H.BROTHERS ENTERTAINMENT
華誼騰訊娛樂

華 誼 騰 訊 娛 樂 有 限 公 司
Huayi Tencent Entertainment Company Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 419)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

	2017	2016
	HK$'000	HK$'000
		(Restated)
Continuing operations:		
Total sales revenue	**167,666**	128,324
Gross profit	**10,696**	17,797
Loss before finance costs and taxation	**(140,733)**	(124,664)
Loss for the year	**(141,123)**	(124,517)
Profit/(loss) for the year from discontinued operations	**38,859**	(14,262)
Loss for the year	**(102,264)**	(138,779)

- Revenue for the year ended 31 December 2017 increased by 31% to approximately HK$167,666,000 (2016: HK$128,324,000), mainly driven by the 3.4 times boost in revenue from the Entertainment and Media Operations which is in line with the release of *Rock Dog* movie in North America and other parts of the world in year 2017. Revenue from Entertainment and Media Operations amounted to approximately HK$52,039,000 (2016: HK$11,825,000) for the year ended 31 December 2017 and accounted for 31% (2016: 9%) of the Group's revenue for the year.
- During the year ended 31 December 2017, the Group has jointly established Huayi-Warner Contents Fund with, among others, Warner Bros. Korea Inc. (a subsidiary of Warner Bros. Entertainment Inc.). Through the fund, the Group will invest in premier Korean film projects to be produced and distributed by Warner Bros. Korea Inc. The fund's first movie project, *V.I.P.*, was released in South Korea in August 2017 with local box office hitting KRW11 billion. Five more movies are expected to be released in year 2018.
- In October 2017, the Group has completed the disposal of its loss-making online healthcare business to an independent third party at a consideration of RMB10 million.

The board of directors (the "Board") of Huayi Tencent Entertainment Company Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated) (Note 18)
Continuing operations			
Revenue	3	**167,666**	128,324
Cost of sales		**(156,970)**	(110,527)
Gross profit		**10,696**	17,797
Other income and other gains/(losses), net	3	**48,065**	(40,308)
Marketing and selling expenses		**(26,599)**	–
Administrative expenses		**(156,482)**	(103,777)
Share of results of an associate	12	**(3,443)**	1,624
Provision for impairment of interest in an associate	12	**(12,970)**	–
		(140,733)	(124,664)
Finance (costs)/income, net	5	**(26)**	233
Loss before taxation	6	**(140,759)**	(124,431)
Taxation	7	**(364)**	(86)
Loss for the year from continuing operations		**(141,123)**	(124,517)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	18	**38,859**	(14,262)
Loss for the year		**(102,264)**	(138,779)
Attributable to:			
Equity holders of the Company			
– continuing operations		**(142,528)**	(125,244)
– discontinued operations		**38,859**	(14,262)
		(103,669)	(139,506)
Non-controlling interest			
– continuing operation		**1,405**	727
		(102,264)	(138,779)

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated) (Note 18)
Loss per share attributable to the equity holders of the Company for the year		**HK Cents**	*HK Cents*
Basic (loss)/earnings per share	8		
– from continuing operations		**(1.06)**	(0.98)
– from discontinued operations		**0.29**	(0.11)
		(0.77)	(1.09)
Diluted (loss)/earnings per share	8		
– from continuing operations		**(1.06)**	(0.98)
– from discontinued operations		**0.29**	(0.11)
		(0.77)	(1.09)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated) (Note 18)
Loss for the year		**(102,264)**	(138,779)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
– Change in value of available-for-sale financial assets	13	**56**	–
– Currency translation differences		**(25,703)**	18,784
Other comprehensive (loss)/income for the year, net of tax		**(25,647)**	18,784
Total comprehensive loss for the year		**(127,911)**	(119,995)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company			
– continuing operations		**(179,300)**	(111,143)
– discontinued operations		**50,037**	(9,702)
Non-controlling interest			
– continuing operation		**1,352**	850
		(127,911)	(119,995)

