Annual Report 2016

V1 GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 82

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CORPORATE PROFILE

V1 Group Limited, the "Company" or "V1 Group", together with its subsidiaries ("the Group") is one of the largest new media enterprises in China which is principally engaged in the development of the tele-media, including internet audio-visual new media, online games, internet medical and other internet plus businesses, and lottery-related business.

http://ir.v1group.com.hk

http://www.v1.cn

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Dr. Zhang Lijun *(Chairman)*
Ms. Wang Chun
Mr. Ji Qiang
(appointed on 24 March 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam)
Prof. Gong Zhankui
Mr. Wang Linan

AUDIT COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam)
(Chairman)
Prof. Gong Zhankui
Mr. Wang Linan

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Dr. Zhang Lijun
(Chairman of Nomination Committee)
Dr. Loke Yu (alias Loke Hoi Lam)
(Chairman of Remuneration Committee)
Ms. Wang Chun
Prof. Gong Zhankui
Mr. Wang Linan

CORPORATE GOVERNANCE COMMITTEE

Prof. Gong Zhankui *(Chairman)*
Dr. Zhang Lijun
Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Wang Linan

COMPANY SECRETARY

Mr. Leung Wai Tong

AUDITOR

BDO Limited

PRINCIPAL BANKERS

The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

PRINCIPAL PLACE OF BUSINESS

16-18/F, Tower 1
Recero International Centre
No 8, Wang Jing East Road
Chao Yang District
Beijing, PRC 100102

Room 3506, 35th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

WEBSITES AND E-MAIL ADDRESSES

http://www.v1.cn, http://ir.v1group.com.hk
info@vodone.com.hk, ir@v1.cn

STOCK CODE

00082

CHAIRMAN'S STATEMENT

Dear shareholders,

2016 is the Year of Monkey in Chinese lunar calendar. In the contexts of Brexit, the United States election and the devaluation of the Renminbi, "unexpected and beyond imagination" has become the keywords of international and domestic political and economic situation. The domestic and global economy experienced a bumpy year full of uncertainties.

In this turbulent year, we saw the Chinese internet industry shifting between "Nirvana" and "Rebirth", but it is still moving forward at a quick pace, revealing the market has entered into a stage of rationalization. In this year, V1 Group faced the 10th anniversary since it first became a member of a listed group in Hong Kong.

Based on data analysis, the management of V1 Group has carefully planned for another big achievement for the Group. By reviewing the prospects and development trends of the internet industry, having considered various key factors and integrating with the Group's development demands, we took advantage of and followed the trend to restructure V1 Group from a simple new media group into a comprehensive internet industry group in China. Through continuous efforts, the "upgraded" V1 Group has begun to take shape.

"Finance" is the engine and driving force for the development of the real economy, while Internet Finance is the key support for the financial industry and services bundling. Internet Finance is also a great impetus for the development of both the internet industry and enterprises. In 2016, many Chinese internet companies expanded into the internet finance business, making a seamless connection between internet and finance, which laid a solid foundation for major enterprises to achieve rapid growth. As a strategy to provide strong financial support to the development of our innovative businesses, V1 Group has set up an investment headquarters to invest in mergers and acquisitions of financial institutions such as the Bank of Asia (BVI) Limited. Following the general trend of "Nationwide Entrepreneurship and Innovation"（全民創業，萬眾創新）in 2016, "Internet Plus" has quickly integrated all aspects of social life, and catalysed numerous market opportunities of great potential. V1 Group seized the opportunity to tap into internet healthcare and elderly care and internet banking businesses. We firmly believe that they will become the rising stars in the Chinese internet industry, and grow into a new legend of development for V1 Group.

The technology development of Virtual Reality ("VR"), Augmented Reality ("AR"), Mixed Reality ("MR"), autopilot and artificial intelligence not only inspires people's curiosity and imagination about the changes these new technologies will bring to future life, but also offer "unexpected and beyond imagination" room for development to those enterprises with prospective thinking and the courage to innovate. However, the management of an enterprise must have an innovative mindset to embrace and promote innovation and be capable of seizing opportunities and controlling risks. Our performance over the last decade has demonstrated that the management of V1 Group is a team of such traits and competencies.

Over the past years, V1 Group has visionarily positioned itself for future growth through investing in various innovative funds as well as investing and acquiring high-potential businesses and talents with promising technologies. Meanwhile, the Company pioneeringly released the first paid VR platform in China. We are confident that all these efforts will translate into "beyond imagination" operating results in the future.

"Economic Efficiency is the Core Objective of an Enterprise" is the consensus among the management of V1 Group and key to our corporate culture. Bearing this in mind, V1 Group never stops pursuit of economic efficiency. Looking into the new year, we will continue our spirit of proactive, innovative and hard work to generate excellent operating results and superior returns for our shareholders.

We sincerely thank all our shareholders for their understanding and support!

Zhang Lijun
Chairman

DIRECTORS' REPORT

The directors of the Company (the "Directors") herein present their report together with the corporate governance report, environmental, social and governance report, share option schemes, management discussion and analysis, and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding.

During the year, the Group is principally engaged in the development of the tele-media including internet audio-visual new media, online games, internet medical and other internet plus businesses, and lottery-related business in the PRC. The principal activities and other particulars of certain operational subsidiaries are set out in note 19 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 40 to 54 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 60 to 61.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2016.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2016 is set out in note 6 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 142. This summary is for information only and does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 27 and 33 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws (the "Bye-laws") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 and page 63 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company did not have any distributable reserves (2015: HK$10,567,000). The Company's share premium account in the amount of HK$1,488,282,000 (2015: HK$1,488,282,000) may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

(a)	Percentage of purchases attributable to:	
	• the largest supplier	72.86%
	• the five largest suppliers	73.59%
(b)	Percentage of sales attributable to:	
	• the largest customer	99.40%
	• the five largest customers	99.69%

MAJOR SUPPLIERS AND CUSTOMERS *(Continued)*

The largest supplier and customer of the Group for the year was VODone Datamedia Technology Co., Ltd. ("TMD1"). TMD1, a sino-foreign joint-venture company. The Company indirectly owns 24.99% interest in TMD1 and 24.01% interest of TMD1 is indirectly held by Dr. Zhang Lijun, an executive Director, a substantial shareholder and the chairman of the Company (the "Chairman"). Through contractual arrangements as disclosed in the Company's circular dated 18 August 2006, the Group provides tele-media support services to TMD1. Save as disclosed in this annual report and as far as the Directors are aware, none of the Directors, their close associates, or substantial shareholders (which to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

CHAIRMAN AND DIRECTORS

The Chairman and the Directors during the year and up to the date of this report have been:

EXECUTIVE DIRECTORS:

Zhang Lijun *(Chairman)*
Wang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Loke Yu (alias Loke Hoi Lam)
Gong Zhankui
Wang Linan

Mr. Ji Qiang was appointed by the Board as an executive director of the Company effective from 24 March 2017 as an addition to the Board. Mr. Ji Qiang will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

In accordance with the Bye-laws, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Dr. Loke Yu (alias Loke Hoi Lam) and Prof. Gong Zhankui will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Board considers them to be independent.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

EXECUTIVE DIRECTORS

Chairman

Dr. Zhang Lijun, aged 53, holds a Doctoral degree in Economics. He is an executive Director, the Chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee"). He joined the Group in 2006. Dr. Zhang is the chairman of the board of China Arab TV. He holds the position as director for other members of the Group. Dr. Zhang is also chairman of China Asia-Pacific Economic Cooperation ("APEC") Development Council, vice chairman of the China Internet Association, council member of the Association for Relations Across the Taiwan Straits (ARATS), honorary president of the Council of Beijing Association of Online Media, standing member of China Copyright Council, professor of Nankai University, honorary professor of the University of Sydney, Australia, and an experienced expert in China's internet media.

Dr. Zhang previously held the following positions: China's representative of the APEC Business Advisory Council, assistant to the general manager and deputy general manager of International Industrial Company of the China Minmetals Corporation, which was a company under the Ministry of Foreign Trade and Economic Cooperation, the People's Republic of China, and the deputy manager of the General Trade Department of the China Minmetals Corporation, chairman of the board of directors of China Mobile Games and Entertainment Group Limited, chairman and party secretary of Sino-Interest Worldwide Economic Group under the Commission for Restructuring the Economic System and Economic Restructuring Office of the State Council, and chairman of Sino-Sky Telecom, etc. He is the spouse of Ms. Wang Chun.

Ms. Wang Chun, aged 52, holds a Master degree in World Economics and is an executive Director and the chief operating officer of the Company. Ms. Wang has been the chief operating officer of the Company since 2005. Ms. Wang is also the vice president of the Council of Beijing Association of Online Media, member of the Central Women's Work Committee of the Central Committee of China Zhi Gong Party, and an experienced expert in internet trade.

In 1996, Ms. Wang spent a long time in the United States and Canada for the business of Sino-Canada International Investment (Group) Company Limited, for which she served as a director and deputy general manager as well as the chief representative of its Beijing office. In 1998, Ms. Wang returned to China and set up China Huatian Net Supermarket, the first cyber supermarket in China and originator of China's B2B and B2C e-business. She later joined Sino-Sky Telecom and was responsible for the management of one of the largest telecommunication value-added business service platforms in China. She was appointed the chief operating officer of Sino-Sky Telecom later. She is the spouse of Dr. Zhang Lijun.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam), aged 67, was appointed as an independent non-executive Director in May 2005. He is also the chairman of the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") of the Company. He has over 40 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. Dr. Loke is a fellow member of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Hong Kong Institute of Chartered Secretaries. Currently, he is also the company secretary of Minth Group Limited and serves as an independent non-executive director of Chiho-Tiande Group Limited, China Beidahuang Industry Group Holdings Limited (formerly known as Sino Distillery Group Limited), China Fire Safety Enterprise Group Limited, China Household Holdings Limited, Forebase International Holdings Limited, Hang Sang (Siu Po) International Holding Company Limited, Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited), Matrix Holdings Limited, SCUD Group Limited, Tianhe Chemicals Group Limited, Tianjin Development Holdings Limited, Winfair Investment Company Limited, and Zhong An Real Estate Limited, companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Prof. Gong Zhankui, aged 68, was appointed as an independent non-executive Director in November 2014. He is also the chairman of the corporate governance committee (the "Corporate Governance Committee") of the Company. Prof. Gong holds a Master degree of Economics from Wuhan University and a Doctoral degree of Economics from Nankai University. He is now a professor of Nankai University. Prof. Gong served as the executive vice-president of the Research Institute of China APEC, director of APEC Study Center of Nankai University, professor of Jilin University, vice-president of Institute of Asia-Pacific Studies, council member of China Society of World Economics and China National Committee for Pacific Economic Cooperation, World Economy Expert conferred by Tianjin Municipality, correspondence expert reviewer of National Social Science Projects, expert reviewer of China Scholarship Council and China International Trade Achievements, editorial board member of Asia-Pacific Economic Review, Journal of Contemporary Asia-Pacific Studies and Nankai Journal.

Mr. Wang Linan, aged 68, was appointed as an independent non-executive Director in August 2007. Mr. Wang graduated from the Faculty of Economic Management of the Party School of the Central Committee of the Communist Party of China. Prior to retirement, he was also the general secretary of the China Scientific Films and Videos Association, which was a civil service employment. Mr. Wang has more than 20 years of experiences in promotion of science in China. He had worked as deputy division secretary in the China Association for Science and Technology General Office, deputy director of the Department of Science Popularisation City Division of China Association for Science and Technology, and the vice general secretary of the China Scientific Popularisation Writers Association.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

SENIOR MANAGEMENT

Ms. Wang Xiang, aged 42. She undertakes and performs the role of the chief financial officer of the Company with the financial controller of the Company, Mr. Leung Wai Tong. Ms. Wang is a Certified Public Accountant in the People's Republic of China. Before joining the Group, she served a foreign mobile technology company for more than 5 years as a finance in-charge where she accumulated extensive corporate finance and management knowledge in telecommunication and value added service industry. Besides, having taken part in several major audits in her role as an external auditor, she has accumulated invaluable experiences which have made her an all-rounded accountant. Ms. Wang holds a Bachelor degree in Business Management of Beijing Normal University. She joined the Group in 2006.

Mr. Ji Qiang, aged 39, has over 12 years of experience in financial management. He is currently the general manager of finance of the Group. Mr. Ji joined the Group as finance manager in 2010 and promoted to deputy general manager of finance of the Group in 2013. Prior to joining the Group, he was the financial controller of Beijing office of China Strategic Holdings Limited (stock code: 235). Mr. Ji holds a Master degree in Management (major in Accounting) of Renmin University of China and a Bachelor of Science degree in Electronics Engineering and Computer Science of Peking University. Mr. Ji is a certified public accountant (non-practising) in the People's Republic of China and also holds the Securities Qualification Certificate (level 2) of Securities Association of China. Mr. Ji has appointed by the Board as an executive director of the Company effective 24 March 2017.

Mr. Leung Wai Tong, aged 35, is the financial controller and company secretary of the Company (the "Company Secretary"). He also undertakes and performs the role of the chief financial officer of the Company with Ms. Wang Xiang. He holds a Bachelor degree of Arts in Accountancy from the Hong Kong Polytechnic University and a Master degree of Laws in International Economic Law from The Chinese University of Hong Kong. He is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants. He is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. He has over 12 years of experience in accounting, auditing and financial management. Before he joined the Company, he was the financial controller of China Mobile Games and Entertainment Group Limited, a former subsidiary of the Company, from 2011 to 2013.

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the biographical details of the Directors during the course of the Director's term of office since the publication of Company's 2016 Interim Report are set out as follows:

Under the amendment to the service agreement with Dr. Zhang Lijun, an executive Director, with effect from 1 February 2017, the director's fee and remuneration of Dr. Zhang Lijun has been increased to HK$12,206,870 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the service agreement with Ms. Wang Chun, an executive Director, with effect from 1 February 2017, the director's fee and remuneration of Ms. Wang Chun has been increased to HK$5,289,700 per annum as recommended by the Remuneration Committee and determined by the Board with reference to her duties and responsibilities with the Company and the market rate for the position.

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS *(Continued)*

Under the amendment to the service agreement with Dr. Loke Yu (alias Loke Hoi Lam), an independent non-executive Director, with effect from 1 February 2017, the director's fee of Dr. Loke Yu (alias Loke Hoi Lam) has been increased to HK$347,100 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the respective service agreement with Prof. Gong Zhankui and Mr. Wang Linan, independent non-executive Directors, with effect from 1 February 2017, the director's fee of each of Prof. Gong Zhankui and Mr. Wang Linan has been increased to HK$292,890 per annum as recommended by the Remuneration Committee and determined by the Board by reference to their duties and responsibilities with the Company and the market rate for the position.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

As at 31 December 2016, the Directors and their associates had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

(A) LONG POSITION IN THE ORDINARY SHARES AND UNDERLYING SHARES OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital	Number of underlying shares in respect of share options granted	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse/ Founder of discretionary trust	371,214,113 (Note 1)	11.26%	16,900,000 (Note 2)	0.51%
Wang Chun	Beneficial owner/ Interest of spouse/ Founder of discretionary trust	371,214,113 (Note 3)	11.26%	16,900,000 (Note 4)	0.51%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	–	–	3,100,000	0.09%
Gong Zhankui	Beneficial owner	–	–	2,700,000	0.08%
Wang Linan	Beneficial owner	1,400,000	0.04%	3,000,000	0.09%

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION *(Continued)*

(A) LONG POSITION IN THE ORDINARY SHARES AND UNDERLYING SHARES OF THE COMPANY: *(Continued)*

Note 1: As at 31 December 2016, Dr. Zhang Lijun ("Dr. Zhang") held and was deemed to hold under the SFO in aggregate 371,214,113 Shares, representing approximately 11.26% of the Company's issued share capital. These 371,214,113 Shares comprised: (i) 40,514,113 Shares directly held by Dr. Zhang; (ii) deemed interest of 9,350,000 Shares directly held by Ms. Wang Chun ("Ms. Wang"), the spouse of Dr. Zhang; and (iii) deemed interest of 321,350,000 Shares held by Big Step Group Limited. Big Step Group Limited is a company wholly-owned by J&C Dragon Limited, which in turn is wholly-owned by UBS Trustees (BVI) Limited. UBS Trustees (BVI) Limited is acting in the capacity as the trustee of a discretionary family trust established by Dr. Zhang and Ms. Wang as settlors, and the discretionary beneficiaries of the trust include Dr. Zhang, Ms. Wang and their family members.

Note 2: Of these 16,900,000 share options, 7,100,000 share options are directly held by Dr. Zhang. Dr. Zhang is also deemed to be interested in the remaining 9,800,000 share options through the interest of his spouse, Ms. Wang.

Note 3: As at 31 December 2016, Ms. Wang held and was deemed to hold under the SFO in aggregate 371,214,113 Shares, representing approximately 11.26% of the Company's issued share capital. These 371,214,113 Shares comprised: (i) 9,350,000 Shares directly held by Ms. Wang; (ii) deemed interest of 40,514,113 Shares directly held by Dr. Zhang, the spouse of Ms. Wang; and (iii) deemed interest of 321,350,000 Shares held by Big Step Group Limited. Big Step Group Limited is a company wholly-owned by J&C Dragon Limited, which in turn is wholly-owned by UBS Trustees (BVI) Limited. UBS Trustees (BVI) Limited is acting in the capacity as the trustee of a discretionary family trust established by Ms. Wang and Dr. Zhang as settlors, and the discretionary beneficiaries of the trust include Ms. Wang, Dr. Zhang and their family members.

Note 4: Of these 16,900,000 share options, 9,800,000 share options are directly held by Ms. Wang. Ms. Wang is also deemed to be interested in the remaining 7,100,000 share options through the interest of her spouse, Dr. Zhang.

(B) LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATIONS:

Name of director	Name of associated corporation	Capacity	Number of ordinary shares held	% of total issued share capital
Zhang Lijun	Clear Concept International Limited (Note 1)	Interest of controlled corporation	98	49%
	VODone Holdings Limited (Note 2)	Interest of controlled corporation	2	100%
	VODone Datamedia Technology Co. Ltd. (Note 3)	Interest of controlled corporation	49,000,000	49%
Wang Chun	Clear Concept International Limited (Note 4)	Interest of controlled corporation of spouse	98	49%
	VODone Holdings Limited (Note 4)	Interest of controlled corporation of spouse	2	100%
	VODone Datamedia Technology Co. Ltd. (Note 4)	Interest of controlled corporation of spouse	49,000,000	49%

Note 1: Clear Concept International Limited ("Clear Concept") is owned as to 51% by the Company and 49% by Bigland Limited, a company wholly-owned by Dr. Zhang. Dr. Zhang is deemed to be interested in Bigland Limited's 49% in Clear Concept under the SFO.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION *(Continued)*

(B) LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATIONS: *(Continued)*

Note 2: VODone Holdings Limited (formerly known as Bentex (Hong Kong) Limited) ("VHL") is a wholly-owned subsidiary of Clear Concept. Dr. Zhang is deemed to be interested in 100% of VHL under the SFO by virtue of his deemed interest in Clear Concept.

Note 3: VODone Datamedia Technology Co. Ltd. ("TMD1") is owned as to 49% by VHL. Dr. Zhang is deemed to be interested in TMD1 under the SFO by virtue of his deemed interest in VHL.

Note 4: Ms. Wang is deemed to be interested in Clear Concept, VHL and TMD1 through Dr. Zhang's deemed interest in the three companies.

Save as disclosed herein, as at 31 December 2016, none of the Directors or the chief executive of the Company and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Same as disclosed in the section above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 35 to the financial statements, no Director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, other than the Directors whose interests are disclosed above, the Company was not aware of any person who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions, further details of which are included in note 35 to the financial statements. The Directors believe the relevant disclosure requirements under the Listing Rules are met, where applicable.

The related party transactions referred to in note 35 (a), (c), (d) and (e) to the financial statements do not fall under the definition of connected transaction or continuing connected transactions (as the case may be) under Chapter 14A of the Listing Rules.

The related party transactions referred to in note 35 (b) to the financial statements constituted connected transactions for the company but are fully exempt under Rule 14A.95 of the Listing Rules.

EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

The Group remunerates the Directors and its staff primarily based on their contributions, responsibilities, qualifications and experience under the remuneration policy set up by the Remuneration Committee. The Group has implemented share option schemes as incentive to the Directors and eligible employees.

Details of the emoluments of the Directors, the senior management and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

Throughout the year ended 31 December 2016, the Company has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. The Group also adheres to the principle of recycling and reducing. Double sided printing and copying, using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance are being implemented in the offices. For details on the Group's environmental policy, please refer to the Environmental, Social and Governance Report set out on pages 27 to 36 of this annual report.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

For our relationship with employees, please refer to the paragraph headed "Employees Remuneration and Benefits" as set out in the Financial Review on page 54 of this annual report. The Group also understands that it is important to maintain good relationships with customers, suppliers and other business partners to achieve its long-term goals. Accordingly, our senior management has kept good communication, promptly exchanged ideas and shared business updates with them when appropriate. During the year, there was no material and significant dispute between the Group and its customers, suppliers and other business partners.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

AUDIT COMMITTEE

The audited financial statements of the Group for the year ended 31 December 2016 has been reviewed by the Audit Committee. Information on the composition and the work of the Audit Committee is set out in the "Corporate Governance Report" section of this report.

AUDITOR

The financial statements have been audited by BDO Limited.

A resolution for the re-appointment of BDO Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Lijun
Chairman

Hong Kong
21 March 2017

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining statutory and regulatory standards and adhering to good corporate governance in the conduct of its business. The Board believes that good corporate governance is essential in enhancing the confidence of the shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Company's shareholders.

The Company had applied and complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2016 except for the deviations with explanations as set out hereunder.

1. According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Up to the date of this report, the Board has not appointed an individual to the post of chief executive. The role of the chief executive has been performed collectively by all the executive Directors, particularly by the chairman of the Company. The Board considers that this arrangement is appropriate and cost effective in fostering the development of the Group, allowing contributions from all executive Directors with different expertise and more coherence and consistency in the planning and implementation of the policies and long term business strategies of the Company. The Board will periodically review the effectiveness of this arrangement and consider appointing an individual as chief executive when it is appropriate.

2. According to the code provision A.6.7 of the CG Code, independent non-executive directors should attend general meetings. Two of the independent non-executive Directors were unable to attend the annual general meeting of the Company held on 19 May 2016 due to various work commitments.

BOARD OF DIRECTORS

BOARD COMPOSITION

The Board currently has five members, comprising two executive Directors and three independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, technology, management and stewardship experiences and varied skills, expertise and qualifications for leading and directing the Group's affairs. The Directors' biographical details and other information are set out in the "Directors' Report" section of this report. The role and function of the Directors are published on the websites of the Stock Exchange and the Company.

Dr. Zhang Lijun and Ms. Wang Chun is a couple. Save as disclosed above, there are no financial, business, family or other material/relevant relationships among members of the Board.

BOARD OF DIRECTORS *(Continued)*

BOARD COMPOSITION *(Continued)*

Any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of a filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to their number) and shall then be eligible for re-election at that meeting. In accordance with the Bye-laws of the Company which conform to the requirements of the Listing Rules, one-third of Board members are required to retire by rotation each year at the annual general meeting provided that every Director shall be subject to retirement at least once every three years. Directors, who retire, if eligible, may offer for re-election at the same annual general meeting.

ROLE AND RESPONSIBILITY OF THE BOARD

The management and control of the business of the Company ultimately rests with the Board. The Board sets long term direction and objectives and oversees the management's plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to board committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and publication including annual reports, interim reports, circulars and announcements. In cases where shareholders' approvals are required, the Board resolves to convene the necessary shareholders' meetings to seek shareholders' approval. Every Director is committed to carrying out his duty in good faith and acting honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS

All Board and committee meetings adhere to a formal agenda set in advance for consideration/resolution. All Directors may arrange to include matters on the agenda for consideration at Board meetings. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors.

Pursuant to the Bye-laws, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or proposal in which he or any of his associate(s) has/have a material interest, and if he shall do so, his vote shall not be counted (nor shall be counted in the quorum for that resolution). Questions arising at any meeting of the Board shall be decided by a majority of votes.

BOARD OF DIRECTORS *(Continued)*

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS *(Continued)*

The Directors give sufficient time and attention of the Group's affair. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. The attendance record of each of the Directors for the Board meetings, the board committees meetings and the annual general meeting held during the year is listed as follows:

	Number of Meetings Attended/Meetings Held					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	General Meeting
Executive Directors						
Zhang Lijun	5/5	n/a	2/2	1/1	1/1	1/1
Wang Chun	5/5	n/a	2/2	1/1	n/a	1/1
Independent Non-executive Directors						
Loke Yu (alias Loke Hoi Lam)	5/5	2/2	2/2	1/1	1/1	1/1
Gong Zhankui	5/5	2/2	2/2	1/1	1/1	0/1
Wang Linan	5/5	2/2	2/2	1/1	1/1	0/1

TRAINING AND SUPPORT FOR DIRECTORS

Each newly appointed Director has received comprehensive, formal and tailored induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the Listing Rules, legal and other regulatory requirements. The Company provides regular updates to the Directors relating to the Group's business and the business and regulatory environments in which the Group operates.

During the year, the Company arranged a seminar on compliance with legal and regulatory requirements to the Directors. The seminar covered a broad range of topics including the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), new amendments to the Listing Rules and grant of share options. All Directors attended the seminar. In addition, Dr. Loke Yu (alias Loke Hoi Lam) attended relevant seminars organized by professional bodies.

The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. Also, the Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the independent non-executive Directors comprise a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes that such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the board committees and to act as independent stewards of the Company for the interests of its shareholders.

During the year, the Company had complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors including at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. In addition, the Company also complied with Rule 3.10A of the Listing Rules that the number of independent non-executive Directors represents at least one-third of the Board.

The Board evaluates the independence of all independent non-executive Directors on an annual basis and has established the practice of requesting written confirmation from each independent non-executive Director regarding his independence. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

The independent non-executive Directors have each entered into a service agreement with the Company for a specific term of three years, and they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws.

CHAIRMAN AND CHIEF EXECUTIVE

In accordance with the Bye-laws, the Board members elect among themselves a Director to be the Chairman. Dr. Zhang Lijun has been the Chairman since 8 December 2006.

BOARD COMMITTEES

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee. Written terms of reference, which are in line with the CG Code, of all the board committees are available on the websites of the Stock Exchange and the Company.

BOARD COMMITTEES *(Continued)*

AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises all three independent non-executive Directors, namely, Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Prof. Gong Zhankui and Mr. Wang Linan.

The Audit Committee provides the Board with advice and recommendations on accounting, reporting, internal control and risk management matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The Audit Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Audit Committee to function effectively and independently.

The Audit Committee's primary functions include:

- to recommend to the Board on the appointment and terms of engagement of the external auditor;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgment and estimates related thereto;
- to review the Company's annual and interim reports and any opinion expressed by the external auditor;
- to review any related party transactions and connected party transactions for compliance with the requirements of the Listing Rules and for reasonableness and fairness to the Company and its shareholders;
- to review with the external auditor issues raised in the external auditor's management letter, queries or similar communications;
- to monitor the external auditor's independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards; and
- to assure that adequate internal controls including financial, operational, compliance controls and risk management are in place and followed.

During the year, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2015 and the unaudited interim financial statements for the six months ended 30 June 2016 with recommendations to the Board for approval. It also reviewed the internal control system of the Group, and discussed with the management and the external auditors the accounting policies and practices which may affect the Group and financial reporting matters. The Audit Committee has also actively participated at the full Board or any independent board committees formed from time to time for the purpose of advising the independent shareholders of the Company of transaction(s) which require their input or contributing their independent views in the areas of business, financial, management and operating practices.

BOARD COMMITTEES *(Continued)*

REMUNERATION COMMITTEE

The Remuneration Committee was set up in 2007 and currently comprises three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Prof. Gong Zhankui and Mr. Wang Linan, and two executive Directors, namely Dr. Zhang Lijun and Ms. Wang Chun.

For determining the remuneration packages of the executive Directors and senior management, the Remuneration Committee has adopted the model that it shall perform an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of the executive Directors and senior management. It recommends to the Board on the Company's policy and structure for all remuneration of the Board members and senior management, on the establishment of a formal and transparent procedure for developing policy on such remuneration and to determine specific remuneration packages for the Directors and senior management of the Company.

During the year, the Remuneration Committee reviewed the remuneration policy, structure and packages for Directors and senior management, and assessed the performance of the executive Directors. The Remuneration Committee also reviewed the remuneration package and service agreement of Prof. Gong Zhankui upon his appointment as an independent non-executive Director. Recommendations regarding the increase of the remuneration of the Directors and senior management were made by the Remuneration Committee to the Board.

The level of remuneration should be appropriate to attract, retain and motivate the Directors to run the Company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Director. Individual Director and executive would not be involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee was set up in 2008 and currently comprises two executive Directors, namely Dr. Zhang Lijun (the chairman) and Ms. Wang Chun and three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam), Prof. Gong Zhankui and Mr. Wang Linan.

The Nomination Committee is responsible for formulating and reviewing the nomination and Board diversity policies, reviewing the size, structure and composition of the Board, and making recommendations to the Board on nominations, appointment of Directors and Board succession with adequate consideration to the Board diversity policy. The Company endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Nomination Committee adopts certain criteria to assist in its evaluation including but not limited to the candidate's gender, age, cultural and educational background, professional experience, business background, his past responsibility, exposure to the business environment in which the Group operates and intends to be engaged in and his experience including directorship or senior management level involvements with other entities, and his contribution or achievement to the Group. The Nomination Committee also assesses the independence of the independent non-executive Directors.

BOARD COMMITTEES *(Continued)*

NOMINATION COMMITTEE *(Continued)*

During the year, the Nomination Committee reviewed the policy for the nomination of Directors, the composition of the Board, the Board diversity policy, the independence of the independent non-executive Directors and the re-election of all the retiring Directors at 2016 annual general meeting.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was set up in 2012 and currently comprises three independent non-executive Directors, namely Prof. Gong Zhankui (the chairman), Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Wang Linan, and an executive Director, namely Dr. Zhang Lijun.

The primary functions of the Corporate Governance Committee are to develop and review the Company's policies and practices on corporate governance in compliance with legal and regulatory requirements. The Corporate Governance Committee also reviews the disclosure systems of the Company and introducing relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company.

During the year, the Corporate Governance Committee reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and senior management, and the disclosure in the corporate governance report in the 2015 Annual Report of the Company.

AUDIT AND RELATED FEES

During the year under review, the fees paid or payable to the Group's external auditor BDO Limited were as follows:

Audit service	HK$1,345,000
Non-audit services	Nil

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining effective internal control system for the Group and overseeing the internal control system through the Group's internal audit department. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units. The Group's internal control system is designed to provide cost-effectiveness and reasonable protection, which safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasizes the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where necessary, retain external professional services to evaluate or seek improvements to the internal control system.

INTERNAL CONTROL *(Continued)*

The Group's internal audit department reviews our significant control measures on an on-going basis, aiming to monitor all our major businesses periodically. Overall, the internal audit aims to provide the Board with reasonable assurance that the Group's internal control system is effective. During the year, the Audit Committee had reviewed effectiveness of the risk management and internal control systems of the Group on behalf of the Board. The review covered all material control areas including financial, compliance and risk management functions. Based on the results of the review, the Board is satisfied that the Group has maintained sound and adequate internal controls in all major areas.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 for securities transactions and dealings, which applies to all the relevant persons as defined in the Model Code, including the Directors, any employee of the Company, or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment or involvement, are likely to come into contact or be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code during the year under review.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Company and of the Group and of the Group's results and cash flow for that period. In preparing the accounts for the year ended 31 December 2016, the Directors have, among other things:

- selected suitable accounting policies and applied them consistently;
- approved adoption of all Hong Kong Financial Reporting Standards; and
- made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The auditor's respective responsibilities to the shareholders in respect of the financial statements are included in the "Independent Auditor's Report".

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out in the "Directors' Report" section of this report.

CONSTITUTIONAL DOCUMENTS

The memorandum of association of the Company and the Bye-laws are published on the websites of the Stock Exchange and the Company. During the year, there was no change in the Company's constitutional documents.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communications with its shareholders and potential investors on the development of the Company. The Company has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness.

The Company maintains a website through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by its shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The Directors regard all meetings with its shareholders to be very important as they offer opportunities for direct communication with the shareholders. When appropriate, presentations would be made at general meetings for the purposes of keeping shareholders informed of corporate developments. The Chairman and the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee, as well as the Company's auditor maintained an on-going dialogue with the shareholders and answered all questions raised by the shareholders during the last annual general meeting held on 19 May 2016.

In addition, key executives of the Company also participate in conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses.

SHAREHOLDERS' RIGHT

CONVENE A SPECIAL GENERAL MEETING

Pursuant to the Bye-laws, special general meetings shall also be convened on requisition as provided by the Companies Act of Bermuda. The Directors, notwithstanding anything in the Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

SHAREHOLDERS' RIGHT *(Continued)*

PUT FORWARD PROPOSALS AT GENERAL MEETINGS

Pursuant to the Companies Act of Bermuda, any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relate or not less than one hundred members of the Company may deposit a written requisition to put forward proposals.

The Company shall then give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

PUT ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns to the Board with contact details as below:–

Investor Relations
V1 Group Limited
Room 3506, 35th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

Telephone: 852-2869 8966
Facsimile: 852-2869 8960
E-mail: info@vodone.com.hk, ir@v1.cn

Upon receipt of the enquiries, the staff of the investor relations department will consider the concern proposed and raise it to the Board in the regular Board meeting for their considering and communicate with the shareholders for the result and feedback of the Board meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the first time V1 Group Limited ("V1 Group" or the "Company", together with its subsidiaries, "We" or the "Group") issues an Environmental, Social and Governance report in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and in compliance with the "comply or explain" provisions in the ESG Guide.

All information and data disclosed herein are from formal documents or internal statistics of the Group. This report has been reviewed and approved by the Board of V1 Group.

1. SCOPE OF THE REPORT

This report covers the financial year ended 31 December 2016 ("Reporting Period") and discloses information on the Group's overall performance, management approaches and strategies and objectives on four main aspects including quality of workplace environment, environmental protection, operating practice and community involvement.

This report covers the situation of the above aspects in the operation of V1 Group's core business (i.e. tele-media business, including internet audio-visual new media, online games, internet medical and other internet plus businesses). The principal place of operation of the core business is Mainland China and Hong Kong.

2. STAKEHOLDER'S INVOLVEMENT, ENQUIRY AND OPINION

The Group communicates with its stakeholders through financial reports, statutory announcements, shareholder meetings, face-to-face meetings and other channels, in order to reveal its financial and operating condition to the stakeholders. This report is also intended to allow stakeholders to understand our performance on environmental protection, community and corporate sustainable development.

We welcome stakeholders to share their enquiry or opinion on this report with us via:

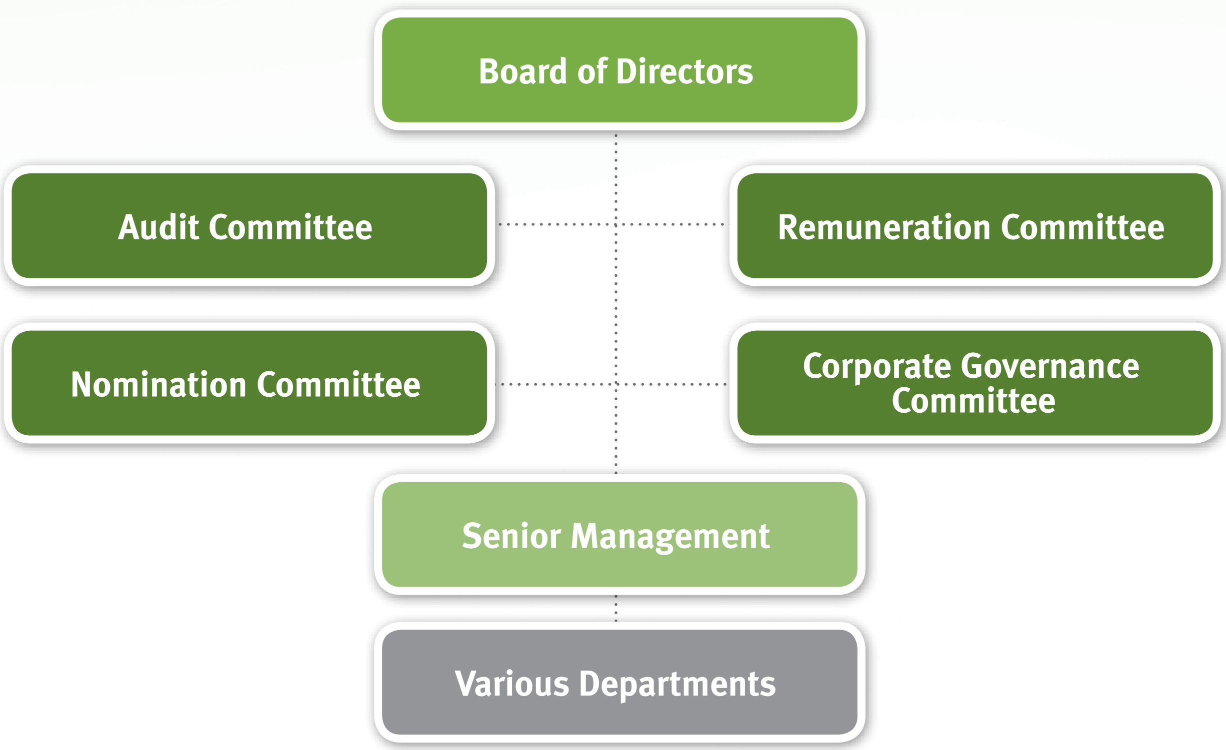
Address:	Room 3506, 35th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong
Telephone:	(852) 2869 8966
Fax:	(852) 2869 8960
E-mail address:	info@vodone.com.hk

ABOUT V1 GROUP

1. MISSION AND VISION

V1 Group was established in 2005, and listed on the main board of the Hong Kong Stock Exchange in 2006, which made it the first listed video media enterprise in China. In more than ten years of development, V1 Group also witnessed the global and China's economic changes, the rapid reform of the domestic economy and finance, and the thriving of internet and other emerging industries. V1 Group has obtained a number of achievements in the development process of the enterprise. Through continuous business innovation, it has laid a leading position in the new media industry. However, we still adhere to the goal of becoming "China's leading new media enterprise". Combining the enterprise mission of "possessing noble life channel, media and community function", the Group will actively expand the "Internet Plus" business riding on the rapid growth of the internet industry, so as to make great contribution to the development of the industry and national economy.

2. CORPORATE GOVERNANCE



For the written terms of reference of the board committees and other relevant information about corporate governance, please refer to page 17 to 26 of this annual report.

3. COMMITMENTS TO STAKEHOLDERS

As a responsible corporate citizen, we consider the needs of the stakeholders while striving to promote the development of business innovation and improve business performance, in order to balance the interests of all parties. We incorporate the consideration of the stakeholders in our business strategies, minimizing the impact on the natural environment and community by our business operation. We take environmental measures to address the challenges of climate change, reduce or even eliminate the indirect damage to the environment; create a good working environment for employees and provide them with abundant resources to help them grow; make commitment to partners and customers, with integrity operation to provide quality products and services; comply with applicable regulations to strengthen corporate governance and improve internal control; encourage employees to participate in community activities to give back to the society, cultivating the value of helping people.

In the future, the Group will strengthen the communication with stakeholders, and perform corporate social responsibility in line with its business strategy and development planning.

A. ENVIRONMENTAL

The Group's core business is dependent on internet technology and related equipment, and does not involve any manufacturing process. During the Reporting Period, the Group didn't directly produce any waste gas or greenhouse gas, waste water, sludge or any other harmful or harmless waste.

Accordingly, in terms of environmental aspect, this report is focused on that of the Group's office premises in Mainland China and Hong Kong during the ordinary course of business and relevant remedial measures.

