends is subject to the approval by the Board and/or shareholders, and the amount of dividends to be paid shall not exceed the amount recommended by the Board.

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).

SHAREHOLDERS' RIGHTS *(Continued)*

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

- 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.

2. Procedures for Shareholders to make proposals at AGM:

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

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

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

The contact details of the Company Secretary are as follows:

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

By Order of the Board

WANG Zhongjun
Chairman

Hong Kong, 21 March 2019

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 58, 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 (SZSE: 300027), a substantial shareholder of the Company and a company listed on the Shenzhen Stock Exchange. Mr. WANG Zhongjun is the brother of Mr. WANG Zhonglei.

Mr. CHENG Wu

Director since 2018
Vice Chairman and Executive Director
Mr. CHENG Wu, aged 44, 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. CHENG joined Tencent Holdings Limited (Stock Code: 700) ("Tencent"), a substantial shareholder of the Company and a company listed on the Main Board of the Hong Kong Stock Exchange, in 2009. He has been responsible for overseeing strategy, marketing, channels, copyright and new business development for the Tencent Interactive Entertainment Group ("IEG"); in addition, he manages branding, marketing and PR for Tencent Group.

Since 2011, the "Pan-Entertainment Strategy" (Internet enabled trans-media strategy) that he initiated and implemented has become one of the foundational development strategies of IEG and Tencent. Due to his visionary leadership, IEG has gradually been able to launch its comics, literature, film & television, and e-sports, which, together with online games, have formed a more solid portfolio of the "Pan-Entertainment" businesses, thus leading the industry in their respective areas of business currently.

In September 2015, Tencent Pictures, a wholly-owned film and television production subsidiary of Tencent, was founded. Mr. CHENG has been appointed as the chief executive officer of Tencent Pictures, and in charge of the film and television businesses of IEG.

BOARD OF DIRECTORS *(Continued)*

Mr. CHENG Wu *(Continued)*

In April 2018, Mr. CHENG further put forward the new strategic idea of "Neo-Culture Creativity" on the basis of the "Pan-Entertainment Strategy", which is devoted to promoting the mutual empowerment of cultural value and industry value through a broader connection, so as to achieve more efficient digital culture production and IP construction.

Mr. CHENG graduated from the Tsinghua University with a Bachelor of Science degree in Physics. He also gained an EMBA from the Olin School of Business at Washington University. As a former team leader of the Drama Group of the Tsinghua University Arts Troupe, he believes that a perfect integration of science and art can create the best value.

Mr. CHENG is currently an employee of Tencent.

Mr. WANG Zhonglei

Director since 2016
Executive Director
Mr. WANG Zhonglei, aged 48, 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 (SZSE: 300027), a substantial shareholder of the Company and a company listed on the Shenzhen Stock Exchange; a non-executive director of Guru Online (Holdings) Limited (Stock Code: 8121), a company listed on the GEM Board of the Hong Kong Stock Exchange; a director of Huayi Brothers International Limited, a wholly-owned subsidiary of Huayi Brothers Media Corporation, and a director of Huayi Brothers Korea Co., Ltd. (KOSDAQ: 204630), a company listed on the Korea Exchange. 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 42, 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); a non-executive director of China Literature Limited (Stock Code: 772), a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"). He is also serving as a director of Pinduoduo Inc. (NASDAQ: PDD), a company listed on the Nasdaq Stock Market; a non-executive director of Tongcheng-Elong Holdings Limited (Stock Code: 780), a company listed on SEHK.

Mr. HU Junyi

Director since 2018
Executive Director
Mr. HU Junyi, aged 29, currently serves as Executive Director of the Company. He holds a Bachelor of Arts from Communication University of China and an MBA degree from the Hong Kong University of Science and Technology. He is currently serving as the general manager of Huayi Brothers International Limited, a wholly-owned subsidiary of Huayi Brothers Media Corporation (SZSE: 300027), a substantial shareholder of the Company and a company listed on the Shenzhen Stock Exchange. Before joining Huayi Brothers Media Corporation, he served in the Ministry of Foreign Affairs of the P.R.C.

Mr. HU is currently an employee of Huayi Brothers International Limited and Huayi Brothers Media Corporation.

Mr. YUEN Hoi Po

Director since 2010
Executive Director
Mr. YUEN Hoi Po, aged 56, 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 has acquired extensive experiences in the commercial sector when he engaged in businesses, including trading, real estates, tourism and services, since 1990. Mr. YUEN is currently an independent non-executive director of Man Sang International Limited (Stock Code: 938), a company listed on The Stock Exchange of Hong Kong Limited.

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 61, 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 the Chairman of 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 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 resigned as an independent non-executive director of Yunfeng Financial Group Limited (Stock Code: 376) and Concord New Energy Group Limited (Stock Code: 182), the companies listed on The Stock Exchange of Hong Kong Limited, in November 2017 and June 2018 respectively.

Mr. YUEN Kin

Director since 2004
Independent Non-Executive Director
Mr. YUEN Kin, aged 64, 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 53, 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 and the chairman of Beida Jade Bird Culture and Education Group.

SENIOR MANAGEMENT

Mr. HAU Wai Man, Raymond

Mr. HAU Wai Man, Raymond, aged 44, 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.

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 2018.

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 2018 are set out in Note 31 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 16 of this Annual Report.

RESULTS AND DIVIDENDS

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

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2018.

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 142 of this Annual Report.

DONATIONS

No donation was made by the Group during the year (2017: nil).

SHARE ISSUED IN THE YEAR

Details of the shares of the Company issued in the year ended 31 December 2018 are set out in Note 23 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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. CHENG Wu (Vice Chairman)[1, 3]
Mr. WANG Zhonglei[1]
Mr. LIN Haifeng[1]
Mr. HU Junyi[1, 4]
Mr. YUEN Hoi Po[1]
Dr. WONG Yau Kar, David, *GBS, JP* [2]
Mr. YUEN Kin[2]
Mr. CHU Yuguo[2]
Mr. LAU Seng Yee[1, 5]
Ms. WANG Dongmei[1, 5]

1. Executive Director
2. Independent Non-executive Director
3. Appointed on 16 August 2018
4. Appointed on 28 December 2018
5. Mr. LAU Seng Yee (former Executive Director) and Ms. WANG Dongmei (former Executive Director) resigned on 16 August 2018 and 28 December 2018 respectively. Each of them has confirmed that he/she does not have any disagreement with the Board and that he/she is not aware of any matter in relation to their resignation that needs to be brought to the attention of the shareholders of the Company.

In accordance with Article 86(3) of the Company's Articles of Association, the newly appointed directors, Mr. CHENG Wu and Mr. HU Junyi, shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 87(1) of the Company's Articles of Association, Mr. WANG Zhongjun, Mr. LIN Haifeng and Mr. YUEN Hoi Po 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 30 to 34 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 30(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 2018 and 31 December 2018. As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 1,349,810,657 which represents approximately 10% of the total issued shares of the Company.

COMPETING BUSINESS

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

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018, calculated under the Companies Law of the Cayman Islands and the Company's Articles of Association, amounted in total to HK$631,439,000 (2017: HK$692,245,000), representing the share premium of HK$1,213,484,000 (2017: HK$1,213,484,000) less the accumulated losses of HK$582,045,000 (2017: HK$521,239,000). 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 2018, 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	19%
–	Five largest suppliers in aggregate	36%

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

RETIREMENT BENEFIT SCHEME

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the details disclosed in Note 30(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, and a controlling shareholder or any of its subsidiaries 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 2018, 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			
Name of Directors	Capacity	Personal interest	Corporate interest	Total	% of total issued share capital of the Company (Note 1)
YUEN Hoi Po	Beneficial owner and interest of controlled corporations	139,000,000	1,976,492,607 (Note 2)	2,115,492,607	15.67
CHU Yuguo	Beneficial owner	2,000,000	–	2,000,000	0.01

Notes:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at 31 December 2018.

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 2018, 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 or 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 2018, 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 31 December 2018.

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 2018, 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.

CONNECTED TRANSACTIONS

The following is a summary of transactions entered into by the Group in 2018 which constituted Connected Transactions for the Company under the Listing Rules. For details of these transactions, please refer to the relevant announcements which are available on the websites of the Company and the Stock Exchange.