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Notes	As at 31 December **2017** **HK$'000**	2016 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	10	**7,059**	15,940
Film right and film production in progress	11	**212,853**	367,602
Other intangible assets		**5**	10
Interest in an associate	12	**177,619**	190,501
Available-for-sale financial assets	13	**18,971**	12,101
Deferred income tax assets		**1,091**	2,142
Prepayments, deposits and other receivables		**52,708**	91,834
		470,306	680,130
Current assets			
Trade receivables	14	**10,877**	73
Inventories		**–**	6,942
Programmes and film production in progress		**4,785**	50,252
Prepayments, deposits and other receivables		**30,787**	40,164
Cash and cash equivalents		**128,369**	70,842
		174,818	168,273
Assets of disposal group classified as held for sale	18	**262,741**	245,441
		437,559	413,714
Total assets		**907,865**	1,093,844
Equity and liabilities			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	16	**269,962**	269,962
Reserves		**606,150**	735,413
		876,112	1,005,375
Non-controlling interest		**(154)**	(1,506)
Total equity		**875,958**	1,003,869

	Notes	As at 31 December 2017 HK$'000	2016 HK$'000
Liabilities			
Non-current liabilities			
Other payables	15	**15,060**	12,221
Deferred income tax liabilities		**253**	1,003
		15,313	13,224
Current liabilities			
Trade payables	15	**–**	2,518
Receipt in advance, other payables and accrued liabilities	15	**14,386**	14,787
Income tax liabilities		**3**	57,378
		14,389	74,683
Liabilities of disposal group classified as held for sale	18	**2,205**	2,068
		16,594	76,751
Total liabilities		**31,907**	89,975
Total equity and liabilities		**907,865**	1,093,844

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations		**65,467**	(453,631)
PRC capital gain tax paid		**(14,300)**	–
Net cash generated from/(used in) operating activities		**51,167**	(453,631)
Cash flows from investing activities			
Bank interest received		**945**	894
Purchases of property, plant and equipment		**(3,504)**	(8,691)
Disposals of subsidiaries, net of cash disposed of		**11,371**	(7)
Proceeds from disposals of joint ventures		**–**	191
Repayment received from a then joint venture		**–**	1,190
Proceeds from disposals of property, plant and equipment		**10**	29
Net cash used through acquisition of a subsidiary	17	**–**	(89,953)
Investment in an associate	12	**–**	(191,656)
Purchase of available-for-sale financial assets		**(6,814)**	(12,101)
Net cash generated from/(used in) investing activities		**2,008**	(300,104)
Cash flows from financing activities			
Proceeds from issuance of subscription shares		**–**	547,009
Dividends paid		**–**	(1,701)
Net cash generated from financing activities		**–**	545,308
Net increase/(decrease) in cash and cash equivalents		**53,175**	(208,427)
Cash and cash equivalents at 1 January		**70,993**	280,400
Currency translation differences		**4,458**	(980)
Cash and cash equivalents at 31 December		**128,626**	70,993
Analysis of cash and cash equivalents			
Cash and cash equivalents of the Group		**128,626**	70,993
Reclassification to assets of disposal group held for sale	18	**(257)**	(151)
		128,369	70,842

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Company				
	Share capital HK$'000	**Other reserves** HK$'000	**Accumulated losses** HK$'000	**Non-controlling interest** HK$'000	**Total equity** HK$'000
Balance at 1 January 2016	133,210	1,745,796	(1,299,795)	(2,356)	576,855
Comprehensive income:					
– (Loss)/profit for the year	–	–	(139,506)	727	(138,779)
Other comprehensive income:					
Currency translation differences					
– Group	–	21,163	–	123	21,286
– Associate (Note 12)	–	(2,779)	–	–	(2,779)
– Recycling upon disposal of subsidiaries	–	277	–	–	277
Total comprehensive income/(loss)	–	18,661	(139,506)	850	(119,995)
Transactions with owners in their capacity as owners:					
– Issuance of subscription shares	136,752	410,257	–	–	547,009
Total transactions with owners in their capacity as owners	136,752	410,257	–	–	547,009
Balance at 31 December 2016	269,962	2,174,714	(1,439,301)	(1,506)	1,003,869
Balance at 1 January 2017	269,962	2,174,714	(1,439,301)	(1,506)	1,003,869
Comprehensive income:					
– (Loss)/profit for the year	–	–	(103,669)	1,405	(102,264)
Other comprehensive income:					
Change in value of available-for-sale financial assets	–	56	–	–	56
Currency translation differences					
– Group	–	(29,041)	–	(53)	(29,094)
– Associate (Note 12)	–	3,531	–	–	3,531
– Recycling upon disposal of a subsidiary (Note 18)	–	(140)	–	–	(140)
Total comprehensive (loss)/income	–	(25,594)	(103,669)	1,352	(127,911)
Balance at 31 December 2017	269,962	2,149,120	(1,542,970)	(154)	875,958

