星宏传媒
STARRISE MEDIA

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1616

ANNUAL REPORT 2018

Contents

Corporate Information

Executive Directors

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

Independent Non-executive Directors

Mr. LAM Kai Yeung
Mr. WANG Liangliang
Ms. LIU Chen Hong (appointed on 18 April 2018)
Mr. GAO Gordon Xia (resigned on 18 April 2018)

Company Secretary

Ms. CHAN Yin Wah, FCS, FCIS, FCCA

Authorised Representatives

Mr. LIU Dong
Ms. CHAN Yin Wah

Audit Committee

Mr. LAM Kai Yeung *(Chairman)*
Mr. WANG Liangliang
Ms. LIU Chen Hong (appointed on 18 April 2018)
Mr. GAO Gordon Xia (resigned on 18 April 2018)

Remuneration Committee

Mr. WANG Liangliang *(Chairman)*
Mr. LIU Dong
Ms. LIU Chen Hong (appointed on 18 April 2018)
Mr. GAO Gordon Xia (resigned on 18 April 2018)

Nomination Committee

Ms. LIU Chen Hong *(Chairman)*
(appointed on 18 April 2018)
Mr. LIU Dong
Mr. WANG Liangliang
Mr. GAO Gordon Xia (resigned on 18 April 2018)

Registered Office

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

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

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

Building A10,
50 Anjialou
Chaoyang District, Beijing
The PRC

Principal Place of Business in Hong Kong

40th Floor, Sunlight Tower,
No. 248 Queen's Road East, Wanchai,
Hong Kong

Legal Adviser to the Company (Hong Kong Law)

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

Corporate Information

Auditor

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

Hong Kong Branch Share Registrar and Transfer Office

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

Cayman Islands Share Registrar and Transfer Office

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

Principal Banker

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

Stock Code

1616

Company's Website Address

http://www.starrise.cn

Chairman's Statement

Dear Shareholders,

It is my pleasure to present on behalf of the Board of Directors (the "**Board**" or "**Board of Directors**") of Starrise Media Holdings Limited ("**Starrise Media**" or the "**Company**") the audited consolidated results of the Company together with its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**" or "**Period Under Review**").

2018 presented various opportunities and challenges for the Group. Confronted with the great changes in the macro environment and the relevant industries, the Group has made corresponding adjustments to its textile and media businesses during the Year.

In 2018, China's gross domestic product ("**GDP**") reached RMB90,030.9 billion, representing an effective increase of 6.6%, slowing by 0.3 percentage points as compared to the corresponding period last year. The growth rate for each of four quarters is 6.8%, 6.7%, 6.5% and 6.4%, respectively. In particular, the growth rate of the fourth quarter was the lowest since 1992.

Given the backdrop of the macro economic situation in China, audiences' changing appetite which led to demands for higher quality films and television works, and the tightening of various industry specific regulations by the relevant authorities, the film and television media industry encountered various challenges. As a result, the film and television has grown out of the stage of high speed growth and entered into a period of adjustment that is featured with intensified management and focused on the standardization of content operations. The notice jointly promulgated by the State Administration of Taxation ("**SAT**"), the National Radio and Television Administration ("**NRTA**") and the National Film Board in June 2018 required that the oversight over sky-high remuneration of stars, dual contract arrangements, income tax evasions, star chasing activities and other undesirable activities be enhanced, with an aim to promote the healthy development of the film and television industry by regulating the unreasonable remuneration of stars and improving tax compliance. The Notice on Further Strengthening the Management of Radio and Television and Internet Audiovisual Arts Programs promulgated by the NRTA in November 2018 requires film and television works to pursue a correct political direction and enhance their value guiding role, and encourages a healthy industrial development by competing with high quality contents and innovative shows while insisting a people-centered creation direction. Given the abovementioned regulatory pressure, the film and television industry has been encountering huge challenges arising from systematic consolidation and adjustment.

Challenges also led to opportunities. Beijing Huasheng Taitong Media Investment Co., Ltd. ("**Huasheng Media**"), a subsidiary of the Group, has followed the strategic concept of "premium production" since its establishment and has mainly invested and produced orthodox historical dramas on significant revolution and historic events promoting major themes and positivity, which is in line with the guidance of regulatory policies and the future development direction of the film and television media industry, while Beijing Starrise Pictures Co., Ltd. ("**Starrise Pictures**") and Beijing Starwise Culture Media Co., Ltd. ("**Beijing Starwise**") focused on enriching the subject matters of films and television dramas, and made investments in the development of several excellent internet dramas, IP dramas, Internet movies and theatrical films under the theme of diversity and youth. Amid the great changes in the film and television media industry in 2018, the Group had recorded good performances in its media business as it successfully released its invested and produced film and television works, by leveraging on its own advantages to seize opportunities amid the challenges. These works include "The Family in That City"（那座城這家人）, "Chengzhongtang"（誠忠堂）(formerly known as "Qiao's Grand Courtyard – The Road Ahead"（喬家大院之光明之路）), "Us and Them"（後來的我們）, "The Wandering Earth"（流浪地球）and "The New Big Head Son and The Little Head Father"（新大頭兒子和小頭爸爸）.

Chairman's Statement

The Group had made a successful strategic entry into the media industry with the completion of the acquisition of Huasheng Media near the end of 2015, which has been in the interests of the shareholders of the Company ("**Shareholders**") as a whole. The Group currently operates two principle businesses in parallel, namely the media business and the textile business. However despite their generally stable operations, the two business segments are operated independently from each other and due to the wide difference between the two industries, synergy has not been achieved between the two segments.

In view of that, the Board and the management are currently exploring ways to streamline the Group's principal businesses in order to improve the Group's operating results and enhance its core competitiveness, and thereby creating better returns for the Shareholders in the long term. In this connection, the Company engaged PricewaterhouseCoopers Management Consulting (Shanghai) Limited ("**PWC**"), a third-party consulting agency with professional experience, near the end of 2018, to provide business advisory service and strategic guidance on the Company's future operation and development through enhanced analysis of the Group's current operations as well as research and analysis of the macro outlook of the relevant industries as whole.

While the Group's media business focuses on creativity, innovation and culture targeting end-users, the business model of the Group's textile business focuses on conventional industrial production targeting enterprise customers such as home textiles and clothing manufactures. Given such difference in business model, the skill sets of management personnel involved are also very different between the two segments. While the Group's media business requires a management team with strong culture and arts background, project management abilities and negotiation skills for fundraising for filming, the management of the textile business focuses on traditional factory production efficiency. The value chains of the two businesses are also very different. While the value chain for the media business comprises intellectual property rights and celebrities agent on the upstream and broadcasting channels in the downstream, the textile business value chain comprises raw material suppliers on the upstream and manufacturing enterprises on the downstream with heavy reliance on logistics support. Due to the above, the corporate cultures of the two businesses are completely different, with one focusing on creativity and flexibility, whilst the other focusing on prudent quality control, detailed workflow management and rigid adherence to systematic productions.

Given the massive difference between the two segments, as advised by PWC, synergy between the two would be limited and their coexistence would inevitably lead to operational inefficiencies for the Group as a whole and will excessively drain the Group's resources.

Currently, the Group has made various strategic achievements for its media business which is consistent with the market and regulatory developments of such industry. The main theme genres presenting strong competitiveness in the traditional drama market will continue to be supported by policies in the future. At the same time, Internet films and dramas, an area actively promoted by the Group in a strategic manner, has demonstrated strong potential. The Group may also realize higher profit probability through co-investment in major films with high budgets, and increase its proportion in such investments to improve the Group's reputation and revenue.

In contrast, the overall textile industry in the PRC has been experiencing an obvious decline since 2016. It is expected that the textile industry in the PRC will not recover in short term due to the domestic economic slowdown together with instability in global economic growth as a result of international trade disputes and the advent of trade protectionism. In addition, due to the low return on assets nature of the textile industry, it is not appropriate to make strategic expansion in the short term. Even if the industry recovers, as part of a traditional production industry which is over saturated and highly reliant on efficiency and cost control for its success (as opposed to the reliance on creativity and forward thinking in the media industry), the growth potential of the textile business would be limited even if strategic expansions were made in the future.

Chairman's Statement

Given the higher potential for growth and profitability, and room for further development of the media business, in order to efficiently deploy the Group's financial and human resources going-forward, PWC has advised that the Company should pivot its strategic focus towards its media business and dispose of its textile business should suitable opportunities arise.

With a view to maintain the long term sustainable growth of the Group and maximize returns for the Shareholders as a whole, as an overall direction going forward, the Board will proactively devise and implement strategies which are broadly in line with the advice of PWC stated above.

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

By order of the Board

Starrise Media Holdings Limited
LIU Dong
Chairman

Shandong, the PRC
29 March 2019

Financial Summary

in RMB'000	**2018**	2017	2016	2015	2014
			For the year ended 31 December		
			(Restated)		
RESULTS FROM CONTINUING OPERATION					
Revenue	**961,369**	489,158	498,838	654,037	759,800
(Loss)/profit before taxation	**(131,907)**	(108,691)	34,152	10,039	8,602
Income tax	**12,456**	3,692	2,007	2,702	968
(Loss)/profit for the year	**(144,363)**	(112,383)	32,145	7,337	7,634

in RMB'000	**2018**	2017	2016	2015	2014
			As at 31 December		
ASSETS AND LIABILITIES					
Total assets	**2,109,078**	1,857,424	1,747,482	1,476,040	1,024,446
Total liabilities	**1,156,563**	839,467	647,588	590,500	423,012
Net assets	**952,515**	1,017,957	1,099,894	885,540	601,434

Management Discussion and Analysis

Industry and Business Overview

According to the National Bureau of Statistics of the PRC, China's GDP, based on comparable prices, reached approximately RMB90,030.9 billion in 2018, representing a growth of approximately 6.6% as compared to last year but the growth rate was 0.3 percentage points lower than that of the corresponding period last year. In 2018, the added-value contributed by the tertiary industry (service sector) amounted to approximately RMB46,957.5 billion, representing an increase of approximately 7.6% compared to that of the previous year, which was 1.0 percentage points higher than the average GDP growth rate and accounted for approximately 52.2% of the GDP, which is 0.6 percentage points higher than that of the corresponding period and approximately 11.5 percentage points higher than the secondary industry. The annual final spending contributed up to approximately 77.6% of the GDP in 2018, among which, service industry and consumer service played an important role in the GPD growth. In contrast, traditional industries faced various problems including destocking, structural adjustment and environmental cost pressure as a result of the deepening of the supply-side reform. Against the backdrop of slowing growth of the domestic economy and uncertainties in the global economy, it is a tough road for the recovery of PRC textile industry in the short term.

In 2018, due to the escalation of the trade war between China and the United States, the largest consumer market for global mid to high quality textile products, China's export of high quality textile products was significantly and adversely affected. Even though the total export amount of Chinese textile products reached US$119.1 billion in 2018, the fourth quarter recorded a decrease on both year-on-year and quarter-on-quarter levels. The overall trend of the industry and the confidence therein was not encouraging.

The Group was forced to be more focused and dedicated, and pay attention on fields of innovation, cost control and operations management in order to deal with such adverse environment and maintain steady development. The Company established Shanghai research and development center in 2018 to actively enhance the Group's core strength by promoting self-innovation and collaborative innovation. The Group also introduced the Amoeba operating model and optimized and automated its production capabilities in order to utilize the Group's differentiating positioning and expertise to increase the added value of its products and reduce its operating cost, to enhance the Group's operating and management capabilities. Meanwhile, the brand "Yinshilai"（銀仕來）owned by the Company was accredited as "China Famous Trade Mark" by the Trademark Office of National Intellectual Property Administration of the PRC during the Year. The management of the Company fulfilled their duties to maintain the normal operations of the Group's textile segment despite the harsh and difficult circumstances.

On the other hand, the television and film industry has also faced various challenges in 2018. For film industry, the growth rate of movie screens has experienced further slowdown. Although the growth rate of movie screens outran that of box office, the per screen revenue had continued to decrease. For the Year, the number of screens across the PRC reached approximately 60,000, but the per screen revenue was approximately RMB941,400 (net of service charge), representing a year-on-year decrease of approximately 8.7%. On the other hand, for the first time, the total box office in China hit RMB60 billion, with all the top three films (in terms of box office) being local films, the public's appraisal for the top 10 films (in terms of box office) having improved as compared to that of the last year, average box office per film recording significantly increased and high-quality local film achieved outstanding performance. As for television dramas industry, regulations over such industry had been increasingly stringent. The areas which saw the tightening of regulatory oversight include content value orientation, cost structure of content production, and taxation. At the same time, due to increasing sophistication of the audiences' appetite, which led to higher expectations for the quality of television dramas and resulted in the trend of premium quality content production, purchase demands of distributors had changed, which in turn forced the upstream content suppliers to make changes and the distributors themselves to devote more resources to the production of contents of their own. In the long term however, the increasingly stringent regulation will in turn benefit the healthy and robust development of the television and film industry. In addition, the year of 2018 was also viewed as the year of "Return of Realism", in which high quality films and television dramas of realistic topics and major themes became the main stream of the industry.

With stricter regulatory oversight over the industry and the developments in the area of government policies to support TV dramas which promote major themes, the management of the Group has leveraged on their accurate judgment based on their industry knowledge and forward-looking strategic insights and unleashed the Group's competitive strengths. Huasheng Media, a subsidiary of the Group, demonstrated its competitive strengths in the investment and production of the orthodox historical dramas promoting major themes and positivity. During the Year, the drama "Chengzhongtang"（誠忠堂）(formerly known as "Qiao's Grand Courtyard – The Road Ahead"（喬家大院之光明之路）) which was invested and produced by Huasheng Media, premiered on CCTV-8 on 1 July 2018. "Chengzhongtang" is a sequel based on "Qiao's Grand Courtyard"（喬家大院）, a historical drama television series produced by Huasheng Media in 2006, which tells the story of Qiao Yingji（喬映霽）, the fifth generation descendant of the Qiao family in Qiaojiabu, who restructured the Jinshang exchange shop to a bank, and revitalised the Shanxi official private bank and achieved currency unification by leveraging on the financial strength and goodwill of the Qiao family. In addition, "The New Big Head Son and The Little Head Father"（新大頭兒子和小頭爸爸）(episodes 1-100) and "The Family in That City"（那座城這家人）both invested and produced by Huasheng Media, premiered on CCTV-14, a children's channel, and Hunan Satellite TV Channel during prime time, respectively. "The New Big Head Son and The Little Head Father" was adapted from the classic domestic animation "The Big Head Son and The Little Head Father"（大 頭 兒子 和 小 頭 爸 爸）, and was highly popular among children after it was broadcasted. As a drama of special tribute for the 40th anniversary of the reform and opening-up of the People's Republic of China, "The Family in That City", set in Tangshan, a city which suffered from a devastating earthquake, tells stories about the joy, sorrow, parting and reunion of two families and three generations. "The Family in That City" won five awards, namely "Most Influential Award"（最具影響力獎）, "Best Screenplay"（最佳編劇獎）, "Best Actor"（最佳男主角獎）, "Best Actress"（最佳女主角獎）, and "Best New Actor"（最佳新銳演員獎）awards in 2018. Moreover, Huasheng Media had, in 2018, also invested and produced "Legend of Businessman in Hongjiang"（一代洪商）, a large-scale television series, which finished shooting in January 2019. Currently, the television drama has entered the phase of post-production. "The Alarm of Xibaipo" (西柏坡的警鐘), an epic television drama based on revolution history, has passed the relevant reviewed and is waiting for premiering on CCTV.

Starrise Pictures, a subsidiary of the Group, has certain advantages in area of internet dramas and diversified IP resources. In order to make the Group's film and television business develop more comprehensively in the direction beyond promoting major themes and positivity and expand the Group's film and television audiences base, in 2018, the Company completed the acquisition of the remaining 35% interests in its subsidiary Starrise Pictures (which became a wholly-owned subsidiary of the Company thereafter) to leverage on the resourcefulness of Starrise Pictures and the good future prospects of internet dramas and films to pave the way for better development of the Group in the future. Starrise Pictures made great achievements in the areas of films, internet dramas and internet films in 2018. In particular, Starrise Pictures had successfully invested seven films, ten internet films and six internet dramas. Among them, an urban emotional film "Us and Them"（後來的我們）, a comedy film "Kill Mobile"（來電狂響）, a mythical fantasy internet drama "The Heavenly Emperor 3 and 4"（御天神帝3、4), a youth love internet drama "Oh, My Honey!"（甜心軟糖）, and an internet film "Mystic Kitchen 1"（如意廚房1), all of which received good market reaction. Youth nostalgic film "Once Upon A Time In The Northeast"（東北往事）, theatrical film "In Broad Daylight"（光天化日）, internet movies "Mystic Kitchen 2"（如意廚房2）, "Alien Monster: Survival in the Wild"（異星怪獸之荒野求生）, and "Bosom Friend"（高山流水）are all submitted for screening. Horror film "Horror Blockbuster"（恐不大片）is currently submitted for approval. Youth nostalgic film "Here Comes Dashan"（大山來了）, internet dramas "Legend of Taotie"（饕餮記）and internet movie "Monster Hunters"（鎮魂歌）have all finished shooting and are currently under post production stage. Internet film "Mystery Case in Ying Dynasty"（大應奇案）is preparing filming and internet drama "The Counterattack of An Ordinary Man"（匹夫的逆襲）is at the stage of script development and preparation.

Guided by the management strategy of establishing presence at all levels of the film and television industry value chain, Beijing Starwise, a wholly-owned subsidiary of the Group, gradually commenced the business of implanted advertisement and film and television drama promotion and distribution. In addition, Beijing Starwise also focuses on the development of IP and copyright in order to realize the long-term value of IPs. In the field of film and television media investment and production, Beijing Starwise is committed to cooperating with top teams in the industry, accumulating resources and striving for steady success, while exploring investment directions through market data analysis to seek innovation to create high-quality content. In 2018, Beijing Starwise invested in "Wandering Earth"（流浪地球）, the first phenomenal science fiction film in China. It was released on 5 February 2019, the first day of the Lunar New Year holidays. Since its release, the film has made remarkable achievements in both reputation and box office. As of 29 March 2019, the box office has exceeded RMB4.6 billion. Wandering Earth ushered in a new era of Chinese science fiction movies. In addition, an internet swordsman action film "The Grandmaster of Kungfu"（霍元甲之精武天下）, which was invested by Beijing Starwise, was launched on Youku platform. Internet dramas "Soulmate"（七月與安生）is at the release stage. Animated film "GO!REX"（你好，霸王龍）is under dubbing. Internet drama "Lipstick Princess"（唯美貌不可辜負）, internet film "Trance"（迷幻境地）and a homemade drama of Iqiyi "The Lion's Reflection Of Laying Cat"（賴貓的獅子倒影）finished shooting and are currently under post-production stage. Internet film "How to Get Super Powers"（淚奔吧無用超能力）, and internet dramas "Platina Data"（白金數據）and "Bulletproof Teacher"（穿越火線：防彈教師）, all being valuable IP projects, are also in the stage of script development and early investment.

At present, as the media business platforms of the Group, Huasheng Media, Starrise Pictures and Beijing Starwise, each has its own focus and complementary advantages, and are contributing to the expansion of the Group's film, television and media business at multiple levels. The improved integration of the three business platforms is conducive to the sharing of broadcasting channels and the continuous expansion of the audience base of the Group's film and television business, which is in the interests of the shareholders of the Company as a whole.

Management Discussion and Analysis

During the Year, the Group's revenue from continuing operations was approximately RMB961.4 million, which represented an increase of approximately RMB472.2 million as compared to that of the previous year, which was mainly due to the increase in the Group's business; loss attributable to equity shareholders of the Company was approximately RMB144.7 million, which represented an increase in losses of approximately RMB63.6 million as compared to last year's loss attributable to equity shareholders. As at 31 December 2018, the average closing price of the Company's Shares in the first five days was higher than the conversion price of the Group's convertible bonds, which led to the losses on change in fair value recognized in profit or loss of approximately RMB176.5 million in relation to the derivatives embedded in convertible bonds issued by the Group. The losses offset the increase in recurring profit from operations.

Financial Review

Turnover, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin of its major business categories for the years ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December					
	2018			2017		
	Revenue RMB'000	**Gross profit RMB'000**	**Gross profit margin**	Revenue RMB'000	Gross profit RMB'000	Gross profit margin
Textile business	**609,043**	**79,808**	**13.1%**	412,029	55,089	13.4%
Film and Television business	**352,326**	**130,430**	**37.0%**	77,129	15,930	20.7%
Total	**961,369**	**210,238**	**21.9%**	489,158	71,019	14.5%

The gross profit margin of the Group increased by approximately 7.4 percentage points, from approximately 14.5% for the previous year to approximately 21.9% for the Year. The increase of overall gross profit margin was mainly due to the increase in film and television's gross profit margin. In the year of 2018, the unit price of the quality orthodox dramas broadcasted by the Group have increased significantly, resulted in an increase in revenue, while the gross profit margin of film and television business increased by 16.3 percentage points as compared to the previous year.

Other net losses

Components of other net losses of the Group mainly comprised change in fair value of derivatives embedded in convertible bonds, net gain on disposal of property, plant and equipment and government grants. The total amount of other net losses for the Period Under Review was approximately RMB172.6 million representing an increase of approximately RMB165.9 million as compared to that of the previous year. This was mainly due to the losses of approximately RMB176.5 million arising from the change in fair value of derivatives embedded in convertible bonds during the year ended 31 December 2018.

Distribution costs

For the year ended 31 December 2018, total distribution costs of the Group increased by approximately RMB7.7 million to approximately RMB25.8 million as compared to that of the previous year. Such increase was mainly due to the increase in staff cost, marketing expenses and promotion expenses of films and television dramas of the Group during the Year when compared to that of the previous year.

Administrative expenses

For the year ended 31 December 2018, the administrative expenses of the Group was approximately RMB78.3 million, representing an increase of approximately 3.7% when compared to the administrative expenses of approximately RMB75.5 million in the previous year. The increase was mainly due to the expenditures related to the acquisition of media business, the forming of new companies, the increase of staff cost and rental expense for the Group's film and television business.

Net finance costs

During the year ended 31 December 2018, the net finance cost of the Group were approximately RMB65.5 million, representing a decrease of approximately RMB8.2 million as compared to the net finance cost of approximately RMB73.7million in 2017, which was mainly due to the increase in interest income from the Group's bank deposits and other receivables. For the year ended 31 December 2018, the finance cost of the Group was approximately RMB77.9 million, which was stable as compared to approximately RMB78.8 million in 2017. The finance income was approximately RMB12.5 million, representing a increase of approximately RMB7.5 million as compared to approximately RMB5.0 million in 2017, which was mainly due to the increase in interest income from the Group's bank deposits and other receivables in 2018.