The resource consumption of the Group is as follows:

Power consumption	Hong Kong: 19,378 kWh[1] (CO_2 equivalent: 15.12 tons[2]) Mainland China: 58,300 kWh[3] (CO_2 equivalent: 45.22 tons[4])
Fuel consumption	Hong Kong: 0 L Mainland China: 20,600 L

1 This figure is based on the records on electricity bills

2 According to Hong Kong Electric, with 1 kWh of power generated through combustion of fuel, 0.78 kg of CO_2 is produced

3 This figure is based on the records on electricity bills

4 The average CO_2 emission factor for Beijing provincial power grids is 0.7757 kg CO_2/kWh, According to "Calculating Method and Data Form for CO_2 Emission"(《二氧化碳排放核算方法及數據核查表》) published by Department of Climate Change of National Development and Reform Commission (國家發改委應對氣候變化司) on 15 May 2016

1. OVERALL APPROACH

Global environment faces a major challenge as a result of exacerbating global warming. In this respect, we are dedicated to a sound environmental management through taking into account the impact to the environment when conducting our businesses, in order to contribute to the improvement of environment and the cause of addressing climate change. In addition to our compliance with the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and laws and regulations issued by local regulatory bodies and industry guidance, we also have made various rules to minimise indirect emission and energy and resource consumption from our daily operation.

1.1 Energy saving and consumption reducing practice

For the purpose of energy saving within our office premises, we encourage our colleagues to reduce unnecessary use of lights during the day time, including keeping the lights off in a meeting room when it is not used, and to turn off computers, screenplays and other electronic devices before leaving the office. And our office premises are designed to maximise the access to natural lights and feature LED lighting systems, to minimise power consumption.

We maintain good ventilation and air conditioning systems through regular cleaning and maintenance, including keeping condensate water and indoor temperature at an appropriate level, to improve indoor air quality, which not only is beneficial to employees' health, but also help to reduce the producing of pollutants and the use of air conditioning.

We choose to use more environment friendly electrical equipment whenever possible, such as printer, light bulb, computer and fridge with higher energy efficiency.

1.2 Waste reducing and recycling programs

We have several waste recycling programs in place, to reduce the electronic and paper waste. We sell or recycle obsolete equipment, to minimise electronic solid waste. Even if a device has to be disposed of, we will arrange for the recycling of it by a professional organization so that the resulted electronic waste will be dealt with in an appropriate way.

We purchase more environment friendly supplies, including recycled paper, biodegradable garbage bag, ozone friendly correction fluid, ball pen with replaceable cartridge. As a new media enterprise, we leverage on our internet technology to digitalise our paperwork, including internal or publicly released documents, as well as company and brand marketing materials, while requiring our employees to double-sided print a paper, to minimise paper waste.

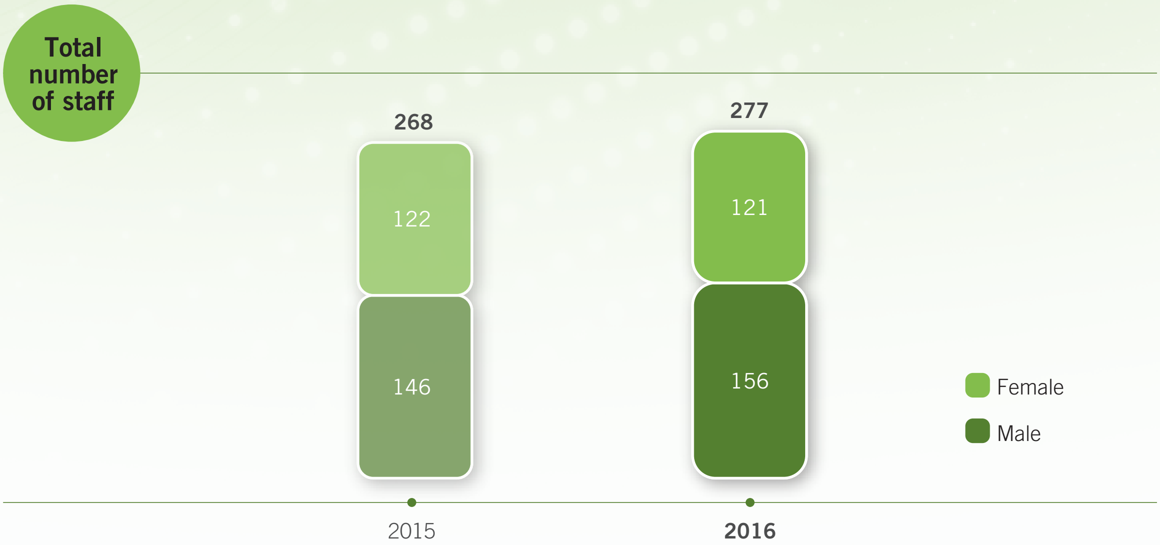
2. TARGET

We have offered guidelines on environmental protection, including those mentioned above, to each of our employees, in an effort to minimise our negative impact on natural environment from our daily operation. Besides, we circulate updates on environmental protection across the Company, and intensified our internal control over environmental impact from the Company, to enhance the environment awareness of our employees. We will review the effectiveness of our environment related policies and activities, keep ourselves up to date on the latest in environmental protection and, depending on our managerial and operating results, set goals for the Group on environment protection, for the purpose of continuously improving our environmental performance.

B. SOCIAL

1. EMPLOYMENT AND LABOUR PRACTICES

Employee Profile



There is no specific requirement or general practice on gender in terms of our business nature, nor do we have any requirement on age of our employees.

Overall Approach

The Group had a total number of over 200 employees. We are committed to providing a respectful, honest and fair workplace for our employees. We ensure our human resources policies in compliance with all applicable domestic and local laws and with reference to the general practice and benchmark of the industry. We strictly implement the relevant human resources policies, and all employees are bound by the provisions of the work guidelines and employment contracts made thereunder. Our human resources policies detailed, inter alia, the Group's employment policies, employees' welfare, rights and responsibilities, code of professional ethics, workplace safety and health guidelines, in order to protect the interests of both the Company and the employees.

The Group has complied with the following laws:

- Employment Ordinance;
- Mandatory Provident Fund Schemes Ordinance;
- Employees' Compensation Ordinance;
- Minimum Wage Ordinance;
- Sex Discrimination Ordinance;
- Disability Discrimination Ordinance;
- Family Status Discrimination Ordinance;
- Race Discrimination Ordinance;
- Personal Data (Privacy) Ordinance;
- Labour Law of the People's Republic of China; and
- Regulation on Labor Security Supervision

1.1 Employment

The Group creates a fair, discrimination-free and respectful workplace and culture for our employees. We have established a comprehensive system of remuneration, incentive and performance management system to attract and retain talents for our long-term and stable growth. The system consists of basic salary, legal and extra benefits (i.e. mandatory provident fund, medical and other insurance, annual leave, sick leave and various subsidies), and monetary and non-monetary rewards (i.e. discretionary bonus, sales commission and share options) for the employees.

Generally, when an employee is dismissed (due to violation of the Group's regulations, or that his or her performance is consistently below an acceptable level or other reasons), our human resources department will follow a range of procedures pursuant to our human resources management policies to terminate his or her employment contract. When necessary, the human resources department will consult our management or seek legal advices to ensure that applicable labour laws are observed.

1.2 Health and Safety

The Group is committed to building a safe, healthy and hygienic workplace for our employees. We attach high importance to employees' health and wellbeing and have developed a series of workplace health and safety guidelines in accordance with relevant regulatory requirements and recommendations from professional bodies and governmental authorities. The guidelines include contingency measures in relation to emergencies such as fire, typhoon rainstorms, hazardous material leakage, as well as first aid skills, emergency use of equipment in response to accidents, so as to enhance the employees' ability to deal with the emergences.

To ensure the employees' safety, we require all departments to strictly monitor and enforce such guidelines to achieve the goal of "zero accidents, zero injuries". Apart from internal guidelines, we also comply with the safety guidelines in relation to fire prevention and ventilation and regularly join the fire drills organised in the office building. We provide updated safety and health information to our employees to raise their awareness of work safety.

There were no non-compliance cases noted in relation to health and safety laws and regulations for the year ended 31 December 2016.

1.3 Development and Training

The Group recognizes the importance of employee growth to the sustainable development of the enterprise and therefore attaches great importance to employee training. We develop appropriate training programs based on the direction and needs of the business development and employees' position, which include seminars, workshops and conferences, on-the-job training relating to new media and other business, as well as personal training on business management, project management, communication skills, presentation skills, etc., with a view to enhance employee quality, qualifications and skills to help them grow in the long run. In addition to internal training, we also encourage employees to participate in external training programs in pursuit of their personal career development goals. All Directors, Company Secretary and senior management will also be trained or provided with up-to-date information on corporate governance and listing regulations.

In addition to employee training, we also provide sufficient internal promotion opportunities for employees to promote outstanding employees with enthusiasm and development potential to important positions within the Group. We allow employees to communicate their work and career development goals and make them feel respected and cared about and provide opportunities for them to develop their strengths, so they can obtain greater job satisfaction.

1.4 Labor Standards

The Group's human resources management system is strictly in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the Regulation on Labor Security Supervision (《勞動保障監察條例》) promulgated by the State Council of the People's Republic of China and is made with reference to international labor standards and industry practices. All employee recruitment and promotion activities of the Group are governed by the management system to ensure that there is no child labor and forced labor, or discrimination of race, religion, age, disability or other kinds.

We are convinced that the conduct of all employees and directors has been fully regulated through a detailed description of the matters in the employment contract and the code of conduct. We will also strictly monitor the behaviors of employees in the workplace and try to eliminate any harassment and bullying in any workplace. We strongly urge employees to report complaints to their supervisors and senior management when they find any misconduct. We will conduct a detailed investigation based on the complaints and submit the findings to the human resources department and senior management, and make necessary actions and improvement measures according to the actual situation, including punishing and dismissing employees, and even seeking legal advice and taking appropriate legal actions.

During the Reporting Period, the Group had no child labor or forced labor, and there were no cases of discrimination involving sex, race, religion, age, disability, and harassment and bullying.

2. OPERATING PRACTICE

2.1 Supply Chain Management

The Group attaches importance to integrity and has the same requirements for suppliers and partners. We will only choose reputable suppliers and partners with good business records, satisfactory products and services quality, and will not simply consider the cost. We strictly monitor the procurement process to ensure that there is no interests transfer or corruption of any kind.

In addition, we hope that suppliers and partners have similar practices in respect of environmental protection, employment, operating practice and other aspects with us. If we find any violation of the relevant environmental protection, employment and other laws, we will immediately suspend the cooperation with such suppliers and partners. The Group will also evaluate the products and services provided by the supplier, check whether the supplier has fulfilled the product liability, report the relevant information to the relevant departments and management, and replace the supplier if necessary.

The Group's suppliers are mainly from Mainland China and Dubai, accounting for 98% and 2% respectively.

2.2 Product Liability

The Group attaches great importance to the quality of its products and services. We believe that products and services of good quality are one of the key factors on which we rely to succeed. Detailed manuals are maintained to control the quality of our products and services. Due to the nature of our business, a majority of contents on our internet channels are live videos broadcasting on the internet or videos made by internet users of various backgrounds. In this regard, according to relevant regulations and standards such as Beijing Network Show (Live Broadcast) Industry Self-regulation Convention(《北京市網絡表演(直播)行業自律公約》), we strictly regulate the contents of videos and the behaviors of anchors by requiring the anchors to care about their appearances and strictly prohibit the contents of violence, pornography, hatred, superstition and gambling, etc., failing of which they will be blocked to broadcast those contents and even be blacklisted and have their accounts deleted permanently.

We, as the administrator, will also actively deal with the disputes among players on V1Game. All users may make complaints to our customer service center in relation to the disputes with other players, etc.. We will make an investigation on the relevant incident and provide reasonable arrangements and solutions to the users according to the evidences such as the screenshot records. As for the complaints in relation to the game systems, we will select reasonable suggestions and give them to the game manufacturers to improve correspondingly so as to provide a fair and interesting game platform for the users.

2.2 Product Liability *(Continued)*

We attach great importance to customer privacy, and have a set of strict management guidelines with respect to privacy protection. Take V1Game as an example, in order to improve the quality of our products and services, we will collect the users' data and have them analysed and integrated, however, we will also ensure the security and confidentiality of the users' data with data technology and strict management measures. Other third parties have also committed to V1Game to protect users' privacy.

During the Reporting Period, there is no loss to our customers arising from leak of their personal data or other service aberrations, or any complaints or damage claims from customers for bad service quality.

2.3 Anti-corruption

The Group adheres to the philosophy of "integrity" in doing business and is devoted to creating a corruption-free work atmosphere. We oblige Directors and all employees to strictly comply with relevant laws and moral standards. The Group has set up an internal audit department and an audit committee whilst hiring external lawyers and auditors in compliance with corporate governance and disclosure requirements imposed on listed companies by the Stock Exchange. We regularly evaluate our internal control mechanism to enhance our governance level.

On daily operation, the Group has a zero-tolerance policy regarding corruption and fraud. Detailed terms about anti-corruption, anti-bribery and conflict of interests are set out in employee's code of conduct to ensure strict compliance of laws by all employees. The Group regularly provides anti-corruption information to employees to heighten their awareness and promote professional conduct. Whenever corruption or fraud cases are spotted, we will immediately carry out inspection and report to the management.

During the Reporting Period, there is no corruption, bribery, extortion, fraud or money laundering activities by our Group and its employees.

3. COMMUNITY INVESTMENT

The Group values corporate social responsibility and raises employees' awareness of caring for the community and mutual help.

During the Reporting Period, the Group proactively seeks to promote the spirit of corporate social responsibility within the company by organizing or participating in appropriate community activities. Through this kind of events, we encourage our employees to contribute to the community so as to raise their community awareness, and to care for and help the needy. Moreover, we encourage them to share their experience after the events to influence other employees and set positive values.

THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the "V1 Group Scheme") which was subsequently adopted on 30 April 2012 by the Company, and terminated the share option scheme adopted on 7 June 2002 (the "Old V1 Group Scheme").

Upon termination of the Old V1 Group Scheme, no further share options will be offered under the Old V1 Group Scheme. However, the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old V1 Group Scheme. As at 31 December 2016, there was no outstanding share options granted under the Old V1 Group Scheme.

Under the V1 Group Scheme, the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The V1 Group Scheme is effective for the period from 30 April 2012 to 29 April 2022. The total number of shares which may be allotted and issued upon exercise of all options (excluding options which have lapsed in accordance with the terms of the V1 Group Scheme) to be granted under the V1 Group Scheme must not in aggregate exceed 10% of the shares in issue as at the date of approval of the V1 Group Scheme (the "V1 Group Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at general meeting to refresh the V1 Group Scheme Limit. The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the V1 Group Scheme and the Old V1 Group Scheme shall not exceed 30% of the share capital of the Company in issue from time to time.

A summary of the principal terms of the V1 Group Scheme is given below:

(I) *Purpose of the V1 Group Scheme:*

The purpose of the V1 Group Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group.

(II) *Participants of the V1 Group Scheme:*

The Directors may, in accordance with the provisions of the V1 Group Scheme, at their absolute discretion invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of the Company:

a. any employee, executive (including any executive director but excluding any non-executive director), manager, consultant or proposed employee, manager, consultant of the Company, any of its subsidiaries ("Subsidiary"), any controlling shareholder (as defined in the Listing Rules) of the Company ("Holding Company") or any entity in which any member of the Group holds any equity interest ("Invested Entity");

b. any non-executive directors (including independent non-executive directors) of the Company, any Subsidiary, any Holding Company or any Invested Entity;

c. any supplier of goods or services to any member of the Group or any Holding Company or any Invested Entity;

THE COMPANY *(Continued)*

d. any customer of the Group or any Holding Company or any Invested Entity;

e. any person or entity that provides research, development or other technological support to the Group or any Holding Company or any Invested Entity;

f. any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

g. any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Holding Company or any Invested Entity; and

h. any joint venture partner or business alliance that co-operates with any member of the Group or any Holding Company or any Invested Entity in any area of business operation or development.

(III) *Total number of shares available for issue under the V1 Group Scheme and percentage of issued share capital it represents as at the date of this report:*
The total number of shares available for issue under the V1 Group Scheme was 178,678,478 shares representing approximately 5.42% of the issued share capital as at the date of this report.

(IV) *Maximum entitlement of each participant under the V1 Group Scheme:*
The total number of shares issued and which may fall to be issued upon exercise of the options granted under the V1 Group Scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being unless it is approved by shareholders at general meeting of the Company with such grantee and his associates abstaining from voting. Where any grant of share options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the shares issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by shareholders at general meeting of the Company.

(V) *The period within which the shares must be taken up under an option:*
The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be more than 10 years from the relevant date of grant.

(VI) *The minimum period for which an option must be held before it can be exercised:*
The Company may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The V1 Group Scheme does not contain any such minimum period.

THE COMPANY *(Continued)*

(VII) *The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:*

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option within such time specified in the offer (which shall not be later than 10 business days from the date of the grant).

(VIII) *The basis of determining the exercise price:*

The exercise price under the V1 Group Scheme shall be a price determined by the Directors but shall not be less than the highest of:

a. the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares on the date of the offer of grant which must be a business day;

b. the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares for the five business days immediately preceding the date of the offer of grant which must be a business day; and

c. the nominal value of a share.

(IX) *The remaining life of the V1 Group Scheme:*

The V1 Group Scheme has the period of 10 years commencing from 30 April 2012.

Details of the share options granted by the Company during the year ended 31 December 2016 are set out in note 33 to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Turnover of the Group for the year ended 31 December 2016 amounted to HK$154,121,000, representing an increase of around 24.7% as compared with last year. Loss for the year from continuing operations was HK$981,639,000 (2015: HK$628,459,000) due to significant impairment losses of intangible assets, goodwill, interest in an associate and amount due from an associate totalling HK$757,661,000.

BUSINESS MODEL AND STRATEGIC DIRECTION

BUSINESS MODEL

The Group's core business operations is the tele-media business including internet audio-visual new media, online games, internet medical and other internet plus businesses, which are of sizeable scale and significant influence in the Mainland China. We are committed to providing high-quality services and creating sustainable values for shareholders and investors.

The Group's tele-media business, primarily involves the provision of internet audio-visual new media, online games, internet medical and other internet plus businesses. By leveraging on the advantage of possessing all the necessary qualifications and licenses, the Group is able to offer various services according to users' needs, and to generate advertising revenue and service fees from such platform. The Group is also devoting increasing efforts in developing online game platforms and game operation. The Group has a number of quality prime games and cooperates with major Internet portals to promote our brand, platform and channels.

In respect of internet plus business, the Group developed mobile apps and website that integrated the advantages of internet with various traditional industries, such as medical and healthcare services. The Group earns income by providing a platform to service providers and individual user. The Group has a large base of users and also cooperates with a number of quality service providers.

The Group's main sources of revenue are derived from advertising revenue, sales of internet games products and internet plus business.

STRATEGIC DIRECTION

The Group adopts the following strategies to create sustainable values for shareholders:

- Making focused efforts on the mini-video news portal platform, online games and internet plus businesses
- Actively stepping up business expansion and cementing partnership
- Balancing risk exposures
- Maintaining prudent financial management

Making focused efforts on the mini-video news portal platform, online games and internet plus businesses

The Group attains growth by winning patronage from China's internet users and mobile phone users, and has built itself into an impeccably reputed player and an unrivalled brand over the years. With strong confidence in the continued expansion of the internet mini-video news, online games and internet plus businesses, the Group is rapidly expanding into these sectors. Given that the Group is firmly dedicated to pursuing its core strategy of providing excellent and quality services, the Group's brand secures widespread market recognition. The Group will uphold its core strategy and continue to strengthen its brand.

Actively stepping up business expansion and cementing partnership

The Group dedicated vigorous efforts on its business expansion through enrichment of website contents and development of new products. The Group also formed stronger partnership with a number of media partners in relation to the expansion of sales channels. Based on our renowned reputation, seasoned team plus unswerving commitment to premium product and service quality, we will be well-positioned to extend focused endeavours on the development and consolidation of the Group's business as well as to maintain our brand value.