Notes:

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

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

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

(i) Changes in accounting policies and disclosures:

New and amended standards adopted by the Group

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

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

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

New standards and interpretations not yet adopted

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

HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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

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

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

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

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

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

HKFRS 16 Leases

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

The accounting for lessors will not significantly change.

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

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

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

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

3. REVENUE AND OTHER INCOME AND OTHER GAINS/(LOSSES), NET

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services. The online healthcare services operations was disposed of during the year (Note 18). Revenue recognized during the year are as follows:

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

4. SEGMENT INFORMATION

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

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

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

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

(a) Business segment

For the year ended 31 December 2017

	Entertainment and Media	Offline Healthcare and Wellness Services	Total continuing operations	Discontinued operations: Entertainment and Media – Beijing Hao You Media Culture Co., Ltd. ("Hao You")	Discontinued operations: Online Healthcare Services	Discontinued operations: Offline Healthcare and Wellness Services – Beijing Healthcare and Wellness Si He Yuan and Hotel Project *(Note 18(c))*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	52,039	115,627	167,666	–	8,308	–	175,974
Share of result of an associate	(3,443)	–	(3,443)	–	–	–	(3,443)
Provision for impairment of interest in an associate	(12,970)	–	(12,970)	–	–	–	(12,970)
Segment results	(157,442)	(14,870)	(172,312)	103	5	(4,385)	(176,589)
Exchange gain, net			46,996	–	61	–	47,057
Unallocated expenses, net			(15,417)	–	–	–	(15,417)
			(140,733)	103	66	(4,385)	(144,949)
Finance cost, net			(26)	–	–	–	(26)
(Loss)/profit before taxation			(140,759)	103	66	(4,385)	(144,975)
Taxation			(364)	–	–	43,075	42,711
(Loss)/profit for the year			(141,123)	103	66	38,690	(102,264)
Non-controlling interest			(1,405)	–	–	–	(1,405)
(Loss)/profit attributable to the equity holders of the Company			(142,528)	103	66	38,690	(103,669)

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

For the year ended 31 December 2016

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

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

(b) Geographical information

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

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

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

5. FINANCE (COSTS)/INCOME, NET

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

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

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

7. TAXATION

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

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

	2017	2016
	HK$'000	HK$'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**–**	–
Deferred income tax	**364**	86
Income tax expense	**364**	86

8. LOSS PER SHARE

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

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

9. DIVIDEND

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

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture, computer and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2016							
Opening net book amount	678	6,140	1,239	6,654	1,023	–	15,734
Additions	–	3,398	1,132	2,692	1,469	–	8,691
Acquisition of subsidiary (Note 17)	904	–	119	–	92	–	1,115
Disposals	–	–	(44)	–	(147)	–	(191)
Disposals of a subsidiary	(671)	(2)	–	–	–	–	(673)
Depreciation	–	(2,603)	(797)	(3,005)	(259)	–	(6,664)
Reclassification to assets of disposal group held for sale (Note 18)	(898)	–	(118)	–	(91)	–	(1,107)
Exchange differences	(13)	(417)	(79)	(354)	(102)	–	(965)
Closing net book amount	**–**	**6,516**	**1,452**	**5,987**	**1,985**	**–**	**15,940**
At 31 December 2016							
Cost	–	9,128	4,411	10,749	3,455	6,348	34,091
Accumulated depreciation and impairment	–	(2,612)	(2,959)	(4,762)	(1,470)	(6,348)	(18,151)
Net book amount	**–**	**6,516**	**1,452**	**5,987**	**1,985**	**–**	**15,940**

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

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

11. FILM RIGHT AND FILM PRODUCTION IN PROGRESS

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

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

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

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

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

12. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2017 which, in the opinion of the directors, is material to the Group. The associate is a private company and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interest in the associate, and there are no contingent liabilities and commitments of the associate itself.