1. On 28 March 2018, (i) Beijing Hua Yi Hao Ge Media Culture Co., Ltd. ("Hao Ge") (an indirect wholly-owned subsidiary of the Company) and Beijing Dong Xiao Jing Sports Industry Development Co., Ltd. (the "Purchaser") entered into an equity transfer agreement for the disposal of 50% equity interest in Beijing Si Hai Jun Tian Trading Company Limited ("Si Hai Jun Tian") by Hao Ge to the Purchaser for a consideration of RMB4,000,000 (equivalent to approximately HK$4,969,000) and (ii) Hao Ge, a nominee shareholder of Si Hai Jun Tian (the "Nominee Shareholder") and the Purchaser entered into a nominee equity transfer agreement for the disposal of the beneficial ownership of 1% of equity interest in Si Hai Jun Tian, which is registered in the name of the Nominee Shareholder and held on behalf of Hao Ge, to the Purchaser for a consideration of RMB80,000 (equivalent to approximately HK$99,000). Since the principal business of Si Hai Jun Tian does not form part of the Group's core business of entertainment and media operations, the transaction is consistent with the Group's overall strategy of focusing on its core business of entertainment and media operations.

CONNECTED TRANSACTIONS *(Continued)*

As the Nominee Shareholder is a director of Si Hai Jun Tian and therefore a connected person of the Company at the subsidiary level, and the Purchaser is entirely owned by the Nominee Shareholder and thus his associate, the transaction constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For details of the transaction, please refer to the announcement of the Company dated 28 March 2018.

2. On 12 December 2018, Huayi Tencent Entertainment International Limited ("HTEIL") (a wholly-owned subsidiary of the Company) and Huayi Brothers International Limited ("Huayi Brothers") entered into the agreements for cooperation on the distribution of four films in the PRC. Pursuant to such agreements, Huayi Brothers has agreed to transfer 50% of the profit sharing right corresponding to the distribution rights in the four films to HTEIL at an aggregated consideration equivalent to approximately HK$41,594,000. The purpose of the transaction is to benefit from the high-quality movie contents produced by renowned Hollywood and international studios, and also the ever-growing appetites for prime imported movies in the PRC market.

   Huayi Brothers is a substantial shareholder of the Company holding approximately 18.17% of the total issued share capital of the Company. Accordingly, Huayi Brothers is a connected person of the Company and the transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For details of the transaction, please refer to the announcement of the Company dated 12 December 2018.

RELATED PARTY TRANSACTIONS

Details of the transactions carried out with related parties are set out in Note 28 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 or its associated companies are currently in force and was in force during the year and at the date of this Annual 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 17 to 29 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 2018 Interim Report.

1. Mr. YUEN Hoi Po has been appointed as an independent non-executive director of Man Sang International Limited (Stock Code: 938);

2. Mr. LIN Haifeng has been appointed as a non-executive director of Tongcheng-Elong Holdings Limited (Stock code: 780).

On behalf of the Board

WANG Zhongjun
Chairman

Hong Kong, 21 March 2019

pwc 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 141, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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:

- Acquisition of additional shares in an associate
- Impairment assessment for interest in an associate

Key Audit Matters *(Continued)*

Acquisition of additional shares in an associate	How our audit addressed the Key Audit Matter
Refer to note 15 to the consolidated financial statements. During the year ended 2018, the Group's interest in an associate increased from 22% to 31% after conversion of total 23,334 convertible preference shares into 25,926 common shares at consideration of approximately HK$103,427,000 on 31 March 2018. This area is identified as a key audit matter given the magnitude of the amount and significant management judgement being required to determine the allocation of the purchase price to items with material fair value adjustments, such as intangible assets and interest in an associate.	We have performed the following procedures in relation to management's assessment on purchase price allocation for the additional stake of interest in an associate: • Assessing the competency, objectivity and independence of the external valuer used by management; • Involving our internal valuation experts to assist us in assessing the methodologies and certain key assumptions used in determining the fair values of the net assets; • Discussing with the external valuer on the scope, and assessing the appropriateness of the valuation methodologies used in determining the fair values based on our industry knowledge and market practices; • Assessing the reasonableness of the key assumptions used by the external valuer such as discount rate by comparing these assumptions against relevant market data and industry research; and • Testing the arithmetical accuracy on the calculation of the fair values of identified net assets, goodwill and intangible assets. Based on the above procedures performed, we found that the key judgement and assumptions made by management in relation to purchase price allocation for the additional stake of interest in an associate to be reasonable.

Key Audit Matters *(Continued)*

Impairment assessment for interest in an associate	How our audit addressed the Key Audit Matter
Refer to note 15 to the consolidated financial statements. As at 31 December 2018, the carrying amount of the interest in an associate was HK$275,982,000 (2017: HK$177,619,000). Management performed assessment at the end of each reporting period whether there is any indication that interest in an associate may be impaired. The recoverable amount of the interest in an associate is assessed by value-in-use calculation which is based on future discounted cash flows on a cash generating unit basis. Management has concluded that there was no impairment in respect of the interest in an associate as at 31 December 2018. 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.	We have performed the following procedures in relation to the impairment of the interest in an associate: • 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; • We assessed 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; • We discussed with management of the Group and the associate to understand the associate's budgeting methods and process; and • 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. 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 not unreasonable.

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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with 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 Ho Chun Yu.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Continuing operations			
Revenue	5	**109,168**	167,666
Cost of sales		**(70,954)**	(156,970)
Gross profit		**38,214**	10,696
Other income and other (losses)/gains, net	5	**(3,887)**	48,065
Marketing and selling expenses		**(296)**	(26,599)
Administrative expenses		**(99,111)**	(156,482)
Share of results of an associate	15	**(1,234)**	(3,443)
Provision for impairment of interest in an associate	15	**–**	(12,970)
		(66,314)	(140,733)
Finance costs, net	7	**(11)**	(26)
Loss before taxation	8	**(66,325)**	(140,759)
Taxation	9	**(130)**	(364)
Loss for the year from continuing operations		**(66,455)**	(141,123)
Discontinued operations			
Profit for the year from discontinued operations	26	**140,763**	38,859
Profit/(loss) for the year		**74,308**	(102,264)
Attributable to:			
Equity holders of the Company			
– continuing operations		**(67,026)**	(142,528)
– discontinued operations		**140,763**	38,859
		73,737	(103,669)
Non-controlling interest			
– continuing operation		**571**	1,405
		74,308	(102,264)
Earnings/(loss) per share attributable to the equity holders of the Company for the year		**HK Cents**	HK Cents
Basic and diluted earnings/(loss) per share	10		
– from continuing operations		**(0.49)**	(1.06)
– from discontinued operations		**1.04**	0.29
		0.55	(0.77)

The notes on pages 58 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Profit/(loss) for the year		**74,308**	(102,264)
Other comprehensive income:			
Items that may be subsequently/have been reclassified to profit or loss:			
– Change in value of available-for-sale financial assets	2(b)	**–**	56
– Currency translation differences	24	**(81,055)**	(25,703)
Other comprehensive loss for the year, net of tax		**(81,055)**	(25,647)
Total comprehensive loss for the year		**(6,747)**	(127,911)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company			
– continuing operations		**(82,565)**	(179,300)
– discontinued operations		**75,245**	50,037
Non-controlling interest			
– continuing operation		**573**	1,352
		(6,747)	(127,911)

The notes on pages 58 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	As at 31 December 2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	13	**6,276**	7,059
Film rights and film production in progress	14	**129,528**	212,853
Other intangible assets		**–**	5
Interest in an associate	15	**275,982**	177,619
Available-for-sale financial assets	2(b)	**–**	18,971
Financial asset at fair value through profit or loss	17	**5,973**	–
Deferred income tax assets	9	**–**	1,091
Prepayments, deposits and other receivables	20	**16,200**	52,708
		433,959	470,306
Current assets			
Trade receivables	18	**–**	10,877
Programmes and film production in progress	19	**–**	4,785
Prepayments, deposits and other receivables	20	**84,415**	30,787
Cash and cash equivalents	21	**362,490**	128,369
		446,905	174,818
Assets of disposal group classified as held for sale	26	**–**	262,741
		446,905	437,559
Total assets		**880,864**	907,865
Equity and liabilities			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	23	**269,962**	269,962
Reserves	24	**598,830**	606,150
		868,792	876,112
Non-controlling interest	24	**–**	(154)
Total equity		**868,792**	875,958

	Notes	As at 31 December 2018 HK$'000	2017 HK$'000
Liabilities			
Non-current liabilities			
Other payables	22	–	15,060
Deferred income tax liabilities	9	282	253
		282	15,313
Current liabilities			
Receipt in advance, other payables and accrued liabilities	22	11,790	14,386
Income tax liabilities		–	3
		11,790	14,389
Liabilities of disposal group classified as held for sale	26	–	2,205
		11,790	16,594
Total liabilities		12,072	31,907
Total equity and liabilities		880,864	907,865

The financial statements on pages 52 to 141 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf.