Balancing risk exposures

The Group's risk management policies, which are framed in accordance with the operating principles of the Company, aim to prevent any possible losses within the scope of bearable risks, enhance shareholder values to the extent of an optimal balance between risks and rewards as well as fulfill the principle of optimization of capital allocation. The management expects to exercise continued control over the cost of the Group in the future, and to strive for sustainable core competitiveness, with a view to striking a balance between the development of the Group and the reward for shareholders.

Maintaining prudent financial management

The key to our success is to maintain sound financial position. With prudent financial management in place, we can ensure the positive development of the Group and enable the Group to capture the opportunities to invest in attractive projects. The Group places great emphasis on the management of liquidity, in order to ensure that the Company has a sufficient pool of funds to meet day-to-day operations and to finance strategic investments.

BUSINESS REVIEW AND DEVELOPMENT

In 2016, the Group focused mainly on the development of the tele-media, including internet audio-visual new media, online games, internet medical and other internet plus businesses, and lottery-related business.

• TELE-MEDIA BUSINESS

Business Review

In 2016, V1 New Media persisted on innovating, upgrading user experience and extending product layout to build an industry-leading new media ecosystem. Upholding the development concept of "Internet Plus", the Group actively promoted trans-boundary integrated development, industry communication and resource sharing, so as to work with various parties and moving forward together. During the year, the Group won a number of prizes awarded by various authoritative institutions in the internet industry. At the same time, we adhered to business model innovation according to product features and achieved commercialization by means such as broadcast and VR broadcast plus e-commerce/branding. The Group has strategically cooperated with hundreds of media outlets such as People's Daily, Netease News and Headlines Today, joining hands together to implement major news events reporting and live broadcasting, related policies is interpreted correctly, society concern is responded and good public opinion environment is created.

V1 Portal

Improve V1's Media Brand Influence Comprehensively

V1 Portal allied itself with China Arab TV (CATV) (which covers 25 Arab countries and 600 million Arabian) to report directly on major domestic and international events, meanwhile integrated media transmission resources and allied with major media outlets such as Headlines Today, People's Daily, cankaoxiaoxi.com, Xinhua News Agency and Netease News to broadcast, VR broadcast and distribute major events, respond to society concerns in a timely manner, cultivate good public opinion environment, shape high-end brand image and improve V1's influence constantly.

Richly Cultivated in Mini-Video Market, Create the First Aggregation Platform for Commentaries in China

V1 Group will create a mini-video platform with quick-comment feature to focus on the hot events and aggregate stars' and netizens' comments, providing a commenting platform for everyone to have their own discourse right. Also, it will set up a brand new member reward, recharge and grading system, and provide oriented-support to Professionally Generated Content ("PGC") and professional commentators, so as to cultivate grass-root commentators and incubate internet celebrities in critics.

CATV

Background Introduction

CATV is a Chinese-Arabic bilingual satellite TV channel incorporated and headquartered in Dubai, the United Arab Emirates (the "UAE") in July 2014. With a satellite TV license issued by the UAE National Media Council, CATV was formally launched in September 2015, airing Chinese-language programs with Arabic subtitles and Arabic-language programs with Chinese subtitles. Through Nilesat, CATV covers more than 500 million people in 25 Middle Eastern countries. In 2016, CATV managed to connect itself to UAE national cable TV networks "Du" and "Etisalat", making CATV accessible to millions of UAE households. In August 2016, V1 Group became the controlling shareholder of CATV.

Program Production

In 2016, CATV gradually emerges as the mainstream media in Arab countries, and it is also a key partner of China Central Television (CCTV), Xinhua News Agency, China News Service, China Intercontinental Communication Center (CICC) under the PRC State Council Information Office, and Ningxia TV. CATV mainly reports the important news on China and Arab countries as well as the news, activities, cultural communication, economic and trade information and tourism information of the Chinese communities in Dubai. CATV also helps local Chinese there to learn more about the UAE society. At the same time, CATV cooperated with the Chinese Consulate General in Dubai to produce and broadcast the performance reception in celebration of the Chinese National Day, and to promote the safety precautions for those who visit Arab countries for business and travel.

Two self-produced programs "Dubai News"（杜拜新聞快訊）and "Dubai VIP Room"（杜拜會客廳）were released in 2016.

"Dubai News" is a local news program of Dubai which is self-produced by CATV's directors, reporters, videographers and other teams, covering major local news events happened in Dubai; "Dubai VIP Room" is a high-end talk show where CATV hosts invite representatives across the UAE including government officers, specialists and scholars, prominent entrepreneurs and social celebrities for a special interview, with an aim to promote the mutual understanding between China and UAE.

The CATV's documentary film "South China Sea", as co-produced with the CICC under the PRC State Council Information Office, has attracted broad attention from Arab countries and been highly praised by the Chinese Consulate General in Dubai.

Events

CATV is a media partner in various events such as Dubai World Cup, Abu Dhabi China Trade Week, Dubai Annual Investment Meeting etc. Two major events were held in Dubai during the year, namely "Hangzhou-Dubai City Promotion Conference" and "Global Overseas Chinese Spring Gala Dubai".

"Hangzhou-Dubai City Promotion Conference" was hosted by the Hangzhou Municipal People's Government, co-organized by the Hangzhou Municipal Commission of Commerce and CATV and fully supported by Chinese Consulate General in Dubai, for the main purpose of promoting the culture, tourism, corporate products and investment environment of Hangzhou to the UAE and the event achieved great success; "Global Overseas Chinese Spring Gala Dubai" was jointly held by CATV and UAE Chinese Cheongsam Association and fully supported by Chinese Consulate General in Dubai. The event invited overseas Chinese leaders, business representatives and artists from more than 30 countries around the world to celebrate the Chinese New Year in Dubai. With impressive shows, it introduced the China's outstanding culture to UAE and was highly rated by overseas Chinese in UAE and the local Arabs.

VR Business

"R Strategy"– Liu Lian VR（榴槤VR）

V1 Group announced "R Strategy" in September 2016, marking the official launch of the first paid VR platform in China – Liu Lian VR. Liu Lian VR adopts the new VR technologies as its core engine to realize such functions as real-time interaction during VR broadcast between internet celebrities and fans, internet celebrity task customization and crowd-funding reward, thereby creating an innovative profit model. Liu Lian VR involves in every part of the industry chain, including upstream content production, technology upgrade and downstream platform development, content distribution and head mounted display support, which makes it gradually develop as the core of VR industry chain.

V1 New Media realized a new layout, new driving force and new growth in 2016, with the strategic effects of business diversification and whole industry chain started to emerge. In November 2016, Liu Lian VR collaborated with Tan Weiwei（譚維維）and took the lead to launch a Tan Weiwei "Give you some colors"（給你一點顏色）VR live broadcast concert, for which a 360° panorama version was innovated in the subsequent updated version as well. Meanwhile, Liu Lian VR laid emphasis on the development of VR beauty live broadcast and video on demand, bringing immersive experience to the users.

Adhere to Business Model Innovation to Achieve Commercialization

As a traditional leading brand in the new media industry, V1 New Media has been persisting on business model innovation. It has successfully achieved commercialization by such means as live broadcast, VR live broadcast plus e-commerce/branding, and was well recognized by many well-known advertisers with acute audience positioning and transmission effect. Among which, V1 produced the video "Visiting in BMW's Super Factory" (直擊寶馬超級工廠) for BMW, the world famous car manufacturer. Besides, Mengniu Dairy's promotional video "The Past and Present of A Drop of Milk" (一滴奶的前世今生) was affirmed by netizens and successfully realized the promotion and dissemination among consumers which was honored as the most successful case of VR cross-boundary marketing this year. Moreover, V1 New Media live broadcasted Tmall Daddy Day on 8 August 2016 and reached multi-platform distribution, helping the clients improve their influence and shape their brand image while fulfilling its own earnings. Through bringing in diversified business model, V1 New Media has broken through the upstream and downstream resources of VR industry chain to carry out multidimensional VR marketing.

Improve Brand Influence Constantly and Win a Number of Industry Awards

2016 was a good harvest year for V1 New Media. During the year, the Group attracted extensive attention from inside or outside the industry and won a number of industry awards. Among which, V1 Group Limited was ranked 38th among China's Top 100 Internet Companies 2016, which was the third year in a row that V1 Group hit the list. V1 Group won the "Most Industry Innovative Award" (最具行業創新獎) in the 2016 China Internet Conference; V1 Portal was awarded the "Most Popular Mobile APP of Chinese New Media" (中國新媒體最具人氣移動APP獎) by China Electronic Commerce Association at the 2016 New Media Gateway Conference of China. V1 Portal won the "Fastest Rising APP of Mobile Internet" (移動互聯網上升最快APP) and Liu Lian VR won the "Most Promising Award of Mobile Internet" (移動互聯網最具發展潛力獎) in the 2016 China Electronics Association and World Mobile Internet Conference respectively. The mini-video aggregation platform under V1 New Media was awarded the "Most Influential Video APP in 2016" (二零一六年度最具影響力視頻APP) in the Full Scene Smart Marketing Conference. The three products including V1 Portal, Hao Wai (號外) and Liu Lian VR under V1 Group were all selected as "Cutting-edge Application of the Year" (年度新銳應用) in the 2016 Most Influential Applications ranking by app.lenovo.com. With its continuous growth and maturity, V1 New Media has figured out a unique road to realise its own potential and value.

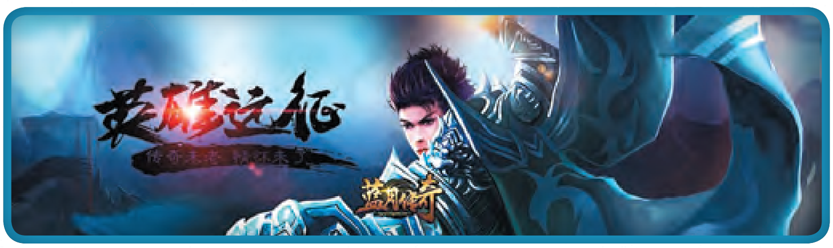
V1Game Business

V1Game (www.v1game.cn)

By the end of 2016, China's web game market had a total of over 300 million users with a sales revenue of approximately RMB18.8 billion. After three years of rapid growth, the market has entered a mature stage where the whole industry is pursuing the development direction on prime products and quality services. Many major game developers in the web game market, such as Tencent and Netease, are targeted on an innovative operation by introducing online game competitions, offline competitions for cash awards and 3D engine technologies, etc.

V1Game has outperformed its targets set in 2015. With more careful selection of products, reinforced promotion for quality prime games, targeted marketing by product type based on platform user behaviours and implementing one-on-one customer tracking services, V1Game has grown into a tier one web game operation platform in China in merely two years.

Web game developers normally release games in the peak months which span from April to October. In general, web games can be divided into three categories: role-playing games, war strategy games and leisure competition-related games. In terms of revenue, role-playing games rank top in the monthly revenue of all major joint operation platforms. Similarly, the role-playing games of V1Game, including "Legend of Dominance"（傳奇霸業）, "Legendary Age"（傳奇盛世）, "Blue Moon Legends"（藍月傳奇）and "The Lost Tomb"（盜墓筆記）, all of which are S-Rank games, are major contributors to its revenue.



In terms of mode of operation, V1 Game focused on the data monitoring and customer experience of game products, and the increase of the supporting operation activities for each platform. Customer retention has also been improved by the expansion of customer service team, through which customer care personnel are given professional training and product training, and customer care of VIP rating is improved. In the second half of the year, it adopted a new mode of operation which integrates online games and offline rewards by adding several incentives for VIP players such as platform token and gift coupon for treasure, which stimulated users' consumption, and enhanced users' loyalty and satisfaction. It is an important way to retain customers and attract their consumption.

V1H5 Platform (www.v1h5.cn)

In 2016, the Company spared no effort in promoting the concept of "Interaction between Sports and Games"（體遊互動）, with the purpose of developing China's sports industry and making sports more interesting and popular. In the first half of the year, the first H5 game on sports competition in the PRC named "It's Up to Fans"（球迷製造）was launched, which fully integrates the features of both H5 games and sports events, and it won the great recognition among the industry once launched.

In 2017, V1 Game will vigorously develop the sports games products following the concept of "Sports for All, Games for All"（全民體育，全民遊戲）. It will take the lead to launch a web-based simulation game, the "Football Master 2017 "（足球大師2017）, which is characterized by innovative features such as 3D race screen, sound effect of live commentary and data interaction between virtuality and reality. The game adopts a real competition system gameplay, in which the players can manage the football team under the most real game environment through the process of creation, cultivation and development, and compete in the local league, the UEFA Champions League and the top five leagues in the world to fight for their own football dreams and their own football legend!

"Internet Plus" Business

Healthcare Home（醫護到家）

2016 was a critical year when China comprehensively deepened its "Medical Reform", a keyword for the Chinese society and livelihood. "Classified Treatment" has been formally designated as a basic medical and health system, as the National Health and Family Planning Commission indicated the legalization of medical home care services at individual households. Beijing took the lead in including such home care services and domestic sickbeds into its reimbursement scope of medical insurance. "Healthcare Home" under V1 Group is the first government-approved pilot provider of internet healthcare services in the PRC, by capturing the opportunity of the medical reform in China, Healthcare Home has made leaps and bounces over the past year.

Healthcare Home Quickly Emerging as a New Star in the Chinese Mobile Medical Industry

Healthcare Home is mainly positioned to provide "Nursing Home Care" services, and serves as a platform to connect patients with doctors and nurses. Within merely a year, the platform has certified over 25,000 registered nurses, providing such home care services in various cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing and Hangzhou. Following the principle of "30% of Treatment and 70% of Care", Healthcare Home has rolled out 16 routine care services, including injection, infusion, wound dressing and urinary catheterization, to meet the healthcare demands of the elderly and pregnant women who find it inconvenient to move around. Such service provision has filled the gap in the Chinese mobile healthcare market, helping Healthcare Home to become a new star in pioneering the development of mobile medical industry in China.

Healthcare Home Fully Access to Various Platforms

As the first government-approved pilot provider of internet healthcare services, Healthcare Home is highly regarded by government authorities, media and partners for its innovation and speedy development in the "Internet Plus" medical sphere. The nursing home care services by Healthcare Home are also accessible via big data platforms, such as 58 daojia (58到家), WeChat Wallet (微信錢包), Alipay (支付寶), Baidu Yisheng (百度醫生), Chunyu Yisheng (春雨醫生) and Guangdong Cloud Hospitals (廣東雲醫院), where patients or families who find it inconvenient to move around can book nursing home care services in a convenient and quick way. Apart from its connection with such platforms, Healthcare Home has also forged strategic cooperation with TCL Smart Home (TCL智慧家居), Skyworth Smart Home (創維智慧家庭) and Country Garden Community Service (碧桂園社區服務), providing nursing home care services to their platform users.

Aiming to Build a Mobile Medical Services Platform

In addition to providing its platform users with the services of nursing home care, Chinese medicine therapy and elderly home care, Healthcare Home works to deliver joint mobile healthcare services by cooperating with vertical healthcare brands in such fields as medical consultation, physical examination and medicine delivery. By far, Healthcare Home is aiming to build the first gateway of mobile medical services platform in China to jointly provide professional medical and healthcare services to patients, such as online medical consultation with Chunyu Yisheng, physical examination with iKang (愛康國賓), medicine delivery with KF Yao (快方送藥), at-home medical test with KingMed Diagnostics (金域檢驗), care worker service with Tai Xin Kang Hu (泰心康護), maternity matrons service with Youfu Mama (有福媽媽), and at-home lactation stimulation service with Nainiu Mama (奶牛媽媽).

Launching the Beijing Elderly Home Care Services Platform and Getting Included into Beijing Elderly Care and Disability Aid Card Services

According to the Fourth Elderly Home Care Service Investigation for Urban and Rural Elderly, the top five demands from the elderly are at-home medical consultation (38.1%), daily chores (12.1%), rehabilitation nursing (11.3%), psychological counseling/chatting (10.6%) and health education (10.3%). Centering around the above priority demands from the elderly, Healthcare Home worked with Tai Xin Kang Hu to formally launch the "Beijing Elderly Home Care Services Platform" (北京居家養老服務平台) on 31 October 2016, as a pioneering move to provide three major services including healthcare for chronic diseases, nurse visits and care worker services for the elderly in Beijing. The registered nurses of Healthcare Home utilizes their spare time to provide the elderly with 16 at-home medical care services, including injection, infusion, urinary catheterization, nasal feeding, pressure sore and stoma and has been formally approved by Beijing Municipal Bureau of Civil Affairs to be included as a service provider for the holders of Beijing Pass – Elderly Care and Disability Aid Card (北京通—養老助殘卡) in December 2016. As such, nearly two million elderly in Beijing (aged 65 or above) are able to book nursing home care services provided by Healthcare Home, and pay via their Beijing Pass – Elderly Care and Disability Aid Card.

Honoring a Global Award in America and Getting Invited to CCTV "Dialogue"（對話）Program

In April 2016, Healthcare Home prevailed in the three rounds of 2016 Global Mobile Internet Conference (GMIC), to become the sole representative of the most innovative application in China to participate in the final round of G-Startup Worldwide, a global competition for innovative startups.

In September 2016, after the assessment and selection by several global top venture capital companies such as Sequoia, Draper Associates, GGV Capital, 500 Startups and KPCB in San Francisco, the United States, beating the regional winners from the United States, Japan, India and other countries, Healthcare Home won the championship and was also honored with the third place winner at G-Startup Worldwide Global Final Competition. Thus, Healthcare Home became another Chinese startup that won the recognition of the competition, following the success of Didi Dache（滴滴打車）and Wandoujia（豌豆莢）.

On 9 October 2016, Healthcare Home, as a representative of the "Internet Plus" healthcare and elderly care industry, was invited to attend "Dialogue", a program from China Central Television (CCTV) Finance channel. In the program, the famous CCTV host Chen Weihong（陳偉鴻）conducted discussion with Wei Guilei（魏貴磊）(Chief Operating Officer of Healthcare Home), Dang Junwu（黨俊武）(Deputy Director of China Research Center on Aging) and Chen Xiaodong（陳曉東）(Secretary of CPC Municipal Committee of Rugao City, Jiangsu Province), to share their views on how to address the difficulties of home care for elderly patients. Based on mobile internet technology, Healthcare Home serves as a platform to provide home care medical services for the elderly nearby who find it inconvenient to get about. During the program, the platform was well recognized by the audience and the renowned old artist Xu Huanshan（許還山）. After the program was aired, the service model of Healthcare Home has quickly emerged as a focus by fervent media coverage across the PRC.

Owing to its innovative development model based on the sharing economy, a simple and clear business model and a fast-growing user base, Healthcare Home managed to be shortlisted in Top-10 Internet Medical Events in 2016（二零一六年度互聯網醫療十大事件）, Next Big Top-50 Great Chinese Apps（中國好應用Next Big 50強）, 2016 Future Unicorn Enterprises（二零一六未來獨角獸企業）and other influential lists. Furthermore, Healthcare Home was successively honored with twelve major awards, including the Excellence Award in the "National Internet+ Medical Health" competition（全國「互聯網+醫療健康」大賽優秀獎）, "Most Valuable APP in 2016"（二零一六年度最具價值APP）, "Best Innovation Award in the Chinese Mobile Medical Industry"（中國移動醫療行業最具創新獎）, "Most Popular Elderly-friendly Product in 2016"（二零一六最受歡迎適老產品冠軍）and "Best Contribution Award"（最佳貢獻獎）, conferred by Chinese Health Information Association, i-China Forum and CIWEEK magazine of the Chinese Academy of Sciences, China Electronic Commerce Association, China International Silver Industry Exhibition and Xiaomi App Store respectively.

- **LOTTERY-RELATED BUSINESS**

Due to the promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management(《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》)and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet(《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》)by relevant government authorities in the PRC, the Group's lottery-related business has been suspended since March 2015. For the year ended 31 December 2016, non-cash impairment losses were recognised based on the prudential assessment of the lottery-related operations.

Business Prospect

2016 is the starting year for V1 Group to roll out another decade in its development history. With the general trend of "Nationwide Entrepreneurship and Innovation", the management of V1 Group analyzed the current situation and upcoming trend and made a prospective layout for V1 Group's future businesses based on the development characteristics of the Internet industry and the development trend of "Internet Plus".

Under our business structure, the new media business segment has been basically set up centering on V1 Quick-Comment(第一視頻秒評)and V1 VR Show(第一視頻VR秀場); the Internet Finance segment is mainly made of V1 (China) Investment(第一視頻(中國)投資), V1 Factoring(第一視頻保理), China Prosperity Capital Mobile Internet Fund(國宏嘉信基金)and the Bank of Asia; the new game business segment includes V1Game, as the core, combining with V1H5 Platform and Liu Lian VR Platform; and the "Internet Plus" business segment is focused on Healthcare Home and Quick To(快兔出行). Although all of the above business segments are in the investment phase, they are in line with the development trend of the internet industry businesses, all of which are forward-looking and have great market potential. At present, all of the business segments are growing healthily. Therefore, we are confident that V1 Group will create another miracle and achieve greater success in its future development.

AWARDS

MAJOR AWARDS IN 2016

No.	Name of Award	Presented by
1.	V1 Group won the "Most Industry Innovative Award"(最具行業創新獎)	China Internet Conference
2.	V1 Group won the "Most Popular Mobile APP of Chinese New Media" (中國新媒體最具人氣移動APP獎)	China Electronic Commerce Association
3.	V1 Group won the "Fastest Rising APP of Mobile Internet"(移動互聯網上升最快APP)	China Electronic Commerce Association and World Mobile Internet Conference
4.	V1 Group won the "Silver Award of Broadcast Marketing Category in the Golden Awards" (金網獎直播營銷類銀獎)	The 8th Asia Pacific Internet Marketing Forum Golden Awards
5.	Liu Lian VR won the "Most Promising Award of Mobile Internet" (移動互聯網最具發展潛力獎)	China Electronic Commerce Association and World Mobile Internet Conference
6.	Liu Lian VR won the "Most Innovative Award of VR Industry in 2016" (二零一六年度行業最具創新力獎)	Xiaomi Full Scene Smart Marketing Conference
7.	Liu Lian VR won the "Best Video Enterprise – Excellent Enterprises in AR/VR Industry" (AR/VR產業優秀企業之最佳視頻企業獎)	The First Jinping Awards Ceremony
8.	Healthcare Home was honored with the "3rd Place Winner at the G-Startup Worldwide Global Finals 2016"(二零一六年G-Startup全球創業創新大賽第三名)	G-Startup Worldwide Global Finals
9.	Healthcare Home was honored with the "Best Innovation Award in the Chinese Mobile Medical Industry"(中國移動醫療行業最具創新獎)	China Electronic Commerce Association
10.	V1H5 Platform won the "Most Popular H5 Games Golden Apple Award in 2016"(二零一六年度最受歡迎H5遊戲金蘋果獎)	TFC Global Game Crossover Conference

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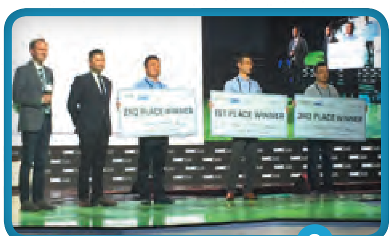
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FINANCIAL REVIEW

BUSINESS SEGMENTS

	Continuing Operations				Discontinued Operations			
	Tele-media business		Lottery-related business		Mobile games business		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**154,121**	96,338	**–**	27,223	**–**	1,168,121	**154,121**	1,291,682
Reportable segment (loss)/profit	**(465,994)**	(279,934)	**(491,630)**	(45,604)	**–**	846,315	**(957,624)**	520,777

TELE-MEDIA BUSINESS

The tele-media business segment contributed a turnover of HK$154,121,000 to the Group for the year ended 31 December 2016, representing an increase of around 60.0% as compared with the corresponding period in 2015. Segment loss was HK$465,994,000 for the year (2015: HK$279,934,000).

Segment loss was mainly attributable to the fact that the Group's tele-media business was still undergoing a strategic realignment process and cost incurred for the development of a series of new internet plus businesses for the coming future and significant impairment losses recognised for the year.

Due to the effect of suspension of the lottery-related business operations (details refer to "Lottery-related Business" section below), the carrying amounts of certain lottery-based tele-media cash generating units were written down to their recoverable amount or fully impaired. Intangible assets, interest in an associate and amount due from an associate that were related to the Group's lottery-based tele-media services were fully impaired. Non-cash impairment losses amounted to HK$315,340,000 for the year ended 31 December 2016, including goodwill, intangible assets, interest in an associate and amount due from an associate in the amounts of HK$178,315,000, HK$84,094,000, HK$38,244,000 and HK$14,687,000, respectively.

LOTTERY-RELATED BUSINESS

For the year ended 31 December 2016, segment loss was HK$491,630,000 as compared with HK$45,604,000 for the corresponding period last year. The Group's lottery-related business remained temporarily suspended due to the suspension of the operations of online sale of paperless lottery tickets and sale of lottery tickets through mobile phones of the Group's business partners in the Mainland China with effect from 1 March 2015 pursuant to the promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management(《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》)and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet(《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》)by relevant government authorities in the PRC.

Since the national policies relating to the sale of lottery tickets through internet and mobile phones are still not issued, there are high degree of uncertainties in the policies, regulations and market conditions regarding the resumption of the operation of the sales of lottery tickets through internet and mobile phones. Non-cash impairment losses were recognised based on the prudential assessment of the lottery-related operations. Impairment losses relating to the internet based lottery-related business for the year ended 31 December 2016 amounted to HK$442,321,000, including goodwill, intangible assets and amount due from an associate in the amounts of HK$156,476,000, HK$247,983,000 and HK$37,862,000, respectively.

MOBILE GAMES BUSINESS

After the Group disposed of its entire interest in CMGE on 10 August 2015, the Group's mobile games business has discontinued and the revenue and profit of mobile game business have ceased to be recognised in the Group's revenue and result since then.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had HK$745,535,000 cash and cash equivalents (31 December 2015: HK$1,591,389,000). Working capital was HK$1,056,877,000 as compared with the working capital of HK$1,547,429,000 at the end of last year. Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 31 December 2016, the Group's current ratio was 8.8 (31 December 2015: 11.5). Taking into account the financial resources available, the directors of the Company are of the view that the Group will have sufficient working capital for its present requirement.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities.

CAPITAL STRUCTURE

As at 31 December 2016, the total assets of the Group amounted to HK$1,991,972,000 (2015: HK$3,067,962,000) which were mainly financed by shareholders' fund of HK$1,833,220,000 (2015: HK$2,865,232,000). There is no change to the Group's capital structure for the year and the number of the issued shares of the Company was 3,297,925,262 shares. The Group's capital structure, as well as cash inflow, are therefore very healthy.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Except for the acquisition of the equity interest in CATV Group Limited on 22 August 2016 as disclosed in note 29 to the consolidated financial statements in this report, there was no material acquisition and disposal of subsidiaries during the year ended 31 December 2016.

EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2016, the Group had a total of 277 employees. They include the management team and the employees in administration, production and sales departments. The Group regularly reviewed its professional team members and will expand its management team whenever necessary.

The Group remunerates the Directors and its staff primarily based on their contribution, responsibilities, qualification and experience. The Group has implemented staff stock option plans. The Group has granted options to the Directors and other employees to encourage them towards enhancing the value of the Group and to promote the long-term growth of the Group.

Furthermore, the Group offers training programs to employees to upgrade their skills and knowledge on a regular basis.

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TO THE SHAREHOLDERS OF V1 GROUP LIMITED

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of V1 Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 60 to 141, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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.

IMPAIRMENT ASSESSMENT OF GOODWILL, INTANGIBLE ASSETS AND INTEREST IN AN ASSOCIATE

Refer to notes 17, 18 and 20 in the consolidated financial statements.

The Group has intangible assets of HK$800,085,000, goodwill of HK$421,658,000 and interest in an associate of HK$38,244,000 respectively relating to one cash generating unit ("CGU") including tele-media business and lottery-related business. Due to the suspension of lottery-related business, the CGU incurred losses for the year ended 31 December 2016. This has increased the risk that the carrying values of intangible assets, goodwill and interest in an associate may be impaired.

In the annual impairment review, management has concluded that the carrying amounts of HK$332,077,000, HK$334,791,000 and HK$38,244,000 are required to be impaired in respect of the intangible assets, goodwill and interest in an associate respectively. This conclusion was based on a value in use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth and the possibility of the Group to resume its lottery-related business.

Our response:

Our procedures in relation to management's impairment assessment included:

– Assessing the valuation methodology;

– Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and

– Reconciling input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

DIRECTORS' RESPONSIBILITY 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 Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda 1981, 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with 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 to 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 directors, 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.

BDO Limited
Certified Public Accountants

Choi Man On
Practising Certificate no. P02410

Hong Kong, 21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Continuing operations			
Revenue	7	**154,121**	123,561
Cost of revenue		**(299,941)**	(256,120)
Gross loss		**(145,820)**	(132,559)
Other gains and losses	8	**5,030**	5,294
Selling and marketing expenses		**(14,934)**	(13,294)
Administrative expenses		**(102,111)**	(395,899)
Impairment of intangible assets	20	**(332,077)**	(93,492)
Impairment of goodwill	18	**(334,791)**	–
Impairment of amount due from an associate	35(c)	**(52,549)**	–
Impairment of interest in an associate	17	**(38,244)**	–
Share of profits of associates	17	**159**	126
Loss before income tax	9	**(1,015,337)**	(629,824)
Income tax credit	12(a)	**33,698**	1,365
Loss for the year from continuing operations		**(981,639)**	(628,459)
Discontinued operations			
Income from discontinued operations	13	**–**	846,315
(LOSS)/PROFIT FOR THE YEAR		**(981,639)**	217,856
Other comprehensive income			
Items that maybe reclassified subsequently to profit or loss:			
Change in value of available-for-sale financial assets		**(1,778)**	(2,938)
Exchange differences arising on translation of foreign operations		**(51,480)**	(89,053)
Other comprehensive income for the year		**(53,258)**	(91,991)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,034,897)**	125,865

	Notes	2016 HK$'000	2015 HK$'000
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company			
Loss for the year from continuing operations		**(980,071)**	(627,543)
Income from discontinued operations		**–**	770,209
(Loss)/profit for the year attributable to owners of the Company		**(980,071)**	142,666
Non-controlling interests			
Loss for the year from continuing operations		**(1,568)**	(916)
Income from discontinued operations		**–**	76,106
(Loss)/profit for the year attributable to non-controlling interests		**(1,568)**	75,190
		(981,639)	217,856
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(1,032,041)**	70,475
Non-controlling interests		**(2,856)**	55,390
		(1,034,897)	125,865
(LOSS)/EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS			
– Basic (HK cents)	14	**(29.72) cents**	4.33 cents
– Diluted (HK cents)	14	**(29.72) cents**	4.33 cents
LOSS PER SHARE FROM CONTINUING OPERATIONS			
– Basic (HK cents)	14	**(29.72) cents**	(19.03) cents
– Diluted (HK cents)	14	**(29.72) cents**	(19.03) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**16,305**	15,701
Interests in associates	17	**198**	40,939
Goodwill	18	**86,867**	446,057
Intangible assets	20	**468,008**	871,138
Other financial assets	23	**229,050**	–
		800,428	1,373,835
CURRENT ASSETS			
Trade receivables	21	**–**	8,377
Other receivables, deposits and prepayments	22	**44,511**	18,412
Inventories		**–**	1,342
Other financial assets	23	**391,410**	5,506
Amount due from an associate	35(c)	**4,924**	64,117
Amounts due from related companies	35(d)	**5,164**	4,984
Bank balances and cash		**745,535**	1,591,389
		1,191,544	1,694,127
CURRENT LIABILITIES			
Trade payables	24	**–**	82
Deposits received, other payables and accruals	25	**11,864**	25,547
Amount due to an associate	35(e)	**391**	428
Amounts due to related companies	35(e)	**10,318**	8,547
Tax payable		**112,094**	112,094
		134,667	146,698
NET CURRENT ASSETS		**1,056,877**	1,547,429
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,857,305**	2,921,264
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**–**	35,849
NET ASSETS		**1,857,305**	2,885,415
EQUITY			
Share capital	27	**32,979**	32,979
Reserves		**1,800,241**	2,832,253
Equity attributable to owners of the Company		**1,833,220**	2,865,232
Non-controlling interests		**24,085**	20,183
TOTAL EQUITY		**1,857,305**	2,885,415

Zhang Lijun
Director

Wang Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company								
	Share capital (note 27) HK$'000	Share premium (note 30(a)) HK$'000	Investment revaluation reserve (note 30(b)) HK$'000	Other reserves (note 30(c)) HK$'000	Share-based compensation reserve (note 30(d)) HK$'000	Exchange fluctuation reserve (note 30(e)) HK$'000	Retained profits/ (accumulated losses) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	32,979	1,488,282	(9,454)	1,060,812	59,273	230,987	314,331	840,263	4,017,473
Profit or loss	–	–	–	–	–	–	142,666	75,190	217,856
Other comprehensive income	–	–	(2,938)	–	–	(69,253)	–	(19,800)	(91,991)
Total comprehensive income for the year	–	–	(2,938)	–	–	(69,253)	142,666	55,390	125,865
Lapse of share options	–	–	–	–	(145)	–	145	–	–
Disposal of subsidiaries	–	–	2,889	–	–	(102,172)	–	(898,046)	(997,329)
Release on disposal of subsidiaries	–	–	–	(6,309)	(90,017)	–	96,326	–	–
Other transfer	–	–	3,447	–	–	–	–	–	3,447
Recognition of share-based payment expense	–	–	–	–	38,517	–	–	44,932	83,449
Deemed disposal of partial interest in a subsidiary	–	–	–	4,905	(246)	–	–	(2,928)	1,731
Dividend paid	–	–	–	–	–	–	(329,793)	–	(329,793)
Dividend paid by a subsidiary	–	–	–	–	–	–	–	(19,428)	(19,428)
At 31 December 2015	32,979	1,488,282	(6,056)	1,059,408	7,382	59,562	223,675	20,183	2,885,415
Profit or loss	–	–	–	–	–	–	(980,071)	(1,568)	(981,639)
Other comprehensive income	–	–	(1,778)	–	–	(50,192)	–	(1,288)	(53,258)
Total comprehensive income for the year	–	–	(1,778)	–	–	(50,192)	(980,071)	(2,856)	(1,034,897)
Lapse of share options (note 33(a))	–	–	–	–	(324)	–	324	–	–
Acquisition of subsidiaries (note 29)	–	–	–	–	–	–	–	5,785	5,785
Capital injection in a subsidiary (note 28)	–	–	–	–	–	–	(973)	973	–
Recognition of share-based payment expense (note 33)	–	–	–	–	1,002	–	–	–	1,002
At 31 December 2016	32,979	1,488,282	(7,834)	1,059,408	8,060	9,370	(757,045)	24,085	1,857,305

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Loss before income tax from continuing operations	**(1,015,337)**	(629,824)
Income before income tax from discontinued operations	**–**	854,993
	(1,015,337)	225,169
Depreciation of property, plant and equipment	**4,543**	17,821
Amortisation of intangible assets	**75,676**	117,505
Interest income	**(5,193)**	(6,537)
Loss on disposal of property, plant and equipment	**486**	219
Gains on disposal of intangible assets	**–**	(2,276)
Share of profits of associates	**(159)**	(31)
Share of loss of a joint venture	**–**	(594)
Share-based payment expenses in respect of:–		
– granting of share options	**939**	4,367
– granting shares of subsidiary	**63**	79,081
Impairment of intangible assets	**332,077**	97,879
Impairment of goodwill	**334,791**	–
Impairment of amount due from an associate	**52,549**	–
Impairment of interest in an associate	**38,244**	–
Provision for write-down of inventories	**–**	813
Gain on disposal of subsidiaries	**–**	(932,527)
Realised fair value loss on other financial assets	**–**	712
Operating cash flows before working capital changes	**(181,321)**	(398,399)
Decrease/(increase) in inventories	**1,396**	(1,212)
Decrease/(increase) in trade receivables	**8,715**	(420,171)
(Increase)/decrease in other receivables, deposits and prepayments	**(30,039)**	123,696
Decrease in amount due from an associate	**3,741**	20,908
Increase in amount due from a joint venture	**–**	(1,212)
Increase in amounts due from related companies	**(557)**	(5,150)
(Decrease)/increase in trade payables	**(85)**	184,657
(Decrease)/increase in deposits received, other payables and accruals	**(18,566)**	70,880
(Decrease)/increase in amount due to an associate	**(10)**	4,510
Increase in amounts due to related companies	**2,585**	3,801
Decrease in deferred revenue	**–**	(9,612)
Effect of foreign exchange rate changes	**832**	(19,220)
Net cash used in operations	**(213,309)**	(446,524)
Income tax paid	**–**	(3,775)
Net cash used in operating activities	**(213,309)**	(450,299)

	Notes	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(4,575)**	(4,771)
Purchases of intangible assets		**–**	(121,516)
Proceeds on disposal of intangible assets		**–**	21,294
Proceeds on disposal of property, plant and equipment		**583**	245
Purchase of held-to-maturity investments		**(387,501)**	–
Purchase of available-for-sale financial assets		**(229,231)**	(34,556)
Disposal of subsidiaries, net of cash disposed		**–**	1,898,872
Acquisition of subsidiaries, net of cash acquired	29	**(14,756)**	–
Disposal of available-for-sale financial assets		**–**	25,981
Interest received		**5,193**	6,537
Net cash (used in)/generated from investing activities		**(630,287)**	1,792,086
FINANCING ACTIVITIES			
Net proceeds from issue of shares through exercise of share options		**–**	1,731
Payment of dividends		**–**	(329,793)
Payment of dividend by a subsidiary to non-controlling interests		**–**	(19,428)
Net cash used in from financing activities		**–**	(347,490)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(843,596)**	994,297
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,591,389**	602,725
Effect of foreign exchange rate changes		**(2,258)**	(5,633)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**745,535**	1,591,389
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**745,535**	1,591,389

1. GENERAL

V1 Group Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its principal place of business had been relocated to Room 3506, 35th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong during the year.

The Company and its subsidiaries (thereafter referred to as the "Group") were principally engaged in tele-media business, including internet audio-visual new media, online games, internet medical and other internet plus businesses and lottery-related business in the People's Republic of China ("PRC") during the year ended 31 December 2016. On 10 August 2015, as mentioned in note 13, China Mobile Games and Entertainment Group Limited ("CMGE") was disposed of by the Company and the mobile games business has discontinued since then.

The Group provides internet information services through a series of service agreements (as defined in the Company's circular dated 18 August 2006 and mentioned below) entered into among the Company, the Group's associate – VODone Datamedia Technology Co., Ltd. ("TMD1") and VODone Telemedia Co. Ltd. ("VODone Telemedia") or its related company.

VODone (Beijing) Network Technology Limited（第一視頻（北京）網絡技術有限公司）, a company established in the PRC and a wholly owned subsidiary of VODone Telemedia, owns the domain name (www.v1.cn) and is licensed in the PRC to provide an audio/video transmission platform delivering a range of cross media telecommunications contents and valued added services to its customers. Dr. Zhang Lijun is a director of both VODone Telemedia and the Company and he has beneficial interests in the Company as at the end of reporting period.

Under the abovementioned arrangements, VODone Telemedia or its related company, as the holder of the business licenses, has established a normal commercial arrangement to outsource its various technical, contents, advertising and marketing and other support service with TMD1, for the latter to provide the exclusive business support and content services to VODone Telemedia or its related companies. The Group provides the support services to TMD1 which can in turn fulfill its obligation as VODone Telemedia's exclusive service provider.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(A) ADOPTION OF NEW/REVISED HKFRSs – EFFECTIVE 1 JANUARY 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of these amendments has no material impact on the Group's financial statements.

(B) NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(B) NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE *(Continued)*

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(B) NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE *(Continued)*

HKFRS 15 – Revenue from Contracts with Customers *(Continued)*

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

3. BASIS OF PREPARATION *(Continued)*

(B) BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of the Company is Renminbi ("RMB"), while the consolidated financial statements are presented in Hong Kong dollars ("HK$"), which the directors considered it is more beneficial to the users of the financial statements. As the Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited, the directors consider that it will be more appropriate to continuously adopt Hong Kong dollars as the Group's and the Company's presentation currency.

4. SIGNIFICANT ACCOUNTING POLICIES

(A) BUSINESS COMBINATION AND BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) BUSINESS COMBINATION AND BASIS OF CONSOLIDATION *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(B) SUBSIDIARIES

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

(D) JOINT ARRANGEMENTS

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) JOINT ARRANGEMENTS *(Continued)*

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as investments in associates (i.e. using the equity method – see note 4(C)).

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

(E) GOODWILL

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(E) GOODWILL *(Continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciation rates are as follows:

Leasehold improvements	over the remaining terms of the lease but not exceeding 5 years
Motor vehicles	5 years
Plant, machinery and equipment	5-10 years
Computer hardware and software	3-10 years
Furniture, fixtures and office equipment	3-10 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4(P)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(H) INTANGIBLE ASSETS

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of revenue.

Internet SNS assets	Indefinite
Platform and domain names	Indefinite
Purchased software and technology	10-15 years
License and platform	2-10 years
Distribution networks	7-10 years
Websites	10 years
Service contracts	3-10 years
Mobile games licenses	2-6 years

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) INTANGIBLE ASSETS *(Continued)*

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) INTANGIBLE ASSETS *(Continued)*

(iii) Impairment *(Continued)*

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (note 4(P)).

(I) FINANCIAL INSTRUMENTS

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(i) Financial assets *(Continued)*

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(ii) Impairment loss on financial assets *(Continued)*

For loans and receivables or held-to-maturity investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(iii) Financial liabilities *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(J) INVENTORIES

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(K) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follow:

(i) advertising income are recognised when services are performed in accordance with the terms of the contract.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(K) REVENUE RECOGNITION *(Continued)*

(ii) service income are recognised when services are performed in accordance with the substance of the relevant agreement.

(iii) revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

(iv) revenue from single player games and social games in mobile games business is recognised when the goods are delivered based on download of games or consumption of in-game premium features by mobile phone game players, or over the subscription period. The estimated net proceeds to be received from the mobile network operators and the third-party payment platforms for the sale of game points of the social games, using data generated from its internal system, is recorded as deferred revenue upon delivery of game points to mobile phone game players. Deferred revenue is recognised as social games revenue ratably over the estimated average playing period of the paying mobile phone game players, starting from the point in time when game points are delivered to the mobile phone game players. The difference between the estimated proceeds and the actual amounts confirmed by the mobile network operators, third-party payment platforms or mobile phone service providers is recognised in the consolidated statement of comprehensive income when billing confirmations are received by the Group.

(v) revenue from licensed games in mobile game business is recognised at the estimated net proceeds to be received from the third-party payment platforms and third party app stores for the sale of game points of the licensed games net of the amount to be shared with the third-party game developers, using data generated from its internal system, as licensed games revenues upon delivery of game points to mobile phone game players.

(vi) interest income are recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(L) INCOME TAXES

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(L) INCOME TAXES *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(M) FOREIGN CURRENCY

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(M) FOREIGN CURRENCY *(Continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange fluctuation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange fluctuation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

(N) EMPLOYEE BENEFITS

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(N) EMPLOYEE BENEFITS *(Continued)*

Defined contribution retirement plan *(Continued)*

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

(O) SHARE-BASED PAYMENTS

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. When the entity cannot estimate reliably the fair value of goods or services received, they are indirectly measured by reference to the fair value of the equity instruments granted. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(P) IMPAIRMENT OF OTHER ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets with finite useful life;
- investments in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(Q) CAPITALISATION OF BORROWING COSTS

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(R) GOVERNMENT GRANTS

Government grants are recognised 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 revenue 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(S) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(T) 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 key management personnel of the Group or the Company's parent.

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

(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 the employees of the Group or an entity related to the Group;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) RELATED PARTIES *(Continued)*

(b) *(Continued)*

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

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

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(A) CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Valuation of intangible assets and useful lives

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful lives of such assets. These estimations and assumptions impact the consolidated statement of comprehensive income over the useful life of the intangible asset.

(ii) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(iii) Impairment of amount due from an associate

Management reviews the amount due from an associate for the objective evidence of impairment at least on a yearly basis. Significant financial difficulties of the associate, the probabilities that the associate will enter into bankruptcy, and default or significant delay in payments are considered as objective evidence that the amount due is impaired. In determining this, management makes judgment as to whether there is observable data indicating that there has been significant change in the payment ability of the associate, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the associate operates in.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

Following the completion of disposal of CMGE in 2015, the Group discontinued the reportable segment of mobile game business. Thereafter, the directors had determined that the Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Tele-media business – Provision of internet information services, including mini-video news portal and self-produced original news commentary programs, mini-video news platform for the mobile clients as well as internet audio-visual new media, internet medical and other internet plus business; and also operating in mobile internet-related business, including online games and online shows etc..

- Lottery-related business – Provision of lottery-related business services through the corresponding services offered to and the complementary support of lottery information, mobile phone lottery betting system and the lottery weibo.

- Mobile game business – Development and provision of mobile games, as well as provision of mobile and internet value-added services, and also developing and designing of mobile communication products.

6. SEGMENT REPORTING *(Continued)*

As described in more detail in note 13, the Group discontinued the reportable segment of mobile game business in 2015.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

(A) BUSINESS SEGMENTS

	Continuing operations				Discontinued operations			
	Tele-media business		Lottery-related business		Mobile game business		Total	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Revenue from external customers	154,121	96,338	–	27,223	–	1,168,121	154,121	1,291,682
Reportable segment (loss)/profit	(465,994)	(279,934)	(491,630)	(45,604)	–	846,315	(957,624)	520,777
Interest income	34	367	–	1	–	5,079	34	5,447
Impairment of intangible assets	84,094	93,492	247,983	–	–	4,387	332,077	97,879
Impairment of goodwill	178,315	–	156,476	–	–	–	334,791	–
Impairment of amount due from an associate	14,687	–	37,862	–	–	–	52,549	–
Impairment of interest in an associate	38,244	–	–	–	–	–	38,244	–
Depreciation and amortisation	42,371	55,215	37,848	16,191	–	63,907	80,219	135,313
Share-based payment	63	–	–	–	–	79,082	63	79,082
Reportable segment assets	701,319	840,155	13,637	590,902	–	–	714,956	1,431,057
Additions to non-current assets	4,575	39,465	–	–	–	86,822	4,575	126,287
Reportable segment liabilities	13,186	9,643	3,927	40,033	–	–	17,113	49,676

6. SEGMENT REPORTING *(Continued)*

(B) RECONCILIATION OF REPORTABLE SEGMENT (LOSS)/PROFIT, ASSETS AND LIABILITIES

	2016 HK$'000	2015 HK$'000
Loss before income tax credit and discontinued operations		
Reportable segment (loss)/profit	**(957,624)**	520,777
Other gains and losses	**5,521**	5,105
Share of profits of associates	**–**	126
Unallocated expenses:		
– Advertising expenses	**(29,517)**	(101,043)
– Share-based payment expenses	**(939)**	(4,368)
– Staff costs	**(12,874)**	(189,530)
– Others	**(19,904)**	(14,576)
Total (loss)/profit for the year	**(1,015,337)**	216,491
Segment profit from discontinued operations	**–**	(846,315)
Consolidated loss before income tax credit from continuing operations	**(1,015,337)**	(629,824)

	2016 HK$'000	2015 HK$'000
Assets		
Reportable segment assets	**714,956**	1,431,057
Other financial assets	**620,460**	5,506
Interests in associates	**198**	40,939
Cash at banks	**650,430**	1,585,216
Unallocated corporate assets	**5,928**	5,244
Consolidated total assets	**1,991,972**	3,067,962

6. SEGMENT REPORTING *(Continued)*

(B) RECONCILIATION OF REPORTABLE SEGMENT (LOSS)/PROFIT, ASSETS AND LIABILITIES *(Continued)*

	2016	2015
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**17,113**	49,676
Deposits received, other payables and accruals	**5,460**	20,777
Tax provision for gain on disposal of subsidiaries	**112,094**	112,094
Consolidated total liabilities	**134,667**	182,547

(C) GEOGRAPHICAL INFORMATION

During 2016 and 2015, over 90% of the Group's revenue is attributable to customers in the PRC and over 90% of the Group's total non-current assets are located in the PRC and the remaining non-current assets are located in Hong Kong and Dubai.

(D) MAJOR CUSTOMERS

The Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. For the year ended 31 December 2016, revenue from the Group's associate amounted to approximately HK$153,204,000 in the tele-media segment. For the year ended 31 December 2015, revenue from the Group's associate amounted to approximately HK$84,497,000 in the tele-media segment and amounted to approximately HK$27,223,000 in the lottery-related segment.

7. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and service fees earned. An analysis of turnover and revenue is as follows:

	2016 **HK$'000**	2015 HK$'000
Continuing operations		
Tele-media business:		
– advertising and service income, and sales of internet games products	**154,121**	96,338
Lottery-related business:		
– service income	**–**	27,223
	154,121	123,561

8. OTHER GAINS AND LOSSES

	2016 **HK$'000**	2015 HK$'000
Interest income	**5,193**	1,458
Net foreign exchange gains/(losses)	**235**	(238)
Others (note)	**88**	3,809
Loss on disposal of property, plant and equipment	**(486)**	(219)
Dividend income from available-for-sale financial assets	**–**	1,196
Loss on realisation of other financial assets	**–**	(712)
	5,030	5,294

Note: Included in others for the year ended 31 December 2015 was compensation of HK$3,650,000 received from a vendor for failure service.

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2016 HK$'000	2015 HK$'000
Continuing operations		
Staff costs (excluding directors' remuneration (note 10))		
Salaries and wages	**30,464**	150,702
Pension fund contributions	**5,172**	1,653
Share-based payments	**620**	3,030
	36,256	155,385
Carrying amount of inventories sold	**1,310**	11,301
Provision for write-down of inventories	**–**	813
Depreciation of property, plant and equipment	**4,543**	8,409
Impairment of intangible assets	**332,077**	93,492
Impairment of goodwill	**334,791**	–
Impairment of amount due from an associate	**52,549**	–
Impairment of interest in an associate	**38,244**	–
Amortisation of intangible assets included in		
– Cost of revenue	**70,002**	57,473
– Administrative expenses	**5,674**	5,712
Auditor's remuneration		
– Audit service	**1,345**	2,100
– Non-audit service	**–**	430

10. DIRECTORS' REMUNERATION

	2016 HK$'000	2015 HK$'000
Directors' fees		
Executive directors	**9,876**	2,406
Independent non-executive directors	**686**	524
Basic remuneration, allowances and benefits in kind	**2,276**	41,842
Share-based payments	**382**	8,042
Pension fund contributions	**36**	36
	13,256	52,850

Directors' remuneration is disclosed as follows:

	Directors' fees HK$'000	Basic remuneration, allowances and benefits in kind HK$'000	Share–based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
2016					
Executive directors					
Zhang Lijun	6,963	1,138	125	18	8,244
Wang Chun	2,913	1,138	125	18	4,194
Independent non-executive directors					
Loke Yu, Alias Loke Hoi Lam	216	–	44	–	260
Wang Linan	162	–	44	–	206
Gong Zhankui	308	–	44	–	352
	10,562	2,276	382	36	13,256

10. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Basic remuneration, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
2015					
Executive directors					
Zhang Lijun	1,203	30,122	6,890	18	38,233
Wang Chun	1,203	11,380	606	18	13,207
Independent non-executive directors					
Loke Yu, Alias Loke Hoi Lam	210	194	182	–	586
Wang Linan	157	146	182	–	485
Gong Zhankui	157	–	182	–	339
	2,930	41,842	8,042	36	52,850

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2015: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2015: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2015: three) individuals are as follows:

	2016 **HK$'000**	2015 HK$'000
Basic remuneration, allowances and benefits in kind	**3,373**	361,277
Share-based payments	**369**	37,641
Pension fund contributions	**18**	21
	3,760	398,939

Their emoluments are within the following bands:

	2016 **No. of employees**	2015 No. of employees
HK$1,000,001 to HK$1,500,000	**3**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$151,000,001 to HK$151,500,000	**–**	1
HK$239,000,001 to HK$239,500,000	**–**	1

The emoluments paid or payable to members of senior management (excluding the directors of the Company) were within the following bands:

	2016 **No. of employees**	2015 No. of employees
HK$1,000,001 to HK$1,500,000	**2**	–
HK$5,000,001 to HK$5,500,000	**–**	2

12. INCOME TAX CREDIT

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

	2016	2015
	HK$'000	HK$'000
Current tax		
– Hong Kong profits tax for the year	**–**	–
– PRC income tax for the year	**–**	–
	–	–
Deferred taxation (note 26)		
– attributable to the reversal of temporary differences	**(33,698)**	(1,365)
Income tax credit	**(33,698)**	(1,365)

No provision was made for Hong Kong profits tax as the Group had no assessable profits during the year.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for VODone Information Engineering Co., Ltd. ("TMD2") which is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. No provision was made for PRC income tax as the Group had no assessable income during the year.

Arab Business TV FZ-LLC is incorporated as a free zone limited liability company in Dubai. Pursuant to the income tax rules and regulations in Dubai, it is exempted from income tax for a period of 50 years.

12. INCOME TAX CREDIT *(Continued)*

(b) The income tax credit for the year can be reconciled to the accounting loss as follows:

	2016 **HK$'000**	2015 HK$'000
Loss before income tax	**(1,015,337)**	(629,824)
Taxation calculated at PRC income tax of 25% (2015: 25%)	**(253,834)**	(157,456)
Tax effect of non-taxable income	**(2,934)**	(1,031)
Tax effect of expenses not deductible for taxation purposes	**155,786**	38,917
Tax effect of tax losses not recognised	**41,062**	75,206
Effect of lower tax rate applicable to subsidiaries as a result of preferential tax policy as described in (a)	**1,270**	4,296
Effect of tax exemption granted	**1,385**	–
Effect of tax rate in foreign jurisdictions	**23,430**	38,703
Tax effect of temporary difference not recognised	**137**	–
Income tax credit for the year	**(33,698)**	(1,365)

13. DISCONTINUED OPERATIONS

On 10 August 2015, the Group disposed of CMGE to an independent third party for a consideration of US$297,964,000 (equivalent to HK$2,309,223,000). Details of the transaction are set out in the Company's circular dated 30 June 2015.

Income from discontinued operations for the period is analysed as follows:

	1 January 2015 to 10 August 2015 (date of completion of the disposal) HK$'000
Loss for the period	(86,212)
Gains arising from the disposal of CMGE	932,527
	846,315

13. DISCONTINUED OPERATIONS *(Continued)*

The results of the discontinued operations for the relevant period, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	1 January 2015 to 10 August 2015 (date of completion of the disposal)
	HK$'000
Revenue	1,168,121
Cost of revenue	(502,674)
Gross profit	665,447
Other gains and losses	1,610
Selling and marketing expenses	(287,614)
Administrative expenses (note)	(457,476)
Share of profit of a joint venture	594
Share of loss of an associate	(95)
Loss before income tax	(77,534)
Income tax expenses	(8,678)
Loss for the period from the discontinued operations	(86,212)
Operating cash flows	9,938
Investing cash flows	(95,695)
Financing cash flows	1,730
Total cash flows	(84,027)

Note: Included in administrative expenses for the period were a bonus of HK$228,083,000 paid to the senior management of CMGE, including a director of CMGE and his associates, which was borne by the Company.

14. (LOSS)/EARNINGS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

(Loss)/earnings

	2016 **HK$'000**	2015 HK$'000
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	**(980,071)**	142,666

Number of shares

	2016 **'000**	2015 '000
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	**3,297,925**	3,297,925
Effect of dilutive potential ordinary shares:		
– share options	**–**	302
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	**3,297,925**	3,298,227

(Loss)/earnings per share

	2016 **HK Cents**	2015 HK Cents
– Basic	**(29.72)**	4.33
– Diluted	**(29.72)**	4.33

14. (LOSS)/EARNINGS PER SHARE *(Continued)*

FROM CONTINUING OPERATIONS

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	2016	2015
	HK$'000	HK$'000
(Loss)/profit for the year attributable to owners of the Company	**(980,071)**	142,666
Less:		
Profit for the year from discontinued operations	**–**	(770,209)
Loss for the purposes of basic and diluted loss per share from continuing operations	**(980,071)**	(627,543)

Number of shares

	2016	2015
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	**3,297,925**	3,297,925
Effect of dilutive potential ordinary shares:		
– share options	**–**	302
Weighted average number of ordinary shares for the purposes of diluted loss per share	**3,297,925**	3,298,227

14. (LOSS)/EARNINGS PER SHARE *(Continued)*

FROM CONTINUING OPERATIONS *(Continued)*

Loss per share

	2016	2015
	HK Cents	HK Cents
– Basic	**(29.72)**	(19.03)
– Diluted	**(29.72)**	(19.03)

FROM DISCONTINUED OPERATIONS

For the year ended 31 December 2015, basic and diluted earnings per share for the discontinued operation were HK23.35 cents per share, based on the profit from the discontinued operations of HK$770,209,000 and the denominators detailed above for both basic and diluted loss per share.

The computation of diluted loss per share from continuing and discontinued operations for the year ended 31 December 2016 does not assume the exercise of the outstanding share options as they had an anti-dilutive effect on the loss per share calculation.

15. DIVIDENDS

	2016	2015
	HK$'000	HK$'000
Special cash dividend of HK$Nil (2015: HK$0.1) per share	–	329,793

There is no final dividend proposed after the end of the reporting period (2015: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Computer hardware and software HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:						
At 1 January 2015	28,088	10,898	46,186	54,072	23,148	162,392
Additions	660	1,506	397	1,292	916	4,771
Disposals	–	(1,013)	–	(596)	(326)	(1,935)
Disposal of subsidiaries	(9,579)	(1,092)	(1,251)	(25,111)	(20,411)	(57,444)
Exchange adjustments	(1,031)	(570)	(2,429)	(1,494)	(346)	(5,870)
At 31 December 2015	18,138	9,729	42,903	28,163	2,981	101,914
Acquisition of subsidiaries	–	207	1,936	–	431	2,574
Additions	979	2,818	555	13	210	4,575
Disposals	(1,485)	(550)	(3,373)	(6,313)	(1,376)	(13,097)
Exchange adjustments	(1,077)	(726)	(2,601)	(1,397)	(131)	(5,932)
At 31 December 2016	**16,555**	**11,478**	**39,420**	**20,466**	**2,115**	**90,034**
Accumulated depreciation:						
At 1 January 2015	20,836	7,210	36,845	30,337	9,743	104,971
Charge for the year	4,396	561	2,936	6,749	3,179	17,821
Written back on disposals	–	(917)	–	(357)	(197)	(1,471)
Written back on disposal of subsidiaries	(6,376)	(170)	(257)	(12,704)	(11,067)	(30,574)
Exchange adjustments	(946)	(369)	(2,060)	(1,015)	(144)	(4,534)
At 31 December 2015	17,910	6,315	37,464	23,010	1,514	86,213
Acquisition of subsidiaries	–	2	16	–	4	22
Charge for the year	193	516	1,839	1,624	371	4,543
Disposals	(1,485)	(496)	(3,057)	(6,312)	(678)	(12,028)
Exchange adjustments	(1,060)	(409)	(2,328)	(1,144)	(80)	(5,021)
At 31 December 2016	**15,558**	**5,928**	**33,934**	**17,178**	**1,131**	**73,729**
Carrying amount:						
At 31 December 2016	**997**	**5,550**	**5,486**	**3,288**	**984**	**16,305**
At 31 December 2015	228	3,414	5,439	5,153	1,467	15,701

17. INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Share of net liabilities	(15,540)	(16,779)
Goodwill	53,982	57,718
	38,442	40,939
Less: impairment	(38,244)	–
	198	40,939

The acquisition of the associates was related to the Group's tele-media services business ("Tele-media CGU") in the PRC and the carrying amounts of interests in associates have been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

Particulars of the Group's associates are as follows:–

Name of company	Form of business structure	Place of incorporation and operation	Percentage of ownership interests/ voting rights/ profit share	Principal activity
TMD1	Corporation	PRC	49%	Provision of tele-media business support and content services
北京迷你威網絡科技有限公司	Corporation	PRC	49%	Inactive

17. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information (material associate)

TMD1	2016 HK$'000	2015 HK$'000
As at 31 December		
Current assets	**70,226**	87,500
Non-current assets	**738**	148
Current liabilities	**(103,082)**	(122,397)
Non-current liabilities	**–**	–
	(32,118)	(34,749)
Included in the above amounts are:		
Bank balances and cash	**301**	117
Current financial liabilities (excluding trade and other payables)	**(65,550)**	(82,106)
Non-current financial liabilities (excluding other payables and provisions)	**–**	–
Year ended 31 December		
Revenue	**141,363**	112,359
Profit for the year	**398**	355
Total comprehensive income	**398**	355
Dividend received from associate	**–**	–
Included in the above amounts are:		
Depreciation and amortisation	**93**	14

17. INTERESTS IN ASSOCIATES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 **HK$'000**	2015 HK$'000
Net liabilities of the associate	**(32,118)**	(34,749)
Proportion of the Group's ownership interest in the associate	**49%**	49%
Goodwill	**53,982**	57,718
	38,244	40,691
Less: impairment	**(38,244)**	–
Carrying amount of the Group's interest in the associate	**–**	40,691

Summarised financial information (immaterial associates)

	2016 **HK$'000**	2015 HK$'000
Year ended 31 December		
Loss for the year	**(73)**	(478)
Total comprehensive income	**(73)**	(478)

18. GOODWILL

	HK$'000
Cost:	
At 1 January 2015	978,442
Derecognised on disposal of subsidiaries	(506,869)
Exchange adjustments	(25,516)
At 31 December 2015	446,057
Acquisition of subsidiaries (note 29)	4,472
Exchange adjustments	(28,871)
At 31 December 2016	**421,658**
Accumulated impairment losses:	
At 1 January 2015	35,585
Derecognised on disposal of subsidiaries	(35,585)
At 31 December 2015	–
Additions	334,791
At 31 December 2016	**334,791**
Carrying amount:	
At 31 December 2016	**86,867**
At 31 December 2015	446,057

For the purpose of impairment testing, cost of goodwill is allocated to the cash generating units ("CGU") identified as follows:

	2016 **HK$'000**	2015 HK$'000
Tele-media CGU (TMD) – PRC	**82,395**	278,752
Tele-media CGU (Pinzheng) – PRC	**–**	109,481
Tele-media CGU (Victor Choice) – PRC	**–**	57,824
Broadcasting TV CGU (CATV) – Dubai	**4,472**	–
	86,867	446,057

18. GOODWILL *(Continued)*

TELE-MEDIA CGU (TMD)

The recoverable amounts of tele-media CGU (TMD) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2015: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2016	2015
Operating margin	**0% – 14%**	3% – 38%
Discount rate	**18.50%**	21.11%
Growth rate within the five-year period	**20% – 73%**	10% – 140%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

TELE-MEDIA CGU (PINZHENG) AND TELE-MEDIA CGU (VICTOR CHOICE)

Due to promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management (《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》) by the General Administration of Sport of the People's Republic of China (the "PRC") and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet (《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》) jointly promulgated by the Ministry of Finance, Ministry of Civil Affairs and the General Administration of Sport of the PRC, the Group's business partners had suspended the operations of online sale of paperless lottery tickets and sale of lottery tickets through mobile phones with effect from 1 March 2015. Accordingly the Group's lottery-related business had been suspended simultaneously.

It is an uncertainty on how long the self-examination and correction process will take. The suspension would mean the Group will derive no revenue from online sales of lottery until the suspension is removed. It is also unknown whether any new regulations or rules will be implemented by the government and how these might affect the Group's operation on online sales of lottery tickets.

18. GOODWILL *(Continued)*

TELE-MEDIA CGU (PINZHENG) AND TELE-MEDIA CGU (VICTOR CHOICE) *(Continued)*

The Group has not generated any revenue from the lottery-related business for more than two years at the date of this report. No formal notices or time schedules have been announced by the authority on the resumption of online sales of paperless lottery tickets. The Group will try to cooperate with its business partners with the aim to resume the lottery-related business once the suspension lifted. However, management is of the opinion that the possibility for the Group to resume its lottery-related business is remote.

There is no quoted market price in an active market and the fair values of the tele-media CGU (Pinzheng) and tele-media CGU (Victor Choice) cannot be reliably measured without expected profit streams, their recoverable amounts have been determined by using value-in-use calculations. As no revenue is expected to be generated from these CGUs, their fair values less costs to disposal or value in use based on the projected revenue to be generated are HK$Nil. Accordingly, the carrying amounts of the goodwill and intangible assets of the tele-media CGU (Pinzheng) and tele-media CGU (Victor Choice) have been fully impaired.

BROADCASTING TV CGU (CATV)

The recoverable amounts of broadcasting TV CGU (CATV) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3%, which does not exceed the long-term growth rate for broadcasting TV industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2016
Operating margin	0% – 36%
Discount rate	24.22%
Growth rate within the five-year period	20% – 285%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

19. INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
第一視頻信息工程有限公司 (VODone Information Engineering Co, Ltd.) ("TMD2") (note)	PRC	PRC	RMB160,500,000	99.69%	–	Provision of technical and promotional and advertising services
北京日升影響廣告有限公司 (Beijing Adpeople International Advertising Co, Ltd.) ("TMD3") (note)	PRC	PRC	RMB208,000,000	–	100%	Provision of advertisement production services
北京互聯時代娛樂文化發展有限公司 (Beijing Union Times Entertainment Culture Development Co, Ltd.) ("TMD4") (note)	PRC	PRC	RMB139,306,800	71.78%	27.79%	Provision of entertainment production services
第一視頻(中國)投資有限公司 (note)	PRC	PRC	USD100,000,000 (registered)/ USD10,000,000 (paid up)	100%	–	Investment holding
Arab Business TV FZ-LLC ("ABTV")	Dubai	Dubai	AED2,500,000	–	54%	Operation of television channel

Note: The companies are foreign investment enterprises established in the PRC.

20. INTANGIBLE ASSETS

	Internet SNS assets HK$'000 (note (a))	Platform and domain names HK$'000 (note (b))	Purchased software and technology HK$'000 (note (c))	License and Platform HK$'000 (note (d))	Distribution networks HK$'000 (note (e))	Websites HK$'000 (note (f))	Service contracts HK$'000 (note (g))	Mobile games licenses HK$'000 (note (h))	Total HK$'000
Cost:									
At 1 January 2015	59,500	332,317	539,583	135,468	46,851	15,976	224,923	294,382	1,649,000
Additions	–	–	38,900	8,504	–	–	–	74,112	121,516
Disposal of intangible assets	–	–	–	–	–	–	–	(21,294)	(21,294)
Disposal of subsidiaries	–	–	–	(119,318)	(29,105)	–	(20,443)	(343,929)	(512,795)
Exchange difference	–	(5,965)	(22)	(1,269)	(321)	(866)	(11,278)	(3,271)	(22,992)
At 31 December 2015	59,500	326,352	578,461	23,385	17,425	15,110	193,202	–	1,213,435
Acquisition of subsidiaries (note 29)	–	–	–	18,401	–	–	–	–	18,401
Written-off	–	–	–	–	(17,425)	–	–	–	(17,425)
Exchange difference	–	(6,750)	(25)	–	–	(978)	(12,505)	–	(20,258)
At 31 December 2016	**59,500**	**319,602**	**578,436**	**41,786**	**–**	**14,132**	**180,697**	**–**	**1,194,153**
Amortisation and impairment:									
At 1 January 2015	–	–	105,457	74,435	32,671	6,390	58,348	50,198	327,499
Amortisation for the year	–	–	40,136	14,598	1,715	1,572	19,738	39,746	117,505
Impairment	–	86,941	6,551	–	–	–	–	4,387	97,879
Disposal of intangible assets	–	–	–	–	–	–	–	(2,276)	(2,276)
Disposal of subsidiaries	–	–	–	(82,231)	(16,777)	–	(1,946)	(91,186)	(192,140)
Exchange difference	–	–	(11)	(855)	(184)	(407)	(3,844)	(869)	(6,170)
At 31 December 2015	–	86,941	152,133	5,947	17,425	7,555	72,296	–	342,297
Amortisation for the year	–	–	42,347	2,796	–	1,476	29,057	–	75,676
Written-off	–	–	–	–	(17,425)	–	–	–	(17,425)
Impairment	–	202,757	38,416	–	–	5,653	85,251	–	332,077
Exchange difference	–	–	(21)	–	–	(552)	(5,907)	–	(6,480)
At 31 December 2016	**–**	**289,698**	**232,875**	**8,743**	**–**	**14,132**	**180,697**	**–**	**726,145**
Carrying amount:									
At 31 December 2016	**59,500**	**29,904**	**345,561**	**33,043**	**–**	**–**	**–**	**–**	**468,008**
At 31 December 2015	59,500	239,411	426,328	17,438	–	7,555	120,906	–	871,138

Notes:

(a) Internet social networking service assets ("Internet SNS Assets") included all the rights of Domouse in relation to the Domain Names, all the rights to the Domouse Software and Domouse Database, the Domouse Message Management Platform and any relevant intellectual property rights, with an indefinite useful life. As the economic benefits arising from the Domouse Assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(b) Platform and domain names included the following intangible assets:–

(i) MiniV.tv Assets, a software application of a website, with an indefinite useful life. As the economic benefits arising from the miniV.tv Assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

(ii) An intellectual property right of a shopping website, with indefinite useful life. Due to the keen competition in the internet shopping market and the adverse change in economic environment including the depreciation of RMB and increased operating costs, the Company terminated such shopping website and its carrying amount had been fully impaired in 2015.

(iii) A software application system for lottery platform used in smartphone and an intellectual property right of the lottery website, with an indefinite useful life. As detailed in note 18, the management is of the opinion that the possibility for the Group to resume its lottery-related business is remote. Hence, its carrying amount has been fully impaired.

(c) Purchased software and technology included software, administrative systems and software technology as follows:

(i) Computer software and system applied on a number of paperless lottery platforms, with estimated useful lives of ten years and carrying amounts of HK$38,416,000. As detailed in note 18, the management is of the opinion that the possibility for the Group to resume its lottery-related business is remote. Hence, its carrying amount has been fully impaired.

(ii) E-commerce platform system and two software for live broadcasting on website, and video sharing used in smart phones, with estimated useful life of fifteen years with carrying amounts of HK$212,910,000.

Among these intangible assets, the software for live broadcasting on website was acquired for the establishment of broadcasting studios for general, financial as well as entertainment news, which are for the purpose of conducting authorized businesses under the Network Audio-Video Broadcast License（網絡視聽播放許可證）issued by the State Administration of Radio Film and Television and the Internet Commercial Performances License（互聯網經營性演出許可證）issued by the Ministry of Culture of the PRC. The software for video sharing used in smart phones is mainly for enabling upload of video contents and connection play on users' own handsets, offering the quickest way for users to upload their latest video contents with minimum streaming resources so as to increase the website traffic.

In addition, an information website computer system with estimated useful life of ten years and carrying amount of HK$28,384,000, was acquired to add more functions to the portal and improve user stickiness.

A medical related service platform and application system with estimated useful life of ten years and carrying amount of HK$36,306,000 were acquired to provide internet medical services to customers.

The e-commerce platform system has been fully impaired after the termination of the shopping website in 2015. The remaining abovementioned intangible assets have been tested for impairment and there is no indication that they need to be impaired.

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

(iii) A web-based application which provides a web platform for end users to upload and watch videos through internet browser using 4G technology with a carrying amount of HK$67,719,000.

As the economic benefits arising from this asset are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

(d) Following the disposal of CMGE by the Group in 2015, the mobile game licenses and platform related to CMGE and its subsidiaries were disposed of accordingly.

The remaining balances include a set of web games and game engines. As the economic benefits arising from this asset are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

The broadcasting TV license acquired through acquisition of CATV Group Limited and its subsidiaries during the year as detailed in note 29, with estimated useful life of ten years are tested for impairment of Broadcasting TV CGU (CATV) (note 18) and there is no indication that it needs to be impaired.

(e) Following the disposal of CMGE by the Group in 2015 and the disposal of a distribution network system during the year, all the distribution networks intangible assets were disposed of accordingly.

(f) The websites acquired through acquisition of Pinzheng Group, with estimated useful life of ten years. As detailed in note 18, the management is of the opinion that the possibility for the Group to resume its lottery-related business is remote. Hence, its carrying amount has been fully impaired.

(g) Service contract represented an 8-year sport lottery sales contract dated 24 September 2011 entered with Qinghai Province Sports Lottery Administration Centre, where the Group has the right to perform sport lottery sales through mobile and internet in Qinghai Province.

In 2013, the Group acquired another service contract though acquisition of Victor Choice Group. It represented a 10-year sports lottery sales contract dated 6 June 2013 entered with Hebei Province Sports Lottery Administration Centre, where the Group has the right to perform sport lottery sales through mobile and internet in Hebei Province.

As detailed in note 18, the management is of the opinion that the possibility for the Group to resume its lottery-related business is remote. Hence, the carrying amounts of the abovementioned service contracts have been fully impaired.

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(g) *(Continued)*

In 2013, the Group also acquired a contract with mobile network operator though acquisition of Vogins Group. It represented a co-operation agreement with a mobile network operator which allowed the Group to act as a service provider for billing and collection services. The acquired contract with mobile network operator was recognised at fair value at the date of acquisition using a valuation technique based on expected income and amortized on a straight-line basis over the remaining contractual term of three years. Following the disposal of CMGE by the Group, such contract was disposed of accordingly.

(h) One of the game licenses had been fully impaired in 2015 as the corresponding game had been deregistered from the platform, no future economic benefits were expected to flow to the Group.

Following the disposal of CMGE by the Group, all the mobile game licenses were disposed of accordingly.

21. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of reporting period, based on invoice date, is as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 month	–	2
Over 1 year	–	8,375
	–	8,377

The credit period of the Group's trade receivables ranges from 30 days to 365 days.

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

	2016 **HK$'000**	2015 HK$'000
Neither past due nor impaired	–	8,375
Less than 1 month past due	–	2
	–	8,377

21. TRADE RECEIVABLES *(Continued)*

Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 **HK$'000**	2015 HK$'000
Current		
Prepayments	**23,616**	1,740
Other receivables	**15,786**	11,501
Deposits	**5,109**	5,171
	44,511	18,412

23. OTHER FINANCIAL ASSETS

	2016 **HK$'000**	2015 HK$'000
Current portion:–		
Available-for-sale financial assets:–		
– Compensation arising from profit guarantee arrangement of 3GUU Group (note (a))	**3,909**	5,506
Held-to-maturity investments:		
– Certificates of deposit (note (b))	**387,501**	–
	391,410	5,506
Non-current portion:–		
Available-for-sale financial assets:–		
– Investment fund (note (c))	**182,550**	–
– Unlisted (note (d))	**46,500**	–
	229,050	–

23. OTHER FINANCIAL ASSETS *(Continued)*

Notes:

(a) Pursuant to the profit guarantee arrangement in relation to the acquisition of 3GUU Group, the Company is entitled to recover the related consideration shares at no cost as the actual result of 3GUU Group for the year ended 31 December 2013 was less than the relevant profit target. The Company has decided not to recall the consideration shares and asked the vendors to dispose of the related shares to settle the compensation in cash. Compensation is determined on the agreed number of shares to be disposed of at their fair value at the end of reporting period. The compensation is classified as available-for-sale financial asset in the consolidated statement of financial position. It is carried at fair value with changes in fair value recognised in the other comprehensive income.

(b) The Group's held-to-maturity investments represent certificates of deposit that are issued by commercial banks with original maturities over three months, carried at the fixed interest rates ranging from 1.58% to 1.75% per annum and will be expired in July 2017. The Directors classified the investments as held-to-maturity investments as the Directors intend to hold the investments to maturity.

(c) On 14 December 2015, the Company entered into a Limited Partnership Agreement (the "Agreement") to subscribe, as a limited partner, in the total amount of US$31,250,000 (equivalent to HK$242,266,000) of China Prosperity Capital Mobile Internet Fund, L.P. (the "Mobile Internet Fund"). The timing of capital contribution of the investment is generally on an "as needed" basis.

This Mobile Internet Fund was established principally to achieve long-term capital appreciation primarily through privately-negotiated investments in equity and/or equity-related securities of companies that operate in or otherwise derive significant business opportunities from the mobile internet sector, its related technologies, products and services. The Group is a limited partner in this Mobile Internet Fund and does not have control nor significant influence in the this Mobile Internet Fund's operational and financing decisions. The Directors classified the investment as an available-for-sales financial asset carried at cost as it is linked to different unquoted equity instruments and there has no active market for determining its fair value as at year end.

At the end of the reporting period, the Group have invested US$15,078,000 (equivalent to HK$116,856,000) (2015: HK$Nil) to the Mobile Internet Fund.

In 2016, the Group invested in the CICC Global Jinpu Selective Fund (Class B) issued by the China International Capital Corporation Hong Kong Securities Limited, in the total amount of US$8,500,000 (equivalent to HK$65,875,000). The compensation is classified as available-for-sale financial asset in the consolidated statement of financial position. It is carried at fair value with changes in fair value recognised in the other comprehensive income. In 2016, a loss of HK$181,000 was recognised in the other comprehensive income.

(d) The Group's strategic investment in 9.99% interest in Bank of Asia (BVI) Limited ("BOA"), a company incorporated in the British Virgin Island. The investment is classified as available-for-sale financial asset as the Group does not have the power to control or significant influence on the investee. It is stated at cost as there has no active market for determining its fair value as at year end.

24. TRADE PAYABLES

Generally, the credit term received from suppliers of the Group is 30 days. An ageing analysis of year-end trade payables is as follows:

	2016	2015
	HK$'000	HK$'000
More than 1 year	**–**	82

25. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	2016	2015
	HK$'000	HK$'000
Dividend payable	**4,483**	4,580
Other payables	**4,124**	17,723
Accruals	**3,236**	3,213
Deposits received	**21**	31
	11,864	25,547

26. DEFERRED TAXATION

Details of the deferred tax liabilities recognised and movements during the year are as follows:

	Fair value adjustments HK$'000
At 1 January 2015	45,999
Credit to profit or loss for the year	(2,220)
Disposal of subsidiaries	(5,774)
Exchange difference	(2,156)
At 31 December 2015	35,849
Credit to profit or loss for the year	(4,018)
Impairment of intangible assets	(29,680)
Exchange difference	(2,151)
At 31 December 2016	–

A deferred tax asset has not been recognised for the following:

	2016 **HK$'000**	2015 HK$'000
Deductible temporary differences	**137**	–
Unused tax losses	**135,144**	103,219
	135,281	103,219

26. DEFERRED TAXATION *(Continued)*

Out of the tax losses of the Group as at 31 December 2016, approximately HK$68,931,000 (2015: HK$69,117,000) has an expiry period of five years since 2011. No deferred tax asset has been recognised in respect of the unused tax losses due to unpredictability of future profit streams. The deductible temporary differences can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be ultilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2016, the Group has not recognised deferred tax liabilities of HK$2,136,000 (2015: HK$3,628,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to HK$21,358,000 (2015: HK$36,284,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

27. SHARE CAPITAL

	2016 **HK$'000**	2015 HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
3,297,925,262 (2015: 3,297,925,262) ordinary shares of HK$0.01 each	**32,979**	32,979

28. NON-CONTROLLING INTERESTS

Following the disposal of CMGE by the Group, Clear Concept International Limited ("Clear Concept"), a 51% owned subsidiary of the Company, became the material non-controlling interests ("NCI") of the Company. The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the NCI of Clear Concept, before intra-group eliminations, is presented below:

	2016 **HK$'000**	2015 HK$'000
For the period ended 31 December		
Revenue	**–**	–
Profit for the year	**195**	174
Total comprehensive income	**195**	174
Profit allocated to NCI	**96**	85
Dividend paid to NCI	**–**	–
For the period ended 31 December		
Cash flows from operating activities	**–**	–
Cash flows from investing activities	**–**	–
Cash flows from financing activities	**–**	–
Net Cash inflows	**–**	–
As at 31 December		
Current assets	**1**	1
Non-current assets	**32,128**	31,933
Current liabilities	**(86)**	(86)
Non-current liabilities	**–**	–
Net assets	**32,043**	31,848
Accumulated non-controlling interests	**19,030**	20,228

28. NON-CONTROLLING INTERESTS *(Continued)*

On 8 November 2016, the Group increased its ownership interests from 98.47% to 99.57% in TMD4 by the subscription of addition registered share capital at RMB100,000,000. The transaction has been accounted for as an equity transaction with the non-controlling interests as follows:

	HK$'000
Net liabilities attributable to non-controlling interests before share subscription	(686)
Net assets attributable to non-controlling interests before share subscription	287
Decrease in equity attributable to owners of the Company (included in retained earnings)	973

29. BUSINESS ACQUISITION

On 22 August 2016, the Company, Mr. Liu Haijiang (the "Vendor") and CATV Group Limited ("CATV") entered into a share purchase and subscription agreement (the "Agreement") for the purchase of 10,000,000 ordinary shares in CATV ("CATV Shares") at HK$15,000,000 and for the subscription of 12,500,000 CATV Shares be issued by CATV for a subscription price of HK$17,500,000. Pursuant to the Agreement, the Vendor guaranteed to the Company that the audited consolidated profit after tax of CATV and its subsidiaries for the year ending 31 December 2018 shall not be less than HK$5,250,000 ("Profit Target"). If the Profit Target cannot be achieved, the Vendor shall transfer 6,923,290 CATV Shares to the Company at zero consideration. Also, a service agreement (the "Service Agreement") has been entered into between CATV and the Vendor. Pursuant to the Service Agreement, CATV agreed to employ and the Vendor agreed to serve as one of the directors of CATV and a director and the CEO of Arab Business TV FZ-LLC ("ABTV"), the non-wholly owned subsidiary of CATV, from the acquisition date to 31 December 2018. The other two directors of CATV were appointed by the Group upon completion of the acquisition under the Agreement.

In accordance with HKFRS 3, the 6,923,290 of CATV Shares have been purchased by the Company at the date of acquisition. If the Profit Target is achieved, such 6,923,290 CATV Shares will be released to the Vendor. Therefore, upon the completion of the acquisition, the Company held 78.46% of the issued shares of CATV as enlarged by the allotment and the issue of shares.

29. BUSINESS ACQUISITION *(Continued)*

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	**2,552**
Intangible assets	**18,401**
Bank balances and cash	**17,744**
Amount due to the Vendor	**(4,884)**
Total identified net assets	**33,813**
Non-controlling interests	**(5,785)**
Goodwill	**4,472**
Purchase consideration settled by cash	**32,500**

Cash outflow arising from acquisition of subsidiaries:

	HK$'000
Cash consideration	**32,500**
Bank balances and cash acquired	**(17,744)**
Purchase consideration settled by cash	**14,756**

Since the acquisition date, CATV has contributed a revenue of HK$472,000 and a loss after tax of HK$5,605,000 to the Group. If the acquisition had occurred on 1 January 2016, the Group's revenue and loss after tax would have been HK$154,857,000 and HK$997,418,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of further performance.

30. RESERVES

COMPANY

	Share premium HK$'000 (Note (a))	Investment revaluation reserve HK$'000 (Note (b))	Other reserves HK$'000 (Note (c))	Share-based compensation reserve HK$'000 (Note (d))	Retained profits/ (accumulated losses) HK$'000	Total reserves HK$'000
Balance at 1 January 2015	1,488,282	(8,072)	523,125	3,160	260,447	2,266,942
Loss and total comprehensive income for the year	–	(1,431)	–	–	(450,739)	(452,170)
Recognition of share-based payment expense	–	–	–	4,367	–	4,367
Lapse of share options	–	–	–	(145)	145	–
Dividend paid	–	–	–	–	(329,793)	(329,793)
Other transfer	–	3,447	–	–	–	3,447
Balance at 31 December 2015	1,488,282	(6,056)	523,125	7,382	(519,940)	1,492,793
Loss and total comprehensive income for the year	–	(1,778)	–	–	(278,320)	(280,098)
Recognition of share-based payment expense (note 33(a))	–	–	–	939	–	939
Lapse of share options (note 33(a))	–	–	–	(324)	324	–
Balance at 31 December 2016	**1,488,282**	**(7,834)**	**523,125**	**7,997**	**(797,936)**	**1,213,634**

NATURE AND PURPOSE OF RESERVES

(a) The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by Section 40 of the Bermuda Companies Act 1981 (as amended).

(b) Investment revaluation reserve represents change in fair value of available-for-sale financial assets.

(c) The Group's other reserves represent:–

(i) the difference between the amount by which the non-controlling interests are adjusted and the fair value of the shares of the subsidiary granted to employees; and

(ii) certain portion of the profits of the Group's subsidiaries established in the PRC transferred from the retained earnings which are restricted to use pursuant to the relevant laws and regulations in the PRC.

The Company's other reserve is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the group reorganisation in 1991. Under the Bermuda Companies Act 1981 (as amended), a company may make distributions to its members out of its other reserves under certain circumstances.

30. RESERVES *(Continued)*

NATURE AND PURPOSE OF RESERVES *(Continued)*

(d) Share-based compensation reserve comprises the value of the unexercised share option granted by the Company recognised in accordance with the accounting policy adopted for share-based payments in note 4(O).

(e) Exchange fluctuation reserve represents gains/losses arising on retranslating the net assets of foreign operations into Hong Kong dollars.

31. OPERATING LEASE ARRANGEMENTS

	2016 **HK$'000**	2015 HK$'000
Minimum lease payments paid under operating leases during the year	**12,440**	39,229

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**12,648**	7,979
In the second to fifth year, inclusive	**7,530**	5,664
	20,178	13,643

Operating lease payments represent rentals payable by the Group on certain of its leased properties. Leases are negotiated for an average term of one to five years at fixed rental.

32. COMMITMENTS

	2016 HK$'000	2015 HK$'000
Contracted, but not provided for:		
– Investment of investment fund (note 23(c))	**125,410**	242,209

33. SHARE-BASED PAYMENT

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the"V1 Group Scheme") and adopted it on 30 April 2012, and terminated the share option scheme adopted on 7 June 2002 (the "Old V1 Group Scheme"). Under the V1 Group Scheme, the directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company.

The exercise price for the share options shall be determined in accordance with the V1 Group Scheme and the relevant provisions of the Listing Rules. The costs for the value of the grant of share options were recognised as an expense during the year.

The terms and conditions of the grants and movements in the number of share options under the V1 Group Scheme during the year were as follows:

33. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

2016

	Number of shares issuable under share options						
	At beginning of the year	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At the end of the year**	**Exercise price HK$**	**Exercise period**
Executive directors							
Zhang Lijun							
– on 9 September 2013	1,500,000	–	–	(1,500,000)	–	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	2,100,000	–	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	3,000,000	–	–	–	3,000,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	2,000,000	–	–	2,000,000	0.371	02/09/2016 to 01/09/2019
	6,600,000	2,000,000	–	(1,500,000)	7,100,000		
Wang Chun							
– on 9 September 2013	1,500,000	–	–	(1,500,000)	–	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	2,100,000	–	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	5,700,000	–	–	–	5,700,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	2,000,000	–	–	2,000,000	0.371	02/09/2016 to 01/09/2019
	9,300,000	2,000,000	–	(1,500,000)	9,800,000		
Sub-total	15,900,000	4,000,000	–	(3,000,000)	16,900,000		

33. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

2016

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Independent non-executive directors							
Loke Yu (alias Loke Hoi Lam)							
– on 9 September 2013	400,000	–	–	(400,000)	–	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	400,000	–	–	–	400,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	2,000,000	–	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	700,000	–	–	700,000	0.371	02/09/2016 to 01/09/2019
	2,800,000	700,000	–	(400,000)	3,100,000		
Wang Linan							
– on 17 April 2014	300,000	–	–	–	300,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	2,000,000	–	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	700,000	–	–	700,000	0.371	02/09/2016 to 01/09/2019
	2,300,000	700,000	–	–	3,000,000		
Gong Zhankui							
– on 16 October 2015	2,000,000	–	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	700,000	–	–	700,000	0.371	02/09/2016 to 01/09/2019
	2,000,000	700,000	–	–	2,700,000		
Sub-total	7,100,000	2,100,000	–	(400,000)	8,800,000		
Employees							
– on 9 September 2013	800,000	–	–	(800,000)	–	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	15,100,000	–	–	–	15,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	33,300,000	–	–	–	33,300,000	0.570	16/10/2015 to 15/10/2018
– on 2 September 2016	–	8,900,000	–	–	8,900,000	0.371	02/09/2016 to 01/09/2019
Sub-total	49,200,000	8,900,000	–	(800,000)	57,300,000		
Total	72,200,000	15,000,000	–	(4,200,000)	83,000,000		

33. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

2015

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Executive directors							
Zhang Lijun							
– on 9 September 2013	1,500,000	–	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	2,100,000	–	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	–	3,000,000	–	–	3,000,000	0.570	16/10/2015 to 15/10/2018
	3,600,000	3,000,000	–	–	6,600,000		
Wang Chun							
– on 9 September 2013	1,500,000	–	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	2,100,000	–	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	–	5,700,000	–	–	5,700,000	0.570	16/10/2015 to 15/10/2018
	3,600,000	5,700,000	–	–	9,300,000		
Sub-total	7,200,000	8,700,000	–	–	15,900,000		
Independent non-executive directors							
Loke Yu (alias Loke Hoi Lam)							
– on 9 September 2013	400,000	–	–	–	400,000	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	400,000	–	–	–	400,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	–	2,000,000	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
	800,000	2,000,000	–	–	2,800,000		
Wang Linan							
– on 17 April 2014	300,000	–	–	–	300,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	–	2,000,000	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
	300,000	2,000,000	–	–	2,300,000		
Gong Zhankui							
– on 16 October 2015	–	2,000,000	–	–	2,000,000	0.570	16/10/2015 to 15/10/2018
	–	2,000,000	–	–	2,000,000		
Sub-total	1,100,000	6,000,000	–	–	7,100,000		
Employees							
– on 13 September 2012	1,700,000	–	–	(1,700,000)	–	0.700	13/09/2012 to 12/09/2015
– on 9 September 2013	800,000	–	–	–	800,000	0.604	09/09/2013 to 08/09/2016
– on 17 April 2014	15,100,000	–	–	–	15,100,000	0.750	17/04/2014 to 16/04/2017
– on 16 October 2015	–	33,300,000	–	–	33,300,000	0.570	16/10/2015 to 15/10/2018
Sub-total	17,600,000	33,300,000	–	(1,700,000)	49,200,000		
Total	25,900,000	48,000,000	–	(1,700,000)	72,200,000		

33. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

On 2 September 2016, a total of 15,000,000 share options were granted to directors of the Company and eligible participants under the V1 Group Scheme and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.371 per share, with closing price per share immediately before the date on which the share options were granted at HK$0.370. The options may be exercisable during the period from 2 September 2016 to 1 September 2019.

Fair value of share options granted during the year and assumptions are as follows:

	Granted on 2 September 2016 (the V1 Group Scheme)
Fair value at grant date	HK$0.0626
Weighted average share price at grant date	HK$0.365
Weighted average contractual life	1 year
Expected volatility	44.639%
Expected dividend rate	0%
Risk-free interest rate	0.3814%

The volatility assumption is measured at the average of the comparable companies' share price return volatility over the same period.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The fair value of the share options granted during the year was approximately HK$939,000 (2015: HK$4,367,000), all of which was recognised an equity-settled share-based payment expenses during the year.

33. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

Details and movements of share options are as follows:

	Weighted average exercise price	Number '000
At 1 January 2015	HK$0.720	25,900
Granted during the year	HK$0.570	48,000
Lapsed during the year	HK$0.700	(1,700)
At 31 December 2015	HK$0.622	72,200
Granted during the year	HK$0.371	15,000
Lapsed during the year	HK$0.604	(4,200)
At 31 December 2016	**HK$0.577**	**83,000**

The weighted average exercise price of options outstanding at the end of the year is HK$0.577 (2015: HK$0.622) and their weighted average remaining contractual life was 1.59 years (2015: 2.25 years). The validity period of the share options of the Company granted during the year is from 2 September 2016 to 1 September 2019 (2015: from 16 October 2015 to 15 October 2018).

Of the total number of options outstanding at the end of the year, all were exercisable at the end of the year.

No share options were exercised during the years ended 31 December 2015 and 2016.

In 2016, 4,200,000 (2015: 1,700,000) share options lapsed. Accordingly, the related share-based compensation reserve of HK$324,000 (2015: HK$145,000) was released to retained profits.

33. SHARE-BASED PAYMENT *(Continued)*

(B) SHARE-BASED PAYMENTS MADE BY A SUBSIDIARY

As detailed in note 29, a profit guarantee is provided by the Vendor, who served as a key employee of the acquiree from the date of acquisition to 31 December 2018 ("the Employment Period"). If the profit target cannot be achieved, 6,923,290 shares of CATV held by the Vendor will be transferred to the Company at zero consideration. In accordance with HKFRS 3, it is treated as a separate transaction from the business combination. Once the profit target is achieved, 6,923,290 shares of the acquiree will be released to the Vendor by the Company.

In accordance with HKFRS 2, the fair value of the share-based compensation was determined based on the fair value of services to be provided by the Vendor during the Employment Period. The fair value of the share-based compensation was approximately HK$444,000. Balance of approximately HK$63,000 was recognised in profit or loss for the year ended 31 December 2016.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The following is the condensed statement of financial position of the Company as at 31 December 2016 and 31 December 2015:

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment		**1,196**	19
Investments in subsidiaries		**984,016**	906,508
Other financial assets		**116,856**	–
Intangible assets		**420,317**	638,247
		1,522,385	1,544,774
CURRENT ASSETS			
Other receivables, deposits and prepayments		**4,695**	5,186
Other financial assets		**457,104**	5,506
Amounts due from subsidiaries		**459,311**	477,893
Amount due from a related company		**33**	33
Bank balances and cash		**650,374**	77,943
		1,571,517	566,561
CURRENT LIABILITIES			
Deposits received, other payables and accruals		**2,340**	17,654
Amounts due to subsidiaries		**1,836,098**	559,055
Tax payable		**5,748**	5,748
Dividend payable		**3,103**	3,106
		1,847,289	585,563
NET CURRENT LIABILITIES		**(275,772)**	(19,002)
NET ASSETS		**1,246,613**	1,525,772
EQUITY			
Share capital	27	**32,979**	32,979
Reserves	30	**1,213,634**	1,492,793
TOTAL EQUITY		**1,246,613**	1,525,772

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

	Note	2016 HK$'000	2015 HK$'000
Service fee income earned from an associate, TMD1	(i)	**153,204**	111,720
Management fee charged by TMD1	(ii)	**218,544**	143,292

(i) Service fee income was charged in accordance with the terms and conditions of the exclusive technology support and services agreements entered with TMD1 dated 29 April 2006.

(ii) Under the service agreements as mentioned in note 1, the Company, TMD1 and VODone Telemedia entered into an arrangement in which the subsidiaries of VODone Telemedia provides management services to the Group in order to assist the Group in providing the internet information services. The fee was charged at cost basis and terms agreed between the related parties.

(b) The remuneration of directors and other members of key management during the year is as follows:

	2016 HK$'000	2015 HK$'000
Short term benefits	**14,987**	55,022
Share-based payments	**626**	8,243
	15,613	63,265

(c) The amount due from an associate mainly arising from the trading transaction detailed in note (a)(i) above are unsecured, interest-free and repayable on demand.

Impairment of HK$52,549,000 was made against the principal amounts for the year ended 31 December 2016.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Amounts due from related companies, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, is as follows:

Details of the balances with the related companies are as follows:

	2016	2015
	HK$'000	HK$'000
Balance at 1 January	**4,984**	34
Balance at 31 December	**5,164**	4,984
Maximum amount outstanding during the year	**5,164**	4,984

The amounts due from the related companies are interest-free, unsecured and repayable on trading terms.

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2016 and 2015.

(e) The amounts due to an associate and related companies are interest-free, unsecured and repayable on demand.

36. MATERIAL INTEREST OF DIRECTORS IN TRANSACTION, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company was a party and in which the directors of the Company or an entity connected with the directors had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

37. CAPITAL RISK MANAGEMENT

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

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

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

The gearing ratio as at 31 December 2016 and 2015 were as follows:

	2016 **HK$'000**	2015 HK$'000
Total equity	**1,857,305**	2,885,415
Gearing ratio	**N/A**	N/A

38. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

CREDIT RISK

The Group's credit risk is primarily attributable to its trade receivables, other receivables and amounts due from related companies and associates arising from trade transactions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of third party accounts and other receivables, 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 customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Normally, the Group does not obtain collateral from customers.

38. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

The directors consider that the credit risk arising from related party trading transactions is minimal. Based on past experience, management believes that no impairment allowance is necessary in respect of amounts due from associates as there has not been a significant change in credit quality and the balances are still fully recoverable.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set up in note 21.

LIQUIDITY RISK

The Group's policy are to regularly monitor its liquidity requirements and its compliance with lending covenants and to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

At the end of reporting period, all the Group's and the Company's financial liabilities based on contractual undiscounted cash flows are within one year or on demand.

INTEREST RATE RISK

The Group's bank deposits have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank deposits have short maturity periods. The Group's held-to-maturity investments carry at fixed interest rate and therefore are not subject to cash flow interest rate risk.

The Group has no significant interest-bearing financial liabilities. Accordingly, management considers the Group has no significant cash flow interest rate risk from financial liabilities.

The Group does not have an interest rate hedging policy. However, management monitors interest rate exposures and will consider hedging significant interest rate exposures should the need arise.

CURRENCY RISK

Most of the subsidiaries' functional currency is RMB since majority of the revenue of the Group are derived from operations in the PRC. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Other than the above, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

38. FINANCIAL RISK MANAGEMENT *(Continued)*

EQUITY PRICE RISK

The Group has no significant equity price risk as at 31 December 2016.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2016 and 2015 may be categorised as follows:

	2016 **HK$'000**	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**776,518**	1,685,539
Available-for-sale financial assets	**232,959**	5,506
Held-to-maturity investments	**387,501**	–
Financial liabilities		
Financial liabilities measured at amortised cost	**22,552**	34,573

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2016 **Level 1** **HK$'000**	 **Level 2** **HK$'000**	 **Level 3** **HK$'000**
Available-for-sale financial assets	**69,603**	**–**	**–**

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

	2015		
	Level 1	Level 2	Level 3
	HK$'000	HK$'000	HK$'000
Available-for-sale financial assets	5,506	–	–

There were no transfers between levels during the period.

40. EVENTS AFTER THE REPORTING DATE

On 9 January 2017, the Company, Bank of Asia (BVI) Limited ("BOA") and Sancus Financial Holdings Limited, entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Company has conditionally agreed to subscribe and BOA has conditionally agreed to issue an additional 50,190,323 shares of BOA, representing approximately 31.1% of the total issued shares of BOA as enlarged by the Subscription Agreement at a subscription price of US$30,800,000 (equivalent to approximately HK$238,700,000) as detailed in the Company's announcement dated 9 January 2017.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the Board of Directors on 21 March 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000 (Note)	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**154,121**	1,291,682	1,945,712	595,078	476,800
Profit/(loss) for the year	**(981,639)**	217,856	4,937	(165,806)	(15,416)
Attributable to:					
Owners of the Company	**(980,071)**	142,666	(131,590)	(160,014)	(3,138)
Non-controlling interests	**(1,568)**	75,190	136,527	(5,792)	(12,278)
	(981,639)	217,856	4,937	(165,806)	(15,416)

Note: The result of the year ended 31 December 2015 was presented on a combined basis of the Group from both continuing and discontinued operations.

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**800,428**	1,373,835	2,555,141	2,241,042	1,867,260
Current assets	**1,191,544**	1,694,127	1,973,019	1,381,676	1,229,112
Current liabilities	**(134,667)**	(146,698)	(464,688)	(335,200)	(196,546)
Net current assets	**1,056,877**	1,547,429	1,508,331	1,046,476	1,032,566
Non-current liabilities	**–**	(35,849)	(45,999)	(49,624)	(9,442)
Net assets	**1,857,305**	2,885,415	4,017,473	3,237,894	2,890,384