Nature of interest in an associate as at 31 December 2017 and 2016 is as follows:

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

Note: On 23 March 2016, the Company, HB Entertainment, Ms. Bo Mi Moon ("Major Shareholder") and HB Corporation entered into an investment agreement ("Investment Agreement"). Pursuant to the Investment Agreement: (a) the Company will subscribe for 23,334 convertible preferred stock ("CPS") at the subscription price of Korean Won ("KRW") 14,042.4 million (equivalent to approximately HK$92.7 million) ("CPS Subscription") in two tranches; and (b) the Company will purchase 46,666 common stocks in HB Entertainment from Major Shareholder and HB Corporation. As of 16 August 2016, the Company has completed both the first CPS Subscription and share purchase. The Company currently holds approximately 22% of equity interest in HB Entertainment, and the Company's shareholdings in HB Entertainment is expected to increase to over 30% in the first half of 2018 following the completion of the second CPS Subscription and conversion of CPS.

Summarized financial information for material associate

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

Summarized balance sheet

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

Summarized statement of comprehensive income

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

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

Movements of interest in an associate are as follows:

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

Reconciliation of summarized financial information

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

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

Impairment of interest in an associate

For the year ended 31 December 2017, provision for impairment of interest in HB Entertainment of approximately HK$12,970,000 (2016: nil) has been charged in the consolidated income statement, mainly due to deterioration of expected future cash flows from HB entertainment which is affected by the prominent market drop in the export of contents to the PRC from Korean entertainment companies since the fourth quarter of 2016. Recoverable amount has been determined by value-in-use calculation of present value of expected future cash flows.

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

	As at 31 December 2017
Compound annual growth rate of revenue in five-year period	53.2%
Annual growth rate beyond the five-year period	3.5%
Discount rate	14.9%

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of KRW 1 billion (equivalent to approximately HK$7 million) for the establishment of Huayi-Warner Contents Fund. It represented 10% of the total capital contribution to the fund up to the time of its establishment. The Fund's capital shall be invested in film projects that are produced and distributed by Warner Bros. Korea Inc.

The balance is denominated in Korean Won. The maximum exposure to credit risk at the year-end is the carrying value.

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

14. TRADE RECEIVABLES

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

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

As at 31 December 2017, trade receivables of HK$10,877,000 (2016: nil) are recognized in the consolidated balance sheet relating to the Group's interest in joint operation arrangements as detailed in note 11.

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

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

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

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

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

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

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

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

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

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

15. TRADE PAYABLES, RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED LIABILITIES

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

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

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

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

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

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

16. SHARE CAPITAL

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

Notes:

(a) Authorized share capital

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

(b) Issuance of shares

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

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

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

Share Option

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

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

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

17. STEP ACQUISITION FROM A JOINT VENTURE TO A SUBSIDIARY

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

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

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

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

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

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

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

18. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

	2017 HK$'000	2016 HK$'000 (Restated)
Profit/(loss) for the year from discontinued operations is comprised of the followings:		
Hao You *(Note (a))*	**103**	21
Beijing Bayhood N0.9 Cloud Health Technology Company Limited ("Cloud Health") *(Note (b))*	**66**	(14,283)
Beijing Healthcare and Wellness Si He Yuan and Hotel Project *(Note (c))*	**38,690**	–
	38,859	(14,262)

Notes:

(a) Hao You

Saved as disclosed in Note 17, Hao Ge acquired Hao You with a view to subsequently dispose of all or a majority of its equity interest in Hao You and the amount due from Hao You by Hao Ge to a potential buyer. Hao Ge has held equity interest in Hao You since 2005 and Hao You had made losses since 2014. For the year ended 31 December 2015, the Group made provision for impairment of interest in Hao You and amount due from Hao You amounting HK$164 million, which was mainly due to deterioration of expected future cash flows from Hao You. Given that the financial results of Hao You had not been satisfactory and it did not make positive contribution to the Group in recent years, management's disposal plan on Hao You represented a good opportunity to realize the Group's investment in Hao You.