WANG Zhongjun
Director

CHENG Wu
Director

The notes on pages 58 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from operations	25(a)	**73,536**	65,467
Capital gain tax paid		**(3)**	(14,300)
Net cash generated from operating activities		**73,533**	51,167
Cash flows from investing activities			
Bank interest received		**2,096**	945
Purchases of property, plant and equipment		**(3,296)**	(3,504)
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of	25(b)	**262,169**	11,371
Proceeds from disposals of property, plant and equipment		**–**	10
Investment in an associate	25(c)	**(91,357)**	–
Purchase of available-for-sale financial assets		**–**	(6,814)
Net cash generated from investing activities		**169,612**	2,008
Net increase in cash and cash equivalents		**243,145**	53,175
Cash and cash equivalents at 1 January		**128,626**	70,993
Currency translation differences		**(9,281)**	4,458
Cash and cash equivalents at 31 December		**362,490**	128,626
Analysis of cash and cash equivalents			
Cash and cash equivalents of the Group		**362,490**	128,626
Reclassification to assets of disposal group held for sale	26(a)	**–**	(257)
	21	**362,490**	128,369

The notes on pages 58 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 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 25(b))	–	(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
Balance at 1 January 2018	**269,962**	**2,149,120**	**(1,542,970)**	**(154)**	**875,958**
Change in accounting policy (Note 2(b))	**–**	**(56)**	**56**	**–**	**–**
Restated as at 1 January 2018	**269,962**	**2,149,064**	**(1,542,914)**	**(154)**	**875,958**
Comprehensive income:					
– Profit for the year	**–**	**–**	**73,737**	**571**	**74,308**
Other comprehensive income:					
Currency translation differences					
– Group	**–**	**(11,709)**	**–**	**2**	**(11,707)**
– Associate (Note 15)	**–**	**(3,830)**	**–**	**–**	**(3,830)**
– Recycling upon disposals of subsidiaries (Note 25(b))	**–**	**(65,518)**	**–**	**–**	**(65,518)**
Total comprehensive (loss)/income	**–**	**(81,057)**	**73,737**	**573**	**(6,747)**
Transaction with owners in their capacity as owners:					
– Disposal of a subsidiary	**–**	**–**	**–**	**(419)**	**(419)**
Balance at 31 December 2018	**269,962**	**2,068,007**	**(1,469,177)**	**–**	**868,792**

The notes on pages 58 to 141 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 21 March 2019.

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) 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 2018:

HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HK (IFRIC) 22	Foreign currency transactions and advance consideration
HKAS 28 (Amendment)	Investment in associate and joint ventures
HKAS 40 (Amendments)	Transfer of investment property
HKFRS 1 (Amendment)	First time adoption of HKFRS

The impact of the adoption of these standards are disclosed in Note 2(b) below. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) New standards, amendments, interpretations and conceptual framework not yet adopted by the Group

A number of new standards and amendments to standards, interpretations and conceptual framework are effective for annual periods beginning after 1 January 2019 and have not been early adopted by the Group in preparing these consolidated financial statements.

		Effective for annual periods beginning on
Amendments to Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

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 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 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,820,000.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) New standards, amendments, interpretations and conceptual framework not yet adopted by the Group (Continued)

HKFRS 16 Leases (Continued)

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.

This standard will be mandatory adopted 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) Change in accounting policies

As explained in Note 2(b)(i) and 2(b)(ii) below, HKFRS 9 and HKFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the entity's accounting policies, certain reclassifications and adjustments are therefore not reflected in the restated consolidated balance sheet as at 31 December 2017, but are recognized in the opening consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

	31 December 2017 As originally presented HK$'000	HKFRS 9 HK$'000	HKFRS 15 HK$'000	1 January 2018 Restated HK$'000
Non-current assets				
Available-for-sale financial assets	18,971	(18,971)	–	–
Financial assets at fair value through profit or loss	–	18,971	–	18,971
Equity				
Available-for-sale financial assets reserve	56	(56)	–	–
Accumulated losses	(1,542,970)	56	–	(1,542,914)

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Change in accounting policies *(Continued)*

(i) HKFRS 9 "Financial Instruments" – Impact of adoption

HKFRS 9, "Financial instruments", addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The adoption of HKFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The new accounting policies are set out in Note 2(j) below.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 measurement categories including those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and those to be measured at amortized cost.

The Group's financial assets include cash and cash equivalents, trade and other receivables, convertible preference stock and unlisted investment fund.

Reclassification from available-for-sale to financial asset with fair value change through profit or loss ("FVPL")

The convertible preference stock and unlisted investment fund of the Group with fair value of HK$18,971,000 at 1 January 2018 was reclassified from available-for-sale financial assets to financial asset at FVPL. They do not meet the HKFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payment of principal and interest.

Related fair value gains of HK$56,000 were transferred from the available-for-sale financial asset reserve to retained earnings on 1 January 2018. During the year ended 31 December 2018, fair value loss of HK$928,000 relating to the investments was recognized in the consolidated income statement.

Other than that, there were no changes to the classification and measurement of financial instruments.

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. The Group's trade and other receivables are financial assets measured at amortized cost and are subject to HKFRS 9's new expected credit loss model.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Change in accounting policies *(Continued)*

(i) HKFRS 9 "Financial Instruments" – Impact of adoption (Continued)

Reclassification from available-for-sale to financial asset with fair value change through profit or loss ("FVPL") (Continued)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established expected credit losses model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on financial assets is insignificant as at 1 January 2018.

(ii) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

HKFRS 15, "Revenue from contracts with customers" ("HKFRS 15") deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations.

The Group has adopted HKFRS 15 from 1 January 2018 which do not have any material impact on the Group's consolidated financial statements.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) 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 changed 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.

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Group accounting *(Continued)*

(iii) Business combinations (Continued)

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.

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Group accounting *(Continued)*

(iv) Changes in ownership interests (Continued)

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)*

(c) 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)*

(c) 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.

(d) 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$") as the Group's and the Company's presentation currency. Accordingly, the consolidated financial statements are presented in HK$.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(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.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(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 result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(e) 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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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(h)).

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

(f) 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.

(g) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life or non-financial 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.

(i) 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. 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 the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

(iii) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The group classifies its debt instruments into following category:

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the consolidated income statement. Impairment losses are presented as separate line item in the consolidated income statement.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement. Dividends from such investments continue to be recognized in the consolidated income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in "other income and (losses)/gains" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Reclassification*

  Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

(v) Accounting policies applied until 31 December 2017 (Continued)

- *Subsequent measurement*

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. Available-for-sale financial assets are subsequently carried at fair values. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement.

- *Impairment*

The Group assesses at each of the balance sheet date whether there is objective evidence that a financial asset or 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

(v) Accounting policies applied until 31 December 2017 (Continued)

Assets carried at amortized cost

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.

Assets classified as available-for-sale

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) 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.

(l) 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.

See Note 18 for further information about the group's accounting for trade receivables and Note 2(j)(iv) for a description of the group's impairment policies.

(m) Cash and cash equivalents

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

(n) Share capital

Ordinary shares and preference shares are classified as equity.

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

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

(o) Dividend distribution

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Trade and other payables

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

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

(q) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Inside basis difference

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Deferred income tax *(Continued)*

Outside basis differences

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

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

(iii) Offsetting

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

(r) Provisions

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

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

The Group recognizes revenue when the control of goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifies of each arrangement.

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

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

(iii) Food and beverage income and club activities income are accounted for when the services are rendered. Members' annual fees 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) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

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

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

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

(t) Employee benefits

(i) Retirement benefit costs

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

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 benefits 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits *(Continued)*

(ii) Termination benefits

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

(iii) Profit-sharing and bonus plans

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

(iv) Employee leave entitlements

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

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

(u) 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

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, profit attributable to the equity holders of the Company for the year ended 31 December 2018 would increase/decrease by HK$2,175,000 (2017: HK$770,000).

(b) Credit risk

(i) Risk Management

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

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

(ii) Impairment of financial assets

Trade receivables for sales of goods of the Group and from the provision of services are subject to the expected credit loss model. While cash and cash equivalents, restricted cash and short-term bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected credit losses on an individual basis.

Programmes and film production in progress and other financial assets at amortized cost

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information including changes in the payment status of debtors in the group and changes in the operating results of the debtors. The Group measures the expected credit losses on a combination of both individual and collective basis.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The trade receivables, programmes and film production in progress and other financial assets at amortized cost relating to customers or debtors which are in known financial difficulties or with significant doubt on collection of receivables are identified and assessed individually for provision for impairment allowance. As at 31 December 2018, the balance of credit loss of these individually assessed receivables were as follows:

	2018	2017
	HK$'000	HK$'000
Trade receivables	**8,373**	–
Programmes and film production in progress (Note (a))	**(1,168)**	64,725
Other financial assets at amortized cost		
– Other receivables	**3,725**	–

Note (a): The amount represented the reversal of provision for impairment of certain long-outstanding programmes and film production in progress of approximately HK$1,168,000 upon collection of such receipts.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. An allowance for impairment of trade 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indication that the receivable is impaired.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

The impact of transition to HKFRS 9 as a result of applying the expected credit risk model was immaterial.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(c) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and net monetary assets and liabilities are denominated in Renminbi ("RMB"), South Korean Won ("KRW") and United States Dollars ("US$") 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 2018, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the profit for the year would increase/decrease by HK$3,509,000 (2017: the loss for the year would decrease/increase HK$39,138,000), mainly as a result of foreign exchange gains/losses on translation of loans and receivables denominated in RMB and recorded in group entities with functional currency in HK$.

As at 31 December 2018, if KRW had strengthened/weakened by 5% against HK$ with all other variables held constant, the profit for the year would increase/decrease by HK$237,000 (2017: the loss for the year would decrease/increase HK$172,000), mainly as a result of foreign exchange gains/losses on translation of financial asset at fair value through profit or loss and share of results of an associate denominated in KRW and recorded in group entities with functional currency in HK$.

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

(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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2018				
Trade payables, other payables and accrued liabilities	**8,709**	**–**	**–**	**–**
At 31 December 2017				
Trade payables, other payables and accrued liabilities	6,274	–	164	4,289

(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 2018, the Group did not have any outstanding borrowing and its gearing ratio was nil (2017: nil).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Fair value estimation

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

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

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2018				
Financial asset at fair value through profit or loss (Note 17)	**–**	**–**	**5,973**	**5,973**
At 31 December 2017				
Available-for-sale financial assets (Note 2(b))	–	–	18,971	18,971

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.

There were no transfers between levels 1, 2 and 3, and no change in valuation techniques during the year (2017: same).

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 2017 and 2018:

	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 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

	Financial assets at fair value through profit or loss		
	– Convertible preference stock **HK$'000**	**– Huayi-Warner Contents Fund** **Note (iii)** **HK$'000**	**Total** **HK$'000**
As at 1 January 2018	**–**	**–**	**–**
Effect on adoption of HKFRS 9	**11,929**	**7,042**	**18,971**
Restated as at 1 January 2018	**11,929**	**7,042**	**18,971**
Conversion (Note 25(c))	**(12,070)**	**–**	**(12,070)**
Fair value loss through profit or loss (Note a)	**–**	**(746)**	**(746)**
Exchange realignment (Note a)	**141**	**(323)**	**(182)**
As at 31 December 2018	**–**	**5,973**	**5,973**

Note a: During the year ended 31 December 2018, net fair value loss of HK$928,000 was recognized in the consolidated income statement.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) Fair value estimation *(Continued)*

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 as at 31 December 2017.

iii. Financial asset at fair value through profit or loss – Huayi-Warner Contents Fund

The Group has determined that the audited net asset value approximates fair value of the unlisted investment fund as at 31 December 2018.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(ii) Impairment of film rights and film production in progress

The Group assesses at the end of each reporting period whether there is any indication for impairment on the film rights and film in progress and further assesses if they have suffered any impairment, in accordance with the accounting policy stated in Note 2(f) and 2(g). 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 2018, the Group has recognized provision for impairment of film rights of approximately HK$2,253,000 (2017: HK$41,195,000) and no provision for impairment of film production in progress was recognized (2017: nil).

(iii) Amortization of film rights

The Group is required to estimate the diminishing value of the film rights 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 financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3(i)(b).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(v) 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 2018, the Group has recognized provision for impairment of prepayments of approximately HK$3,914,000 (2017: HK$15,572,000) has been recognized.

(vi) 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(c)(vi). 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 2018, no provision for impairment of interest in an associate has been recognized (2017: HK$12,970,000).

(vii) 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 50% (2017: 10%–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 (LOSSES)/GAINS, NET

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

	2018 **HK$'000**	2017 HK$'000
Revenue		
Entertainment and media		
– Film exhibition	**1,139**	52,039
Offline healthcare and wellness services		
– Club activities income	**46,739**	40,797
– Membership fees	**35,398**	32,810
– Rental income	**10,873**	25,944
– Food and beverage	**15,019**	16,076
	109,168	167,666
Other income and other (losses)/gains, net		
Interest income	**2,096**	945
Fair value loss on financial assets at fair value through profit or loss, net	**(928)**	–
Gain on disposals of subsidiaries	**3,188**	–
Exchange (losses)/gains, net	**(8,798)**	46,996
Miscellaneous	**555**	124
	(3,887)	48,065

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 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 costs, net, gain on disposals of subsidiaries and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, office rental and other administrative expenses which are not attributable to particular reportable segment.

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 2018 (2017: nil).

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment

For the year ended 31 December 2018

	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	Total HK$'000
Revenue	1,139	108,029	109,168	–	109,168
Share of results of an associate	(1,234)	–	(1,234)	–	(1,234)
Segment results	(21,118)	(15,254)	(36,372)	(32)	(36,404)
Exchange losses, net			(8,798)	–	(8,798)
Unallocated expenses, net			(24,332)	–	(24,332)
Gain on disposals of subsidiaries			3,188	140,795	143,983
			(66,314)	140,763	74,449
Finance costs, net			(11)	–	(11)
(Loss)/profit before taxation			(66,325)	140,763	74,438
Taxation			(130)	–	(130)
(Loss)/profit for the year			(66,455)	140,763	74,308
Non-controlling interest			(571)	–	(571)
(Loss)/profit attributable to the equity holders of the Company			(67,026)	140,763	73,737

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

For the year ended 31 December 2018 *(Continued)*

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000
Segment assets	411,483	50,505	461,988
Unallocated assets			418,876
Total assets			880,864
Segment liabilities	282	5,847	6,129
Unallocated liabilities			5,943
Total liabilities			12,072
Other information:			
Purchases of property, plant and equipment			
– Allocated	–	2,304	2,304
– Unallocated			992
Purchase of film rights and film production in progress	9,870	–	9,870
Depreciation			
– Allocated	–	1,041	1,041
– Unallocated			2,503
Amortization of film rights	1,245	–	1,245
Impairment of film rights	2,253	–	2,253
Impairment of trade receivables	8,373	–	8,373
Impairment of prepayment and other receivables	7,639	–	7,639

6 SEGMENT INFORMATION *(Continued)*

(a) Business segment *(Continued)*

For the year ended 31 December 2017

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operations: Entertainment and Media – Hao You HK$'000	Discontinued operations: Online Healthcare Services HK$'000	Discontinued operations: Offline Healthcare and Wellness Services – Beijing Healthcare and Wellness Si He Yuan and Hotel Project (Note 26(c)) HK$'000	Total HK$'000
Revenue	52,039	115,627	167,666	–	8,308	–	175,974
Share of results 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 gains, net			46,996	–	61	–	47,057
Unallocated expenses, net			(15,417)	–	–	–	(15,417)
			(140,733)	103	66	(4,385)	(144,949)
Finance costs, 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$'000	Discontinued operations: Entertainment and Media – Hao You HK$'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 rights	30,238	–	30,238	–	–	30,238
Impairment of film rights	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)*

(b) Geographical information

The geographical information for the year ended 31 December 2018 and 2017 are as follows:

	Revenue from external customers		Non-current assets Note	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
The People's Republic of China (the "PRC")	**108,029**	115,627	**31,685**	46,104
Hong Kong	**–**	–	**571**	10,144
Other countries	**1,139**	52,039	**119,748**	203,945
	109,168	167,666	**152,004**	260,193

Note: Non-current assets exclude interest in an associate, financial asset at fair value through profit or loss, available-for-sale financial assets, deferred income tax assets and non-current portion of deposits and other receivables.

7 FINANCE COSTS, NET

	2018	2017
	HK$'000	HK$'000
Finance costs		
Imputed finance cost on discounting non-current rental deposits received	**(54)**	(126)
Finance income		
Imputed finance income on discounting non-current rental deposits paid	**43**	100
Finance costs, net	**(11)**	(26)

8 LOSS BEFORE TAXATION

Loss before taxation is stated after charging/(crediting) the following:

	2018 HK$'000	2017 HK$'000
Depreciation of property, plant and equipment (Note 13)	**3,544**	4,426
Amortization of film rights (Note 14)	**1,245**	30,238
Auditor's remuneration		
– Audit services	**2,980**	2,980
– Non-audit services	**828**	744
Operating lease rentals	**33,012**	43,015
(Reversal of)/provision for impairment of		
– Film rights (Note 14)	**2,253**	41,195
– Trade receivables (Note 18)	**8,373**	–
– Prepayments and other receivables (Note 20)	**7,639**	15,572
– Interest in an associate (Note 15)	**–**	12,970
– Programmes and film production in progress (Note 19)	**(1,168)**	64,725
Loss on disposal of property, plant and equipment (Note 13)	**9**	233
Employee benefit expense:		
Directors' fees	***600***	*600*
Wages and salaries	***15,334***	*12,628*
Contributions to defined contribution pension schemes	***1,770***	*1,594*
	17,704	14,822

9 TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2017: 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)*

	2018 HK$'000	2017 HK$'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**–**	–
Deferred income tax	**130**	364
Income tax expense	**130**	364

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

	2018 HK$'000	2017 HK$'000
Loss before taxation	**(66,325)**	(140,759)
Tax calculated at domestic tax rates applicable to the profit or loss in respective countries	**(13,020)**	(26,861)
Tax effects of an associate, results reported net of tax	**271**	–
Income not subject to tax	**(1,820)**	(13,182)
Expenses not deductible for tax purposes	**14,786**	34,883
Utilization of previously unrecognized tax losses	**(87)**	(380)
Tax losses not recognized	**–**	5,904
Income tax expense	**130**	364

The weighted average applicable tax rate was 19.63% (2017: 19.08%). 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:

	2018 **HK$'000**	2017 HK$'000
Deferred income tax assets to be recovered after more than 12 months	**–**	1,091
Deferred income tax liabilities to be recovered after more than 12 months	**(282)**	(253)
Deferred income tax assets, net	**(282)**	838

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

	2018 **HK$'000**	2017 HK$'000
At the beginning of the year	**838**	1,139
Charged to the consolidated income statement	**(130)**	(364)
Disposal of a subsidiary	**(1,026)**	–
Exchange difference	**36**	63
At the end of the year	**(282)**	838

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 2017	2,142
Credited to the consolidated income statement	178
Exchange differences	156
At 31 December 2017 and 1 January 2018	**2,476**
Credited to the consolidated income statement	**41**
Disposal of a subsidiary	**(2,573)**
Exchange differences	**56**
At 31 December 2018	**–**

Deferred tax liabilities

	Unrealized earning HK$'000	Amortization of operating lease HK$'000	Total HK$'000
At 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 and 1 January 2018	**(253)**	**(1,385)**	**(1,638)**
Charged to the consolidated income statement	**(42)**	**(129)**	**(171)**
Disposal of a subsidiary	**–**	**1,547**	**1,547**
Exchange differences	**13**	**(33)**	**(20)**
At 31 December 2018	**(282)**	**–**	**(282)**

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 2018, the Group had unrecognized tax losses of approximately HK$339,020,000 (2017: approximately HK$344,853,000) 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 decrease of unrecognized tax losses is mainly attributed to the disposal of Beijing Si Hai Jun Tian Trading Company Limited ("Si Hai Jun Tian") and lapsed of certain tax losses of the PRC subsidiaries during the year ended 31 December 2018. No deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. 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$1,112,000 (2017: approximately HK$2,571,000) in respect of tax losses of approximately HK$4,449,000 (2017: approximately HK$10,282,000) that will expire in five years from the year incurred. The remaining tax losses of approximately HK$334,571,000 (2017: approximately HK$334,571,000) can be carried forward indefinitely to offset against future taxable income.

Deferred income tax liabilities of HK$2,306,000 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 for the year ended 31 December 2017. Total unremitted earnings amounted to HK$23,059,000 as at 31 December 2017. The unrecognized deferred income tax liabilities in relation to the unremitted earnings decrease to nil is attributed to the disposal of Hao You during the year ended 31 December 2018.

10 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings/(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 earnings/(loss) per share for the years ended 31 December 2018 and 2017 were the same as basic earnings/(loss) per share as the Company had no potentially dilutive ordinary shares in issue during these years.

	2018	2017
Weighted average number of ordinary shares in issue (thousands)	**13,498,107**	13,498,107
Loss from continuing operations attributable to equity holders of the Company (HK$'000)	**(67,026)**	(142,528)
Basic and diluted loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**(0.49)**	(1.06)
Profit from discontinued operations attributable to equity holders of the Company (HK$'000)	**140,763**	38,859
Basic and diluted earnings per share from discontinued operations attributable to equity holders of the Company (HK cents per share)	**1.04**	0.29
Earnings/(loss) per share attributable to equity holders of the Company (HK cents per share)	**0.55**	(0.77)

11 DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: 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 (2017: nil) director whose emoluments are reflected in the analysis shown in Note 30(a). The emoluments payable to the five (2017: five) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, bonuses, allowances and benefits in kind	6,901	5,042
Contributions to defined contribution pension schemes	202	304
	7,103	5,346

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HK$500,001 – HK$1,000,000	2	4
HK$1,000,001 – HK$1,500,000	1	–
HK$1,500,001 – HK$2,000,000	1	–
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	1	–
	5	5

13 PROPERTY, PLANT AND EQUIPMENT

	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 25(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

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Building HK$'000	Machinery and equipment HK$'000	Furniture, computer and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2018						
Opening net book amount	–	1,287	1,282	2,685	1,805	7,059
Additions	937	647	288	–	1,424	3,296
Disposals	–	–	(9)	–	–	(9)
Disposal of a subsidiary (Note 25(b))	–	–	–	(298)	–	(298)
Depreciation	(482)	(372)	(336)	(1,862)	(492)	(3,544)
Exchange differences	(10)	(66)	(63)	16	(105)	(228)
Closing net book amount	445	1,496	1,162	541	2,632	6,276
At 31 December 2018						
Cost	917	2,034	2,968	2,568	5,007	13,494
Accumulated depreciation	(472)	(538)	(1,806)	(2,027)	(2,375)	(7,218)
Net book amount	445	1,496	1,162	541	2,632	6,276

Depreciation expenses of approximately HK$3,544,000 (2017: approximately HK$4,426,000) and nil (2017: HK$2,509,000) have been charged in administrative expenses and discontinued operation, respectively.

14 FILM RIGHTS AND FILM PRODUCTION IN PROGRESS

	Film rights 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 19)	–	(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

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

	Film rights HK$'000	Film production in progress HK$'000	Total HK$'000
Year ended 31 December 2018			
Opening net book amount	3,498	209,355	212,853
Additions	1,175	8,695	9,870
Return of capital	–	(89,697)	(89,697)
Amortization	(1,245)	–	(1,245)
Impairment	(2,253)	–	(2,253)
Closing net book amount	1,175	128,353	129,528
At 31 December 2018			
Cost	125,936	128,353	254,289
Accumulated amortization	(37,262)	–	(37,262)
Impairment	(87,499)	–	(87,499)
Net book amount	1,175	128,353	129,528

Amortization of film rights of approximately HK$1,245,000 (2017: approximately HK$30,238,000) has been charged to the cost of sales in the consolidated income statement.

In view of the actual box office performance of certain film rights distribution in certain markets was below expectation, management performed an impairment assessment for film rights 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 rights was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film rights, including other revenue streams that the film rights can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. The pre-tax discount rate adopted for the assessment is 19%. Accordingly, impairment of film rights amounting to approximately HK$41,195,000 was recognized for the year ended 31 December 2017, and was included in cost of sales.

For the year ended 31 December 2018, a further impairment of film rights amounting to approximately HK$2,253,000 was recognized by using the latest available information and best estimate from the management and was included in cost of sales.

The Group has entered into certain joint operation arrangements to produce or distribute seven films (2017: eleven). The Group has participating interests ranging from 10% to 50% (2017: 10%-12%) in these joint operations. As at 31 December 2018, 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 rights and film production in progress and trade receivables of HK$129,528,000 (2017: HK$212,853,000) and nil (2017: HK$10,877,000), respectively.

15 INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2018 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.

Details of interest in an associate as at 31 December 2018 and 2017 is as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest 2018	% of ownership interest 2017	Principal activities and place of operation
HB Entertainment Co., Ltd ("HB Entertainment") (Note)	South Korea, limited liability company	**31%**	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 preference stock ("CPS") at the subscription price of 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. On 31 March 2018, the Company completed the subscription of second CPS and then converted totalling of 23,334 CPS into 25,926 common stocks in HB Entertainment and the Company's shareholding in HB Entertainment have been increased from 22% to 31%.

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Current		
Cash and cash equivalents	**113,365**	56,813
Other current assets (excluding cash)	**77,445**	37,934
Total current assets	**190,810**	94,747
Current financial liabilities (excluding trade payables)	**(6,149)**	(6,842)
Other current financial liabilities	**(54,750)**	(29,219)
Total current liabilities	**(60,899)**	(36,061)
Non-current		
Total non-current assets	**84,574**	72,967
Financial liabilities	**–**	(11,582)
Other liabilities	**(4,782)**	(3,876)
Total non-current liabilities	**(4,782)**	(15,458)
Net assets	**209,703**	116,195
Non-controlling interest	**(148)**	(967)
Net assets attributable to the equity holders	**209,555**	115,228

15 INTEREST IN AN ASSOCIATE *(Continued)*

Summarized financial information for material associate *(Continued)*

Summarized statement of comprehensive income

	2018 HK$'000	2017 HK$'000
Revenue	180,081	72,673
Depreciation and amortization	(905)	(666)
Loss before taxation	(3,098)	(11,776)
Taxation	(552)	(3,718)
Loss after taxation	(3,650)	(15,494)
Other comprehensive (loss)/income	(5,450)	15,890
Total comprehensive (loss)/income	(9,100)	396

The information above reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy if any.

Movements of interest in an associate are as follows:

	2018 HK$'000	2017 HK$'000
Interest in an associate		
At 1 January	177,619	190,501
Acquisition of additional shares in an associate (Note 25(c))	103,427	–
Impairment	–	(12,970)
Share of results	(1,234)	(3,443)
Exchange differences	(3,830)	3,531
At 31 December	275,982	177,619

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

	2018 HK$'000	2017 HK$'000
Summarized financial information		
Opening net assets as at 1 January	**115,228**	114,832
Capital injection	**103,427**	–
Loss for the year	**(3,449)**	(15,494)
Exchange differences	**(5,651)**	15,890
Closing net assets as at 31 December	**209,555**	115,228
Interest in an associate	**64,466**	25,606
Goodwill	**211,516**	152,013
Carrying value	**275,982**	177,619

Impairment of interest in an associate

Recoverable amount has been determined by value-in-use calculation of present value of expected future cash flows.

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.

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

	As at 31 December 2018	 2017
Compound annual growth rate of revenue in five-year period	**30.8%**	53.2%
Annual growth rate beyond the five-year period	**3.5%**	3.5%
Pre-tax discount rate	**20.5%**	19.1%
Post-tax discount rate	**16.0%**	14.9%

No provision for impairment of interest in HB Entertainment has been made for the year ended 31 December 2018. For the year ended 31 December 2017, provision for impairment of interest in HB Entertainment of approximately HK$12,970,000 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.

16 FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per consolidated balance sheet

	At amortized cost HK$'000	At fair value through other comprehensive income HK$'000	At fair value through profit or loss HK$'000	Total HK$'000
As at 31 December 2018				
Deposits and other receivables (excluding non-financial assets)	72,140	–	–	72,140
Cash and cash equivalents	362,490	–	–	362,490
Financial assets at fair value through profit or loss	–	–	5,973	5,973
Total	434,630	–	5,973	440,603
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

Liabilities as per consolidated balance sheet

	Financial liabilities at amortized cost HK$'000
As at 31 December 2018	
Other payables and accrued liabilities (excluding non-financial liabilities)	6,075
Total	6,075
As at 31 December 2017	
Other payables and accrued liabilities (excluding non-financial liabilities)	10,451
Total	10,451

17 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018 HK$'000
Unlisted securities	
Huayi-Warner Contents Fund	**5,973**

Financial asset at fair value through profit or loss include interests in Huayi-Warner Contents Fund, which are unlisted securities. On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of KRW 1 billion (equivalent to approximately HK$6.8 million) for the establishment of Huayi-Warner Contents Fund. It represented 11% (2017: 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 KRW. The maximum exposure to credit risk at the period-end is the carrying value.

During the year ended 31 December 2018, net fair value loss of approximately HK$928,000 was recognized in the consolidated income statement.

18 TRADE RECEIVABLES

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

	As at 31 December	
	2018 HK$'000	2017 HK$'000
0-3 months	**–**	10,877
Over 1 year	**8,373**	–
	8,373	10,877
Loss allowance	**(8,373)**	–
	–	10,877

As at 31 December 2018, no net trade receivables (2017: HK$10,877,000) were recognized on the consolidated balance sheet relating to the Group's interest in joint operation arrangements as detailed in Note 14.

18 TRADE RECEIVABLES *(Continued)*

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. As at 31 December 2018, the loss allowance increased to HK$8,373,000 due to significant increase in credit risk of a trade receivable after considering its financial condition by the management.

Movements on the Group's loss allowance for trade receivables are as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
At 1 January	**–**	12,254
Write-off	**–**	(13,113)
Increase in loss allowance recognised in profit or loss during the year	**8,373**	–
Exchange differences	**–**	859
At 31 December	**8,373**	–

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

As at 31 December 2018, the carrying amounts of trade receivables approximate their fair values and are denominated in US$ (2017: US$).

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 PROGRAMMES AND FILM PRODUCTION IN PROGRESS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
At 1 January	**4,785**	50,252
Reclassification (Note 14)	**–**	23,116
Investment return withdrawn	**(5,776)**	(5,922)
Reversal of/(provision for) impairment	**1,168**	(64,725)
Exchange difference	**(177)**	2,064
At 31 December	**–**	4,785

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%.

Information about the impairment of programmes and film production in progress can be found in Note 3(i)(b).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Prepayments	**59,139**	63,655
Deposits and other receivables	**64,687**	35,412
	123,826	99,067
Less: provision for impairment of prepayments and other receivables	**(23,211)**	(15,572)
	100,615	83,495
Less: non-current portion	**(16,200)**	(52,708)
	84,415	30,787

20 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	
	2018	2017
	HK$'000	HK$'000
HK$	**5,431**	872
US$	**–**	9,047
RMB	**95,184**	73,576
	100,615	83,495

The carrying amounts of deposits and other receivables approximate their fair values. For the year ended 31 December 2018, provision for impairment amounting to HK$7,639,000 (2017: HK$15,572,000) has been charged to the consolidated income statement due to the recoverable amount of prepayment and other receivables are below its carrying value.

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

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Cash and bank balances	**362,490**	128,369
Denominated in:		
HK$	**71,342**	14,912
RMB	**289,699**	104,332
US$	**1,449**	9,123
Other	**–**	2
	362,490	128,369
Maximum exposure to credit risk	**362,485**	128,292

The Group's cash and bank balances of approximately HK$289,682,000 and HK$22,999,000 as at 31 December 2018 and 2017, respectively, were denominated in RMB and held in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

22 RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Current liabilities:		
Receipt in advance	**–**	5,087
Other payables and accrued liabilities (Note)	**11,790**	9,299
	11,790	14,386
Non-current liabilities:		
Tenant deposits received and other payables	**–**	15,060
	11,790	29,446

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

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
HK$	**2,448**	3,352
USD	**–**	2,786
RMB	**9,342**	23,308
	11,790	29,446

23 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 2017 and 31 December 2018 (Note a)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2017 and 1 January 2018	13,498,107	269,962	–	–	269,962
At 31 December 2017 and 31 December 2018	13,498,107	269,962	–	–	269,962

Notes:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 (2017: 150,000,000,000) shares are ordinary shares with par value of HK$0.02 (2017: HK$0.02) per share. 240,760,000 (2017: 240,760,000) shares are preference shares with par value of HK$0.01 per share (2017: HK$0.01). All issued shares are fully paid.

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.

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 2018, no share option has been granted under the New Option Scheme (2017: nil) and no share-based payment expense has been charged to the consolidated income statement (2017: nil).

During the year ended 31 December 2018, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding share option as at 31 December 2018 (2017: same).

24 RESERVES

	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 2(b))	–	–	–	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 a subsidiary	–	–	–	–	(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

24 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 2018	1,213,484	860,640	1,206	56	73,734	(1,542,970)	606,150	(154)	605,996
Change in accounting policy (Note 2(b))	–	–	–	(56)	–	56	–	–	–
Restated as at 1 January 2018	1,213,484	860,640	1,206	–	73,734	(1,542,914)	606,150	(154)	605,996
Profit for the year	–	–	–	–	–	73,737	73,737	571	74,308
Currency translation differences									
– Group	–	–	–	–	(11,709)	–	(11,709)	2	(11,707)
– Associate	–	–	–	–	(3,830)	–	(3,830)	–	(3,830)
– Recycling upon disposals of subsidiaries	–	–	–	–	(65,518)	–	(65,518)	–	(65,518)
Transaction with owners in their capacity as owners									
– Disposal of a subsidiary	–	–	–	–	–	–	–	(419)	(419)
Balance at 31 December 2018	1,213,484	860,640	1,206	–	(7,323)	(1,469,177)	598,830	–	598,830

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 subsidiaries and associate with RMB/KRW 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. Fluctuation of currency translation differences in other comprehensive income in current year was resulted from revaluation of RMB/KRW against HK$ and reclassification to profit or loss upon disposals of the Group's certain subsidiaries.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2018 HK$'000	2017 HK$'000
Loss before taxation from continuing operations	(66,325)	(140,759)
Profit before taxation for the year from discontinued operation	140,763	38,859
Adjustments for:		
– Share of results of an associate	1,234	3,443
– Gain on disposals of subsidiaries	(143,983)	(8,500)
– Bank interest income	(2,096)	(945)
– Depreciation	3,544	6,935
– Loss on disposal of property, plant and equipment	9	233
– Provision for impairment of interest in an associate	–	12,970
– Provision for impairment of trade receivables	8,373	–
– Provision for impairment of prepayments and other receivables	7,639	15,572
– Provision for impairment of film rights	2,253	41,195
– (Reversal of)/provision for impairment of programmes and film production in progress	(1,168)	64,725
– Reversal of over-provision of PRC capital gain tax	–	(43,075)
– Amortization of film rights and other intangible assets	1,250	30,243
– Fair value loss on financial assets at fair value through profit or loss, net	928	–
– Finance costs, net	11	26
	(47,568)	20,922
Changes in working capital:		
– Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	37,868	(14,329)
– Additions in film rights and film production in progress	(9,870)	–
– Receipt of investment return from programmes and film production in progress	–	5,922
– Return of capital of film production in progress	89,697	60,958
– Increase/(decrease) in trade payables, receipt in advance, other payables and accrued liabilities	3,409	(8,006)
Cash generated from operations	73,536	65,467

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

(b) Cash flow from disposals of subsidiaries

For the year ended 31 December 2018

Analysis of net gain on disposals of subsidiaries:

	Disposal group held for sale (Note 26) HK$'000	Other subsidiary individually insignificant (Note i) HK$'000	Total HK$'000
Cash consideration	322,986	4,991	327,977
Property, plant and equipment disposed of	(170)	(298)	(468)
Net assets disposed of	(247,391)	(2,072)	(249,463)
Non-controlling interest disposed of	–	419	419
	75,425	3,040	78,465
Release of exchange reserve upon disposals	65,370	148	65,518
Gain on disposals of subsidiaries	140,795	3,188	143,983

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

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

For the year ended 31 December 2018 *(Continued)*

Analysis of net proceeds received from disposals of subsidiaries:

	Disposal group held for sale (Note 26) HK$'000	Other subsidiary individually insignificant (Note i) HK$'000	Total HK$'000
Cash consideration	322,986	4,991	327,977
Less: cash received after balance sheet date or classified as other receivables (Note 26)	(57,065)	–	(57,065)
Cash consideration received during the year	265,921	4,991	270,912
Less:			
– cash and cash equivalents included in subsidiaries disposed of	–	(8,743)	(8,743)
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of	265,921	(3,752)	262,169

Note i: On 28 March 2018, Beijing Hua Yi Hao Ge Media Culture Co., Ltd. ("Hao Ge", a wholly-owned subsidiary of the Company) with an independent third party (the "Purchaser") entered into an equity transfer agreement for the disposal of 50% equity interest in Si Hai Jun Tian by Hao Ge to the Purchaser for a consideration of RMB4,000,000 and Hao Ge, the Purchaser and the individual registered shareholder of Si Hai Jun Tian who holds 1% equity interest in Si Hai Jun Tian on behalf of Hao Ge ("the Nominee Shareholder") entered into a nominee equity transfer agreement for the disposal of the beneficial ownership of 1% of equity interest in Si Hai Jun Tian, which is registered in the name of the Nominee Shareholder and held on behalf of Hao Ge, to the Purchaser for a consideration of RMB80,000.

Si Hai Jun Tian is a 51% owned subsidiary of the Group principally engaged in the provision of offline health and wellness services through operation of a mid- tier wellness centre in Beijing, the PRC.

The disposal transaction was completed on 31 May 2018.

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

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

For the year ended 31 December 2017

Analysis of net gain on disposal of a subsidiary:

	2017 HK$'000
Cash consideration	11,747
Property, plant and equipment disposed of	(5,980)
Inventory disposed of	(7,150)
Net liabilities disposed of	9,743
	8,360
Release of exchange reserve upon disposal	140
Gain on disposal of a subsidiary	8,500

Analysis of net proceeds received from disposal of a subsidiary:

	2017 HK$'000
Cash consideration	11,747
Less: cash and cash equivalents included in a subsidiary disposed of	(376)
	11,371

(c) Cash flow from acquisition of additional shares in an associate

	2018 HK$'000
Consideration (Note 15)	**103,427**
Less: conversion of convertible preference stock (Note 3)	**(12,070)**
	91,357

26 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

	2018 **HK$'000**	2017 HK$'000
Profit for the year from discontinued operations is comprised of the followings:		
Hao You (Note (a))	**140,763**	103
Beijing Bayhood No. 9 Cloud Health Technology Company Limited ("Cloud Health") (Note (b))	**–**	66
Beijing Healthcare and Wellness Si He Yuan and Hotel Project (Note (c))	**–**	38,690
	140,763	38,859

Notes:

(a) Hao You

On 9 September 2016, Hao Ge and Poly Culture Group Corporation Limited ("Poly Culture") entered into an agreement in relation to the possible acquisition of the remaining 50% equity interest in Hao You by Hao Ge from Poly Culture for a consideration of RMB80 million. Hao You was the then joint venture of the Group held by Hao Ge as to 50%.

On 25 November 2016, Hao Ge and Poly Culture entered into a sales and 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. 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.

On 5 December 2018, Hao Ge and Hainan Radio and TV Station Ltd (the "Purchaser A"), which is principally engaged in operations of TV and radio stations in Hainan Province and holds 50% equity interest in Hainan Haishi Travel Satellite TV, entered into a sales and purchase agreement for the disposal of the entire equity interest in Hao You to the Purchaser A for a consideration of RMB283,000,000 (equivalent to approximately HK$322,986,000). The abovementioned transaction was completed on 27 December 2018.

26 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:

	As at 31 December 2017 HK$'000
Property, plant and equipment	1,185
Interest in an associate	95,705
Amount due from an associate	165,594
Cash and cash equivalents	257
	262,741

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

	As at 31 December 2017 HK$'000
Trade payables, other payables and accruals	2,205

Analysis of 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:

	From 1 January 2018 to 27 December 2018 HK$'000	For the year ended 31 December 2017 HK$'000
Currency translation differences	**(11,956)**	17,072

As interest in Hao You was acquired exclusively with a view to resale, it was accounted for as discontinued operations as of 31 December 2017. Hao You has been disposed of by the Group on 27 December 2018.

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

Notes: *(Continued)*

(a) Hao You *(Continued)*

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

	From 1 January 2018 to 27 December 2018 HK$'000	For the year ended 31 December 2017 HK$'000
Other (expenses)/income and other (losses)/gains, net	**(32)**	103
Gain on disposal of discontinued operations	**140,795**	–
Profit before taxation from discontinued operations	**140,763**	103
Taxation	**–**	–
Profit for the year from discontinued operations	**140,763**	103

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

	From 1 January 2018 to 27 December 2018 HK$'000	For the year ended 31 December 2017 HK$'000
Operating cash flows	**(257)**	92
Investing cash flows	**265,921**	–
Financing cash flows	**–**	–
Total cash flows	**265,664**	92

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

Notes: *(Continued)*

(a) Hao You *(Continued)*

Analysis of gain on disposal of Hao You which was completed on 27 December 2018 is as follows:

	HK$'000
Cash consideration	
– cash received upon disposal	265,921
– cash received after balance sheet date or classified as other receivables	57,065
Total cash consideration	322,986
Net assets disposed of	247,561
Add:	
– release of exchange reserve upon disposal	65,370
Gain on disposal of Hao You	140,795

(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 B") 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 B for a cash consideration of RMB10,000,000 (equivalent to approximately HK$11,747,000). The Agreement provided 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.

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.

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

Notes: *(Continued)*

(b) Cloud Health *(Continued)*

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 was considered as a separate major line of business during the year ended 31 December 2017, they were accounted for as a discontinued operation.

Analysis of the results of discontinued operation in relation to Cloud Health is as follows:

	From 1 January 2017 to 31 October 2017 HK$'000
Revenue	8,308
Exchange gain	61
Other expenses	(127)
Expenses	
Depreciation of property, plant and equipment	(2,509)
Wages and salaries	(8,284)
Contributions to defined contribution pension schemes	(313)
Operating lease rentals – land and buildings	(1,303)
Others	(4,267)
Loss before taxation from discontinued operation	(8,434)
Taxation	–
Loss after taxation from discontinued operation	(8,434)
Gain on disposal of discontinued operation (Note 25(b))	8,500
Profit for the year from discontinued operation	66

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

Notes: *(Continued)*

(b) Cloud Health *(Continued)*

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

	From 1 January 2017 to 31 October 2017 HK$'000
Operating cash flows	(1,853)
Investing cash flows	11,371
Financing cash flows	–
Total cash flows	9,518

(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. During the year ended 31 December 2017, 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.

27 COMMITMENTS

(a) 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:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**–**	29,186
Later than one year and not later than five years	**–**	167,187
Later than five years	**–**	69,644
	–	266,017

(ii) As lessee

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**1,820**	21,423
Later than one year and not later than five years	**–**	81,904
Later than five years	**–**	77,468
	1,820	180,795

The significant decrease of the future aggregate minimum lease receivables and payments under non-cancellable operating leases is mainly attributed to the disposal of Si Hai Jun Tian during the year.

27 COMMITMENTS *(Continued)*

(b) Investment Commitments

During the year ended 31 December 2018, the Group has entered into certain film cooperation agreements. As at 31 December 2018, total investment commitments are analyzed as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Not later than one year	**14,414**	–
Later than one year and not later than five years	**17,234**	–
	31,648	–

28 RELATED PARTY TRANSACTIONS

Remuneration for key management personnel, including amounts paid to the Company's directors, is disclosed in Note 30 and certain of the highest paid employees is disclosed in Note 12.

For the year ended 31 December 2018, the Group and Huayi Brothers International Limited ("Huayi Brothers") entered into the agreements for cooperation on the distribution of four films in the PRC, the total consideration for the distribution agreement is approximately HK$41,594,000. The amount is payable by the Group in several instalments. As at 31 December 2018, approximately of HK$9,870,000 has been paid by the Group and recognized as film rights and film production in progress.

29 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	**–**	–
Investment in an associate	**281,046**	177,619
Available-for-sale financial assets	**–**	18,971
Financial asset at fair value through profit or loss	**5,973**	–
Loans advance to subsidiaries	**544,111**	687,690
	831,130	884,280

29 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

Balance sheet of the Company *(Continued)*

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Current assets		
Prepayments, deposits and other receivables	**4,527**	29
Cash and cash equivalents	**69,241**	84,335
	73,768	84,364
Total assets	**904,898**	968,644
Equity and liabilities		
Equity		
Share capital	**269,962**	269,962
Reserves (Note (a))	**632,645**	693,507
Total equity	**902,607**	963,469
Liabilities		
Current liabilities		
Other payables and accrued liabilities	**2,291**	5,175
Total liabilities	**2,291**	5,175
Total equity and liabilities	**904,898**	968,644

The balance sheet of the Company was approved by the Board of Directors on 21 March 2019 and were signed on its behalf.

WANG Zhongjun
Director

CHENG Wu
Director

29 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 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
At 1 January 2018	**1,213,484**	**1,206**	**56**	**(521,239)**	**693,507**
Change in accounting policy (Note 2(b))	**–**	**–**	**(56)**	**56**	**–**
Restated as at 1 January 2018	**1,213,484**	**1,206**	**–**	**(521,183)**	**693,507**
Loss for the year	**–**	**–**	**–**	**(60,862)**	**(60,862)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	**1,213,484**	**1,206**	**–**	**(582,045)**	**632,645**

30 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 2018 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	–	–	–	–	–	–	–
Directors							
Mr. CHENG Wu (ii)	–	–	–	–	–	–	–
Mr. LAU Seng Yee (i)	–	–	–	–	–	–	–
Mr. WANG Zhonglei	–	–	–	–	–	–	–
Mr. LIN Haifeng	–	–	–	–	–	–	–
Mr. HU Junyi (iv)	–	–	–	–	–	–	–
Ms. WANG Dongmei (iii)	–	–	–	–	–	–	–
Mr. YUEN Hoi Po	–	–	–	–	–	–	–
Dr. WONG Yau Kar David	200	–	–	–	–	–	200
Mr. YUEN Kin	200	–	–	–	–	–	200
Mr. CHU Yuguo	200	–	–	–	–	–	200
	600	–	–	–	–	–	600

30 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 2017 is set out as follows:

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

Notes:

(i) Resigned on 16 August 2018

(ii) Appointed on 16 August 2018

(iii) Resigned on 28 December 2018

(iv) Appointed on 28 December 2018

(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 2018 (2017: nil).

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

During the year ended 31 December 2018, the Company does not pay consideration to any third parties for making available directors' services (2017: nil).

30 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 2018, 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 (2017: 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 Holdings Limited ("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.

31 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company as at 31 December 2018 and 2017 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 2018	2017	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. (5)	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. (4)(5)	PRC, limited liability company	RMB120,000,000	–	100%	Investment holding
北京華億千思廣告有限公司 Beijing Hua Yi Qian Si Advertising Company Limited (5)	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)(5)	PRC, limited liability company	RMB8,000,000	–	51%	Provision of offline health and wellness services through operation of wellness centre in the PRC
Horizon Partner Holdings Limited (1)	British Virgin Islands, limited company	US$1 ordinary	100%	100%	Investment holding
China Jiuhao Health Management Limited (2)	Hong Kong, limited company	HK$1 ordinary	100%	100%	Investment holding
北京北湖九號雲科技有限公司 Beijing Bayhood No.9 Cloud Technology Company Limited (5)	PRC, limited liability company	US$2,000,000	100%	100%	Internet and information technology in the PRC

31 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Particulars issued share capital/registered capital	Interest held 2018	2017	Principal activities and place of operation
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)(5)	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 (5)	PRC, limited liability company	HK$150,000	100%	100%	Hotel management and provision of offline health and wellness services in the PRC

(1) Shares held directly by the Company.

(2) The statutory financial statements of these companies for the year ended 31 December 2018 are audited by PricewaterhouseCoopers.

(3) The subsidiary was disposed on 31 May 2018 (Note 25).

(4) The subsidiary was disposed on 27 December 2018 (Note 26(a)).

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

FINANCIAL SUMMARY

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

	2018 HK$'000	2017 HK$'000	2016 HK$'000 (Restated)	2015 HK$'000	2014 HK$'000
Revenue – continuing operations	**109,168**	167,666	128,324	122,838	110,137
(Loss)/profit before finance costs and taxation – continuing operations	**(66,314)**	(140,733)	(124,664)	(127,813)	27,231
Finance (costs)/income, net – continuing operations	**(11)**	(26)	233	(220)	20,569
(Loss)/profit before taxation – continuing operations	**(66,325)**	(140,759)	(124,431)	(128,033)	47,800
Taxation – continuing operations	**(130)**	(364)	(86)	(4,612)	4,235
Non-controlling interests – continuing operations	**(571)**	(1,405)	(727)	3,326	4,049
(Loss)/profit from continuing operations attributable to the equity holders of the Company	**(67,026)**	(142,528)	(125,244)	(129,319)	56,084
Profit/(loss) from discontinued operation attributable to the equity holders of the Company	**140,763**	38,859	(14,262)	(364,351)	(906)
Profit/(loss) attributable to the equity holders of the Company	**73,737**	(103,669)	(139,506)	(493,670)	55,178
Property, plant and equipment	**6,276**	7,059	15,940	15,734	9,513
Film rights and film production in progress	**129,528**	212,853	367,602	23,872	–
Other intangible assets	**–**	5	10	15	21
Interests in joint ventures	**–**	–	–	179	62,823
Interest in an associate	**275,982**	177,619	190,501	–	–
Available-for-sale financial assets	**–**	18,971	12,101	–	–
Financial asset at fair value through profit or loss	**5,973**	–	–	–	–
Other non-current assets	**16,200**	53,799	93,976	88,640	37,828
Current assets	**446,905**	437,559	413,714	546,584	2,934,729
Total assets	**880,864**	907,865	1,093,844	675,024	3,044,914
Current liabilities	**11,790**	16,594	76,751	85,953	743,543
Non-current liabilities	**282**	15,313	13,224	12,216	6,997
Total liabilities	**12,072**	31,907	89,975	98,169	750,540
Net assets	**868,792**	875,958	1,003,869	576,855	2,294,374