Taxation

Taxation of the Group was increased by approximately 237.8% from approximately RMB3.7 million in 2017 to approximately RMB12.5 million during the Period under Review. This was mainly due to the increase of taxable income.

Loss attributable to the equity shareholders of the Company

For the year ended 31 December 2018, the loss attributable to the equity shareholders of the Company was approximately RMB144.7 million, representing an increase of approximately 78.4%, from approximately RMB81.1 million in 2017. It was mainly due to the losses on change in fair value recognized in profit or loss of approximately RMB176.5 million in relation to the derivatives embedded in convertible bonds, representing a decrease of approximately RMB232.8 million comparing to the gain on change in the fair value of the embedded derivatives in convertible bonds for the year ended 31 December 2017 of approximately RMB56.3 million, which offset the increase in recurring profit from operations for the year and led to the loss attributable to equity shareholders.

Liquidity and financial resources

As at 31 December 2018, cash and cash equivalents of the Group were approximately RMB284.7 million, representing an increase of approximately 83.0% from approximately RMB155.6 million as at 31 December 2017. This was mainly due to the increase in bank deposits as a result of the issuance of the new shares of the Company during the Year.

For the year ended 31 December 2018, the Group's net cash generated from operating activities was approximately RMB43.2 million (2017: net cash used in operating activities of approximately RMB162.0 million), net cash used in investing activities was approximately RMB27.9 million (2017: approximately RMB91.6 million) and net cash generated from financing activities was approximately RMB94.7 million (2017: net cash used in financing activities was approximately RMB240.4 million). During the Year, cash and cash equivalents of the Group increased by approximately RMB110.0 million (2017: decreased by RMB13.2 million). The Board believes that the Group will maintain a sound and stable financial position, and will maintain sufficient liquidity and financial resources for the Group's business needs.

The Group's customers, who have had long-term business relationship with the Group and have well settlement history and sound reputation, have been waived the requirement for deposit payment and granted a credit period typically ranging from 30 to 180 days pursuant to the payment terms of the purchase or processing orders. The length of credit period depends on various factors such as financial strength, size of the business and settlement history of those customers. For the year ended 31 December 2018, the average trade receivables (including bills receivable) turnover period of the Group decreased to approximately 69 days from approximately 89 days for the year ended 31 December 2017. For the year ended 31 December 2018, the revenue of the Group increased significantly and the proportion of revenue growth was greater than that of the increase in account receivables, which led to a decreased in turnover period of the average trade receivables.

For the year ended 31 December 2018, inventory turnover period of the Group decreased to 94 days from 129 days for the previous year. This was mainly because of the decrease in average inventories and the increase in sales costs of the Group. In particular, the Group's finished goods increased to approximately RMB52.3 million as at 31 December 2018 from approximately RMB44.2 million as at 31 December 2017 (the inventory of the textile business).

For the year ended 31 December 2018, drama series and films turnover period of the Group decreased to 363 days from 977 days in the previous year. This was mainly because of the increase in the cost of drama series and films to approximately RMB221.9 million as at December 2018 from approximately RMB61.2 million as at 31 December 2017.

As at 31 December 2018, the Group's bank borrowings and obligations under finance lease of approximately RMB204.7 million (2017: approximately RMB191.2 million) bore fixed interest rate at 4.4%-5.7% (2017: 4.4%) per annum. As at 31 December 2018, the Group did not have bank borrowings (2017: approximately RMB10.0 million bore floating interest rate at 5.7%) bore floating interest rate. The Group's debt associated with convertible bonds was approximately RMB253.9 million as at 31 December 2018 (2017: approximately RMB388.0 million), with annual effective interest rate of 22% (2017: 18.9%-22%). As at 31 December 2018, the Group's bonds was approximately of RMB214.3 million (2017: Nil) with annual effective interest rate of 6% (2017: Nil).

Trade and bill receivables

Trade and bill receivables were approximately RMB251.2 million as at 31 December 2018 (approximately RMB105.3 million as at 31 December 2017). The increase was mainly due to the increase of the Group's sales revenue.

Losses per share

Calculating based on the weighted average of 1,234,708,560 shares in issue, basic loss per share of the Company were approximately RMB0.1172 for the year ended 31 December 2018 (2017: basic loss per share was approximately RMB0.0776).

Treasury policies

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

Capital structure

The Group actively and regularly reviews and manages its capital structure to maintain a balance between achieving shareholders returns and prudent level of borrowings and to ensure a sound capital position, and shall from time to time make adjustments to the Group's capital structure in light of changes in economic conditions.

As at 31 December 2018, the debts of the Group were mainly bank borrowings, convertible bonds, bonds and obligations under finance leases with a total amount of approximately RMB845.5 million (2017: approximately RMB590.6 million). As at 31 December 2018, cash and cash equivalents was approximately RMB284.7 million (2017: approximately RMB155.6 million). As at 31 December 2018, the gearing ratio was approximately 58.8% (2017: approximately 42.7%), which was calculated by dividing total debt (i.e. bank borrowings, convertible bonds, bonds and obligations under finance lease, after deducting cash and cash equivalents) by total equity.

As at 31 December 2018, the debts of the Group that will become due within a year were approximately RMB627.2 million (2017: approximately RMB360.9 million).

As at 31 December 2018, the Group's cash and cash equivalents was mainly held in Renminbi, US dollars, HK dollars, of which, approximately RMB96.0 million (2017: approximately RMB58.3 million) or 33.7% (2017: 37.5%) of the cash and cash equivalents was held in Renminbi.

Furthermore, the Group had finance lease liabilities of approximately RMB24.2 million as at 31 December 2018 (2017: Nil) bearing floating interest rates at 5.7% (2017: Nil). The carrying amounts of bank loans were denominated in RMB. For the year ended 31 December 2018, no financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments.

Capital commitments

Save as disclosed in the note 31 to the consolidated financial statements, the Group did not have any other significant capital commitments as at 31 December 2018 (2017: Nil).

Employee and remuneration policy

As at 31 December 2018, the Group had a total of approximately 1,704 employees (2017: 1,766), the decrease in the number of staff as compared to that of the previous year was mainly because the Group strived to improve the efficiency of its operations by downsizing staff in its textile segment according to the operating conditions.

For the year ended 31 December 2018, labour costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB102.5 million (2017: approximately RMB90.8 million). The increase of labour costs was mainly because of the increase in staff remuneration.

The Group continues to provide training to staff members to improve their operational skills. Meanwhile, the Group enhanced the work efficiency and average income of the staff through post-consolidation, process reorganization and improvement of working and living environment of the staff. The remuneration of the employees of the Group was subject to their work performances and experiences, as well as the relevant industry practices. The management of the Group will also periodically review the Group's remuneration policy and the details thereof.

Exposure to foreign exchange risk

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

The Group did not use any foreign currency derivatives to hedge against the exposure in foreign exchange during the Year.

Contingent liabilities

Save as disclosed in note 32 to the consolidated financial statements, the Group did not have any contingent liability as at 31 December 2018 (2017: Nil).

Charges on assets

Save as the pledged bank deposits as disclosed in note 22, the Group also pledged its machinery and equipment with net book value of approximately RMB6.2 million (2017: approximately RMB6.4 million) to banks as securities for the bank loans as at 31 December 2018. Besides, machinery and equipment with net book value of RMB4.4 million (2017: Nil) were held under finance lease as at 31 December 2018.

Significant investments held

The Group did not hold any significant investment in equity interest in any company during the year ended 31 December 2018.

Future plans for material investments and investments in capital assets

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

Acquisitions and disposals of subsidiaries and affiliated companies

For the year ended 31 December 2018, the Company did not conduct any acquisition or disposal of subsidiaries and affiliated companies.

Events after the reporting period

On 25 February 2019, Dragon Capital Entertainment Fund One LP ("**Original Bondholder**") transferred part of the convertible bonds issued on 28 February 2017 with an aggregate principal amount to HK$120,000,000 (the "**Transferred Bonds**"), which were convertible into 162,162,162 ordinary shares of the Company ("**Shares**") at the conversion price of HK$0.74 per conversion share to BeiTai Investment LP ("**BeiTai**"). On the same date, BeiTai exercised the conversion rights to convert all of the Transferred Bonds.

On 28 February 2019, the Company and the Original Bondholder conditionally agreed to extend the maturity date of the remaining convertible bonds with an aggregate principal amount of HK$180,000,000 (the "**Remaining Bonds**") from 28 February 2019 to 28 February 2020. Please refer to the announcements dated 25 February 2019, 28 February 2019, 1 March 2019 and 11 March 2019, respectively, and the circular dated 20 March 2019 for further details.

Please refer to the section headed "Dilution impact on the Shares in the event that all outstanding convertible securities are converted" of this report for the dilutive impact on the number of issued shares of the Company and the respective shareholdings of the substantial shareholders of the Company.

Outlook

According to the preliminary statistics of National Film Bureau of the PRC, the box office in China reached RMB5.84 billion and the number of people watching movies reached 130 million during the 2019 Lunar New Year holidays, which started from 5 February 2019 to 10 February 2019. In particular, the box office on 5 February 2019, the first day of the Lunar New Year Holidays, alone reached RMB1.443 billion, which exceeded the highest single-day box office of RMB1.286 billion recorded on the first day of the Lunar New Year Holiday in 2018, as well as breaking the world record of single-day box office of a specific market. According to the Chinese Movie Audience Satisfaction Survey published by China Film Archive, the audience satisfaction level on the films published during the 2019 Lunar New Year holiday scored 83.9, representing a "satisfaction" rating, which was the highest score recorded for the films published during the Lunar New Year holiday since the survey was launched in 2015. Among them, China's first hard scientific movie "Wandering Earth", which was invested by the Group, became the champion of the 2019 Lunar New Year holidays and February 2019 box office. As of 29 March 2019, it has achieved a box office result of RMB4.6 billion, becoming the second blockbuster movie in the history of Chinese film industry. The film "Wandering Earth" has demonstrated the market law of "Quality is King"（質量為王）, and also brought confidence to those who pursued high quality in the industry. Although a series of policies were introduced by the authorities to strengthen the standardized management of the film industry in 2018, the film, television and media industry, as an important pillar of the cultural industries, still shows a promising market outlook based on the box office performance during the 2019 Lunar New Year holiday, and the refined films and TV series that are still being sought after by the market.

Going forward, the Group will actively promote the development of its film and television media business. In 2019, the Group will first implement the core strategy of full utilization of the platform of its subsidiary, Huasheng Media, to create quality orthodox dramas with positive themes. Secondly, the Group will leverage on the advantages of its other two business platforms, namely that of Starrise Pictures and Beijing Starwise, respectively, in the areas of Internet dramas, Internet movies, IP resources reserves and IP and copyright development to capture the market share of Internet dramas and Internet movies, and continue the diversification of the Group's film and television media business. The Group will also make efforts to seek opportunities in the film market, and create more profitable opportunities and profitable income sources by co-investing in large scale film productions, in order to increase the Group's visibility and revenue. In 2019, the Group will pay close attention to the developments in the government policies relating to the film and television media industry, make full use of its existing film and television resources, promptly adjust the relevant annual investment and shooting plans, and actively invest in the shooting of quality dramas to seek for better return for its shareholders and to realize the Group's annual development objectives.

Currently, the Group's preparatory plans and filming works are undergoing smoothly, and the broadcasting and production schedule of its films and television series for 2019 are as follows:

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
1	Once Upon A Time In The Northeast（東北往事）	Youth nostalgic film	In March 2017	Submitted for screening
2	The Alarm of Xibaipo（西柏坡的警鐘）	Epic television drama based on revolution history	In May 2017	Submitted for screening
3	GO!REX（你好霸王龍）	Animated movie	In September 2017	Under dubbing
4	Horror Blockbuster（恐不大片）	Horror film	In November 2017	Submitted for approval
5	Here Comes Dashan（大山來了）	Youth nostalgic film	In December 2017	Under post-production
6	Soulmate（七月與安生）	Internet dramas	In May 2018	At the release stage
7	Mystic Kitchen 1（如意廚房1）	Internet movie	In June 2018	Broadcasted in February 2019
8	Mystic Kitchen 2（如意廚房2）	Internet movie	In June 2018	Submitted for screening
9	In Broad Daylight（光天化日）	Theatrical film	In June 2018	Submitted for screening
10	The Grandmaster of Kungfu（霍元甲之精武天下）	Internet movie	In July 2018	Broadcasted in January 2019
11	Bosom Friend（高山流水）	Internet movie	In July 2018	Submitted for screening
12	Beauty is the Most Important（唯美貌不可辜負）	Internet dramas	In August 2018	Under post-production
13	Alien Monster: Survival in the Wild（異星怪獸之荒野求生）	Internet movie	In August 2018	Submitted for screening
14	The Lion's Reflection of Laying Cat（賴貓的獅子倒影）	Internet dramas	In September 2018	Under post-production

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
15	Legend of Businessman in Hongjiang（一代洪商）	Historical story drama	In October 2018	Under post-production
16	The Tale of the Mythical Ferocious Animal（饕餮記）	Internet dramas	In October 2018	Under post-production
17	Trance（迷幻境地）	Internet movie	In November 2018	Under post-production
18	Great Wish（偉大的願望）	Theatrical film	In November 2018	Submitted for approval
19	Monster Hunters（鎮魂歌）	Internet movie	In December 2018	Under post-production
20	Ninja Mission（忍術之八岐大蛇）	Internet movie	In January 2019	Under post-production
21	Healer of children（了不起的兒科醫生）	Workplace drama	In January 2019	Under filming
22	The 101-200 episodes of The New Big Head Son and The Little Head Father（新大頭兒子小頭爸爸101-200集）	Situation comedy	In February 2019	Under filming
23	Big Shark（鯊魚）	Internet movie	In April 2019	Under filming
24	Spy（叛諜）	Internet movie	The first half of 2019	Preparing filming
25	Twin Blades（歷小龍與程序媛）	Internet movie	The first half of 2019	Preparing filming
26	Breaking Gods（破神錄）	Internet movie	The first half of 2019	Preparing filming
27	Mystery Case in Ying Dynasty（大應奇案）	Internet movie	The second half of 2019	Preparing filming
28	The Past Days Spent Together（一起混過的日子）	Internet dramas	The second half of 2019	Preparing script
29	The Counterattack of An Ordinary Man（匹夫的逆襲）	Internet dramas	The second half of 2019	Preparing script
30	Sword Maker（煉劍）	Internet movie	The second half of 2019	Preparing script

No.	Name	Genre	(Planned) Shooting commencement date	Remarks
31	Yangtze River Bridge (長江大橋)	Realistic drama	The second half of 2019	Preparing script
32	Legend of Tang Xiaohu (唐伯虎後傳)	Internet movie	The second half of 2019	Preparing script
33	Blood Pledge for Thousands of Years (血盟千年)	Historical story drama	The second half of 2019	Preparing script
34	Tempering of King Gelsall (格薩爾王之磨煉)	Animation film	The second half of 2019	Preparing script
35	How to Get Super Powers (淚奔吧無用超能力)	Theatrical film	The second half of 2019	Preparing script
36	Platinum Data (白金數據)	Internet dramas	The second half of 2019	Preparing script
37	Bulletproof Teacher (穿越火線)	Internet dramas	The second half of 2019	Preparing script
38	Outlaws of the Marsh: Wu Song (武松決戰十字坡)	Internet movie	The second half of 2019	Preparing script
39	Yang Jian: God of War (少年楊戩)	Internet movie	The second half of 2019	Preparing script

Directors and Senior Management Profile

The Board of Directors is responsible and has general powers for the management and conduct of the business. The Board currently consists of eight Directors, including five executive Directors, and three independent non-executive Directors. The following table sets forth information regarding members of the Board for the year ended 31 December 2018 and up to the date of this annual report:

Name	First Appointment Date
Executive Directors	
LIU Dong *(Chairman)*	24 February 2010
LIU Zongjun *(Chief Executive Officer)*	26 June 2012
CHEN Chen	24 September 2015
HE Han	8 November 2016
TAN Bin	8 November 2016
Independent non-executive Directors	
LAM Kai Yeung	26 June 2012
WANG Liangliang	6 March 2017
LIU Chen Hong	18 April 2018
GAO Gordon Xia (resigned on 18 April 2018)	

Executive Directors

Mr. LIU Dong（劉東）, aged 50, is the Chairman and an executive Director of the Company appointed on 24 February 2010, and one of the Company's substantial shareholders. Mr. LIU has been with the Group since the acquisition of the equity interest of Zibo Yinshilai Textile Co., Ltd.（淄博銀仕來紡織有限公司）("**Yinshilai Textile**") by Zibo Yinshan Chemical Fiber Co., Ltd.（淄博銀杉化纖有限公司）("**Yinshan Chemical Fiber**") in June 2005. Mr. LIU is currently the legal representative and a director of Yinshilai Textile and was firstly appointed to such posts in September 2005. Mr. LIU was appointed as a Director of the Company on 24 February 2010. He is primarily responsible for overall business development, strategic planning and business development of the Group. Mr. LIU has accumulated more than 20 years of experience in the textile industry in the PRC, which can be traced back to 1996 when he was appointed as the general manager of Zibo Wanjie Fiber Co., Ltd.（淄博萬傑纖維有限公司）. Mr. LIU had served as a deputy general manager of Zibo Wanjie Group Co., Ltd.（淄博萬傑集團有限公司）, and subsequently as a director and general manager (between December 1998 and December 2001) and the chairman of the board of director (between December 2001 and November 2004) of Shandong Wanjie High-Tech Co. Ltd.（山東萬傑高科技股份有限公司）("**Wanjie High-Tech**"). Mr. LIU studied in College of Textile Engineering of Shandong（山東紡織工學院）majoring in management and subsequently obtained a master of business administration degree from the Chinese Academy of Social Science in November 1998.

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

Mr. LIU Zongjun(劉宗君), aged 48, is an executive Director appointed on 26 June 2012, and chief executive officer of the Company appointed on 1 April 2015. He joined the Group as assistant to the chairman of the board of directors, deputy general manager and manager of the human resources department of Yinshilai Textile since April 2010.

Mr. LIU is experienced in administrative management and has accumulated 18 years of experience in the textile industry. Between July 1993 and June 1994, Mr. LIU worked in the Shanghai office of Weifang Economic and Trade Centre(濰坊經濟貿易中心)governed by the Shandong Weifang Municipality Economic Committee(山東濰坊市經濟委員會). Between September 1994 and October 2004, Mr. LIU worked with Wanjie Group Co., Ltd. and held a series of positions including the role of executive in foreign economy and trade department of the Shanghai office, assistant to the general manager of Zibo Wanjie Fiber Co., Ltd.(淄博萬傑纖維有限公司)and assistant to the general manager and human resources manager of Wanjie High-Tech. Between October 2004 and April 2010, Mr. LIU served as general manager of Zibo Tianhao Weaving and Dyeing Co., Ltd(淄博天浩織染有限公司).

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

Directors and Senior Management Profile

Ms. CHEN Chen（陳辰）, aged 39, is an executive Director appointed on 24 September 2015. Ms. CHEN has more than 10 years of experience in the field of finance and investment. From April 2006 to October 2011, Ms. CHEN served as a vice president of Haitong Securities Co., Ltd (Investment Banking Division, Shenzhen Branch). From November 2011 to May 2014, Ms. CHEN served as the vice president in charge of investment of the Shenzhen branch company of Haitong Kaiyuan Investment Company Limited（海通開元投資有限公司）. From June 2014 to November 2014, Ms. CHEN served as the assistant to the president and the finance controller of the Energy Management Contracting department of NVC Lighting (China) Co., Ltd. Ms. CHEN held position as a senior vice president of Beijing Ying Sheng Culture Investment Limited（北京瀛晟文化投資有限公司）from February 2015 to September 2015. Ms. CHEN has studied German literature in the Beijing Foreign Studies University and obtained a master degree in business administration from the University of Mainz in Germany.

Mr. HE Han（何漢）, aged 47, is an executive Director appointed on 8 November 2016 and is an experienced filmmaker and a member of board of directors of the Beijing Film Academy. He has been the president of Beijing Starrise Pictures Co., Ltd.（北京星宏影視文化有限公司）(formerly known as Beijing Yingsheng Cultural Investments Co., Ltd.（北京瀛晟文化投資有限公司）) since October 2015. Beijing Starrise Pictures Co., Ltd. is a wholly-owned subsidiary acquired by the Company in July 2016. Prior to joining the Group, Mr. He served as the vice president of CITIC Culture Media Group（中信文化傳媒集團）and the chief director of the planning division of Century Heroes Film Investment Co., Ltd.（世紀英雄電影投資有限公司）from 2001 to 2005. Mr. He also acted as the general manager of Beijing Airmedia Corporation Limited（北京航美影視文化有限公司）, the president of Beijing Xinghe Lianmeng Entertainment Co., Ltd.（北京星河聯盟影視發行有限公司）and the publisher of the "Cinema World（電影世界）" magazine between 2005 and 2015. Mr. He graduated from the Beijing Film Academy with a Bachelor's degree in public service administration (film and television).

Mr. TAN Bin（譚彬）, aged 37, is an executive Director appointed on 8 November 2016 and has worked in the investment banking and capital markets sectors for many years, and is experienced in corporate financing and merger and acquisitions matters. He has been involved in numerous corporate finance projects. Mr. Tan joined the Group in August 2016 and is currently serving as a senior finance officer of the Group. Prior to joining the Group, he served as a director of Huatai Financial Holdings (Hong Kong) Limited（華泰金融控股（香港）有限公司）from 2015 to 2016. During the period from 2008 to 2014, he held several positions in BOC International Holdings Limited（中銀國際亞洲有限公司）including analyst, manager and associate director. Mr. Tan graduated from the Beijing University of Technology with a Bachelor's degree in applied physics. He has also obtained a Master's degree in telecommunication engineering and a Master's degree in digital communications from Monash University in Australia.

Independent non-executive Directors

Mr. LAM Kai Yeung（林繼陽）, aged 49, is a fellow of the Association of Chartered Certified Accountants（英國特許公認會計師公會）and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. LAM obtained a bachelor's degree in accounting from Xiamen University（廈門大學）in July 1990 and a master degree in business administration from Oxford Brookes University in the United Kingdom in July 2010.

Mr. LAM has been an independent non-executive Director since June 2012; a director of Sunway International Holdings Limited (新威國際控股有限公司) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), stock code: 58) since May 2015; an independent non-executive director of Finsoft Financial Investment Holdings Limited (匯財金融投資控股有限公司) (a company listed on GEM of the Stock Exchange, stock code: 8018) since June 2015; an independent non-executive director of Holly Futures (弘業期貨股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 3678) since June 2015; an independent non-executive director of Kong Shum Union Property Management (Holding) Limited (港深聯合物業管理有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8181) since October 2015; an independent non-executive director of Kin Shing Holdings Limited (建成控股有限公司) (a company listed on the GEM of the Stock Exchange, stock code: 1630) since May 2017, and an executive Director and the chief executive officer of Highlight China Lot International Limited (高鋭中國物聯網國際有限公司) (formerly known as Ford Glory Group Holdings Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 1682) since June 2017 and September 2017, respectively.

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

Mr. WANG Liangliang (王亮亮), aged 36, has been an independent non-executive Director with effect from 6 March 2017. He holds a Master of Laws from the Graduate School of the Academy of Social Sciences (中國社會科學院研究生院) in Beijing. He obtained his bachelor degree in Human Resource Management from Soochow University (蘇州大學) in 2004. Mr. Wang has ten years of legal professional experience. He was qualified as a legal practitioner in the People's of Republic of China in 2006. Mr. Wang joined Jingtian & Gongcheng (Beijing) (北京競天公誠律師事務所) in March 2007 and became a partner of the firm in April 2014. He specialises in securities, funds, private equity, mergers and acquisitions, restructuring, anti-trust and foreign investment. In relation to his capital markets practice, Mr. Wang represented a number of companies and underwriters in overseas and domestic listing projects.

Ms. LIU Chen Hong (劉晨紅), aged 52, has been an independent non-executive Director since 18 April 2018. She obtained a Master of Business Administration (MBA) degree from Pace University in New York in June 2000. Ms. Liu has over 20 years' of experience in the field of finance. She served as the chief representative at the Dalian Representative Office of Regent Express Inc. (美國雷鈞國際有限公司) between October 1990 and February 1994. Ms. Liu was the chairman of Xin Li Holding Group Corporation (美國鑫利控股集團有限公司) from June 1994 to December 2002. She subsequently took up the position of vice chairman at Eagle Sky Enterprise Limited (香港量子高科集團) between February 2003 and December 2001, and chairman at Quantum Hi-tech Group (香港天鷹企業有限公司) between February 2012 and June 2014. Ms. Liu has been serving as the chairman at T&C Corporate Consultants Limited (香港天呈企業顧問有限公司) since July 2014.

Senior Management

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

Name	Age	Positions within the Company
TIAN Chengjie	50	Secretary to the Board
SONG Shuli	43	Chief Financial Officer
SUN Hongchun	55	Vice President of Production and Technology
GONG Jianpei	57	Chief Designer
SUN Qiaoyun	49	Finance Controller

Mr. TIAN Chengjie（田成杰）, aged 50, is the secretary to the Board. Mr. Tian has been a deputy general manager of Yinshilai Textile in March 2005. From May 2006 to August 2017, he had been a deputy general manager and a director of Huiyin Textile. Between June 2012 and September 2015, Mr. TIAN had been an executive Director and the secretary to the Board. He is primarily responsible for administration, planning and human resources of the Group. Mr. TIAN has accumulated more than 20 years of experience in the textile industry in the PRC. Mr. TIAN had worked with Zibo Wanjie Fiber Co., Ltd.（淄博萬傑纖維有限公司）since December 1993 and held a series of positions including the role of workshop manager, the head of the spinning department, the head of the quality control department, the head of the business administration bureau, and an assistant to the general manager, and subsequently with Zibo Wanjie Group Co., Ltd.（淄博萬傑集團有限公司）serving as the head of the business administration bureau. Between December 1996 and November 2004, Mr. TIAN held a series of positions including the role of director and supervisor of Wanjie High-Tech. Mr TIAN graduated from the College of Textile Engineering of Shandong（山東紡織工學院）in July 1990 majoring in chemical fiber studies and obtained a master of business administration degree from the Guanghua School of Management of the Peking University（北京大學光華管理學院）in May 2004. Mr. TIAN was awarded the second prize of the "Modern and Innovative and Excellent Application of Enterprises Management of the Shandong Province Award"（山東省企業管理現代化創新及優秀應用二等獎）by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee（山東省企業管理現代化創新成果評審委員會）in December 2010.

Mr. SONG Shuli（宋樹利）, aged 43, has been the Group's chief financial officer since July 2011 and is responsible for the Group's financial and accounting functions, and overseeing the financial reporting and accounting functions. Mr. SONG obtained a bachelor degree in laws from the Shandong Normal University（山東師範大學）in December 2009. Mr. SONG was qualified as a certified tax adviser, a qualified property valuer and a qualified accountant in China in September 2005, September 2005 and October 2005, respectively. Mr. SONG worked in a number of professional accounting firms in China prior to joining our Group.

Ms. SUN Hongchun（孫紅春）, aged 55, is the Company's vice president of production and technology. Ms. SUN served as a general manager of Yinshilai Textile since March 2005, primarily responsible for the implementation of enterprise routine management and business plan. Ms. SUN was appointed as a director of Yinshilai Textile in September 2005. Ms. SUN has accumulated 23 years of experience in the textile industry which can be traced back to 1990, including serving as a factory supervisor, head of production technology department of Zibo Wanjie Group Co., Ltd.（淄博萬傑集團有限公司）, deputy factory supervisor, deputy general manager of Zibo Wanjie Fiber Co., Ltd.（淄博萬傑纖維有限公司）and general manager of Wanjie Knitting Company（萬傑織造公司）. Ms. SUN was recognized as the "Model Worker of the Textile Industry of the PRC"（全國紡織工業勞動模範）by the Ministry of Human Resources and Social Security（人力資源和社會保障部）and China Textile and Apparel Council（中國紡織工業協會）in 2010, the "Outstanding Manager of the Shandong Province for the year 2010"（2010年度山東省優秀經營管理者）by the Shandong Economic and Information Technology Committee（山東省經濟和信息化委員會）, the second prize of the "Modern Innovation and Excellent Application of Enterprises Management of the Shandong Province Award"（山東省企業管理現代化創新及優秀應用成果二等獎）by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee（山東省企業管理現代化創新成果評審委員會）in December 2010, and "the Honour of Excellent Innovative Leader of the Boshan District"（博山區優秀創新帶頭人榮譽）by the Peoples's Government of Boshan District（博山區人民政府）. Ms. SUN has also participated in a chemical fiber technology development project which was recognized as a "Spark Program Achievement at the National Level"（國家級星火計劃科技成果）by the Science and Technology Commission of Shandong Province（山東省科學技術委員會）in December 1993.

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

Mr. GONG Jianpei（龔建培）, aged 57, joined the Group in August 2011 when he was appointed as the Group's chief designer on a part-time basis. His duties include conducting market research and analysis as to textile products, assisting the Group in new products design and development, providing training to the staff in the Group's research and development and product design department, and assisting the Group in the planning of design competition and headhunting. Mr. GONG is experienced in textile fabric design. He was awarded the first-class theses award by the National Textile Design Competition And Theory Seminar（2001全國紡織品設計大賽暨理論研討會）in 2001, a silver prize in the "Fourth National Interior Design Competition"（全國第四屆室內設計大賽）by China Interior Decoration Association（中國室內裝飾協會）in 2002, a silver prize for his thesis in the "Chinese International Household Textile Design Competition"（中國國際家用紡織品設計大賽）by China Home Textile Association（中國家用紡織品行業協會）, The Sub-Council of Textile Industry, CCPIT（中國國際貿易促進委員會紡織行業分會）, Messe Frankfurt (HK) Ltd（法蘭克福展覽（香港）有限公司）, and The People's Government of Hianing, Zhejiang Province（浙江省海寧市人民政府）in 2003, an award of excellence for his thesis in the Chinese Fashion Colour Association（中國流行色協會）in December 2003, the "First Prize Teaching Achievement Award"（教學成就一等獎）by the Nanjing Art Institute（南京藝術學院）in 2004, and the "Second Prize Achievement Award for Undergraduates Teaching in Jiangsu Province for 2004"（2004年江蘇省高等教育教學成果獎二等獎）by the Education Department of Jiangsu Province（江蘇省教育廳）in 2005, respectively.

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

Directors and Senior Management Profile

Ms. SUN Qiaoyun（孫巧雲）, aged 49, is the Group's finance controller. Ms. SUN joined the Group as the chief of the accounting and finance department of Yinshilai Textile in November 2004 and was appointed as a director of Yinshilai Textile in March 2006. Ms. SUN has accumulated 23 years of experience in finance and management which can be traced back to 1991 when she served as the manager of the finance department of Zibo Wanjie Fiber Co., Ltd.（淄博萬傑纖維有限公司）.

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

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

Company Secretary

Ms. CHAN Yin Wah（陳燕華）, aged 43, is an associate director of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited). She has over 15 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She worked for various international professional firms and listed companies in Hong Kong. Ms. CHAN holds a Bachelor's degree in economics and a master's degree in professional accounting. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Corporate Governance Report

Corporate Governance

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

For the year ended 31 December 2018, the Company had adopted and complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Chairman and Chief Executive Officer

For the year ended 31 December 2018, the Company had adopted and complied with the Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Liu Dong had been the chairman of the Company and Mr. Liu Zongjun had been the chief executive officer of the Company.

Board Diversity Policy

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

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

The Company commits to selecting the best person to be members of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on individual merits and the expected contributions that the selected candidates will bring to the Board. In recent years, the Company has focused on enhancing the diversity of the Board. Now, the Board consists of eight members, including two women (Ms. CHEN Chen and Ms. LIU Chen Hong), accounting for one quarter of the Board members. Directors are aged from around 35 to 50 years old. In addition, the professional background of Directors has also changed from focusing on experiences relating to a single industry in the past to the diversified composition including finance, accounting and law. The Board's composition (including gender, age, length of service) will be reviewed and disclosed in the Corporate Governance Report annually.

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

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

Dividend Policy

The Company's dividend policy is that reasonable amount of the Group's profits available for distribution will be recommended for distribution in each financial year (commencing from the financial year ended 31 December 2012), in the form of interim dividend and final dividend. Directors consider that, in general, the amount of any future dividends to be declared by the Company will depend on the Group's results, working capital, cash position, capital requirements, the provisions of the relevant laws and other factors as may be considered relevant at such time by Directors. Directors consider that the Company's dividend policy mentioned above will not materially affect the Group's working capital position in the coming years.

Nomination Policy

The nomination policy of the Company (the "**Nomination Policy**") has been approved by the Board on 27 December 2018. The Nomination Policy was effective from 1 January 2019.

The purpose of the Nomination Policy is to nominate suitable candidates to the Board for consideration and recommendation to Shareholders to be elected as Directors of the Company at the general meeting, or for the Board to appoint as Directors of the Company to fill casual vacancies; the number of candidates nominated may exceed (as deemed appropriate) the number of Directors appointed or re-appointed at a general meeting or exceed the number of casual vacancies to be filled.

The selection criteria for the Nomination Policy are (1) The Nominating Committee will refer to the following factors when evaluating candidates, including reputation, the achievements and experience in the textile, film and television, financial, legal, accounting or investment industries, the time available and the interests of the relevant parties, and the diversity of the Board (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure). All factors mentioned above are for reference only and not intended to cover all factors or otherwise be decisive. The Nomination Committee may decide to nominate any person as it deems appropriate. (2) The independent non-executive Directors who are about to retire are eligible to be nominated by the Board and be re-elected as the Directors at the general meeting. For the avoidance of doubt, the independent non-executive Directors who have served as Directors for 9 consecutive years or more should be re-elected by Shareholders in the form of an independent resolution. The Nomination Committee and the Board should attach the resolution in the circular sent to Shareholders, and the circular should contain the reasons why the Nomination Committee and the Board believe that the person is still independent and should be re-elected. (3) All Directors appointed to fill the casual vacancy shall accept the Shareholders' election at the first general meeting after the appointment. Each Director (including those with a specified term) shall be subject to retirement by rotation, at least once every three years.

Model code for securities transaction by the directors

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

The Board of Directors

Composition

As at the date of the annual report, the Board comprises eight Directors, of which Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han and Mr. TAN Bin are executive Directors; and Mr. LAM Kai Yeung, Ms. LIU Chen Hong and Mr. WANG Liangliang are independent non-executive Directors. For the year ended 31 December 2018 and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:
LIU Dong *(Chairman)*
LIU Zongjun *(Chief Executive Officer)*
CHEN Chen
HE Han
TAN Bin

Independent non-executive Directors:
LAM Kai Yeung
WANG Liangliang
LIU Chen Hong (appointed on 18 April 2018)
GAO Gordon Xia (resigned on 18 April 2018)

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 20 to 26.

Board meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such regular Board meetings do not involve the way of written resolutions approved by the Board. During the year ended 31 December 2018, four Board meetings, two Audit Committee meetings, one Nomination Committee meetings, one Remuneration Committee meetings and annual general meeting ("**AGM**") were held and the attendance records of individual Directors are set out below:

	Directors' attendance/meetings held (for the year ended 31 December 2018)				
	Board of Directors	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive Directors					
LIU Dong *(Chairman)*	4/4	N/A	1/1	1/1	1/1
LIU Zongjun	4/4	N/A	N/A	N/A	0/1
CHEN Chen	4/4	N/A	N/A	N/A	1/1
HE Han	4/4	N/A	N/A	N/A	1/1
TAN Bin	4/4	N/A	N/A	N/A	0/1
Independent non-executive Directors					
LAM Kai Yeung	4/4	2/2	N/A	N/A	1/1
WANG Liangliang	4/4	2/2	1/1	1/1	1/1
LIU Chen Hong (appointed on 18 April 2018)	3/3	1/1	N/A	N/A	0/1
GAO Gordon Xia (resigned on 18 April 2018)	1/1	1/1	1/1	1/1	N/A

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

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

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed. Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

Responsibilities of the Board and management

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

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 70 to 172 were prepared on the basis set out in note 1 to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on pages 64 to 69.

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

Confirmation of independence

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

Continuous professional development

During the year ended 31 December 2018, all Directors, namely, Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han, Mr. TAN Bin, Mr. LAM Kai Yeung, Mr. WANG Liangliang, and Ms. LIU Chen Hong have been given relevant guidance materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Continuing briefings and professional development to all Directors will be arranged whenever necessary.

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

Independent non-executive Directors

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

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

Nomination Committee

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

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; access the independence of independent non-executive Directors; and according to the Nomination Policy, make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. For the year ended 31 December 2018, the Nomination Committee comprises three members and two of them are independent non-executive Directors, namely Ms. LIU Chen Hong (being the Chairman) and Mr. WANG Liangliang, and one executive Director, namely Mr. LIU Dong.

During the year ended 31 December 2018, one Nomination Committee meeting was held. The Nomination Committee meeting was held on 29 March 2018 to, inter alia, review the structure, size and composition of the Board and the independence of independent non-executive Directors as well as discussing the matters regarding retirement and re-election of Directors.

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

In accordance with the Articles of Association and the then effective nomination policy of the Company, Ms. LIU Chen Hong was appointed as an independent non-executive Director after the approval of the Board on 18 April 2018. Ms. LIU Chen Hong signed the statement of interests, responsibility letter and power of attorney, and independence confirmation of independent non-executive director at the same date. On 26 April 2018, the Company's legal advisors as to Hong Kong law Howse Williams conducted independent director training for Ms. Liu. According to the Article 16.2 of the Articles of Association, any appointed Director who fills a temporary vacancy in the Board or is a new Director shall retire at the next annual general meeting of the Company and shall be eligible for the re-election in the meeting. Ms. LIU Chen Hong was re-elected at the Company's annual general meeting held on 15 June 2018.

Remuneration Committee

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

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure that none of the Directors would determine his/her own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. For the year ended 31 December 2018, the Remuneration Committee consists of three members and two of them are independent non-executive Directors, namely Mr. WANG Liangliang (being the Chairman) and Ms. LIU Chen Hong, and one executive Director, namely Mr. LIU Dong.

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

Remuneration band (HK$)	**Number of individuals**
Nil to 100,000	0
100,001 to 1,500,000	5

Details of remuneration of Directors are set out in note 7 to the financial statements. No Director has waived or agreed to waive any emoluments during the year ended 31 December 2018 (2017: nil).

During the year ended 31 December 2018, one meeting was held by the Remuneration Committee. The Remuneration Committee meeting was held on 29 March 2018 for, inter alia, reviewing the overall remuneration policy and structure relating to all Directors and senior management of the Group.

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

Audit Committee

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

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting and overseas internal control and risk management procedures of the Company. For the year ended 31 December 2018, the Audit Committee consists of three independent non-executive Directors, namely Mr. LAM Kai Yeung (being the Chairman), Mr. WANG Liangliang and Ms. LIU Chen Hong.

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

During the year ended 31 December 2018, two meetings were held by the Audit Committee. The Audit Committee meetings were held on 29 March 2018 and 28 November 2018, respectively, and all the members of Audit Committee had attended the meetings.

During the year ended 31 December 2018, the Board has not taken a different view from the Audit Committee on the selection, appointment, resignation or dismissal of external auditors.

Corporate governance functions

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

Auditor's remuneration

During the Year, the Company engaged KPMG as the external auditors. The fees charged by KPMG for the year ended 31 December 2018 amounted to approximately RMB2.6 million, including RMB2.4 million of the audit service charge as well as RMB0.2 million of the other service charges for technical accounting training.

The reporting responsibilities of KPMG are set out in the Independent Auditors' Report on pages 64 to 69.

Company secretary

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

Risk management and internal controls

The Board is responsible for maintaining an effective internal control system to safeguard the Group's assets and Shareholders' interests, and regularly conducts review and on-going monitoring on the risk management and internal control system to ensure the effectiveness of the implementation of the internal control system. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has maintained an internal audit function and has established its internal control system focused on risk management, including company management policies and systems in written form, clearly defined organizational structure and responsibilities authorization system, stable and reliable financial management data and reports, and stringent risk management and appraisal system on the supervision over internal control.

The Group continuously improves and regulates its internal control management policies and systems by strictly complying with national laws and regulations and the regulatory requirements under the Stock Exchange. Through objective identification, analysis and evaluation of the enterprise's risk events as well as in-depth analysis of the main aspects of internal control, the Group has established its internal control management system covering major businesses and risk matters regarding to its operation and management with limited management resources to focus on core issues. The Group has adopted three-level risk management and internal control authorization structural system: the Board, senior management and Group headquarters management center as well as all of the subsidiaries. The Board is the supreme decision-making body for the Company's risk management and internal control; the senior management and Group headquarters management center achieves effective identification and control of the risks related to all material matters; and all of the subsidiaries implement direct risk management and internal control function for their respective operations.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

(1) is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules;

(2) conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission;

(3) has included in the code of conduct of the Company a strict prohibition on the unauthorised use of confidential or inside information;

(4) ensures the appropriate handling and dissemination of inside information through the Company's own internal reporting processes and the consideration of their outcome by senior management.

The Group has commenced risk assessment by conducting risk ranking, and in the previous year, the significant risks were under control. In addition, the Group has formulated risk management plan to ensure the identification, assessment, management, control and reporting of all significant risks of the Group are carried out according to a unified guideline, and are reported to the senior management, Audit Committee and the Board when necessary. Such guideline stipulates the Group risk management policies and procedures which are carried out with the common risk management methods.

During the year ended 31 December 2018, the Board has reviewed the effectiveness and efficiency of the implementation of its risk management and internal control systems, which covered all material financial, operational and compliance control and risk management. The Company considered them effective and adequate.

In addition, the Board reviewed and considered the adequacy of resources, staff qualifications and experience, training programs and relevant budget of the Company's accounting, risk management, internal audit and financial reporting functions.

The Board considers that the Group was able to maintain established and effective risk management and internal control systems during the year ended 31 December 2018.

Shareholders' rights

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

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

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

Principal place of business of the Company in Hong Kong
Address: 40th Floor, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
Attention: Mr. TIAN Chengjie

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

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

(4) If within 21 days of such deposit, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner as that in which meetings may be convened by the Board, such EGM to be held within three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

Investor relations and communication

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

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2018 has been provided in this annual report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (http://www.starrise.cn) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the year ended 31 December 2018, there has been no significant change in the Company's constitutional document.

Report of the Directors

The Directors have pleasure in presenting their directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "**Financial Statements**").

Principal Activities

The principal activities of the Company is investment holding and those of the principal subsidiaries of the Company are set out in note 15 to the Financial Statements.

Use of Proceeds

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

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

In October 2016, the Company has issued the convertible bonds to CCB International Overseas Limited under general mandate (the "**2016 CB**"). The proceeds were used for (i) working capital for development of the Company's television drama series (if additional funds are required); (ii) general working capital of the Group's film and television media business. The net proceeds have been used for the intended purpose. The 2016 CB was early redeemed on 25 June 2018. For further details, please refer to the announcements of the Company dated 3 October 2016, 14 October 2016, 5 June 2018 and 25 June 2018.

In February 2017, the Company further issued convertible bonds under specific mandate to Dragon Capital Entertainment Fund One LP (the "**2017 CB**"). The net proceeds of which were intended to be used for the production of certain television drama series of the Group. For further details, please refer to the announcements of the Company dated 22 December 2016 and 28 February 2017. As of 31 December 2018, the Company has used the proceeds of HKD244.35 million for the above disclosed purposes; while the surplus proceeds has been kept in the Company's bank account.

The Group timely adjusted the Company's film and television filming plan according to the market orientation and following up the guidelines of regulatory policies. The Group also adjusted some of the original 2017 CB repertoire plans, as follows:

Title	**Theme**	**Status**	**Amount to be allocated** (approximate HK$' million)	**Percentage of the net proceeds from the initial issuance of the Bonds** (approximate %)	**Actual amount used/spent as at 31 December 2018** (approximate HK$' million)
The Alarm of Xibaipo (formerly known as The Echoes of Xibaipo) (西柏坡的警鐘(原《西柏坡的回聲》))	Epic television drama based on revolution history	Submitted for screening	38.00	12.87%	38.00
Detective He (神探鶴真人)	Internet drama	Broadcasted	0.70	0.24%	0.70
The Heavenly Emperor 1 and 2 (御天神帝1、2)	Mythical fantasy internet drama	Broadcasted	1.80	0.61%	1.80
The Heavenly Emperor 3 and 4 (御天神帝3、4)	Mythical fantasy internet drama	Broadcasted	2.35	0.80%	2.35
Us and Them (後來的我們)	Urban emotional film	Broadcasted	5.30	1.79%	5.30
Hello My Dog (監獄犬計劃)	Comedy film	Broadcasted	3.80	1.29%	3.80
Once upon a Time in the Northeast (東北往事)	Youth nostalgic film	Submitted for screening	4.50	1.52%	4.50
Here Comes Dashan (大山來了)	Youth nostalgic film	Under post-production	0.70	0.24%	0.70
Horror Blockbuster (恐不大片)	Horror film	Submitted for approval	2.35	0.80%	2.35
The Family in That City (那座城,這家人)	Realistic drama	Broadcasted	29.00	9.82%	29.00

Title	Theme	Status	Amount to be allocated (approximate HK$' million)	Percentage of the net proceeds from the initial issuance of the Bonds (approximate %)	Actual amount used/spent as at 31 December 2018 (approximate HK$' million)
Mystic Kitchen 1（如意廚房1）	Internet movie	Broadcasted	0.40	0.14%	0.40
Mystic Kitchen 2（如意廚房2）	Internet movie	Submitted for screening	0.60	0.20%	0.60
Oh, My Honey!（甜心軟糖）	Internet movie	Broadcasted	0.95	0.32%	0.95
Alien Monster: Survival in the Wild（異星怪獸之荒野求生）	Internet movie	Submitted for screening	3.00	1.02%	2.00
Lipstick Princess（唯美貌不可辜負）	Internet drama	Under post-production	5.40	1.83%	4.40
Soulmate（七月與安生）	Internet drama	At the release stage	14.00	4.74%	14.00
Legend of Taotie（饕餮記）	Internet drama	Under post-production	24.00	8.13%	20.00
Monster Hunters（鎮魂歌）	Internet movie	Under post-production	9.50	3.22%	6.50
In Broad Daylight（光天化日）	Theatrical film	Submitted for screening	6.00	2.03%	6.00
Legend of Businessman in Hongjiang（一代洪商）	Historical story drama	Under post-production	120.00	40.63%	100.00
Bulletproof Teacher（穿越火線）	Internet drama	Preparing script	22.99	7.79%	1.00
Total			295.35	100%	244.35

In February 2018, the Company has issued an aggregate of 209,000,000 new Shares at the subscription price of HKD0.74 per subscription Share to Emerge Ventures Limited under general mandate. The proceeds were used for (i) the establishment of an academy for motion pictures arts and performance arts; and (ii) paying up the registered capital of the subsidiary of the Company being set up for the film/drama production completion guarantee operations of the Group and financing the development of this operation. As of 31 December 2018, the Company has used the proceeds of HKD124.0 million for the above disclosed purposes; while the surplus proceeds of approximately HKD30.7 million has been kept in the Company's bank account. For further details, please refer to the announcements of the Company dated 17 January 2018 and 5 February 2018. For the year ended 31 December 2018, no material change has taken place in the use of proceeds.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group as at 31 December 2018 are set out in the consolidated financial statements on pages 70 to 172.

The year of 2019 is essential for the development of the Company. The Group's media business, in its critical development and consolidation, will need further investment. Therefore, the Board does not recommend the payment of a final dividend for the year ended 31 December 2018. At this point, the Board is committed to the further development of the Company in the coming years, in order to get a better return for the Shareholders.

5-year Financial Summary

A summary of the results and assets and liabilities of the Group for the last 5 financial years ended 31 December 2014 to 31 December 2018 is set out on page 7. This summary does not form part of the Financial Statements.

Share Capital

Details of movements in share capital of the Company during the Year are set out in note 29 to the Financial Statements.

Share Option Scheme

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

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

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

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

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

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

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

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

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

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

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

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 6.38% of the shares in issue of the Company as at the date of this annual report.

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

Since the adoption of the Share Option Scheme until now, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme.

Apart from the aforesaid share option schemes, at no time during the year ended 31 December 2018 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

Distributable Reserves

The Company was incorporated in the Cayman Islands on 24 February 2010. As at 31 December 2018, the Company had distributable reserves of approximately RMB503.9 million available for distribution to the Shareholders.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 42.0% of the total sales for the year ended 31 December 2018 and sales to the largest customer included therein accounted for approximately 15.8% thereof. Purchases from the Group's five largest suppliers accounted for approximately 29.6% of the total purchases for the year ended 31 December 2018 and purchases from the largest supplier included therein accounted for approximately 12.9% thereof.

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

Subsidiaries and Associated Companies

The details of the major subsidiaries and associated companies of the Group are set out in notes 15 and 16 to the Financial Statements.

Property, plant and equipment and leasehold land

During the year ended 31 December 2018, the Group's total capital expenditure amounted to approximately RMB92.8 million (2017: approximately RMB35.7 million) which was mainly used for acquisition of buildings, machinery and equipment. The details of the changes in the properties, plant and equipment and leasehold land of the Group during the year are set out in note 12 to the Financial Statements.

Borrowings

Particulars of borrowings of the Group as at the end of the reporting period are set out in notes 25 and 26 to the Financial Statements. Save as the pledged bank deposits as disclosed in note 22 to the Financial Statement, the Group also pledged its machinery and equipment with net book value of approximately RMB6.2 million (2017: approximately RMB6.4 million) to bank as securities for the bank borrowings as at 31 December 2018. Besides, machinery and equipment with net book value of RMB4.4 million (2017: Nil) were held under finance lease as at 31 December 2018.

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors

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

LIU Dong *(Chairman)*
LIU Zongjun *(Chief Executive Officer)*
CHEN Chen
HE Han
TAN Bin
LAM Kai Yeung
WANG Liangliang
LIU Chen Hong
(appointed as an independent non-executive director with effect from 18 April 2018)
GAO Gordon Xia
(resigned as an independent non-executive Director with effect from 18 April 2018.
Details regarding Mr. Gao's resignation are set out int the Company's announcement dated 18 April 2018)

Directors and Directors' Service Contracts

Executive Directors

Each of Mr. HE Han and Mr. TAN Bin has entered into a service contract with the Company for a term of three years commencing on 8 November 2016. Each of Mr. LIU Dong and Mr. LIU Zongjun has renewed the service contract with the Company for a term of three years commencing on 12 April 2018. Ms. CHEN Chen has renewed the service contract with the Company for a term of three years commencing on 24 September 2018.

Independent non-executive Directors

Mr. WANG Liangliang has entered into a letter of appointment with the Company for a term of three years commencing on 6 March 2017. The independent non-executive Director of Ms. LIU Chen Hong has entered into a letter of appointment with the Company for a term of three years commencing on 18 April 2018. Mr. LAM Kai Yeung has renewed the letter of appointment with the Company for a term of three years commencing on 26 June 2018.

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

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

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

Biographies of Directors and Senior Management

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Directors and Senior Management Profile" on pages 20 to 26 of this annual report.

Non-competition Undertaking by Controlling Shareholders

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

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

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

As at 31 December 2018, the Directors and chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Name of Directors	**Name of Group member/associated corporation**	**Capacity/nature of interest**	**Number and class of securities** *(Note 1)*	**Approximate percentage of shareholding**
Mr. LIU Dong *(Note 2)*	The Company	Interest of a controlled corporation	273,609,836 shares (L)	21.81%
Mr. HE Han	The Company	Beneficial owner	14,008,000 shares (L)	1.12%

Notes:

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

2. The shares are held by Excel Orient Limited which is a company incorporated in the British Virgin Islands ("BVI") and the entire issued capital of which is beneficially owned by Mr.LIU Dong, one of the executive Directors of the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

Interest Discloseable under the SFO and Substantial Shareholders

As at 31 December 2018, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Name of Group member/ associated corporation	Capacity/nature of interest	Interest in underlying shares *(Note 1)*	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Excel Orient Limited *(Note 2)*	The Company	Beneficial owner	–	273,609,836 (L)	21.81%
Ms. WANG Lingli *(Note 3)*	The Company	Family interest	–	273,609,836 (L)	21.81%
Dragon Capital Entertainment Fund One LP *(Note 4)*	The Company	Beneficial owner	405,405,405 (L)	–	32.31%
Dragon GP Partner Co *(Note 4)*	The Company	Interests of a controlled corporation	405,405,405 (L)	–	32.31%
China Huarong International Holdings Limited *(Note 5)*	The Company	Interests of a controlled corporation	405,405,405 (L)	–	32.31%
Huarong Real Estate Co. Ltd. *(Note 6)*	The Company	Interests of a controlled corporation	405,405,405 (L)	–	32.31%
China Huarong Asset Management Co., Ltd. *(Note 7)*	The Company	Interests of a controlled corporation	405,405,405 (L)	–	32.31%
Ministry of Finance of the PRC *(Note 8)*	The Company	Interests of a controlled corporation	405,405,405 (L)	–	32.31%
Aim Right Ventures Limited *(Note 9)*	The Company	Beneficial owner	–	202,472,656 (L)	16.14%

Name of Shareholders	Name of Group member/ associated corporation	Capacity/nature of interest	Interest in underlying shares *(Note 1)*	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Liu Zhihua *(Note 9)*	The Company	Interests of a controlled corporation	–	202,472,656 (L)	16.14%
Ms. Zou Guoling *(Note 10)*	The Company	Interests of spouse	–	202,472,656 (L)	16.14%
Emerges Ventures Limited *(Note 11)*	The Company	Beneficial owner	–	209,000,000 (L)	16.66%
Mr. Jin Peng *(Note 11)*	The Company	Interests of a controlled corporation	–	209,000,000 (L)	16.66%
Ms. Shen Si *(Note 12)*	The Company	Interests of spouse	–	209,000,000 (L)	16.66%

Notes:

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

2. *Excel Orient Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. LIU Dong, one of the executive Directors of the Company. Therefore, Mr. LIU Dong is also deemed to be interested in the shares held by Excel Orient Limited.*

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

4. *Pursuant to the terms of the convertible bonds issued to Dragon Capital Entertainment Fund One LP on 28 February 2017, assuming the conversion rights attached to the convertible bonds are exercised in full at the conversion price of HK$1.21 per conversion share, 247,933,884 new Shares will fall to be issued to Dragon Capital Entertainment Fund One LP. On 5 February 2018, the conversion price is adjusted to HK$0.74 per conversion share, 405,405,405 new shares will fall to be issued to Dragon Capital Entertainment Fund One LP. Dragon Capital Entertainment Fund One LP is an exempted limited partnership registered in the Cayman Islands controlled by Dragon GP Partner Co. By virtue of the SFO, Dragon GP Partner Co. is deemed to be interested in all the Shares held by Dragon Capital Entertainment Fund One LP.*

5. *Dragon GP Partner Co. is controlled by China Huarong International Holdings Limited. By virtue of the SFO, China Huarong International Holdings Limited is deemed to be interested in all the Shares which Dragon GP Partner Co. is interested in.*

6. *China Huarong International Holdings Limited is a limited liability company registered in the PRC owned as to 88.1% by Huarong Real Estate Co., Ltd. By virtue of the SFO, Huarong Real Estate Co., Ltd. is deemed to be interested in all the Shares which China Huarong International Holdings Limited is interested in.*

7. *Huarong Real Estate Co., Ltd. is a limited liability company registered in the PRC wholly owned by China Huarong Asset Management Co., Ltd. By virtue of the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in all the Shares which Huarong Real Estate Co., Ltd. is interested in.*

8. *China Huarong Asset Management Co., Ltd. is a limited liability company registered in the PRC owned as to 63.36% by the Ministry of Finance of the People's Republic of China. By virtue of the SFO, Ministry of Finance of the People's Republic of China is deemed to be interested in all the Shares which China Huarong Asset Management Co., Ltd. is interested in.*

9. *The shares are held by Aim Right Ventures Limited, a limited liability company incorporated in the BVI wholly owned by Mr. Liu Zhihua. By virtue of the SFO, Mr. Liu Zhihua is deemed to be interested in all the Shares held by Aim Right Ventures Limited.*

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

11. *The shares are held by Emerge Ventures Limited, a limited liability company incorporated in Hong Kong wholly owned by Mr. Jin Peng. By virtue of the SFO, Mr. Jin Peng is deemed to be interested in all the Shares held by Emerge Ventures Limited.*

12. *Ms. SHEN Si is the spouse of Mr. JIN Peng. Therefore, Ms. SHEN Si is deemed, or taken to be interested in the shares of the Company which Mr. JIN Peng is interested in for the purpose of the SFO.*

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company, its Group members or associated corporations which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Dilution impact on the Shares in the event that all outstanding convertible securities are converted

The Company issued the 2016 CB and the 2017 CB on 14 October 2016 and 28 February 2017, respectively. The 2016 CB was fully redeemed on 25 June 2018. For details of the 2016 CB, please refer to the announcements of the Company dated 3 October 2016, 14 October 2016, 5 June 2018 and 25 June 2018.

Details of the 2017 CB are set out in the Company's announcements dated 22 December 2016 and 28 February 2017, and the circular of the Company dated 17 January 2017. As at 31 December 2018, none of the convertible bonds under 2017 CB was converted.

On 5 February 2018, the Company issued 209,000,000 new Shares under general mandate (the "**Issuance**"), which resulted in adjustments (the "**Adjustment**") to conversion price of the 2017 CB. For details of the Issuance and the Adjustment, please refer to the announcements of the Company dated 17 January 2018 and 5 February 2018.

If all outstanding convertible bonds as at 31 December 2018 were converted, the dilutive impact on the then number of issued shares of the Company and the respective shareholdings of the substantial shareholders of the Company will be as follows:

	As of the date of 31 December 2018		Subsequent to the Issuance and upon full conversion of 2017 CB at the conversion price of HKD0.74	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Non-public Shareholders				
Excel Orient Limited	273,609,836	21.81	273,609,836	16.48
Emerge Ventures Limited	209,000,000	16.66	209,000,000	12.59
Aim Right Ventures Limited	202,472,656	16.14	202,472,656	12.20
Mr. He Han	14,008,000	1.12	14,008,000	0.84
Dragon Capital Entertainment Fund One LP (2017 CB Bondholder(s))	–	–	405,405,405	24.42
Public Shareholders	555,659,164	44.28	555,659,164	33.47
Total	1,254,749,656	100	1,660,115,061	100

In the event that all outstanding convertible bonds were converted as at 31 December 2018, the dilution impact on the basic (loss)/earnings per share is as follows:

	Continuing operations
	RMB'000
(Loss)/profit attributable to ordinary equity shareholders	(144,725)
After tax effect of gains recognised on the derivative component of convertible bonds	176,535
After tax effect of effective interest on the liability component of convertible bonds	54,789
After tax effect of foreign exchange gains arising on translation of convertible bonds	9,380
(Loss)/Profit attributable to ordinary equity shareholders (diluted)	95,979
Weighted average number of ordinary shares	1,234,709
Effect of conversion of convertible bonds	638,346
Weighted average number of ordinary shares (diluted)	1,873,055
Basic (Loss)/earnings per share (RMB cents)	(11.72)
Diluted (Loss)/earnings per share (RMB cents)	(11.72)

On 25 February 2019, Dragon Capital Entertainment Fund One LP ("**Original Bondholder**") transferred part of the convertible bonds issued on 28 February 2017 with an aggregate principal amount to HK$120,000,000 (the "**Transferred Bonds**"), which were convertible into 162,162,162 Shares at the conversion price of HK$0.74 per conversion share to BeïTai Investment LP ("**BeiTai**"). On the same date, BeiTai exercised the conversion rights to convert all of the Transferred Bonds.

On 28 February 2019, the Company and the Original Bondholder conditionally agreed to extend the maturity date of the remaining convertible bonds with an aggregate principal amount of HK$180,000,000 (the "**Remaining Bonds**") from 28 February 2019 to 28 February 2020. Please refer to the announcements dated 25 February 2019, 28 February 2019, 1 March 2019 and 11 March 2019, respectively, and the circular dated 20 March 2019 for further details. If all outstanding convertible bonds as at the date of this report (being all of the Remaining Bonds) are converted, the dilutive impact on the then number of issued shares of the Company and the respective shareholdings of the substantial shareholders of the Company will be as follows:

	As at the date of this report		**Subsequent to the Issuance and upon full conversion of the Remaining Bonds at the conversion price of HKD0.74**	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Non-public Shareholders:				
Excel Orient Limited	273,609,836	19.31	273,609,836	16.48
Emerges Ventures Limited	209,000,000	14.75	209,000,000	12.59
Aim Right Ventures Limited	202,472,656	14.29	202,472,656	12.20
BeiTai Investment LP	162,162,162	11.44	162,162,162	9.77
He Han	14,008,000	0.99	14,008,000	0.84
Public Shareholders	555,659,164	39.22	555,659,164	33.47
Dragon Capital Entertainment Fund One LP Holder of the Remaining Bonds	–	–	243,243,243	14.65
Total	1,416,911,818	100	1,660,155,061	100

To the best of the Directors' knowledge, having made all reasonable enquiries, based on the financial position of the Group, the Directors expect that the Company will be able to meet its redemption obligations under the Remaining Bonds when they become due.

It would be equally financially advantageous for the security holders to convert or redeem the convertible securities upon the maturity date of the redemption based on the impelled internal rate of return of the Remaining Bonds at the Company's share price of HKD 0.7696.

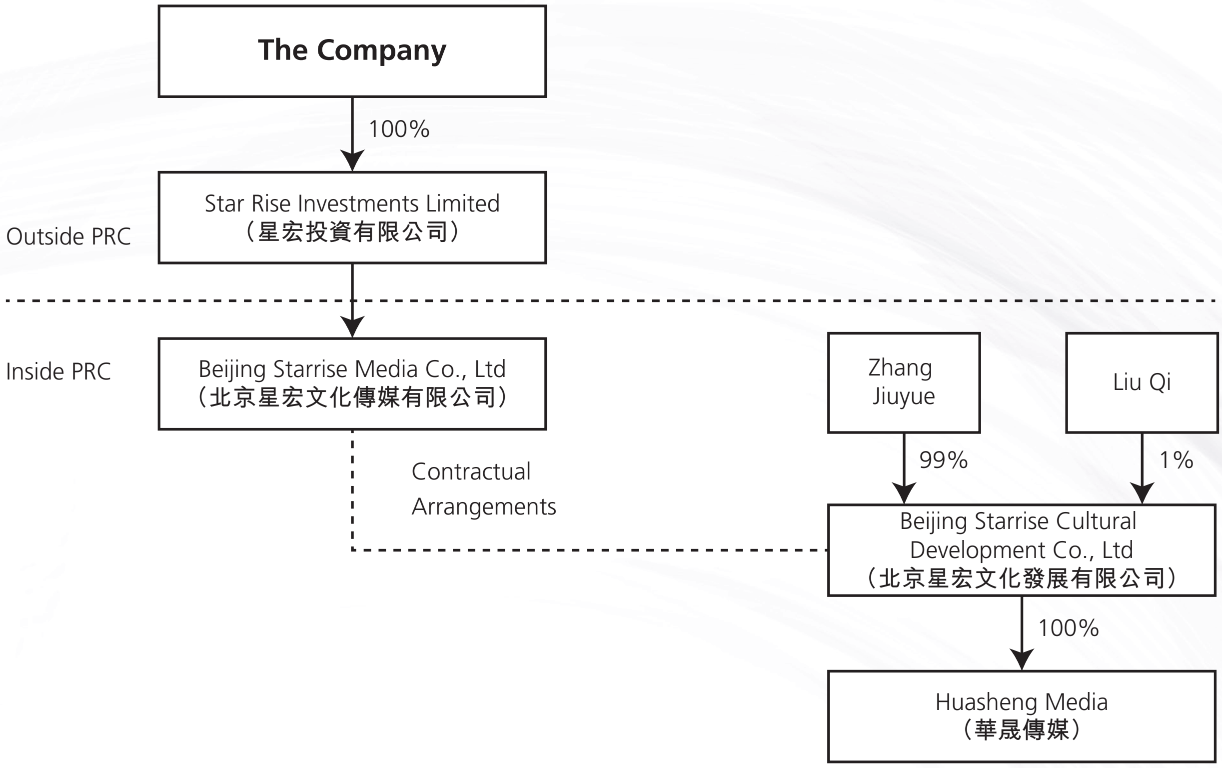
Contractual Arrangements

The Huasheng Media Contractual Arrangements (as defined hereinafter) and the Starrise Pictures Contractual Arrangement (as defined hereinafter) (together with Huasheng Media Contractual Arrangements, the "**Contractual Arrangements**") had been effective during the year ended 31 December 2018. The brief description of the major terms of the structured contracts under the Contractual Arrangements are as follows:

The Contractual Arrangements of Huasheng Media

1. Diagram of the Contractual Arrangements

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



2. Structured Contracts of Beijing Starrise Cultural Development Co., Ltd

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

(1) Exclusive Technology Support and Services Agreement 2015

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

(2) Exclusive Option Agreement 2015

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

(3) Equity Pledge Agreement 2015

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

(4) ***Power of Attorney 2015***

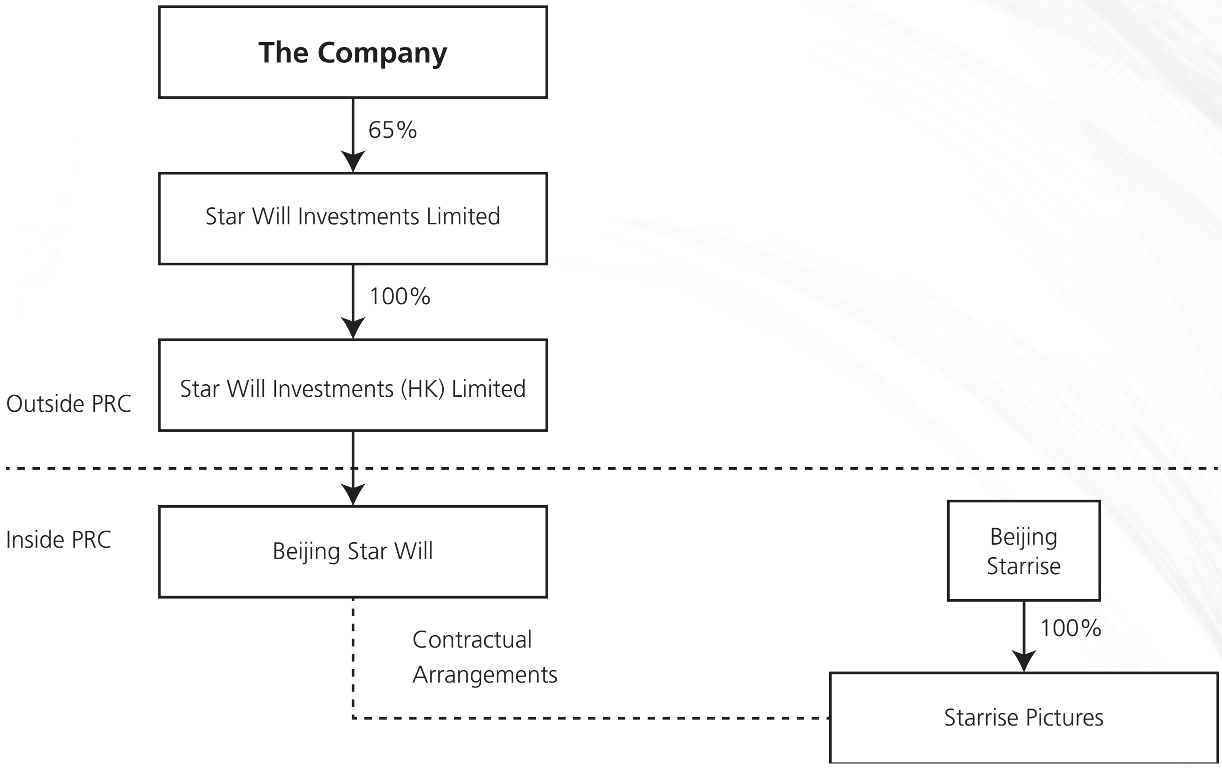
Each of the Registered Shareholders has issued a power of attorney in favor of Beijing Starrise Media Co., Ltd, pursuant to which they irrevocably authorize Beijing Starrise Media Co., Ltd to exercise all of their rights and powers as shareholders of Beijing Starrise Cultural Development Co., Ltd, including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

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

The Contractual Arrangements of Starrise Pictures

1. Diagram of the Contractual Arrangements

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



2. Structured Contracts of Starrise Pictures

A series of contractual arrangements ("**Starrise Pictures Contractual Arrangements**") was entered into on 22 December 2016 between Beijing Star Will Pictures Cultural Co., Ltd.("**Beijing Star Will**"), Starrise Pictures, Beijing Starrise Cultural Development Co., Ltd ("**Beijing Starrise**") and Mr. GUO Dongjun, namely, the exclusive technology support and service agreement ("**Exclusive Technology Support and Services Agreement 2016**"), the exclusive option agreement ("**Exclusive Option Agreement 2016**"), the equity pledge agreement ("**Equity Pledge Agreement 2016**") and the power of attorney ("**Power of Attorney 2016**"). After Mr. GUO Dongjun sold all of his 35% shares of Star Will Investment Limited to the Company, the four parties mentioned above signed the supplementary agreements of Starrise Pictures Contractual Arrangements, including the supplementary agreements of exclusive option agreement ("**Supplementary Agreement of Exclusive Option Agreement 2018**"), the supplementary agreements of exclusive technology support and service agreement ("**Supplementary Agreement of Exclusive Technology Support and Services Agreement 2018**"), the supplementary agreements of equity pledge agreement ("**Supplementary Agreement of Equity Pledge Agreement 2018**") and the power of attorney ("**Power of Attorney 2018**") The current registered shareholders of Starrise Pictures is Beijing Starrise.

(1) Exclusive Technology Support and Services Agreement 2016 and Supplementary Agreement of Exclusive Technology Support and Services Agreement 2018

Beijing Star Will, Starrise Pictures, Beijing Starrise and Mr. Guo Dongjun entered into the Exclusive Technology Support and Services Agreement and its Supplementary Agreement on 22 December 2016 and 22 December 2018 respectively, pursuant to which Starrise Pictures agrees to engage Beijing Star Will as its exclusive technology and service provider. The Exclusive Technology Support and Services Agreement is for an initial term of 10 years commencing from the date of the agreement, which can be extended for another 10 years at the option of Beijing Star Will on a recurring basis, until it is terminated by Beijing Star Will by giving a prior written notice of termination. Starrise Pictures and the Beijing Starrise are not contractually entitled to terminate the Exclusive Technology Support and Services Agreement.

(2) Exclusive Option Agreement 2016 and Supplementary Agreement of Exclusive Option Agreement 2018

Beijing Star Will, Starrise Pictures, Beijing Starrise and Mr. Guo Dongjun entered into the Exclusive Option Agreement and its Supplementary Agreement on 22 December 2016 and 22 December 2018 respectively, pursuant to which the Beijing Starrise irrevocably grant to Beijing Star Will or the person as designated by Beijing Star Will exclusive options to purchase, to the extent permitted by PRC laws and regulations, their equity interests in Starrise Pictures, entirely or partially, at the minimum purchase price permitted by PRC laws and regulations.

(3) Equity Pledge Agreement 2016 and Supplementary Agreement of Equity Pledge Agreement 2018

Beijing Star Will, Starrise Pictures, Beijing Starrise and Mr. Guo Dongjun entered into the Exclusive Equity Pledge Agreement and its Supplementary Agreement on 22 December 2016 and 22 December 2018 respectively, pursuant to which the Beijing Starrise shall pledge all of their respective equity interests in Starrise Pictures to Beijing Star Will to secure the performance of all their obligations and the obligations of the Beijing Starrise and Starrise Pictures under the Contractual Arrangements. Under the Equity Pledge Agreement, if any of the Beijing Starrise and/or Starrise Pictures breaches any obligation under the Contractual Arrangements, Beijing Star Will, as the pledgee, is entitled to request the Beijing Starrise to transfer the pledged equity interests, entirely or partially to Beijing Star Will and/or any entity or person as designated by Beijing Star Will.

(4) Power of Attorney 2016 and Power of Attorney 2018

Beijing Starrise has issued a power of attorney in favor of Beijing Star Will on 22 December 2016 and 22 December 2018 respectively, pursuant to which they irrevocably authorize Beijing Star Will to exercise all of their rights and powers as shareholders of Beijing Starrise, including (i) rights to attend shareholders' meeting and sign relevant shareholders' resolutions; (ii) rights to exercise shareholders' rights including without limitation voting rights, nomination rights and appointment rights in a shareholders' meeting; (iii) rights to file documents with relevant governmental authorities or regulatory bodies; (iv) rights to receive dividends relating to, dispose of, transfer, pledge or deal with all or part of the equity interests of Starrise Pictures or to be entitled to any distribution upon liquidation of Starrise Pictures; and (v) any other rights as shareholders of Starrise Pictures.

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

Apart from the above, there are no new contractual arrangements entered into, renewed or reproduced between the Group, Huasheng Media and Starrise Pictures during the year ended 31 December 2018. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2018.

During the year ended 31 December 2018, none of the structured contracts mentioned above has been unwound as none of the restrictions that led to the adopted of structured contracts under the Contractual Arrangements has been removed.

Particulars of the PRC Operational Entities as at 31 December 2018:

Name of the PRC Operational Entities	Date of Establishment	Type of legal entity/place of establishment and operation	Registered owners	Business activities
Huasheng Media	July 2004	Limited liability company/the PRC	99.00% by Ms. Zhang 1.00% by Ms. Liu	Investment, production and distribution of television series and related businesses.
Starrise Pictures	December 2014	Limited liability company/the PRC	100.00% by Beijing Star Rise Culture Development Limited	Production and distribution of films, television series and related businesses.

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

The revenue and the total asset of the PRC Operational Entities subject to the Contractual Arrangements amounted to approximately RMB352.3 million for the year ended 31 December 2018 and approximately RMB1,349.5 million as at the year ended 31 December 2018.

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

Risks Relating to the Contractual Arrangements

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

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

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

The Contractual Arrangements may not be as effective as direct ownership

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

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

Reasons for and Benefits of the Contractual Arrangements

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

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

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

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

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

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

Settlement of Potential Dispute Arising from the Contractual Arrangements

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

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

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

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

Arrangements to Address Potential Conflicts of Interests

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

Internal Control Measures

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

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

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

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

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

Connected Transactions

The Company had not entered into any non-exempt connected transaction during the year, which is required to be disclosed under the Listing Rules. Related party transactions entered into by the Group during the year ended 31 December 2018, which do not constitute non-exempt connected transactions required to be disclosed under the Listing Rules, are disclosed in note 33 to the consolidated financial statements.

Competition and Conflict of Interests

During the year ended 31 December 2018, save as disclosed in the Prospectus of the Company dated 29 June 2012, none of the Directors or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

Permitted Indemnity Provision

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

Directors' Material Interests in Transactions, Arrangement or Contracts

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

Equity-Linked Agreements

Other than the share option scheme of the Company as well as the issue of convertible bonds of the Company disclosed in the paragraph of "Use of Proceeds" in the Report of the Director on page 38, no equity-linked agreements were entered into by the Company during the Year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Tax Relief and Exemption

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

Pre-Emptive Rights

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

Sufficiency of Public Float

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

Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 27 to 37 in this annual report.

Business Review

Overview

The fair review of the Group's business is detailed in the Management Discussion and Analysis on pages 8 to 19 of this annual report. The discussion constitutes a part of this report of this Directors' Report.

Principal Risks and Uncertainties

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

Important Events after the Reporting Period

The important events after the reporting period of the Group are detailed in the events after the reporting period under the Management Discussion and Analysis on page 16 of this annual report. The report constitutes a part of this Report of the Directors.

Future Development

The future developments of the Group are detailed in the Management Discussion and Analysis on pages 16 to 19 of this annual report. The report constitutes a part of this Report of the Directors.

Key Performance Indicators

The key performance indicators are detailed in the financial review under Management Discussion and Analysis on page 11 to 15 of this annual report. The financial review constitutes a part of this Directors' Report.

Environmental Policies and Performance

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

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

Compliance with Laws and Regulations

During the year ended 31 December 2018, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Closure of register of members

The register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

Relationships with Employees

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

Relationships with Customers and Suppliers

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

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

Annual general meeting

The AGM will be held on Thursday, 30 May 2019. Shareholders should refer to details regarding the AGM in the circular of the Company to be dispatched in April 2019 and the notice of the AGM and form of proxy accompanying thereto.

Auditor

The financial statements for the year ended 31 December 2018 have been audited by KPMG, which retires and, being eligible, offers itself for re-appointment at the forthcoming AGM. A resolution to re-appoint KPMG and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM. There was no change in the auditor of the Company in the past three financial years.

By order of the Board
Starrise Media Holdings Limited
LIU Dong
Chairman

Shandong Province, the PRC
29 March 2019

Independent Auditor's Report

Independent auditor's report to the shareholders of
Starrise Media Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Starrise Media Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 70 to 172, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Timing of revenue recognition: licensing income from drama series and films
Refer to note 3 to the consolidated financial statements and the accounting policies on page 103.

The Key Audit Matter

Revenue from licensing of the Group's drama series and films is recognised when the Group transfer control over the drama series and films to customers in accordance with the terms of the relevant licensing contracts.

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

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

How the matter was addressed in our audit

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

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

Assessing potential impairment of goodwill

Refer to note 14 to the consolidated financial statements and the accounting policies on page 84.

The Key Audit Matter

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

The Group had a significant goodwill balance of RMB441 million as at 31 December 2018, which comprised RMB435 million arising from the acquisitions of Solid Will Ltd., Star Will Investments Ltd., Beijing Starwise Culture Media Co., Ltd. and their subsidiaries, which are principally engaged in the production, distribution and promotion of drama series and films in Mainland China, and RMB6 million arising from the acquisition of Zibo Yinshilai Textile Co., Ltd.

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

How the matter was addressed in our audit

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

- evaluating, with the assistance of our internal valuation specialists, the valuation methodology adopted by management, the identification of CGUs and the allocation of assets to each identified CGU, with reference to the requirements of the prevailing accounting standards;
- evaluating, with the assistance of our internal valuation specialists, the discount rates adopted by management in the preparation of the discounted cash flow forecasts by benchmarking against those of comparable companies in the same industry;
- comparing the significant inputs used in the preparation of the discounted cash flow forecasts, including future revenue, growth rates and future profit margins, with the historical performance of the CGUs, management's forecasts, data for comparable companies in the same business and available external market data;

Assessing potential impairment of goodwil (continued)

Refer to note 14 to the consolidated financial statements and the accounting policies on page 84.

The Key Audit Matter

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

The assessment of the recoverable amount of goodwill involves significant management estimation and judgment, in particular in determining the key assumptions adopted in the cash flow forecasts, which include future revenue, growth rates, future profit margins and the discount rates applied.

We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because of the inherent uncertainty involved in forecasting and discounting future cash flows which involves the exercise of significant management judgment and could be subject to management bias.

How the matter was addressed in our audit

- assessing the reliability and reasonableness of management's forecast by comparing the previous year's forecast with the current year's actual performance, discussing with management significant variances and considering these variances in our assessment of the current year's cash flow forecasts; and

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

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheung Tsz Chung.

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

29 March 2019

Starrise Media Holdings Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Continuing operations			
Revenue	*3*	**961,369**	489,158
Cost of sales and services		**(751,131)**	(418,139)
Gross profit		**210,238**	71,019
Other net loss	*4*	**(172,594)**	(6,698)
Distribution costs		**(25,778)**	(18,068)
Administrative expenses		**(78,302)**	(75,508)
Loss from operations		**(66,436)**	(29,255)
Net finance costs	*5(a)*	**(65,471)**	(73,738)
Share of losses less profits of associates	*16*	**–**	(5,698)
Loss before taxation from continuing operations	*5*	**(131,907)**	(108,691)
Income tax	*6*	**(12,456)**	(3,692)
Loss for the year from continuing operations		**(144,363)**	(112,383)
Discontinued operation			
Profit for the year from discontinued operation	*10*	**–**	30,446
Loss and total comprehensive income for the year		**(144,363)**	(81,937)
Attributable to:			
Equity shareholders of the Company		**(144,725)**	(81,119)
Non-controlling interests		**362**	(818)
Loss and total comprehensive income for the year		**(144,363)**	(81,937)
Basic and diluted (loss)/earnings per share (RMB cents)	*11*		
– Continuing and discontinued operations		**(11.72)**	(7.76)
– Continuing operations		**(11.72)**	(10.67)
– Discontinued operation		**–**	2.91

The notes on pages 75 to 172 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the loss for the year are set out in note 29.

Starrise Media Holdings Limited
Consolidated Statement of Financial Position

at 31 December 2018

(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	12	**431,054**	389,434
Interests in leasehold land held for own use under operating leases	12	**61,648**	62,968
		492,702	452,402
Intangible assets	13	**1,069**	17
Goodwill	14	**441,475**	441,475
Interest in an associate	16	**–**	–
Investments in equity securities	17	**–**	1,000
Other receivables	21	**10,799**	2,984
Deferred tax assets	28(b)	**1,786**	912
		947,831	898,790
Current assets			
Inventories	18	**140,120**	131,137
Drama series and films	19	**224,958**	201,747
Trade and other receivables	21	**500,480**	437,267
Pledged bank deposits	22	**11,000**	32,884
Cash and cash equivalents	23	**284,689**	155,598
		1,161,247	958,633
Current liabilities			
Trade and other payables	24	**268,954**	230,040
Contract liabilities	20(b)	**11,233**	–
Bank loans	25	**180,500**	201,250
Other borrowings	26	**434,480**	159,659
Obligations under finance leases	27	**12,201**	–
Current taxation	28(a)	**27,776**	17,820
		935,144	608,769

Starrise Media Holdings Limited
Consolidated Statement of Financial Position

at 31 December 2018
(Expressed in Renminbi Yuan)

	Note	**2018** **RMB'000**	2017 RMB'000
Net current assets		**226,103**	349,864
Total assets less current liabilities		**1,173,934**	1,248,654
Non-current liabilities			
Other borrowings	*26*	**206,345**	229,672
Obligations under finance leases	*27*	**11,973**	–
Deferred tax liabilities	*28(b)*	**3,101**	1,025
		221,419	230,697
Net assets		**952,515**	1,017,957
Capital and reserves			
Share capital	*29*	**79,730**	66,559
Reserves	*29*	**873,192**	942,837
Total equity attributable to equity shareholders of the Company		**952,922**	1,009,396
Non-controlling interests		**(407)**	8,561
Total equity		**952,515**	1,017,957

Approved and authorised for issue by the board of directors on 29 March 2019.

Liu Dong	**Tan Bin**
Director	*Director*

The notes on pages 75 to 172 form part of these financial statements.

Starrise Media Holdings Limited
Consolidated Statement of Changes in Equity

for the year ended 31 December 2018
(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Statutory surplus reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017		66,559	523,284	64,743	118,450	317,479	1,090,515	9,379	1,099,894
Changes in equity for 2017:									
Loss and total comprehensive income for the year		–	–	–	–	(81,119)	(81,119)	(818)	(81,937)
Appropriations to statutory reserve	*29*	–	–	1,352	–	(1,352)	–	–	–
Balance at 31 December 2017 and 1 January 2018		**66,559**	**523,284**	**66,095**	**118,450**	**235,008**	**1,009,396**	**8,561**	**1,017,957**
Changes in equity for 2018:									
Loss and total comprehensive income for the year		**–**	**–**	**–**	**–**	**(144,725)**	**(144,725)**	**362**	**(144,363)**
Shares issuance	*29(c)*	**13,171**	**111,145**	**–**	**–**	**–**	**124,316**	**–**	**124,316**
Acquisition of non-controlling interests without a change in control	*15*	**–**	**–**	**–**	**(36,065)**	**–**	**(36,065)**	**(9,330)**	**(45,395)**
Appropriations to statutory reserve	*29*	**–**	**–**	**9,697**	**–**	**(9,697)**	**–**	**–**	**–**
Balance at 31 December 2018		**79,730**	**634,429**	**75,792**	**82,385**	**80,586**	**952,922**	**(407)**	**952,515**

The notes on pages 75 to 172 form part of these financial statements.

Starrise Media Holdings Limited
Consolidated Cash Flow Statement

for the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from/(used in) operations	*23(b)*	**44,496**	(157,239)
Income tax paid	*28(a)*	**(1,298)**	(4,736)
Net cash generated from/(used in) operating activities		**43,198**	(161,975)
Investing activities			
Acquisition of a subsidiary, net of cash acquired	*9*	**(30,000)**	3,446
Payments for purchase of non-controlling interests in subsidiaries	*15*	**(45,395)**	–
Disposal of subsidiaries, net of cash and cash equivalents disposed of	*10*	**116,160**	(50,742)
Disposal of an associate	*16*	**6,000**	6,000
Disposal of investments in equity securities		**–**	103
Payments for the purchase of property, plant and equipment and leasehold land		**(96,385)**	(36,227)
Proceeds from sale of property, plant and equipment		**10,401**	2,465
Payments for advance to third parties		**(32,997)**	(22,684)
Decrease in fixed bank deposits		**–**	25,000
Decrease/(increase) in pledged bank deposits		**22,667**	(22,870)
Proceeds from repayments of advance to third parties		**17,793**	200
Net proceeds from purchases and sales of non-equity investments		**201**	1,477
Repayment from an associate		**–**	2,000
Interest received		**3,627**	252
Net cash used in investing activities		**(27,928)**	(91,580)
Financing activities			
Capital element of finance lease rental paid	*23(c)*	**24,174**	(3,850)
Proceeds from bank loans	*23(c)*	**180,500**	246,250
Repayment of bank loans	*23(c)*	**(201,250)**	(214,000)
Proceeds from shares issuance	*29(a)*	**124,316**	–
Proceeds from issuance of convertible bonds	*23(c)*	**–**	265,740
Payments for redemption of convertible bonds	*23(c)*	**(178,424)**	–
Proceeds from issuance of bonds		**191,315**	–
Repayment of advance from third parties	*23(c)*	**(32,626)**	(15,172)
Proceeds for advance from third parties	*23(c)*	**24,000**	32,626
Repayment of loans from a non-controlling shareholder	*23(c)*	**–**	(8,712)
Interest element of finance lease rental paid	*23(c)*	**(1,757)**	(31)
Other borrowing costs paid	*23(c)*	**(35,502)**	(62,469)
Net cash generated from financing activities		**94,746**	240,382
Net increase/(decrease) in cash and cash equivalents		**110,016**	(13,173)
Cash and cash equivalents at 1 January	*23*	**155,598**	173,037
Effect of foreign exchange rate change		**19,075**	(4,266)
Cash and cash equivalents at 31 December	*23*	**284,689**	155,598

The notes on pages 75 to 172 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

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

– Investments in equity securities (see note 1(g)).

– derivative financial instruments (see note 1(h)).

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

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

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

1 Significant accounting policies (Continued)

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current account period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(i) IFRS 9, *Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Therefore, comparative information continues to be reported under IAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transaction approach are set out below:

a. *Classification of financial assets and financial liabilities*

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVPL. These supersede IAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, *Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation* (Continued)

a. Classification of financial assets and financial liabilities **(Continued)**

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 1(g), (h), (n), (i), (q) and (r).

The measurement categories for all financial assets and liabilities remain the same, except for financial guarantee contracts (see note 1(l)(ii)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised costs (including cash and cash equivalents, pledge bank deposits and trade and other receivables); and

– contract assets as defined in IFRS 15 (see note 1(n));

– financial guarantee contracts issued (see note 1(l)(ii)).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(l).

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, *Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation* (Continued)

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 or at 31 December 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The assessment on the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has adopted IFRS 15 at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, *Revenue from contracts with customers* (Continued)

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of textile products, licensing of drama series and films and provision of services.

b. Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, *Revenue from contracts with customers* (Continued)

b. Significant financing component **(Continued)**

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

The adoption of IFRS 15 does not have a significant impact on how the Group recognises its revenue from sales of textile products, licensing of drama series and films and provision of services.

c. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(x)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 1(n)).

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

(i) "trade debtors" amounting to RMB29,853,000 which was previously included in trade and other receivables (note 21) are now included under contract assets (note 20(a)); and

(ii) "advances received" amounting to RMB9,366,000 which was previously included in trade and other payables (note 24) are now included under contract liabilities (note 20(b)).

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, *Revenue from contracts with customers* (Continued)

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15	Hypothetical amounts under IAS 18	Difference: Estimated impact of adoption of IFRS 15 on 2018
	(A)	(B)	(A)-(B)
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Trade and other payables	268,954	280,187	(11,233)
Contract liabilities	11,233	–	11,233
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 (note 23(b)) impacted by the adoption of IFRS 15			
Increase in trade and other payables	89,496	100,729	(11,233)
Increase in contract liabilities	11,233	–	11,233

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

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

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

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

1 Significant accounting policies (Continued)

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

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

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

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

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

(e) Associates

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

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

1 Significant accounting policies (Continued)

(e) Associates (Continued)

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

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

(f) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

1 Significant accounting policies (Continued)

(g) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss.

For an explanation of how the Group determines fair value of financial instruments, see note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(x)(v)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1 Significant accounting policies (Continued)

(g) Other investments in equity securities (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above category were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling).

When the investments were derecognised or impaired (see note 1(l)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(h) Derivative financial instruments

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

1 Significant accounting policies (Continued)

(i) Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

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

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

1 Significant accounting policies (Continued)

(i) Property, plant and equipment (Continued)

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

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

(j) Intangible assets (other than goodwill)

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

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

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

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

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

1 Significant accounting policies (Continued)

(k) Leased assets (Continued)

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

– contract assets as defined in IFRS 15 (see note 1(n));

Financial assets measured at fair value, including equity securities measured at FVPL, are not subject to the ECL assessment.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) *Policy applicable from 1 January 2018* (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 **(Continued)**

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(x)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

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

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

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

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

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

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

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

(B) Policy applicable prior to 1 January 2018 **(Continued)**

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued (Continued)

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(l)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets

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

– property, plant and equipment;

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

– intangible assets;

– goodwill;

– interest in an associate;

– drama series and films; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– ***Calculation of recoverable amount***

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

– ***Recognition of impairment losses***

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

1 Significant accounting policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

– ***Reversals of impairment losses***

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

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

(m) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

1 Significant accounting policies (Continued)

(m) Inventories and other contract costs (Continued)

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(m)(i)), drama series and films (see note 1(o)), or property, plant and equipment (see note 1(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, drama series and films or property, plant and equipment, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 1(x).

1 Significant accounting policies (Continued)

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(x)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(p)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(x)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(p)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(x)).

(o) Drama series and films

Drama series and films represent completed drama series and films, and drama series and films in production.

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

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

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(l)(i)).

1 Significant accounting policies (Continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(l)(i).

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(l)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(z)).

(t) Convertible bonds

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

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

If the bonds are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and host liability components are recognised in profit or loss. If the bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

1 Significant accounting policies (Continued)

(u) Employee benefits

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

(v) Income tax

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

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

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

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

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

1 Significant accounting policies (Continued)

(v) Income tax (Continued)

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

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

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

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

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

  - the same taxable entity; or

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

(w) Provisions and contingent liabilities

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

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

1 Significant accounting policies (Continued)

(x) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of textile products

Revenue arising from the sale of textile products is recognised when the customer takes possession of and accepts the products.

(ii) Licensing of drama series and films

Revenue arising from the licensing of drama series and films is recognised when the customer takes possession of and accepts the drama series and films in accordance with the terms of the contracts.

(iii) Provision of services

Revenue arising from provision of services, and a corresponding contract asset (see note 1(n)), are recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see note 1(p)).

(iv) Rental income from operating leases

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

(v) Interest income

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

1 Significant accounting policies (Continued)

(x) Revenue and other income (Continued)

(vi) Government grants

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

(y) Translation of foreign currencies

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

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

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

(z) Borrowing costs

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

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

(aa) Discontinued operation

A discontinued operation is a component of the Group's business, the operation 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 geographical area of operations, or is part of a single coordinated 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.

1 Significant accounting policies (Continued)

(aa) Discontinued operation (Continued)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised 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.

(bb) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

1 Significant accounting policies (Continued)

(bb) Related parties (Continued)

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

(cc) Segment reporting

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

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

2 Accounting judgement and estimates

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

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

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

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

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

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

2 Accounting judgement and estimates (Continued)

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

The Group does not have any equity interest in Beijing Star Rise and Beijing Star Rise Pictures. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Beijing Star Rise and Beijing Star Rise Pictures and has the ability to affect those returns through its power over Beijing Star Rise and Beijing Star Rise Pictures and is considered to control Beijing Star Rise and Beijing Star Rise Pictures respectively. Consequently, the Company regards Beijing Star Rise and Beijing Star Rise Pictures, and their subsidiaries as indirect subsidiaries. The Group has consolidated the financial position and results after the completion of acquisition of Beijing Star Rise and Beijing Star Rise Pictures, and their subsidiaries in the consolidated financial statements of the Group for the year ended 31 December 2018.

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

(b) Sources of estimation uncertainty

Notes 14 and 30 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key source of estimation uncertainty are as follows:

(i) Impairment of non-current assets

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

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

2 Accounting judgement and estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(ii) Depreciation and amortisation

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

(iii) Expected credit losses for trade receivables

The impairment provisions for trade receivables are based on assumptions about the 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. For details of the key assumptions and inputs used, see Note 30(a). Changes in these assumptions and estimated could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the profit or loss.

(iv) Net realisable value of inventories

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

(v) Drama series and films

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

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

2 Accounting judgement and estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(vi) Taxation

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

3 Revenue and segment report

(a) Revenue

The principal activities of the Group are (i) manufacturing and sales of textile products and provision of related processing service, as well as (ii) production, distribution and licensing of drama series and films. Further details regarding the Group's principal activities are disclosed in note 3(b).

Disaggregation of revenue from contracts with customers by major products or service lines is as follow:

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
		(Note)		*(Note)*		*(Note)*
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from contracts with customers within the scope of IFRS 15						
Disaggregated by major products or service lines						
– Sales of textile products	**581,717**	383,375	**–**	249,216	**581,717**	632,591
– Licensing of drama series and films	**247,924**	40,348	**–**	–	**247,924**	40,348
– Provision of textile products processing services	**27,326**	28,654	**–**	22,450	**27,326**	51,104
– Provision of drama series and films production, distribution and related services	**104,402**	36,781	**–**	–	**104,402**	36,781
	961,369	489,158	**–**	271,666	**961,369**	760,824

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 (see note 1(c)(ii)).

3 Revenue and segment report (Continued)

(a) Revenue (Continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b)(i).

The Group's customer base is diversified and includes only one customer (2017: Nil) with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2018. In 2018 revenues from sales of textile products to this customer amounted to approximately RMB152,004,000. Details of concentrations of credit risk are set out in note 30(a)).

(b) Segment reporting

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

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

The Group disposed a subgroup of textile segment which is principally engaged in manufacture and sale of dobby grey fabrics on 5 November 2017. The results of the disposed subgroup of textile segment for the period from 1 January 2017 to 5 November 2017 was classified as a discontinued operation accordingly.

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

3 Revenue and segment report (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets. Segment liabilities include trade creditors, accruals, bills payable and other payables attributable to the segments and borrowings managed directly by the segments.

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

The measure used for reporting segment results is "adjusted profit/(loss) before taxes". To arrive at adjusted profit/(loss) before taxes, the Group's profit/(loss) are adjusted for items not specifically attributed to individual segments, such as net finance cost relating to the convertible bonds and fair value change of derivatives embedded in convertible bonds, and impairments resulting from isolated, non-recurring events, such as impairment of goodwill.

In addition to receiving segment information concerning adjusted profit/(loss) before taxes, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

3 Revenue and segment report (Continued)

(b) Segment reporting (Continued)

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Continuing operations				Discontinued operation			
	Textile		Media		Textile		Total	
	2018	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Disaggregated by timing of revenue recognition								
Point in time	**581,717**	383,375	**278,119**	41,870	**–**	249,216	**859,836**	674,461
Over time	**27,326**	28,654	**74,207**	35,259	**–**	22,450	**101,533**	86,363
Revenue from external customers	**609,043**	412,029	**352,326**	77,129	**–**	271,666	**961,369**	760,824
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**609,043**	412,029	**352,326**	77,129	**–**	271,666	**961,369**	760,824
Reportable segment result (adjusted profit/(loss) before taxes)	**11,323**	8,523	**83,084**	(10,013)	**–**	35,065	**94,407**	33,575
Interest income on bank deposits	**199**	126	**6,167**	21	**–**	105	**6,366**	252
Interest on bank loans and other financial liabilities	**8,370**	4,924	**4,487**	5,092	**–**	3,881	**12,857**	13,897
Depreciation and amortisation for the year	**43,610**	41,607	**1,230**	4,568	**–**	14,889	**44,840**	61,064
Reportable segment assets	**714,921**	710,563	**1,349,540**	1,031,688	**–**	–	**2,064,461**	1,742,251
Additions to non-current segment assets during the year	**92,690**	35,214	**69**	528	**–**	–	**92,759**	35,742
Reportable segment liabilities	**279,268**	251,988	**222,925**	190,998	**–**	–	**502,193**	442,986

Note: *The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 (see note 1(c)(ii)).*

3 Revenue and segment report (Continued)

(b) Segment reporting (Continued)

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

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue						
Reportable segment revenue	**961,369**	489,158	**–**	271,666	**961,369**	760,824
Elimination of inter-segment revenue	**–**	–	**–**	–	**–**	–
Consolidated revenue *(note 3(a))*	**961,369**	489,158	**–**	271,666	**961,369**	760,824
Profit/(loss)						
Reportable segment profit/(loss)	**94,407**	(1,490)	**–**	35,065	**94,407**	33,575
Elimination of inter-segment profits	**–**	–	**–**	–	**–**	–
Reportable segment profit/(loss) derived from the Group's external customers	**94,407**	(1,490)	**–**	35,065	**94,407**	33,575
Interest on convertible bonds	**(54,789)**	(68,149)	**–**	–	**(54,789)**	(68,149)
Interest on bonds	**(7,971)**	–	**–**	–	**(7,971)**	–
Change in fair value of derivatives embedded in convertible bonds	**(176,535)**	56,315	**–**	–	**(176,535)**	56,315
Impairment of goodwill	**–**	(76,444)	**–**	–	**–**	(76,444)
Unallocated head office and corporate gain/(expenses) (net)	**12,981**	(18,923)	**–**	–	**12,981**	(18,923)
Consolidated profit/(loss) before taxation	**(131,907)**	(108,691)	**–**	35,065	**(131,907)**	(73,626)

3 Revenue and segment report (Continued)

(b) Segment reporting (Continued)

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

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	**2,064,461**	1,742,251
Elimination of inter-segment receivables	**(100)**	(1,100)
	2,064,361	1,741,151
Unallocated head office and corporate assets	**44,717**	116,272
Consolidated total assets	**2,109,078**	1,857,423
Liabilities		
Reportable segment liabilities	**502,193**	442,986
Elimination of inter-segment payables	**(100)**	(1,100)
	502,093	441,886
Unallocated head office and corporate liabilities	**654,470**	397,580
Consolidated total liabilities	**1,156,563**	839,466

(iii) Geographic information

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

	Continuing operations		Discontinued operation		Total	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
The PRC	**901,609**	442,490	**–**	271,666	**901,609**	714,156
Overseas	**59,760**	46,668	**–**	–	**59,760**	46,668
	961,369	489,158	**–**	271,666	**961,369**	760,824

4 Other net loss

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Change in fair value of derivatives embedded in convertible bonds	**(176,535)**	56,315	**–**	–	**(176,535)**	56,315
Gain on disposal of an associate *(note 16)*	**–**	10,239	**–**	–	**–**	10,239
Impairment of goodwill	**–**	(76,444)	**–**	–	**–**	(76,444)
Net gain on sale of raw materials and scrap materials	**–**	249	**–**	–	**–**	249
Net gain/(loss) on disposal of property, plant and equipment	**2,648**	(783)	**–**	–	**2,648**	(783)
Government grants	**2,512**	4,094	**–**	60	**2,512**	4,154
Net gain from non-equity investments	**201**	1,143	**–**	334	**201**	1,477
Others	**(1,420)**	(1,511)	**–**	(100)	**(1,420)**	(1,611)
	(172,594)	(6,698)	**–**	294	**(172,594)**	(6,404)

5 Loss before taxation

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

(a) Net finance costs

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Interest on convertible bonds	**54,789**	68,149	**–**	–	**54,789**	68,149
Interest on bonds	**7,971**	–	**–**	–	**7,971**	–
Interest on bank loans and other financial liabilities	**12,857**	10,016	**–**	3,881	**12,857**	13,897
Finance charges on obligations under finance leases	**1,757**	31	**–**	–	**1,757**	31
Interest income on bank deposits	**(6,366)**	(147)	**–**	(105)	**(6,366)**	(252)
Net foreign exchange gain	**(6,088)**	(4,877)	**–**	(11)	**(6,088)**	(4,888)
Other finance charges	**551**	566	**–**	32	**551**	598
	65,471	73,738	**–**	3,797	**65,471**	77,535

(b) Staff costs

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Salaries, wages and other benefits	**97,597**	86,590	**–**	30,535	**97,597**	117,125
Contributions to defined contribution retirement plan	**4,932**	4,162	**–**	993	**4,932**	5,155
	102,529	90,752	**–**	31,528	**102,529**	122,280

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the Group is required to make contributions to the Schemes at certain percentages of the eligible employees' salaries for the years ended 31 December 2018 and 2017. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees. The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

5 Loss before taxation (Continued)

(c) Other items

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Note)		*(Note)*		*(Note)*
Amortisation						
– leasehold land	**1,402**	1,402	**–**	–	**1,402**	1,402
– intangible assets	**134**	3,446	**–**	6	**134**	3,452
Depreciation	**43,304**	41,327	**–**	14,883	**43,304**	56,210
Operating lease charges: minimum lease payments for properties	**6,834**	5,467	**–**	–	**6,834**	5,467
Impairments losses						
– goodwill	**–**	76,444	**–**	–	**–**	76,444
– inventories	**344**	692	**–**	–	**344**	692
– drama series and films	**363**	7,000	**–**	–	**363**	7,000
– trade and other receivables	**4,176**	3,565	**–**	160	**4,176**	3,725
Reversal of impairment losses on trade and other receivables	**(652)**	–	**–**	(1,865)	**(652)**	(1,865)
Gain on disposal of an associate	**–**	(10,239)	**–**	–	**–**	(10,239)
Auditors' remuneration						
– audit services	**2,400**	2,200	**–**	–	**2,400**	2,200
– other services	**220**	500	**–**	–	**220**	500
Cost of inventories	**521,263**	343,350	**–**	224,093	**521,263**	567,443
Cost of drama series and films	**210,324**	47,646	**–**	–	**210,324**	47,646

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

6 Income tax

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

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current tax						
Provision for the year	**11,254**	3,509	**–**	4,619	**11,254**	8,128
Deferred tax						
Origination and reversal of temporary differences	**1,202**	183	**–**	–	**1,202**	183
	12,456	3,692	**–**	4,619	**12,456**	8,311

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

(ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the years ended 31 December 2018 and 2017, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.

(iii) For the year ended 31 December 2018, the Group's PRC subsidiaries are subject to income tax rate of 25% (2017: 25%).

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

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

6 Income tax (Continued)

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

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
(Loss)/profit before taxation	**(131,907)**	(108,691)	**–**	35,065	**(131,907)**	(73,626)
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to the profits in the jurisdictions concerned	**24,924**	(28,495)	**–**	3,590	**24,924**	(24,905)
Tax effect of filing difference	**(1,453)**	(509)	**–**	(1,179)	**(1,453)**	(1,688)
Tax effect of non-deductible expenses	**1,259**	28,934	**–**	527	**1,259**	29,461
Tax effect of unused tax losses not recognised	**1,422**	6,201	**–**	72	**1,422**	6,273
Statutory tax concession	**(15,377)**	(2,085)	**–**	–	**(15,377)**	(2,085)
PRC dividend withholding tax	**2,956**	–	**–**	2,200	**2,956**	2,200
Others	**(1,275)**	(354)	**–**	(591)	**(1,275)**	(945)
Income tax expense	**12,456**	3,692	**–**	4,619	**12,456**	8,311

7 Directors' emoluments

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2018 Total RMB'000
Executive directors					
Liu Dong	–	546	–	3	549
Liu Zongjun	–	287	–	6	293
Chen Chen	–	778	–	33	811
He Han	–	973	–	23	996
Tan Bin	–	1,457	–	15	1,472
Independent Non-executive directors					
Lam Kaiyeung	68	–	–	–	68
Gao Gordon Xia[1]	43	–	–	–	43
Wang Liangliang	51	–	–	–	51
Liu Chen Hong[2]	36	–	–	–	36
	198	4,041	–	80	4,319

1 *Resigned on 18 April 2018*
2 *Appointed on 18 April 2018*

7 Directors' emoluments (Continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2017 Total RMB'000
Executive directors					
Liu Dong	–	839	–	4	843
Liu Zongjun	–	441	–	15	456
Chen Chen	–	645	–	21	666
He Han	–	717	–	26	743
Tan Bin	–	1,234	–	15	1,249
Independent Non-executive directors					
Lam Kaiyeung	69	–	–	–	69
Pan Hongye[1]	9	–	–	–	9
Gao Gordon Xia	52	–	–	–	52
Wang Liangliang[2]	43	–	–	–	43
	173	3,876	–	81	4,130

1 *Resigned on 6 March 2017*
2 *Appointed on 6 March 2017*

(i) During the years ended 31 December 2018 and 2017, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

(ii) No directors of the Company waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

(iii) The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the years ended 31 December 2018 and 2017.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments four (2017: five) are directors whose remuneration are disclosed in note 7.

	2018	2017
	RMB'000	RMB'000
Salaries and other emoluments	**480**	–
Retirement scheme contributions	**18**	–
	498	–

In 2018, the emoluments of the one (2017: Nil) individuals with the highest emoluments are within the following band:

	2018	2017
	Number of individuals	Number of Individuals
HKD Nil to HKD1,000,000	**1**	–

9 Acquisition of a subsidiary

On 31 October 2017, the Group obtained control of Beijing Starwise Culture Media Co., Ltd. ("Beijing Starwise Culture Media"), which is principally engaged in promotion of drama series and films in the PRC, by acquiring 100% of its interest of a consideration of RMB30,000,000, which was settled in January 2018.

The net cash inflow of a subsidiary arising from the acquisition amounting to RMB3,446,000 represents the cash and cash equivalents held by Beijing Starwise Culture Media at the date of the acquisition.

10 Discontinued operation

On 5 November 2017, the Company disposed of its entire equity interests in Swift Power Limited, which was a wholly owned subsidiary of the Company, together with its subsidiaries (collectively referred to as the "Disposal Group"). The total consideration for the disposal is RMB145,200,000, among which consideration of RMB29,040,000 was settled in cash during the year ended 31 December 2017. The remaining consideration of RMB116,160,000 was settled in cash in February and March 2018 respectively.

The net cash outflow arising from the disposal of subsidiaries for the year ended 31 December 2017 amounting to RMB50,742,000 represents the cash and cash equivalents held by the Disposal Group of RMB79,782,000 at the date of the disposal, net of the partial consideration received during the year ended 31 December 2017.

The Disposal Group is principally engaged in manufacture and sale of dobby grey fabrics. The consolidated results of the Disposal Group for the period from 1 January 2017 to 5 November 2017 have been presented as discontinued operations in the consolidated financial statements in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The Group has entered into the following material transactions with the Disposal Group during the years ended 31 December 2018 and 2017 (since the completion of the disposal).

(i) During the years of 2018 and 2017, the Group has entered into the following material transactions with the Disposal Group:

	2018	2017
	RMB'000	RMB'000
Sales of goods	**152,004**	15,253
Purchase of goods	**1,251**	–
Rendering of services	**27,434**	342
Gain on disposal of machinery and equipment	**3,169**	–

(ii) As at 31 December 2018 and 2017, the Group had the following balances with the Disposal Group:

	2018	2017
	RMB'000	RMB'000
Trade and other receivables	**31,190**	1,403

10 Discontinued operation (Continued)

(iii) As at 31 December 2018 and 2017, the Group had the following financial guarantees with the Disposal Group:

	2018	2017
	RMB'000	RMB'000
Provision of financial guarantee in respect of bank loans	**20,000**	36,000
Receipt of financial guarantee in respect of bank loans	**167,500**	168,000

11 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share for the year ended 31 December 2018 is based on the following (loss)/profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares, calculated as follows:

(a) (Loss)/profit attributable to ordinary equity shareholders of the Company

	2018	2017
	RMB'000	RMB'000
– From continuing operations	**(144,725)**	(111,565)
– From a discontinued operation *(note 10)*	**–**	30,446
	(144,725)	(81,119)

(b) Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**1,045,749,656**	1,045,749,656
Effect of shares issuance *(note 29(c))*	**188,958,904**	–
Weighted average number of ordinary shares at 31 December	**1,234,708,560**	1,045,749,656

For the years ended 31 December 2018 and 2017, no adjustment is made in relation to the Company's outstanding convertible bonds as their assumed conversion would decrease the basic loss per share.

12 Property, plant and equipment and leasehold land

(a) Reconciliation of carrying amount

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2017	184,473	793,012	12,550	9,529	25,046	1,024,610	70,010	1,094,620
Additions	47	19,771	1,247	615	13,973	35,653	89	35,742
Acquisition of a subsidiary	–	–	57	–	–	57	–	57
Disposal of subsidiaries	(25,307)	(184,198)	(329)	(3,040)	(138)	(213,012)	–	(213,012)
Transfer from construction in progress	34,452	101	–	–	(34,553)	–	–	–
Disposals	–	(6,367)	(264)	(4)	–	(6,635)	–	(6,635)
At 31 December 2017	193,665	622,319	13,261	7,100	4,328	840,673	70,099	910,772
At 1 January 2018	**193,665**	**622,319**	**13,261**	**7,100**	**4,328**	**840,673**	**70,099**	**910,772**
Additions	**1,189**	**27,725**	**826**	**1,094**	**61,925**	**92,759**	**–**	**92,759**
Transfer from construction in progress	**3,979**	**56,046**	**–**	**–**	**(60,107)**	**(82)**	**82**	**–**
Disposals	**–**	**(70,880)**	**(738)**	**(836)**	**–**	**(72,454)**	**–**	**(72,454)**
At 31 December 2018	**198,833**	**635,210**	**13,349**	**7,358**	**6,146**	**860,896**	**70,181**	**931,077**
Accumulated depreciation and amortisation:								
At 1 January 2017	(45,141)	(505,995)	(10,688)	(7,038)	–	(568,862)	(5,729)	(574,591)
Charge for the year	(8,759)	(45,856)	(859)	(736)	–	(56,210)	(1,402)	(57,612)
Disposal of subsidiaries	10,904	156,566	241	2,735	–	170,446	–	170,446
Written back on disposals	–	3,266	118	3	–	3,387	–	3,387
At 31 December 2017	(42,996)	(392,019)	(11,188)	(5,036)	–	(451,239)	(7,131)	(458,370)
At 1 January 2018	**(42,996)**	**(392,019)**	**(11,188)**	**(5,036)**	**–**	**(451,239)**	**(7,131)**	**(458,370)**
Charge for the year	**(9,436)**	**(32,299)**	**(1,055)**	**(514)**	**–**	**(43,304)**	**(1,402)**	**(44,706)**
Written back on disposals	**–**	**63,269**	**680**	**752**	**–**	**64,701**	**–**	**64,701**
At 31 December 2018	**(52,432)**	**(361,049)**	**(11,563)**	**(4,798)**	**–**	**(429,842)**	**(8,533)**	**(438,375)**
Net book value:								
At 31 December 2018	**146,401**	**274,161**	**1,786**	**2,560**	**6,146**	**431,054**	**61,648**	**492,702**
At 31 December 2017	150,669	230,300	2,073	2,064	4,328	389,434	62,968	452,402

12 Property, plant and equipment and leasehold land (Continued)

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

	2018	2017
	RMB'000	RMB'000
Properties held in the PRC		
– medium-term leases	**214,195**	217,965
Representing:		
– Buildings	**146,401**	150,669
– Construction in progress	**6,146**	4,328
– Interests in leasehold land held for own use under operating leases	**61,648**	62,968

(c) Property, plant and equipment and leasehold land with aggregate net book value of RMB6,181,000 (2017: RMB6,449,000) are pledged to secure certain bank loans of the Group totalling RMB90,000,000 as at 31 December 2018 (2017: RMB90,000,000).

(d) As at 31 December 2018, the ownership certificates for buildings with net book value of RMB100,869,000 (2017: RMB96,399,000) have not been obtained. The directors confirmed that the Group has the right to access and use such buildings.

(e) Assets held under finance leases

The Group leases machinery and equipment under finance leases expiring in 2021. The obligations under finance leases amounted to RMB24,174,000 (2017: RMB nil) as at 31 December 2018, of which RMB11,973,000 (2017: RMB nil) is repayable after one year. At the end of the lease term, the Group has the option to purchase the leased machinery at a price deemed to be a bargain purchase option. None of the leases include contingent rentals. As at 31 December 2018, the net book value of machinery and equipment held under finance leases was RMB4,360,000 (2017: RMB nil).

13 Intangible assets

	Non-competition agreement RMB'000	Patents and trademarks RMB'000	Computer software RMB'000	Total RMB'000
Cost:				
At 1 January 2017	7,000	50	283	7,333
Disposal of subsidiaries	–	–	(51)	(51)
At 31 December 2017	7,000	50	232	7,282
At 1 January 2018	**7,000**	**50**	**232**	**7,282**
Additions	**–**	**–**	**1,186**	**1,186**
At 31 December 2018	**7,000**	**50**	**1,418**	**8,468**
Accumulated amortisation:				
At 1 January 2017	(3,578)	(50)	(229)	(3,857)
Charge for the year	(3,422)	–	(30)	(3,452)
Disposal of subsidiaries	–	–	44	44
At 31 December 2017	(7,000)	(50)	(215)	(7,265)
At 1 January 2018	**(7,000)**	**(50)**	**(215)**	**(7,265)**
Charge for the year	**–**	**–**	**(134)**	**(134)**
At 31 December 2018	**(7,000)**	**(50)**	**(349)**	**(7,399)**
Net book value:				
At 31 December 2018	**–**	**–**	**1,069**	**1,069**
At 31 December 2017	–	–	17	17

13 Intangible assets (Continued)

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

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

14 Goodwill

	2018	2017
	RMB'000	RMB'000
Cost:		
At 1 January	**517,919**	499,471
Additions	**–**	18,448
At 31 December	**517,919**	517,919
Accumulated impairment losses:		
At 1 January	**(76,444)**	–
Impairment loss	**–**	(76,444)
At 31 December	**(76,444)**	(76,444)
Carrying amount:		
At 1 January	**441,475**	499,471
At 31 December	**441,475**	441,475

14 Goodwill (Continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:

	2018 RMB'000	2017 RMB'000
Beijing Huasheng and its subsidiaries	**354,452**	354,452
Star Will Investments Ltd. and its subsidiaries	**62,181**	62,181
Beijing Starwise Culture Media	**18,448**	18,448
Zibo Yinshilai Textile Co., Ltd.	**6,394**	6,394
At 31 December	**441,475**	441,475

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a long-term growth rate estimated by management. The growth rates used do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

The key assumptions used in the estimation of value in use are as follows. The values assigned to the key assumptions represent management's assessment of future trends in the relevant businesses and have been based on historical data from both external and internal sources.

	Discount rate		Budgeted gross margin		Long-term growth rate	
	2018	2017	**2018**	2017	**2018**	2017
Beijing Huasheng and its subsidiaries	**21%**	21%	**43%**	36%	**3%**	3%
Star Will Investments Ltd. and its subsidiaries	**22%**	21%	**35%**	37%	**3%**	3%
Beijing Starwise Culture Media	**22%**	30%	**26%**	33%	**3%**	3%
Zibo Yinshilai Textile Co., Ltd.	**11%**	13%	**17%**	17%	**3%**	3%

The discount rates used are pre-tax and reflect specific risks relating to the relevant businesses.

The budgeted gross margins represent the average gross margin over the five-year forecast period, and are based on past performance and management's expectations for the future.

The long-term growth rates are determined as the lower of the long-term weighted average growth rate estimated by management and the long-term average growth rates for the businesses in which the CGUs operate.

The impairment loss recognised during the year ended 31 December 2017 solely relates to Beijing Huasheng and its subsidiaries. As the CGU had been reduced to its recoverable amount of RMB354,452,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

(Expressed in Renminbi Yuan unless otherwise indicated)

15 Investments in subsidiaries

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

				Proportion of ownership interest			
Name of company	*Note*	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Held by Principal activities**
Power Fit Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	–	Investment holding
Solid Will Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	–	Investment holding
Star Will Investments Ltd.		The British Virgin Islands	1 share of USD1 each	100%	100%	–	Investment holding
YSL (HK) Ltd.		Hong Kong	1 share of HKD1 each	100%	–	100%	Investment holding
Star Rise Investments Ltd.		Hong Kong	1 share of HKD1 each	100%	–	100%	Investment holding
Star Will Investments (HK) Ltd.		Hong Kong	1 share of HKD1 each	100%	–	100%	Investment holding
Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司)	*(i)*	The PRC	USD17,400,000	100%	–	100%	Manufacturing and sales of textile products
Zibo Yinshilai Textile New Material Technology Co., Ltd. (淄博銀仕來紡織新材料科技有限公司)	*(i)*	The PRC	RMB60,000,000	100%	–	100%	Manufacturing and sales of textile products
Beijing Star Rise Culture Media Co., Ltd. (北京星宏文化傳媒有限公司)	*(i)*	The PRC	Registered capital of USD50,000,000 and paid-in capital of USD25,580,000	100%	–	100%	Investment holding
Shenzhen Star Rise Film and TV Guarantee Co., Ltd. (深圳市星宏影視擔保有限公司)	*(i)*	The PRC	Registered capital of RMB100,000,000 and paid-in capital of RMB100,000,000	100%	–	100%	Drama series and films production, investment and guarantee

(Expressed in Renminbi Yuan unless otherwise indicated)

15 Investments in subsidiaries (Continued)

Name of company	*Note*	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Held by Principal activities
Beijing Star Rise Culture Development Co., Ltd. (北京星宏文化發展有限公司)	*(i) (ii)*	The PRC	RMB5,000,000	100%	–	–	Investment holding
Beijing Huasheng Taitong Media Investment Co., Ltd.("Beijing Huasheng") (北京華晟泰通傳媒投資有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB100,050,000 and paid-in capital of RMB100,050,000	100%	–	–	Drama series and films production and distribution
Huasheng Taitong (Tianjin) Media Culture Co., Ltd. (華晟泰通(天津)影視文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB5,000,000	100%	–	–	Drama series and films production and distribution
Horgos Star Rise Culture Media Co., Ltd. (霍爾果斯星宏文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB10,000,000	100%	–	–	Drama series and films production and distribution
Leiyu (Shanghai) Artists Agency Co., Ltd. (雷宇(上海)演藝經紀有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital of RMB Nil	100%	–	–	Provision of performer agency service and event planning service
Yongming (Shanghai) Media Culture Co., Ltd. (勇明(上海)影視文化有限公司)	*(i)(ii)*	The PRC	RMB5,000,000	100%	–	–	Leasing of equipment, costumes and props relating to drama series and films production
Shenzhen Star Rise Culture Media Co., Ltd. (深圳市星宏文化傳媒有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB10,000,000 and paid-in capital of RMB Nil	100%	–	–	Drama series and films production and distribution
Beijing Star Will Pictures Co., Ltd. (北京星途影視文化有限公司)	*(i)*	The PRC	Registered capital of USD150,000 and paid-in capital of USD Nil	100%	–	100%	Investment holding
Beijing Star Rise Pictures Co., Ltd. (北京星宏影視文化有限公司)	*(i) (ii)*	The PRC	RMB10,000,000	100%	–	–	Drama series and films production and distribution

(Expressed in Renminbi Yuan unless otherwise indicated)

15 Investments in subsidiaries (Continued)

				Proportion of ownership interest			
Name of company	*Note*	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Held by Principal activities
Horgos Yingsheng Film and TV Culture Co., Ltd. (霍爾果斯瀛晟影視文化有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB10,000,000 and paid-in capital of RMB8,000,000	100%	–	–	Drama series and films production and distribution
Beijing Yongming Media Culture Co., Ltd. (北京勇明影視文化有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital of RMB Nil	100%	–	–	Leasing of equipment, costumes and props relating to drama series and films production
Beijing Starwise Culture Media Co., Ltd. (北京睿博星辰文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB10,000,000	100%	–	–	Provision of advertisement and promotion service relating to drama series and films
Horgos Star Rise Dacheng Culture Development Co., Ltd. (霍爾果斯星宏大成文化發展有限公司)	*(i) (ii)*	The PRC	Registered capital of RMB5,000,000 and paid-in capital of RMB3,000,000	60%	–	–	Provision of training service relating to costume design and makeup
Ningbo Yuanning Culture Media Co., Ltd. (寧波原甯文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB3,000,000	100%	–	–	Drama series and films production and distribution
Hongjiang District Yuanning Culture Media Co., Ltd. (洪江區原甯文化傳媒有限公司)	*(i) (ii)*	The PRC	RMB500,000	100%	–	–	Drama series and films production and distribution

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

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

15 Investments in subsidiaries (Continued)

The following table lists out the information relating to Star Will Investments Ltd. and its subsidiaries, and Horgos Star Rise Dacheng Culture Development Co. Ltd., which were acquired or established by the Group and have material non-controlling interests (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

On 2 November 2018, the Group acquired the remaining 35% equity interests in Star Will Investments Ltd. at a cash consideration of RMB45,395,000. The Group's effective interests in Star Will Investments Ltd. were changed from 65% to 100% upon the completion of the acquisition.

	Star Will Investments Ltd. and its subsidiaries		Horgos Star Rise Dacheng Culture Development Co., Ltd.		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
NCI percentage	**0%**	35%	**40%**	40%	**40%**	35% – 40%
Current assets	**–**	63,433	**4,987**	3,611	**4,987**	67,044
Non-current assets	**–**	879	**–**	–	**–**	879
Current liabilities	**–**	(39,380)	**(3,005)**	(1,025)	**(3,005)**	(40,405)
Net assets	**–**	24,932	**1,982**	2,586	**1,982**	27,518
Carrying amount of NCI	**–**	8,726	**(407)**	(165)	**(407)**	8,561
Revenue	**28,655**	18,705	**–**	–	**28,655**	18,705
Profit/(loss) for the year	**1,724**	(1,865)	**(604)**	(414)	**1,120**	(2,279)
Total comprehensive income	**1,724**	(1,865)	**(604)**	(414)	**1,120**	(2,279)
Profit/(loss) allocated to NCI	**604**	(653)	**(242)**	(165)	**362**	(818)
Cash flows (used in)/generated from operating activities	**(25,583)**	(6,368)	**76**	(389)	**(25,507)**	(6,757)
Cash flows generated from/(used in) investing activities	**27**	(40)	**–**	–	**27**	(40)
Cash flows generated from financing activities	**27,400**	6,460	**–**	512	**27,400**	6,972

(Expressed in Renminbi Yuan unless otherwise indicated)

16 Interests in associates

The particulars of associates are listed as follow:

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

Note (i) The official names of the entities are in Chinese. The English translations of the names are for reference only.

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

The Group's interest in Hubei Changjiang Huasheng Television Co., Ltd. is held by Beijing Huasheng Taitong Media Investment Co., Ltd., a subsidiary arising from contractual agreements.

Note (iii) In December 2017, the Group disposed 30% equity interests in China Sports Insurance Broker Co., Ltd. at a consideration of RMB12,000,000, of which RMB6,000,000 and RMB6,000,000 were settled in December 2017 and January 2018 respectively.

16 Interests in associates (Continued)

Summarised financial information of associates, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below. The information for 2017 includes the results of China Sports Insurance Broker Co., Ltd. only for the period from 1 January to the date of disposal.

	Hubei Changjiang Huasheng Television Co., Ltd.		China Sports Insurance Broker Co., Ltd.		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Gross amounts of associates						
Current assets	**154,647**	77,745	**–**	–	**154,647**	77,745
Non-current assets	**217**	54	**–**	–	**217**	54
Current liabilities	**(123,162)**	(84,765)	**–**	–	**(123,162)**	(84,765)
Non-current liabilities	**(86,000)**	–	**–**	–	**(86,000)**	–
Equity	**54,298**	6,966	**–**	–	**54,298**	6,966
Revenue	**20,490**	18,323	**–**	11,669	**20,490**	29,992
(Loss)/profit from continuing operations and (loss)/profit for the year	**(47,332)**	(22,865)	**–**	2,204	**(47,332)**	(20,661)
Other comprehensive income	**–**	–	**–**	–	**–**	–
Total comprehensive income	**(47,332)**	(22,865)	**–**	2,204	**(47,332)**	(20,661)
Reconciled to the Group's interest in associates						
Gross amounts of the associate's net assets	**54,298**	6,966	**–**	–	**54,298**	6,966
Group's effective interest	**40%**	40%	**–**	–	**40%**	40%
Group's share of the associate's net assets and carrying amount in the consolidated financial statements	**–**	–	**–**	–	**–**	–
Gross amount of the associates' (loss)/profit and total comprehensive income	**(47,332)**	(22,865)	**–**	2,204	**(47,332)**	(20,661)
Group's effective interest	**40%**	40%	**–**	30%	**40%**	30% – 40%
Group's share of the associates' (loss)/profit in consolidated statement of profit or loss	**–**	(6,359)	**–**	661	**–**	(5,698)

The Group has not recognised losses totalling RMB21,719,000 for the year ended 31 December 2018 (2017: RMB2,787,000) in relation to its interests in Hubei Changjiang Huasheng Television Co., Ltd., because the Group has no obligation in respect of these losses.

17 Investments in equity securities

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Financial assets measured at FVPL			
– Unlisted equity securities	**–**	1,000	–
Available-for-sale financial assets			
– Unlisted equity securities	**–**	–	1,000
	–	1,000	1,000

Notes:

(i) Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the initial application of IFRS 9 at 1 January 2018.

(ii) At 31 December 2017, the unlisted equity securities were recognised in the consolidated statement of financial position at cost less impairment losses, if any, in respect of that these investments did not have quoted prices in an active market for identical instruments and whose fair value cannot be reliably measured.

At 1 January 2018, costs of the unlisted equity securities were used as approximations of their fair values, as the most recent available information was not sufficient to determine the fair value.

(iii) The unlisted equity securities were disposed during the year ended 31 December 2018.

18 Inventories

Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Raw materials	**46,102**	52,113
Work in progress	**41,724**	34,800
Finished goods	**52,294**	44,224
	140,120	131,137

18 Inventories (Continued)

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**521,263**	566,751
Write down of inventories	**344**	692
	521,607	567,443

19 Drama series and films

	2018 RMB'000	2017 RMB'000
Drama series and films		
– in production	**152,136**	115,822
– completed production	**80,185**	92,925
	232,321	208,747
Impairment losses	**(7,363)**	(7,000)
	224,958	201,747

20 Contract assets and contract liabilities

(a) Contract assets

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets			
– Arising from provision of drama series production services	**–**	29,853	–
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" *(note 21)*	**250,695**	75,459	

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period, were reclassified from "Trade debtors and bills receivable" under "Trade and other receivables" to contract assets (see note 1(c)(ii)).

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The consideration is payable on the earlier of the delivery of the drama series and notice from the customer to cancel the contract. If the customer cancels the contract then the Group is immediately entitled to receive payment for work done to date.

As at 31 December 2018, no contract assets is expected to be recovered after more than one year (2017: RMB nil).

20 Contract assets and contract liabilities (Continued)

(b) Contract liabilities

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities			
– Advance received for selling textile	**9,450**	6,985	–
– Advance received for selling drama series and films	**1,783**	2,381	–
	11,233	9,366	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, amounts previously included "advance payment received from customers" as under "Trade and other payables" (note 24) were reclassified to contract liabilities (see note 1(c)(ii)).

(iii) Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives advance payments from certain customers before the relevant production activity commences this will give rise to contract liabilities at the start of a contract, until the relevant revenue recognised exceeds the amount of the advance received.

Movements in contract liabilities

	2018 RMB'000
Balance at 1 January	**9,366**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(7,583)**
Increase in contract liabilities as a result of advance received from customers during the year in respect of textile products, drama series and films still under production as at 31 December 2018	**9,450**
Balance at 31 December	**11,233**

As at 31 December 2018, no contract liabilities is expected to be recognised as income after more than one year (2017: RMB1,783,000, which were included under "trade and other payables").

21 Trade and other receivables

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade debtors and bills receivable, net of loss allowance *(note 21(a))*	*(i)*	**251,213**	75,459	105,312
Deposits, prepayments and other receivables *(note 21(b))*		**236,105**	325,393	325,393
Amount due from an associate *(note 33(b))*		**23,961**	9,546	9,546
		511,279	410,398	440,251
Other receivables expected to be collected or recognised as expense after more than one year		**(10,799)**	(2,984)	(2,984)
Trade and other receivables expected to be recovered or recognised as expense within one year		**500,480**	407,414	437,267

Note:

(i) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones, were reclassified to "contract assets" and disclosed in note 20 (see note 1(c)(ii)).

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Current	**241,982**	61,085
Less than 3 months past due	**4,603**	7,081
3 to 6 months past due	**1,742**	4,179
6 to 12 months past due	**2,011**	32,967
1 to 2 years past due	**875**	–
Amounts past due	**9,231**	44,227
	251,213	105,312

Trade debtors and bills receivables are due within 1 to 6 months from the date of billing. Further details on the Group's credit policy are set out in note 30.

21 Trade and other receivables (Continued)

(b) Deposits, prepayments and other receivables

	Note	2018 RMB'000	2017 RMB'000
Prepayments and advances relating to drama series and films		**90,261**	138,660
Prepayments relating to purchases of raw materials		**5,449**	26,536
Other receivables relating to disposal of subsidiaries	*(i)*	**–**	116,160
Other receivables relating to disposal of an associate	*(ii)*	**–**	6,000
Advances to third parties	*(iii)*	**127,287**	24,006
Deferred expenses		**3,795**	3,388
Value-added tax recoverable		**672**	1,742
Prepayments relating to purchases of property, plant and equipment		**1,071**	145
Others		**7,570**	8,756
		236,105	325,393

Notes:

(i) The balance represents the outstanding portion of consideration for the disposal of equity interests in Swift Power Limited and its subsidiaries during the year end 31 December 2017, which was subsequently settled in February and March 2018 respectively.

(ii) The balance represents the consideration receivable for the disposal of an associate during the year ended 31 December 2017, which was subsequently settled in January 2018.

(iii) As at 31 December 2018, advances to third parties of RMB82,808,000 are unsecured, interest-bearing at 8%– 36% per annum and repayable within one year. Other advances to third parties as at 31 December 2018 are unsecured, interest-free and repayable on demand.

As at 31 December 2017, advances to third parties of RMB17,793,000 are unsecured, interest-bearing at 8% per annum and repayable within one year. Other advances to third parties as at 31 December 2017 are unsecured, interest-free and repayable on demand.

22 Pledged bank deposits

Pledged bank deposits are analysed as follows:

	2018	2017
	RMB'000	RMB'000
Guarantee deposits for issuance of commercial bills and bank acceptance	**11,000**	10,014
Fixed bank deposits pledged for bank loans	**–**	22,870
	11,000	32,884

23 Cash and cash equivalents

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

	2018	2017
	RMB'000	RMB'000
Bank deposits	**282,658**	155,533
Cash in hand	**2,031**	65
Cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement	**284,689**	155,598

As at 31 December 2018, the Group's cash and cash equivalents of RMB96,020,000 (2017: RMB35,413,000) are denominated in RMB.

23 Cash and cash equivalents (Continued)

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

	Note	2018 RMB'000	2017 RMB'000
Loss before taxations, including discontinued operation		**(131,907)**	(73,626)
Adjustments for:			
Depreciation	*5(c)*	**43,304**	56,210
Amortisation	*5(c)*	**1,536**	4,854
Impairment of goodwill	*5(c)*	**–**	76,444
Impairment losses on drama series and films	*5(c)*	**363**	7,000
Impairment losses on inventories	*5(c)*	**344**	692
Net impairment losses on trade and other receivables	*5(c)*	**3,524**	1,860
Interest income	*5(a)*	**(6,366)**	(252)
Share of losses less profits of associates	*16*	**–**	5,698
Change in fair value of derivatives embedded in convertible bonds	*4*	**176,535**	(56,315)
Gain on disposal of subsidiaries	*10*	**–**	(31,921)
Gain on disposal of an associate	*4*	**–**	(10,239)
Gain on disposal of investment in equity securities		**–**	(3)
Net gain from non-equity investments	*4*	**(201)**	(1,477)
Finance costs		**77,925**	86,077
Net (gain)/loss on disposal of property, plant and equipment	*4*	**(2,648)**	783
Foreign exchange gain		**(3,842)**	(22,797)
		158,567	42,988
Changes in working capital:			
Increase in inventories		**(9,327)**	(7,099)
Increase in drama series and films		**(23,574)**	(89,855)
Increase in trade and other receivables		**(177,842)**	(112,337)
Increase in trade and other payables		**86,425**	18,983
Increase in contract liabilities		**11,233**	–
Increase in guarantee deposits for issuance of commercial bills and bank acceptance		**(986)**	(9,919)
Cash generated from/(used in) operations		**44,496**	(157,239)

23 Cash and cash equivalents (Continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans	Convertible bonds	Finance leases	Advance from third parties	Bonds	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 25)	*(Note 26)*	*(Note 27)*		*(Note 26)*	
At 1 January 2018	201,250	389,331	–	32,626	–	623,207
Changes from financing cash flows:						
Capital element of finance lease rentals paid	–	–	24,174	–	–	24,174
Proceeds from bank loans	180,500	–	–	–	–	180,500
Repayment of bank loans	(201,250)	–	–	–	–	(201,250)
Payments for redemption of convertible bonds	–	(178,424)	–	–	–	(178,424)
Proceeds from issuance of bonds payable	–	–	–	–	191,315	191,315
Repayment of advance from third parties	–	–	–	(32,626)	–	(32,626)
Proceeds for advance from third parties	–	–	–	24,000	–	24,000
Interest element of finance lease rentals paid	–	–	(1,757)	–	–	(1,757)
Other borrowing costs paid	(7,908)	(22,645)	–	(4,949)	–	(35,502)
Total changes from financing cash flows	(28,658)	(201,069)	22,417	(13,575)	191,315	(29,570)
Exchange adjustments	–	6,922	–	–	15,030	21,952
Changes in fair value	–	176,536	–	–	–	176,536
Other changes:						
Finance charges on obligations under finance leases *(note 5(a))*	–	–	1,757	–	–	1,757
Interest on bank loans and other financial liabilities *(note 5(a))*	7,908	54,789	–	4,949	7,971	75,617
Total other changes	7,908	54,789	1,757	4,949	7,971	77,374
At 31 December 2018	**180,500**	**426,509**	**24,174**	**24,000**	**214,316**	**869,499**

24 Trade and other payables

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade creditors and bills payable *(note 24(a))*	**45,920**	36,458	36,458
Receipts in advance *(Note)*	**29,439**	33,555	42,921
Other creditors and accrued charges *(note 24(b))*	**193,595**	150,661	150,661
	268,954	220,674	230,040

Note: As a result of the adoption of IFRS 15, advances received from customers are included in contract liabilities and disclosed in note 20 (b) (see note 1(c)(ii)).

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

(a) Ageing analysis

As of the end of the reporting period, the aging of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Due within 3 months or on demand	**33,860**	26,041
Due after 3 months but within 6 months	**8,275**	7,176
Due after 6 months but within 12 months	**3,785**	3,241
	45,920	36,458

(b) Other creditors and accrued charges

	Note	**2018 RMB'000**	2017 RMB'000
Advances from third parties	*(i)*	**24,000**	32,626
Payables relating to acquisition of a subsidiary	*(ii)*	**–**	30,000
Payables relating to drama series and films		**88,055**	24,618
Tax payable other than income tax		**36,085**	21,297
Accrued charges		**19,351**	17,865
Payables relating to purchases of property, plant and equipment		**8,287**	9,801
Other payables		**17,817**	14,454
		193,595	150,661

24 Trade and other payables (Continued)

(b) Other creditors and accrued charges (Continued)

Note:

(i) *As at 31 December 2018, advances from third parties of RMB22,000,000 (2017: RMB30,000,000) are unsecured, interest bearing at 8% per annum and repayable within one year. Other advances from third parties are unsecured, interest-free and had no fixed repayment terms or repayable within one year.*

(ii) *The balance represents the consideration payable for the acquisition of a subsidiary, which was settled in January 2018.*

25 Bank loans

As at 31 December 2018, the bank loans were repayable as follows:

	2018	2017
	RMB'000	RMB'000
Within 1 year	**180,500**	201,250

As at 31 December 2018, the bank loans were secured as follows:

		2018	2017
	Note	**RMB'000**	RMB'000
Bank loans			
– secured	*(a)*	**90,000**	113,250
– unsecured	*(b)*	**90,500**	88,000
		180,500	201,250

(a) *As at 31 December 2018, the banking facilities of the Group were secured by fixed bank deposits of RMB Nil (2017: USD3,500,000, equivalent to RMB22,870,000), and machinery and equipment with an aggregate carrying value of RMB6,181,000 (2017: RMB6,449,000) and were guaranteed by the Disposal Group. Such banking facilities amounted to RMB90,000,000 (2017: RMB113,250,000). The facilities were utilised to the extent of RMB90,000,000 (2017: RMB113,250,000).*

(b) *Included in unsecured bank loans at 31 December 2018, RMB77,500,000 (2017: RMB78,000,000) of the loans were guaranteed by the Disposal Group and RMB20,000,000 (2017: RMB10,000,000) of the loans were guaranteed by the Company.*

(c) *The details of the Group's interest rate risk and liquidity rate risk are set out in note 30.*

26 Other borrowings

(a) The analysis of the carrying amount of other borrowings is as follows:

	2018 RMB'000	2017 RMB'000
Convertible bonds *(note 26(b)(i) and 26(b)(ii))*		
– host liability component	**253,898**	387,968
– derivative liability component	**172,611**	1,363
	426,509	389,331
Bonds *(note 26(b)(iii))*	**214,316**	–
	640,825	389,331
Amounts expected to be settled within one year	**(434,480)**	(159,659)
Amounts expected to be settled after one year	**206,345**	229,672

Except for the derivative liability component of convertible bonds, which is carried at fair value, all other borrowings are carried at amortised cost.

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

(i) 2016 Convertible Bonds

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

In June 2018, the Company, pursuant to the terms and conditions of the convertible bonds and as agreed into the bondholder, early redeemed the convertible bonds in full at their face value.

(ii) 2017 Convertible Bonds

On 28 February 2017, the Company issued convertible bonds with a face value of HKD300,000,000 and a maturity date on 28 February 2019, which is extendable to 28 February 2020, 28 February 2021 or 28 February 2022 if agreed by the Company and the bondholders. The convertible bonds bear a nominal interest rate at 5% per annum and are guaranteed by Liu Zhihua, a shareholder of the Company.

26 Other borrowings (Continued)

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

(ii) 2017 Convertible Bonds (Continued)

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

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

- If a bondholder exercises its conversion rights, the Company is required to deliver ordinary shares at the conversion price of HKD1.21 per share, which was adjusted to HKD0.74 per share (subject to further adjustments).

Bonds in respect of which conversion rights have not been exercised, will be redeemed at face value on 28 February 2019 or, if agreed to extend by the Company and the bondholder, on 28 February 2020, 28 February 2021 or 28 February 2022.

The convertible bonds contain two components, i.e. host liability component and derivative liability component. The effective interest rate of the host liability component is 22% per annum. The derivative liability component of the convertible bonds is measured at fair value with changes in fair value recognised in the profit or loss.

On 25 February 2019, Dragon Capital Entertainment Fund One LP (the "Original Bondholder") transferred the convertible bonds with an aggregate face value of HKD120,000,000, which were convertible into 162,162,162 ordinary shares at the conversion price of HKD0.74 per share, to BeiTai Investment LP ("BeiTai"). On the same date, BeiTai exercised the conversion rights to convert the bonds with a face value of HKD 120,000,000 at the conversion price of HKD 0.74 per share.

On 28 February 2019, the Company and the Original Bondholder conditionally agreed to extend the maturity date of the remaining convertible bonds with an aggregate face value of HKD 180,000,000 from 28 February 2019 to 28 February 2020, which is subject to, among other things, the approvals of the Company's shareholders at the general meeting.

(iii) 2018 Bonds

On 10 May 2018, the Company issued bonds with an aggregate face value of HKD235,500,000 and a maturity date on 9 May 2020, which is extendable to 9 May 2021, 9 May 2022 or 9 May 2023 if agreed by the Company and Bison Global Investment SPC ("the Bondholder"). The bonds bear a nominal interest rate of 6% per annum.

27 Obligations under finance leases

As at 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018		2017	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**(12,201)**	**(13,261)**	–	–
After one year but within two years	**(11,973)**	**(12,342)**	–	–
	(24,174)	**(25,603)**	–	–
Less: total future interest expenses		**1,429**		–
Present value of lease obligations		**(24,174)**		–

28 Income tax in the consolidated statements of financial position

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

	2018 RMB'000	2017 RMB'000
At 1 January	**17,820**	14,221
Provision for PRC Enterprise Income Tax and PRC dividend withholding tax for the year	**11,254**	8,128
Increase due to the acquisition of subsidiaries	**–**	544
Decrease due to the disposal of subsidiaries	**–**	(337)
Tax paid	**(1,298)**	(4,736)
At 31 December	**27,776**	17,820

28 Income tax in the consolidated statements of financial position (Continued)

(b) Deferred tax asset and liabilities recognised

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

	Tax losses carry forwards	PRC dividend withholding tax	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At 1 January 2017	(1,095)	1,100	–	5
Charged to profit or loss	183	–	–	183
Decrease due to the disposal of subsidiaries	–	(75)	–	(75)
At 31 December 2017	(912)	1,025	–	113
At 1 January 2018	**(912)**	**1,025**	**–**	**113**
Charged/(credited) to profit or loss	**912**	**2,076**	**(1,786)**	**1,202**
At 31 December 2018	**–**	**3,101**	**(1,786)**	**1,315**

(ii) Reconciliation to the consolidated statements of financial position

	2018	2017
	RMB'000	RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**(1,786)**	(912)
Net deferred tax liability recognised in the consolidated statement of financial position	**3,101**	1,025
	1,315	113

28 Income tax in the consolidated statements of financial position (Continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of certain of its subsidiaries of RMB29,966,000 (2017: RMB35,724,000) as it is not probable that future taxable profits against which the losses can be utilised will be available to the relevant subsidiaries. The tax losses expire within the next five years.

(d) Deferred tax liabilities not recognised

As at 31 December 2018, temporary difference relating to retained earnings of the Company's PRC subsidiaries amounted to RMB221,085,000 (2017: RMB154,575,000) for which no deferred tax liabilities were recognised in respect of the PRC dividend withholding tax at 10% that would be payable on the distribution of these profits to the Group's subsidiaries outside the PRC as the Company has no plan to distribute them in the foreseeable future.

Pursuant to the currently applicable PRC Enterprise Income Tax rules, distribution of statutory surplus reserve upon liquidation shall be treated as dividend income which is subject to PRC dividend withholding tax at 10% or less if reduced tax treaties or arrangements. As at 31 December 2018, temporary differences relating to the statutory surplus reserve of the Company's PRC subsidiaries amounted to RMB61,743,000 (2017: RMB52,046,000). No deferred tax liabilities were recognised as at 31 December 2018 as the Company has no plan to liquidate these subsidiaries in the foreseeable future.

29 Capital, reserves and dividends

(a) Movements in components of equity

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

29 Capital, reserves and dividends (Continued)

(a) Movements in components of equity (Continued)

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

The Company

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	66,559	523,284	146,736	13,704	750,283
Changes in equity for 2017:					
Profit and total comprehensive income for the year	–	–	–	71,085	71,085
Balance at 31 December 2017 and 1 January 2018	**66,559**	**523,284**	**146,736**	**84,789**	**821,368**
Changes in equity for 2018:					
Loss and total comprehensive income for the year	**–**	**–**	**–**	**(215,329)**	**(215,329)**
Shares issuance	**13,171**	**111,145**	**–**	**–**	**124,316**
Balance at 31 December 2018	**79,730**	**634,429**	**146,736**	**(130,540)**	**730,355**

(b) Dividends

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

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of RMB Nil per ordinary share (2017: RMB Nil)	**–**	–
Final dividend proposed after the end of the reporting period of RMB Nil per ordinary share (2017: RMB Nil)	**–**	–
	–	–

29 Capital, reserves and dividends (Continued)

(b) Dividends (Continued)

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

	2018	2017
	RMB'000	RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year	**–**	–

(c) Share capital

Authorised and issued share capital are as follows:

	2018		2017	
	Number of shares	**RMB'000**	Number of shares	RMB'000
Authorised:				
Ordinary shares of USD0.01 each	**10,000,000,000**	**632,110**	10,000,000,000	632,110
Ordinary shares, issued and fully paid:				
At 1 January	**1,045,749,656**	**66,559**	1,045,749,656	66,559
Shares issuance *(note)*	**209,000,000**	**13,171**	–	–
At 31 December	**1,254,749,656**	**79,730**	1,045,749,656	66,559

Note: The Company allotted and issued 209,000,000 new ordinary shares of USD0.01 each at a price of HKD0.74 per ordinary share during the year. The net proceeds from the shares issuance were approximately HKD154,292,000 (equivalent to approximately RMB124,316,000), of which RMB13,171,000 and RMB111,145,000 are recognized in share capital and share premium respectively.

(d) Nature and purpose of reserves

(i) Statutory surplus reserve

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

(ii) Other reserve

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

29 Capital, reserves and dividends (Continued)

(e) Distributability of reserves

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

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB503,889,000 (2017: RMB608,073,000). The directors do not recommend the payment of a final dividend (2017: RMB Nil) for the year ended 31 December 2018.

(f) Capital management

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

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

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

30 Financial risk management and fair values

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

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

(a) Credit risk

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

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

30 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

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

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

30 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	RMB'000
Current (not past due)	0.10%-0.27%	242,251	269
Less than 3 months past due	2.18%-2.54%	4,717	114
3 to 6 months past due	2.64%-33.97%	1,800	58
6 to 12 months past due	4.23%-100.00%	2,112	101
1 to 2 years past due	17.04%-100.00%	5,015	4,140
		255,895	4,682

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(l)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB3,221,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017
	RMB'000
Neither past due nor impaired	61,085
Less than 3 months past due	5,964
3 to 6 months past due	–
6 to 12 months past due	527
	67,576

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

30 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Comparative information under IAS 39 (Continued)

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

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2018	2017
	RMB'000	RMB'000
Balance at 31 December 2017 under IAS 39	**3,221**	–
Impact on initial application of IFRS 9 *(note 1(c)(i))*	**–**	–
Adjusted balance at 1 January	**3,221**	8,819
Amounts written off during the year	**(652)**	(2,206)
Disposal of subsidiaries	**–**	(6,443)
Impairment losses recognised during the year	**2,113**	3,051
Balance at 31 December	**4,682**	3,221

(b) Liquidity risk

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

30 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

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

	2018				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank loans	188,431	–	–	188,431	180,500
Trade creditors, bills payable, other creditors and accrued charges	241,227	–	–	241,227	239,514
Convertible bonds – host liability component	273,374	–	–	273,374	253,898
Bonds	20,352	210,755	–	231,107	206,345
Obligations under finance lease	13,261	12,342	–	25,603	24,174
	736,645	223,097	–	959,742	904,431
Financial guarantees issued:					
Maximum amount guaranteed	20,000	–	–	20,000	–

	2017				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years within 5 years RMB'000	Total RMB'000	Carrying Amount RMB'000
Bank loans	210,092	–	–	210,092	201,250
Trade creditors, bills payable, other creditors and accrued charges	189,550	–	–	189,550	187,120
Convertible bonds – host liability component	213,965	264,789	–	478,754	387,968
	613,607	264,789	–	878,396	776,338
Financial guarantees issued:					
Maximum amount guaranteed	36,000	–	–	36,000	–

30 Financial risk management and fair values (Continued)

(c) Interest rate risk

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

(i) Interest rate profile

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

	2018		2017	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Net fixed rate borrowings:				
Bank loans	**4.39%**	**180,500**	4.39%	191,250
Bonds	**6.00%**	**214,316**	–	–
Convertible bonds – host liability component	**21.97%**	**253,898**	18.92%-21.97%	387,968
Obligations under finance lease	**5.71%**	**24,174**	n/a	–
Less: pledged bank deposits	**0.30%-0.35%**	**(11,000)**	0.30% – 0.35%	(32,884)
		661,888		546,334
Variable rate borrowings:				
Bank loans	**n/a**	**–**	5.70%	10,000
Less: bank deposits	**0.30%-0.35%**	**(284,689)**	0.30%	(155,533)
		(284,689)		(145,533)
Total net interest-bearing borrowings		**377,199**		400,801

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decrease/increase the Group's loss for the year by approximately RMB1,161,000 (2017: decrease/increase the Group's profit for the year by approximately RMB547,859), and increase/decrease the Group's retained earnings by approximately RMB1,161,000 (2017: RMB547,859).

30 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2017.

(d) Currency risk

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

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

	Exposure to foreign currencies (expressed in Renminbi)			
	2018		2017	
	USD	**HKD**	USD	HKD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Trade and other receivables	**48,435**	**–**	55,977	63,668
Cash and cash equivalents	**98,152**	**90,518**	93,802	3,513
Pledged bank deposits	**–**	**–**	22,870	–
Convertible bonds	**–**	**(426,509)**	–	(389,331)
Bonds	**–**	**(214,316)**	–	–
Trade and other payables	**(1,774)**	**(11,131)**	(6,814)	(5,220)
Net exposure arising from recognised assets and liabilities	**144,813**	**(561,438)**	165,835	(327,370)

30 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

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

	2018		2017	
	United States Dollars RMB'000	**Hong Kong Dollars RMB'000**	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Increase in foreign exchange rates	**5%**	**5%**	5%	5%
Effect on loss for the year	**4,270**	**(28,316)**	4,815	(16,374)
Decrease in foreign exchange rates	**(5%)**	**(5%)**	(5%)	(5%)
Effect on retained profits	**(4,270)**	**28,316**	(4,815)	16,374

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2017.

30 Financial risk management and fair values (Continued)

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As at the end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 26(b).

At 31 December 2018, it is estimated that an increase/(decrease) of 10% (2017: 10%) in the Company's own share price (for the derivatives embedded in the convertible bonds), with all other variables held constant, would have decreased/increased the Group's profit/(loss) for the year (and retained profits) as follows:

	2018			2017		
		Effect on loss for the year RMB'000	**Effect on retained profits RMB'000**		Effect on profit for the year RMB'000	Effect on retained profits RMB'000
Change in the relevant equity price risk variable:						
Increase	**10%**	**(42,601)**	**(42,601)**	10%	(1,906)	(1,906)
Decrease	**(10%)**	**42,364**	**42,364**	(10%)	894	894

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

30 Financial risk management and fair values (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

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

	Fair value at 31 December 2018	**Fair value measurements as at 31 December 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurements				
Derivatives embedded in convertible bonds	**172,611**	**–**	**–**	**172,611**

30 Financial risk management and fair values (Continued)

(f) Fair value measurement (Continued)

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

***Fair value hierarchy* (Continued)**

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
	2017	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements				
Derivatives embedded in convertible bonds	1,363	–	–	1,363

During the years ended 31 December 2017 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Derivatives embedded in convertible bonds	Black Scholes model	Expected volatility	10% to 29% (2017: 11% to 33%)	19% (2017: 25%)

The fair value of the derivatives embedded in the convertible bonds is determined using Black Scholes model and the significant input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2018, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would not have material impact on the Group's loss for the year (2017: increased/decreased the Group's profit for the year by RMB4,255,000/RMB1,321,000).

30 Financial risk management and fair values (Continued)

(f) Fair value measurement (Continued)

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

***Information about Level 3 fair value measurements* (Continued)**

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

	2018 RMB'000	2017 RMB'000
Derivatives embedded in convertible bonds:		
At 1 January	**1,363**	25,941
On issuance	**–**	35,432
Change in fair value recognised in profit or loss for the year	**176,535**	(56,315)
Derecognition on redemption	**(5,335)**	–
Exchange adjustments	**48**	(3,695)
At 31 December	**172,611**	1,363
Total losses/(gains) for the year included in profit or loss	**171,248**	(60,010)

The gain or loss arising from the remeasurement of the derivative liability component of the convertible bonds are presented in "other net loss" in the consolidated statement of profit or loss.

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

The carrying amounts of the Group's financial instrument carried at cost or amortised cost were not materially different from their fair values as at 31 December 2017 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts at 31 December 2018 RMB'000	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into		
			Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Convertible bonds – host liability component	**253,898**	**255,850**	**–**	**255,850**	**–**

	Carrying amounts at 31 December 2017 RMB'000	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into		
			Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Convertible bonds – host liability component	387,968	384,190	–	384,190	–

30 Financial risk management and fair values (Continued)

(f) Fair value measurement (Continued)

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

Valuation techniques and inputs used in Level 2 fair value measurements

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

31 Commitments

(a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018	2017
	RMB'000	RMB'000
Contracted for		
– Purchase of property, plant and equipment	**2,930**	1,031
– Acquiring services relating to production of drama series and films	**19,947**	17,867
	22,877	18,898

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	RMB'000	RMB'000
Within 1 year	**2,375**	2,300

Significant leasing arrangements in respect of land and buildings classified as being held under finance leases and land held under operating leases are described in note 12.

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

32 Contingent liabilities

As at 31 December 2018, the Group has issued guarantees in the aggregate amount of RMB20,000,000 in respect of loans made by banks to the Disposal Group. As at 31 December 2018, the directors do not consider it probable that claims will be made against the Group under any of the guarantees. The maximum liability of the Group at 31 December 2018 under the guarantees issued is the outstanding amount of the loans of the Disposal Group of RMB20,000,000.

33 Material related party transactions

The Group has entered into the following material related party transactions during the years ended 31 December 2018 and 2017 as follows.

(a) Key management personnel remuneration

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

	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**4,528**	5,663
Post-employment benefits	**89**	110
	4,617	5,773

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

33 Material related party transactions (Continued)

(b) Financing arrangement

As at 31 December 2018 and 2017, the Group had the following balances with related parties:

	Note	2018 RMB'000	2017 RMB'000
Amount due from an associate	*(i)(ii)*	**23,961**	9,546

(i) Loss allowances of RMB2,918,000 (2017: RMB855,000) have been made in this respect of the amount due from an associate as at 31 December 2018.

(ii) The amount due from an associate is unsecured, interest-free and has no fixed term of repayment. The amount is included in "trade and other receivables" (note 21).

(c) Material transactions with related parties

During the years of 2018 and 2017, the Group has entered into the following material transactions with related parties:

	Note	2018 RMB'000	2017 RMB'000
Drama series and films distribution income from an associate	*(i)*	**3,937**	479

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

34 Company-level statement of financial position

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries	*15*	**500,873**	455,478
Current assets			
Amounts due from subsidiaries		**769,940**	607,356
Other receivables		**134,997**	172,934
Cash and bank		**13,525**	4,110
		918,462	784,400
Current liabilities			
Amounts due to subsidiaries		**46,667**	23,959
Other payables		**1,488**	5,220
Other borrowings		**434,480**	159,659
		482,635	188,838
Net current assets		**435,827**	595,562
Total assets less current liabilities		**936,700**	1,051,040
Non-current liabilities			
Other borrowings		**206,345**	229,672
Net assets		**730,355**	821,368
Capital and reserves	*29*		
Share capital		**79,730**	66,559
Reserves		**650,625**	754,809
Total equity		**730,355**	821,368

Approved and authorised for issue by the board of directors on 29 March 2019.

Liu Dong
Director

Tan Bin
Director

(Expressed in Renminbi Yuan unless otherwise indicated)

35 Comparative Figures

Certain comparative figures have been re-classified to conform to the current year's presentation.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9 Prepayment features with negative compensation	1 January 2019
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 Definition of a business	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
IAS 19 Plan amendment, curtailment or settlement	1 January 2019
IAS 28 Long-term interests in associates and joint ventures	1 January 2019
Annual Improvements to IFRSs 2015–2017 cycle	1 January 2019
Revised Conceptual framework for financial reporting	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of material	1 January 2020

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 16, Leases

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

IFRS 16, Leases (Continued)

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

The Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.