The abovementioned transaction has not yet been completed as at the date of this results announcement.

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

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

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

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

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

	2017	2016
	HK$'000	HK$'000
Trade payables, other payables and accruals	**2,205**	2,068

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

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

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

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

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

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

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

(b) Cloud Health

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

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

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

The disposal transaction was completed on 31 October 2017.

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

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

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

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

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

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

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

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

Business Review

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

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

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

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

Business Review

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

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

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

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

(1) Entertainment and Media Operations

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

In addition to prime film projects, the Group has always sought opportunities of purchase, merger and acquisition, and collaboration in the overseas film and TV entertainment business. On top of being a shareholder of HB Entertainment, the Group also made significant progress in cooperation with other excellent overseas film and TV entertainment companies during the year under review. In April 2017, the Group invested KRW1 billion in cooperation with Warner Bros. to establish the Huayi-Warner Contents Fund, enabling the Group to invest in Korean film projects invested and distributed by Warner Bros. *V.I.P.*, the first film funded by Huayi-Warner Contents Fund, was released during the year under review on 996 screens in South Korea, attracting an audience of 1.373 million and hitting total box-office receipts of KRW10.957 billion. This film was also shown in Hong Kong and other regions, drawing attentions of audience from the Asia-Pacific region. In 2017, the first year for the Huayi-Warner Contents Fund, only one film, *V.I.P.*, was released. In 2018, the pace will be accelerated to release more films; five films, namely *Champion, Bad Lieutenant, The Witch*, *Jin-Roh*, and *Best Friend*, covering different genres and themes of science fiction and action, thriller, family comedy and crime, are planned to be released. These five films are directed by directors with excellent track records and starred by many appealing actors and actresses, ensuring quality, high market focus and high recognition of audience. *Champion* is starred by Ma Dong-seok, who has taken leading roles in many popular films, such as *Along with the Gods: The Two Worlds*, *Train to Busan*, and *The Outlaws*. *Bad Lieutenant* is directed by Director Lee Jeong-beom, who directed *The Man from Nowhere*, the box-office champion of South Korea in 2010. *The Witch* is co-starred by Jo Min-soo, who won Best Actress in the 49th Daejong Film Awards and the 4th KOFRA Film Awards for her performance in *Pieta*, and Choi Woo-sik, who won Actor of the Year in the 19th Busan International Film Festival for his performance in *Set Me Free*. *Jin Roh* is written and directed by Kim Jee-woon, who wrote and directed *The Age of Shadows*, which competed for nominee for the best foreign language film at the 89th Academy Awards, and produced by producer Lewis Taewan Kim, who produced *Sea Fog* and *The Host*. *Best Friend* is directed by director Lee Hwan-kyung, who directed *Miracle in Cell No. 7*, the 8th film in South Korea to break the audience record of 10 million, and starred by Oh Dal-su, who took leading roles in hit films including *Along with the Gods*: *The Two Worlds, Assassination*, and *Veteran*, all of which attracted an audience of more than 10 million.

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

(2) Healthcare and Wellness Service

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

As one of the top green health clubs in China, "Beijing Bayhood No. 9 Club" comprises a comprehensive range of facilities, including a standard 18-hole golf course, lakeside golf course private VIP rooms, a spa facility, and Asia's first PGA-branded golf academy. At present, the Group continues to operate "Beijing Bayhood No. 9 Club" in form of renting, offering professional and quality offline healthcare and wellness services to enterprises and individual clients. The Group also operates another healthcare and wellness centre located in Chaoyang district, Beijing, through a 51% owned subsidiary. Featuring themes of dining, leisure and healthcare, the centre mainly serves middle-end customers. Since the Group plans to concentrate resources on the development of its core entertainment and media business, no further investment shall be made to the healthcare management and wellness business. The management will continue its ongoing efforts to strengthen control over costs, with a view to maintaining profit margin and stabilising operation.

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

Business Outlook

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

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

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

Environmental & Social Responsibilities

a) ***Environmental responsibilities***

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

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

b) ***Social responsibilities***

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

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

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

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

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

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

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

FINANCIAL REVIEW

Continuing Operations

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

Cost of sales for the year ended 31 December 2017 amounted to approximately HK$156,970,000 (2016: HK$110,527,000), being a 42% increase comparing to the prior year. The significant increase is mainly attributed to the increased film right amortization expense of approximately HK$30,238,000 (2016: HK$5,779,000) and the Group's share of distribution fees during the year due to the worldwide release of "Rock Dog" movie in 2017. In view of the actual box office performance of certain film right distribution in certain markets during the year was below expectation, management performed an impairment assessment for film right as at 31 December 2017. By using the latest available information and best estimates as at 31 December 2017, the carrying value of the film right was compared against its recoverable amount using value in use, which was estimated based on the present value of future cash flows directly generated by the film right, including expected future box office performance in different markets around the globe, other revenue streams that the film right can be distributed such as cable television and home video, the number of and duration of planned circulations and expected cash outflows for the costs for these circulations and distributions. The impairment assessment was further updated with the actual box office performance up to the date of this results announcement. Accordingly, impairment of film rights and prepayments amounting to approximately HK$41,195,000 (2016: HK$44,051,000) and HK$15,572,000 (2016: nil) was recognized for the year ended 31 December 2017, and was included in cost of sales and administrative expenses respectively during the year.

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

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

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

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

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

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

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

Provision for impairment of interest in an associate (i.e. HB Entertainment) of approximately HK$12,970,000 (2016: nil) was recorded during the year ended 31 December 2017, mainly due to the deterioration of expected future cash flows from HB Entertainment which is affected by the prominent market drop in the export of the contents to the PRC from Korean entertainment companies since the fourth quarter of 2016.

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

Discontinued Operations

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

(i) the intended disposal of the entire shareholding in Hao You (including the Travel Channel operations) following the completion of step acquisition on 1 December 2016. Further details of the intended disposal are disclosed in note 18(a) to this results announcement.

(ii) The completed disposal of the entire interests in the online healthcare services segment in October 2017. As a gain of disposal of approximately HK$8,500,000 was recognized upon the completion of disposal, the results from discontinued operations improved significantly comparing to the prior year. Further details of the completed disposal are disclosed in note 18(b) to this results announcement.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

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

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

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

Foreign Currency Exchange Exposure

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

Capital Structure

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

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

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

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

HUMAN RESOURCES

As at 31 December 2017, the Group employed a total of 31 (2016: 72) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 385 (2016: 451) full-time employees in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1

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

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. Mr. YUEN Kin is the chairman of Audit Committee and the other two members of the committee are Dr. WONG Yau Kar David and Mr. CHU Yuguo. The Audit Committee of the Company has adopted terms of references which are in line with the CG Code.

The Audit Committee of the Company has reviewed the Group's annual results for the year ended 31 December 2017 and provided advice and comments thereon before presenting it to the Board for approval. The figures in respect of this results announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements of the year. The work performed by PricewaterhouseCoopers in this results announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT PERSONS

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.huayitencent.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company for 2017 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our employees for their diligence and dedication to the Group. We also thank our shareholders, customers, banks and business partners for their continuous support.

By Order of the Board
Huayi Tencent Entertainment Company Limited
WANG Zhongjun
Chairman

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprises:

Executive directors: Mr. WANG Zhongjun (Chairman), Mr. LAU Seng Yee (Vice Chairman), Mr. WANG Zhonglei, Mr. LIN Haifeng, Ms. WANG Dongmei, Mr. YUEN Hoi Po
Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo