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 2019

HIGHLIGHTS

	2019	2018
	HK$'000	HK$'000
Continuing operations:		
Total revenue	**99,326**	109,168
Gross profit	**39,011**	38,214
Loss before net finance costs and taxation	**(27,384)**	(66,314)
Loss for the year from continuing operations	**(28,770)**	(66,455)
Profit for the year from discontinued operation	**—**	140,763
(Loss)/profit for the year	**(28,770)**	74,308

- Loss for the year from continuing operations narrowed down by 57% to approximately HK$28,770,000 (2018: HK$66,455,000), due to the significant decrease in provision for impairment and net exchange losses, together with the strong financial performance of HB Entertainment Co., Ltd. ("HB Entertainment"), a 31%-owned associate of the Group, during the year.

- "*Beautiful Love, Wonderful Life*", a production of HB Entertainment, topped the national viewership ranking for seven consecutive weeks between November and December 2019, recording the highest national viewership at 28.3% in 2019. The final episode aired in March 2020 reached the highest national viewership at 31.5%, and is deservingly hailed as one of the most popular Korean television dramas in 2019.

- The Group has participated in the co-production and co-financing of various projects in North America, Europe and South Korea, including "*Space Sweepers*" (Korea's first science-fiction space feature film project, starring Song Jung-ki and Kim Tae-ri), "*Cherry*" (the first movie directed by the Russo Brothers since "*The Avengers*" series, starring Tom Holland who featured in the "*Spiderman*" series) and "*Moonfall*" (a Hollywood science-fiction and disaster epic directed by Roland Emmerich), etc. The Group expects that there will be five films to be released in succession in 2020 and 2021.

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 2019, together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Continuing operations			
Revenue and film investment income	3	**96,951**	109,168
Interest revenue calculated using the effective interest method	3	**2,375**	–
		99,326	109,168
Cost of sales		**(60,315)**	(70,954)
Gross profit		**39,011**	38,214
Other income and other gains/(losses), net	3	**936**	(3,887)
Marketing and selling expenses		**–**	(296)
Administrative expenses		**(72,265)**	(99,111)
		(32,318)	(65,080)
Finance costs, net	5	**(601)**	(11)
Share of results of an associate	14	**4,934**	(1,234)
Loss before taxation	6	**(27,985)**	(66,325)
Taxation	7	**(785)**	(130)
Loss for the year from continuing operations		**(28,770)**	(66,455)
Discontinued operation			
Profit for the year from discontinued operation	20	**–**	140,763
(Loss)/profit for the year		**(28,770)**	74,308
Attributable to:			
Equity holders of the Company			
– continuing operations		**(28,770)**	(67,026)
– discontinued operation		**–**	140,763
		(28,770)	73,737
Non-controlling interest			
– continuing operation		**–**	571
		(28,770)	74,308
(Loss)/earnings per share attributable to the equity holders of the Company for the year		**HK Cents**	HK Cents
Basic and diluted (loss)/earnings per share	8		
– from continuing operations		**(0.21)**	(0.49)
– from discontinued operation		**–**	1.04
		(0.21)	0.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
(Loss)/profit for the year		**(28,770)**	74,308
Other comprehensive income:			
Items that may be subsequently/have been reclassified to profit or loss:			
– Currency translation differences		**(6,812)**	(81,055)
Other comprehensive loss for the year, net of tax		**(6,812)**	(81,055)
Total comprehensive loss for the year		**(35,582)**	(6,747)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company			
– continuing operations		**(35,582)**	(82,565)
– discontinued operation		**–**	75,245
Non-controlling interest			
– continuing operation		**–**	573
		(35,582)	(6,747)

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

		As at 31 December	
		2019	2018
	Notes	**HK$'000**	HK$'000
Assets			
Non-current assets			
Property, plant and equipment	10	**3,736**	6,276
Right-of-use assets	11	**20,536**	–
Film rights and films production in progress	12	**252,750**	129,528
Interest in an associate	14	**278,250**	275,982
Financial asset at fair value through profit or loss	15	**4,112**	5,973
Prepayments, deposits and other receivables		**739**	16,200
		560,123	433,959
Current assets			
Trade receivables	16	**–**	–
Programmes and films production in progress	13	**75,874**	–
Prepayments, deposits and other receivables		**331,899**	84,415
Pledged bank deposits		**49,664**	–
Cash and cash equivalents		**198,248**	362,490
		655,685	446,905
Total assets		**1,215,808**	880,864
Equity and liabilities			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	19	**269,962**	269,962
Reserves		**563,248**	598,830
Total equity		**833,210**	868,792

	Notes	As at 31 December 2019 HK$'000	2018 HK$'000
Liabilities			
Non-current liabilities			
Lease liabilities	11	**1,916**	–
Deferred income tax liabilities		**1,039**	282
		2,955	282
Current liabilities			
Lease liabilities	11	**2,421**	–
Other payables and accrued liabilities	18	**11,540**	11,790
Bank and other borrowings	17	**365,682**	–
		379,643	11,790
Total liabilities		**382,598**	12,072
Total equity and liabilities		**1,215,808**	880,864

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations		**(209,440)**	73,536
Capital gain tax paid		**–**	(3)
Interest paid		**(25)**	–
Net cash (used in)/generated from operating activities		**(209,465)**	73,533
Cash flows from investing activities			
Bank interest received		**5,173**	2,096
Purchases of property, plant and equipment		**(932)**	(3,296)
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of		**56,951**	262,169
Investment in an associate		**–**	(91,357)
Net cash generated from investing activities		**61,192**	169,612
Cash flow from financing activities			
Proceeds from bank and other borrowings		**368,950**	–
Increase in pledged deposits		**(331,261)**	–
Increase in pledged bank deposits		**(49,664)**	–
Principal elements of lease payments		**(558)**	–
Net cash used in financing activities		**(12,533)**	–
Net (decrease)/increase in cash and cash equivalents		**(160,806)**	243,145
Cash and cash equivalents at 1 January		**362,490**	128,626
Currency translation differences		**(3,436)**	(9,281)
Cash and cash equivalents at 31 December		**198,248**	362,490
Analysis of cash and cash equivalents			
Cash and cash equivalents of the Group		**198,248**	362,490
		198,248	362,490

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity holders of the Company				
	Share capital	**Other reserves**	**Accumulated losses**	**Non-controlling interest**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2018	269,962	2,149,120	(1,542,970)	(154)	875,958
Change in accounting policy	–	(56)	56	–	–
Restated as at 1 January 2018	269,962	2,149,064	(1,542,914)	(154)	875,958
Comprehensive income:					
– Profit for the year	–	–	73,737	571	74,308
Other comprehensive income:					
Currency translation differences					
– Group	–	(11,709)	–	2	(11,707)
– Associate (Note 14)	–	(3,830)	–	–	(3,830)
– Recycling upon disposals of subsidiaries	–	(65,518)	–	–	(65,518)
Total comprehensive (loss)/income	–	(81,057)	73,737	573	(6,747)
Transaction with owners in their capacity as owners:					
– Disposal of a subsidiary	–	–	–	(419)	(419)
Balance at 31 December 2018	269,962	2,068,007	(1,469,177)	–	868,792

	Attributable to equity holders of the Company			
	Share capital	**Other reserves**	**Accumulated losses**	**Total equity**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Balance at 1 January 2019	**269,962**	**2,068,007**	**(1,469,177)**	**868,792**
Comprehensive income:				
– Loss for the year	**–**	**–**	**(28,770)**	**(28,770)**
Other comprehensive income:				
Currency translation differences				
– Group	**–**	**(5,125)**	**–**	**(5,125)**
– Associate (Note 14)	**–**	**(2,666)**	**–**	**(2,666)**
– Recycling upon deregistration of a subsidiary	**–**	**979**	**–**	**979**
Total comprehensive loss	**–**	**(6,812)**	**(28,770)**	**(35,582)**
Balance at 31 December 2019	**269,962**	**2,061,195**	**(1,497,947)**	**833,210**

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 ("SEHK").

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 2020.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss 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.

(a) New standards, amendments and interpretation adopted by the Group

The Group has applied the following standards, amendments and interpretation for the first time for their annual reporting period commencing 1 January 2019:

Amendments to Annual Improvements Project	Annual Improvements 2015–2017 Cycle
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments

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

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

A number of new standards and amendments and conceptual framework are effective for annual periods beginning after 1 January 2020 and have not been early adopted by the Group in preparing these consolidated financial statements.

		Effective for annual periods beginning on
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 3	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting (Amendments)	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

None of these new standards and amendments and conceptual framework is expected to have a significant effect on the consolidated financial statements of the Group.

(c) Change in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

The Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

Upon the adoption of HKFRS 16, the Group did not recognize lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases due to all these operating leases are either fully prepaid or short-term lease contract.

(i) ***Practical expedients applied***

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) ***Measurement of lease liabilities***

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	**1,820**
Less: short-term leases not recognized as a liability	**(1,820)**
Lease liability recognized as at 1 January 2019	**–**

(iii) ***Measurement of right-of-use assets***

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018.

(iv) ***Adjustments recognized in the balance sheet on 1 January 2019***

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by HK$37,800,000
- prepayments — decrease by HK$37,800,000.

3. REVENUE AND FILM INVESTMENT INCOME, INTEREST REVENUE CALCULATED USING THE EFFECTIVE INTEREST METHOD 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. Revenue recognized during the year is as follows:

	2019	2018
	HK$'000	HK$'000
Revenue		
Entertainment and media		
– Film exhibition	**361**	1,139
– Interest revenue calculated using the effective interest method	**2,375**	–
Offline healthcare and wellness services		
– Club activities income	**50,605**	46,739
– Membership fees	**31,809**	35,398
– Rental income	**–**	10,873
– Food and beverage	**14,176**	15,019
	99,326	109,168
Other income and other gains/(losses), net		
Interest income	**5,173**	2,096
Fair value loss on financial assets at fair value through profit or loss, net	**(1,861)**	(928)
Gain on disposals of subsidiaries	**–**	3,188
Loss on deregistration of a subsidiary	**(979)**	–
Exchange losses, net	**(1,968)**	(8,798)
Miscellaneous	**571**	555
	936	(3,887)

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 management committee measures the performance of the segments based on their respective segment results. The segment results derived from (loss)/profit before taxation, excluding exchange losses, net, finance costs, net, gain on disposals of subsidiaries, loss on deregistration of a subsidiary and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, office rental and other administrative expenses which are not attributable to particular reportable segment.

Segment assets exclude cash and cash equivalents 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 were no sales between the operating segments during the year ended 31 December 2019 (2018: nil).

(a) Business segment

For the year ended 31 December 2019

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total HK$'000
Revenue and film investment income	361	96,590	96,951
Interest revenue calculated using the effective interest method	2,375	–	2,375
	2,736	96,590	99,326
Share of results of an associate	4,934	–	4,934
Segment results	5,476	(12,132)	(6,656)
Exchange losses, net			(1,968)
Unallocated expenses, net			(17,781)
Loss on deregistration of a subsidiary			(979)
			(27,384)
Finance costs, net			(601)
Loss before taxation			(27,985)
Taxation			(785)
Loss for the year			(28,770)
Non-controlling interest			–
Loss attributable to the equity holders of the Company			(28,770)

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000
Segment assets	**660,650**	**19,259**	**679,909**
Unallocated assets			**535,899**
Total assets			**1,215,808**
Segment liabilities	**45,708**	**5,188**	**50,896**
Unallocated liabilities			**331,702**
Total liabilities			**382,598**
Other information:			
Purchases of property, plant and equipment			
– Allocated	**–**	**916**	**916**
– Unallocated			**16**
Purchase of film rights and films production in progress	**123,321**	**–**	**123,321**
Purchase of programmes and films production in progress	**74,128**	**–**	**74,128**
Depreciation of property, plant and equipment			
– Allocated	**–**	**2,460**	**2,460**
– Unallocated			**908**
Depreciation of right-of-use assets			
– Allocated	**–**	**21,600**	**21,600**
– Unallocated			**559**
Impairment of programmes and films production in progress	**333**	**–**	**333**

For the year ended 31 December 2018

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000	Discontinued operation: Entertainment and Media – Beijing Hao You Media Culture Co., Ltd. ("Hao You") HK$'000	Total HK$'000
Revenue and film investment income	1,139	108,029	109,168	–	109,168
Share of results of an associate	(1,234)	–	(1,234)	–	(1,234)
Segment results	(21,118)	(15,254)	(36,372)	(32)	(36,404)
Exchange losses, net			(8,798)	–	(8,798)
Unallocated expenses, net			(24,332)	–	(24,332)
Gain on disposals of subsidiaries			3,188	140,795	143,983
			(66,314)	140,763	74,449
Finance costs, net			(11)	–	(11)
(Loss)/profit before taxation			(66,325)	140,763	74,438
Taxation			(130)	–	(130)
(Loss)/profit for the year			(66,455)	140,763	74,308
Non-controlling interest			(571)	–	(571)
(Loss)/profit attributable to the equity holders of the Company			(67,026)	140,763	73,737

	Entertainment and Media HK$'000	Offline Healthcare and Wellness Services HK$'000	Total continuing operations HK$'000
Segment assets	411,483	50,505	461,988
Unallocated assets			418,876
Total assets			880,864
Segment liabilities	282	5,847	6,129
Unallocated liabilities			5,943
Total liabilities			12,072
Other information:			
Purchases of property, plant and equipment			
– Allocated	–	2,304	2,304
– Unallocated			992
Purchase of film rights and films production in progress	9,870	–	9,870
Depreciation of property, plant and equipment			
– Allocated	–	1,041	1,041
– Unallocated			2,503
Amortization of completed film rights	1,245	–	1,245
Impairment of completed film rights	2,253	–	2,253
Impairment of trade receivables	8,373	–	8,373
Impairment of prepayment and other receivables	7,639	–	7,639
Reversal of impairment of programmes and films production in progress	(1,618)	–	(1,618)

(b) Geographical information

The geographical information for the year ended 31 December 2019 and 2018 are as follows:

	Revenue from external customers		**Non-current assets** [Note]	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**97,744**	108,029	**48,233**	31,685
Hong Kong	**–**	–	**4,353**	571
Other countries	**1,582**	1,139	**224,436**	119,748
	99,326	109,168	**277,022**	152,004

Note: Non-current assets exclude interest in an associate, financial asset at fair value through profit or loss, and non-current portion of deposits and other receivables. The portion of film rights and films production in progress subject to global circulation is included in other countries.

5. FINANCE COSTS, NET

	2019 **HK$'000**	2018 HK$'000
Finance cost		
Imputed finance cost on discounting pledged deposits paid	**(6,148)**	–
Imputed finance cost on unwinding of discounted other borrowings	**(3,313)**	–
Imputed finance cost on unwinding of discounted non-current rental deposits received	**–**	(54)
Interest on bank borrowings	**(546)**	–
Interest on lease liabilities	**(25)**	–
	(10,032)	(54)
Finance income		
Imputed finance income on discounting other borrowings	**6,086**	–
Imputed finance income on unwinding of discounted pledged deposits paid	**3,345**	–
Imputed finance income on unwinding of discounted non-current rental deposits paid	**–**	43
	9,431	43
Finance costs, net	**(601)**	(11)

6. LOSS BEFORE TAXATION

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

	2019 **HK$'000**	2018 HK$'000
Depreciation of property, plant and equipment (Note 10)	**3,368**	3,544
Amortization of completed film rights (Note 12)	**–**	1,245
Depreciation of right-of-use assets (Note 11)	**22,159**	–
Auditor's remuneration		
– Audit services	**2,100**	2,070
– Non-audit services	**1,535**	1,738
Operating lease rentals	**1,773**	33,012
Provision for/(reversal of) impairment of		
– Completed film rights (Note 12)	**–**	2,253
– Trade receivables (Note 16)	**–**	8,373
– Prepayments and other receivables	**–**	7,639
– Programmes and films production in progress (Note 13)	**333**	(1,168)
Loss on disposal of property, plant and equipment (Note 10)	**–**	9
Food and beverage costs in relation to "Bayhood No. 9 Club" operation	**7,174**	7,054
Labour costs in relation to "Bayhood No. 9 Club" operation	**41,039**	39,711
Employee benefit expense:		
Directors' fees	***600***	*600*
Wages and salaries	***13,430***	*15,334*
Contributions to defined contribution pension schemes	***1,581***	*1,770*
	15,611	17,704

7. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2018: 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.

	2019 **HK$'000**	2018 HK$'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**–**	–
Deferred income tax	**785**	130
Income tax expense	**785**	130

8. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted (loss)/earnings 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)/earnings per share for the years ended 31 December 2019 and 2018 were the same as basic (loss)/earnings per share as the Company had no potentially dilutive ordinary shares in issue during these years.

	2019	2018
Weighted average number of ordinary shares in issue (thousands)	**13,498,107**	13,498,107
Loss from continuing operations attributable to equity holders of the Company (HK$'000)	**(28,770)**	(67,026)
Basic and diluted loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	**(0.21)**	(0.49)
Profit from discontinued operation attributable to equity holders of the Company (HK$'000)	**–**	140,763
Basic and diluted earnings per share from discontinued operation attributable to equity holders of the Company (HK cents per share)	**–**	1.04
(Loss)/earnings per share attributable to the equity holders of the Company (HK cents per share)	**(0.21)**	0.55

9. DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Building HK$'000	Machinery and equipment HK$'000	Furniture, computer and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2018						
Opening net book amount	–	1,287	1,282	2,685	1,805	7,059
Additions	937	647	288	–	1,424	3,296
Disposals	–	–	(9)	–	–	(9)
Disposal of a subsidiary	–	–	–	(298)	–	(298)
Depreciation	(482)	(372)	(336)	(1,862)	(492)	(3,544)
Exchange differences	(10)	(66)	(63)	16	(105)	(228)
Closing net book amount	445	1,496	1,162	541	2,632	6,276
At 31 December 2018						
Cost	917	2,034	2,968	2,568	5,007	13,494
Accumulated depreciation	(472)	(538)	(1,806)	(2,027)	(2,375)	(7,218)
Net book amount	445	1,496	1,162	541	2,632	6,276
Year ended 31 December 2019						
Opening net book amount	**445**	**1,496**	**1,162**	**541**	**2,632**	**6,276**
Additions	**–**	**281**	**423**	**–**	**228**	**932**
Depreciation	**(224)**	**(791)**	**(597)**	**(541)**	**(1,215)**	**(3,368)**
Exchange differences	**(7)**	**(26)**	**(25)**	**–**	**(46)**	**(104)**
Closing net book amount	**214**	**960**	**963**	**–**	**1,599**	**3,736**
At 31 December 2019						
Cost	**896**	**2,268**	**3,307**	**1,945**	**5,124**	**13,540**
Accumulated depreciation	**(682)**	**(1,308)**	**(2,344)**	**(1,945)**	**(3,525)**	**(9,804)**
Net book amount	**214**	**960**	**963**	**–**	**1,599**	**3,736**

Depreciation expenses of approximately HK$3,368,000 (2018: approximately HK$3,544,000) have been charged in administrative expenses.

11. LEASES

(i) Amounts recognized in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	2019	1 January 2019*
	HK$'000	HK$'000
Right-of-use assets		
Office	**4,336**	–
Operating assets of "Bayhood No. 9 Club"	**16,200**	37,800
	20,536	37,800
Lease liabilities		
Current	**2,421**	–
Non-current	**1,916**	–
	4,337	–

* For adjustment recognized upon the adoption of HKFRS 16 on 1 January 2019. Please refer to Note 2(c).

Additions to the right-of-use assets during the year ended 31 December 2019 were HK$4,895,000.

(ii) Amounts recognized in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Notes	**2019**	2018
		HK$'000	HK$'000
Depreciation charge of right-of-use assets			
Office		**559**	–
Operating assets of "Bayhood No. 9 Club"		**21,600**	–
	6	**22,159**	–
Interest expense (included in finance costs)	5	**25**	–
Expense relating to short-term leases (included in administrative expenses)	6	**1,773**	–

The total cash outflow for leases in 2019 was HK$2,356,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and certain operating assets of "Bayhood No. 9 Club". Rental contracts are generally made for fixed periods of 2 to 5 years, but may have extension options as described in (iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(iv) Extension and termination options

Extension and termination options are included in the lease held by the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

12. FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

	2019 **HK$'000**	2018 HK$'000
Completed film rights (Note a)	**1,149**	1,175
Films production in progress (Note a)	**234,856**	128,353
Film rights investments (Note b)	**16,745**	–
	252,750	129,528

	Completed film rights HK$'000	Films production in progress HK$'000	Total HK$'000
Year ended 31 December 2018			
Opening net book amount	3,498	209,355	212,853
Additions	1,175	8,695	9,870
Return of capital	–	(89,697)	(89,697)
Amortization	(1,245)	–	(1,245)
Impairment	(2,253)	–	(2,253)
Closing net book amount	1,175	128,353	129,528

	Completed film rights HK$'000	Films production in progress HK$'000	Film rights investments HK$'000	Total HK$'000
Year ended 31 December 2019				
Opening net book amount	**1,175**	**128,353**	**–**	**129,528**
Additions	**–**	**106,391**	**16,930**	**123,321**
Exchange difference	**(26)**	**112**	**(185)**	**(99)**
Closing net book amount	**1,149**	**234,856**	**16,745**	**252,750**

Note (a):

As at 31 December 2019, the total cost of completed film rights amounting to approximately HK$125,910,000 (2018: approximately HK$125,936,000) and accumulated amortization and impairment amounting to approximately HK$124,761,000 (2018: HK$124,761,000).

No amortization of completed film rights has been charged to the cost of sales in the consolidated income statement (2018: approximately HK$1,245,000).

For the year ended 31 December 2019, no impairment of completed film rights has been charged to cost of sales (2018: approximately HK$2,253,000).

The Group has entered into several joint operation arrangements to produce or distribute up to 10 (2018: 7) films. The Group has participating interests ranging from 7.5% to 50% (2018: 10%–50%) in these joint operations. As at 31 December 2019, the aggregate amounts of assets recognized in the consolidated balance sheet relating to the Group's interests in these joint operation arrangements are the completed film rights and films production in progress totalling HK$236,005,000 (2018: HK$129,528,000).

Note (b):

The balance represented the Group's investments in films productions which entitled the Group to predetermined percentage of income to be generated from the films based on the Group's investment portion as specified in the film rights investment agreements.

13. PROGRAMMES AND FILMS PRODUCTION IN PROGRESS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Programmes and films production in progress	**76,205**	–
Less: Loss allowance	**(331)**	–
	75,874	–

Movements in the programmes and films production in progress are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
At 1 January	**–**	4,785
Additions	**74,128**	–
Interest receivable	**2,391**	–
Investment return withdrawn	**–**	(5,776)
(Increase)/decrease in loss allowance recognized in profit or loss during the year	**(333)**	1,168
Exchange difference	**(312)**	(177)
At 31 December	**75,874**	–

Programmes and films production in progress are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 31 December 2019, the average effective interest rate for the outstanding balance was 7.06% (2018: N/A).

The carrying amounts of programmes and films production in progress of the Group are denominated in the following currencies:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
HK$	**47,593**	–
RMB	**28,281**	–
	75,874	–

The carrying amounts of programmes and films production in progress approximate their fair values.

The maximum exposure to credit risk at the balance sheet date is the carrying value of programmes and films production in progress disclosed above.

14. INTEREST IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2019 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 of the associate itself.

Details of interest in an associate as at 31 December 2019 and 2018 is as follows:

Name	**Place of establishment and kind of legal entity**	**% of ownership interest**		**Principal activities and place of operation**
		2019	2018	
HB Entertainment Co., Ltd. ("HB Entertainment")	South Korea, limited liability company	**31%**	31%	Production of and investments in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea

Summarized financial information for material associate

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

Summarized balance sheet

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Current		
Cash and cash equivalents	**107,197**	113,365
Other current assets (excluding cash)	**58,899**	77,445
Total current assets	**166,096**	190,810
Current financial liabilities (excluding trade payables)	**(8,246)**	(6,149)
Other current financial liabilities	**(65,536)**	(54,750)
Total current liabilities	**(73,782)**	(60,899)
Non-current		
Total non-current assets	**131,382**	84,574
Financial liabilities	**–**	–
Other liabilities	**(8,754)**	(4,782)
Total non-current liabilities	**(8,754)**	(4,782)
Net assets	**214,942**	209,703
Non-controlling interest	**1,938**	(148)
Net assets attributable to the equity holders	**216,880**	209,555

Summarized statement of comprehensive income

	2019	2018
	HK$'000	HK$'000
Revenue	**272,155**	180,081
Depreciation and amortization	**(1,647)**	(905)
Profit/(loss) before taxation	**17,292**	(3,098)
Taxation	**(1,257)**	(552)
Profit/(loss) after taxation	**16,035**	(3,650)
Other comprehensive loss	**(8,710)**	(5,450)
Total comprehensive income/(loss)	**7,325**	(9,100)

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

Movements of interest in an associate are as follows:

	2019	2018
	HK$'000	HK$'000
Interest in an associate		
At 1 January	**275,982**	177,619
Acquisition of additional shares in an associate	**–**	103,427
Share of results	**4,934**	(1,234)
Exchange differences	**(2,666)**	(3,830)
At 31 December	**278,250**	275,982

Reconciliation of summarized financial information

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

	2019	2018
	HK$'000	HK$'000
Summarized financial information		
Opening net assets as at 1 January	**209,555**	115,228
Capital injection	**–**	103,427
Profit/(loss) for the year	**16,035**	(3,449)
Exchange differences	**(8,710)**	(5,651)
Closing net assets as at 31 December	**216,880**	209,555
Interest in an associate	**66,734**	64,466
Goodwill	**211,516**	211,516
Carrying value	**278,250**	275,982

Impairment assessment of interest in an associate

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

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

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

	As at 31 December	
	2019	2018
Compound annual growth rate of revenue in five-year period	**21.5%**	30.8%
Annual growth rate beyond the five-year period	**3.5%**	3.5%
Pre-tax discount rate	**20.5%**	20.5%

No provision for impairment of interest in HB Entertainment has been made for the years ended 31 December 2019 and 31 December 2018.

15. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Unlisted securities		
Huayi-Warner Contents Fund	**4,112**	5,973

Financial asset at fair value through profit or loss includes interests in Huayi-Warner Contents Fund, which are unlisted securities. On 28 April 2017, the Group entered into a partnership agreement as a limited partner with, among others, Huayi Investment Inc. as the general partner and Warner Bros. Korea Inc. as a limited partner, to contribute capital of KRW1 billion (equivalent to approximately HK$6.8 million) for the establishment of Huayi-Warner Contents Fund. As at 31 December 2019, it represented 11% (2018: 11%) of the total capital contribution to the fund. The Fund's capital shall be invested in film projects that are produced and distributed by Warner Bros. Korea Inc.

The balances are denominated in following currency:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
KRW	**4,112**	5,973

The maximum exposure to credit risk at the period-end is the carrying value.

During the year ended 31 December 2019, the net fair value loss of HK$1,861,000 (2018: net fair value loss of approximately HK$928,000) was recognized in the consolidated income statement.

16. TRADE RECEIVABLES

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Over 1 year (Note)	**8,310**	8,373
Loss allowance	**(8,310)**	(8,373)
	–	–

Note: The difference between the balances as at 31 December 2019 and 31 December 2018 represented the exchange realignment.

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

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
At 1 January	**8,373**	–
Increase in loss allowance recognized in profit or loss during the year	**–**	8,373
Exchange differences	**(63)**	–
At 31 December	**8,310**	8,373

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

As at 31 December 2019, the carrying amounts of trade receivables approximate their fair values and are denominated in US$ (2018: US$).

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

17. BANK AND OTHER BORROWINGS

Bank and other borrowings

The borrowings of the Group comprise:

	2019 HK$'000	2018 HK$'000
Current		
Bank borrowings	**44,653**	–
Other borrowings (Note)	**321,029**	–
	365,682	–
Secured:		
Bank borrowings	**44,653**	–
Other borrowings (Note)	**321,029**	–
	365,682	–

Note: The amounts included borrowings provided by non-financial institutions, with a total amount of approximately HK$321,029,000 as at 31 December 2019 (2018: nil). The borrowings are interest free, repayable in 12 months from the balance sheet date and are secured by deposits denominated in RMB amounted to RMB287,516,000 (equivalent to approximately HK$320,960,000) as at 31 December 2019 (2018: nil) which has been included in prepayments, deposits and other receivables in the consolidated balance sheet. As at the date of drawdown, the imputed interest represented the differences between the fair value and the principal amount of the borrowings amounting approximately HK$6,086,000 which was recognized in "Finance income" in the consolidated income statement and is unwind over the loan period which was recognized in "Finance cost" of approximately HK$3,313,000 in the consolidated income statement for the year ended 31 December 2019 (2018: nil).

At 31 December 2019 and 2018, the Group's borrowings were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year (Note)	**365,682**	–

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
HK$	**321,029**	–
RMB	**44,653**	–
	365,682	–

The borrowings of approximately HK$44,653,000 as at 31 December 2019 were borrowed from a bank in the PRC by a subsidiary of the Group that are incorporated or established in the PRC (2018: nil).

The effective interest rates at the consolidated balance sheet date are as follows:

	As at 31 December 2019		As at 31 December 2018	
	HK$	**RMB**	HK$	RMB
Bank borrowings	**N/A**	**5.45%**	N/A	N/A
Other borrowings	**1.75%**	**N/A**	N/A	N/A

The carrying amount of the assets of the Group pledged to secure its borrowings are as follows:

	2019	2018
	HK$	HK$
Pledged bank deposits	**49,664**	–
Pledged deposits	**320,960**	–
	370,624	–

18. OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Current liabilities:		
Other payables and accrued liabilities (Note)	**11,540**	11,790
	11,540	11,790

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

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
HK$	**2,555**	2,448
RMB	**8,985**	9,342
	11,540	11,790

19. 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 2018 and 31 December 2019 (Note a)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2018 and 1 January 2019	13,498,107	269,962	–	–	269,962
At 31 December 2018 and 31 December 2019	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 (2018: 150,000,000,000) shares are ordinary shares with par value of HK$0.02 (2018: HK$0.02) per share. 240,760,000 (2018: 240,760,000) shares are preference shares with par value of HK$0.01 per share (2018: HK$0.01). All issued shares are fully paid.

Share option

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

Subscription price in relation to each option pursuant to the New Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. For the year ended 31 December 2019, no share option has been granted under the New Option Scheme (2018: nil) and no share-based payment expense has been charged to the consolidated income statement (2018: nil).

During the year ended 31 December 2019, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding share option as at 31 December 2019 (2018: same).

20. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

For the year ended 31 December 2018

	2018
	HK$'000
Profit for the year from discontinued operation is comprised of the followings:	
Hao You (Note)	140,763
	140,763

Note:

Hao You

On 9 September 2016, Beijing Hua Yi Hao Ge Media Culture 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 a sales and purchase agreement in relation to the remaining 50% equity interest in Hao You at a consideration of RMB80 million (equivalent to approximately HK$90.1 million) (the "Step Acquisition"). Upon the completion of the Step Acquisition on 1 December 2016, Hao You became a wholly-owned subsidiary of the Company. Hao Ge acquired Hao You with a view to subsequently dispose of all or a majority of its equity interest in Hao You and the amount due from Hao You by Hao Ge to a potential buyer. Hao Ge has held equity interest in Hao You since 2005 and Hao You had made losses since 2014. For the year ended 31 December 2015, the Group made provision for impairment of interest in Hao You and amount due from Hao You amounting HK$164 million, which was mainly due to deterioration of expected future cash flows from Hao You. Given that the financial results of Hao You had not been satisfactory and it did not make positive contribution to the Group in recent years, management's disposal plan on Hao You represented a good opportunity to realize the Group's investment in Hao You.

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

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

	From 1 January 2018 to 27 December 2018 HK$'000
Currency translation differences	(11,956)

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

	From 1 January 2018 to 27 December 2018 HK$'000
Other expenses and other losses, net	(32)
Gain on disposal of discontinued operation	140,795
Profit before taxation from discontinued operation	140,763
Taxation	–
Profit for the year from discontinued operation	140,763

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

	From 1 January 2018 to 27 December 2018 HK$'000
Operating cash flows	(257)
Investing cash flows	265,921
Financing cash flows	–
Total cash flows	265,664

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

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

21. EVENTS OCCURRING AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across different countries/regions. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorized for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2019.

While the global economic growth in 2019 was lower than projected, the pace of development of the Chinese film market also slowed down. The total box office proceeds, approximately RMB64.266 billion, represented a year-to-year growth of approximately 5.4% which was lower than the growth in 2018 (9.06%), with the attendance of the urban cinemas rising year-to-year by 0.64% to around 1.727 billion. Amidst such deceleration the market had however embraced a new landscape during the year. Theatre attendances during the Lunar New Year, summer holiday and the National Day holiday have once again been on the rise. In particular, the total box office receipts in the People's Republic of China (the "PRC") during the Lunar New Year reached RMB5.84 billion, leading the box office receipts in February to surpass the RMB11 billion mark. This makes up almost 20% of the total box office proceeds for 2019 and also sets the world record of the highest box office proceeds in a month for a single market. It shows that cinema going has gradually established itself as an indispensable form of entertainment in the PRC during festive periods, demonstrating that the Chinese film market can offer promising growth prospects in the future. Meanwhile, animation and science fiction films have become the centrepiece of the box office, with "*Ne Zha*" and "*The Wandering Earth*" racking up RMB5 billion and RMB4.6 billion respectively in box office receipts.

In the past few years, the Group has been endeavouring to identify the finest deals across the globe. In the light of the change in the audience's taste towards the movies' themes and the fact that the market trend is dominated by premium content, the Group has already participated in financing projects in North America, Europe and South Korea with various subjects, including the investment in and co-production of "*Space Sweepers*" (Korea's first science-fiction space feature film project, starring Song Jung-ki and Kim Tae-ri), "*Cherry*" (the first movie directed by the Russo Brothers since "*The Avengers*" series, starring Tom Holland who featured in the "*Spiderman*" series) and "*Moonfall*" (a Hollywood science-fiction and disaster epic directed by Roland Emmerich), etc. As these films will be screened in succession from 2020 onwards, the Group expects a significant boost in revenue from the Entertainment and Media Operations and anticipates the fame of the Group in domestic and overseas markets to take off.

On the other hand, Korean movies and television dramas have been making inroads into winning the favour of the Asian and even the worldwide audience, and have on many occasions attained success in global box office. The Group has been a first mover in making deployment in the Korean market during the past few years. All four television dramas produced by HB Entertainment, in which the Group holds a stake of 31%, have achieved commendable results in 2019, in particular "*Sky Castle*" (debuted in late 2018) and "*Beautiful Love, Wonderful Life*" (debuted in September 2019). The former set the then highest-ever Korean national average viewership rating of 23.8%, whilst the latter not only scaled new heights with a national viewership at 31.5% at its peak but also took the 2019 KBS Drama Awards by storm, winning the Best Actor in a Serial Drama, the Best Actress in a Serial Drama and the Newcomer Actor Award. Judging from their outstanding outputs, HB Entertainment's ability in production of films and TV dramas and market acumen will help the Group in the continuous exploration and consolidation of its position in the market of the film and television industry of South Korea and generate revenue with potential growth to the Group.

Looking ahead to 2020, the Group will forge ahead into the season of harvest in as much as the projects which it had developed and produced in the past few years will be screened successively. In order to enhance its revenue and growth in profit, the Group will continue developing and financing film projects with top-rate quality in North America, Europe, South Korea and the PRC, striving to introduce to the audience more prime and ingenious movies and television dramas, and actively looking for collaboration opportunities with elite and world-renowned film studios.

The theatrical release of films in the PRC and some other countries/regions is currently affected by the outbreak of COVID-19. The Group will closely monitor the latest development of the epidemic and coordinate with the global distributors to set appropriate theatrical release slots in the PRC and other countries/regions. It is not expected that there will be long-term material adverse impact to the Group's global production and distribution of films.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Major indicators of the financial results for the year ended 31 December 2019 are summarized in the table below:

	2019	2018
	HK$'000	HK$'000
Continuing operations:		
Total revenue	**99,326**	109,168
Gross profit	**39,011**	38,214
Loss before finance costs and taxation	**(27,384)**	(66,314)
Loss for the year	**(28,770)**	(66,455)
Loss attributable to equity holders of the Company	**(28,770)**	(67,026)
Profit for the year from discontinued operation	**–**	140,763
(Loss)/profit for the year	**(28,770)**	74,308

Business Review

	Revenue		**Segment Results**	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Continuing operations				
Entertainment and media operations	**2,736**	1,139	**5,476**	(21,118)
Offline healthcare and wellness services	**96,590**	108,029	**(12,132)**	(15,254)
Total	**99,326**	109,168	**(6,656)**	(36,372)

During the year ended 31 December 2019 (the "year under review"), the revenue from the Entertainment and Media Operations was approximately HK$2,736,000 (2018: HK$1,139,000) due to the lack of theatrical release of new films by the Group in the year. Meanwhile, the revenue from the offline healthcare and wellness services dropped by 11% to approximately HK$96,590,000 (2018: HK$108,029,000) as the Group had disposed of its equity interest in Beijing Si Hai Jun Tian Trading Company Limited ("SHJT") to an independent third party in May 2018. As a result, during the year under review, the Group's revenue from continuing operations amounted to approximately

HK$99,326,000, representing a year-on-year decrease of about 9%. In spite of that, the drastic decrease in administrative expenses and exchange loss, together with the strong financial performance of HB Entertainment Co., Ltd. ("HB Entertainment"), an associate of the Group, during the year under review helped narrow down the loss for the year from continuing operations to approximately HK$28,770,000, substantially lower than the figure for the same period last year by 57%.

The Group has all the while been seeking opportunities in setting footprint in the Entertainment and Media Operations. The long lead time between film production and distribution has forbidden any new release by the Group during the year under review. It is however expected that, with five films scheduled to be screened worldwide and in the PRC during year 2020 and 2021 (detailed under "**Business Review**" section), the revenue and scale of the Entertainment and Media Operations of the Group will be bolstered significantly by then. On the other hand, the Group has entered into a Cooperation Framework Agreement during the year under review with Huayi Brothers International Limited ("HBI"). According to the agreement, the Group will collaborate with HBI in investing in and carrying out media and entertainment projects, as well as engage HBI in providing distribution services for various media and entertainment projects of which the Group owns or has acquired the distribution rights in the PRC. Such a move will enhance the synergy of the business within the Group. The aforementioned Cooperation Framework Agreement has already been approved at the Extraordinary General Meeting convened in June 2019.

HB Entertainment, in which the Group holds a stake of 31%, had a strong financial performance during the year under review and hence boosted its contribution to the Group's revenue. The Group's share of profit amounted to approximately HK$4,934,000 (the Group's share of loss in 2018: HK$1,234,000). Produced by HB Entertainment and aired at the end of 2018, "*Sky Castle*" had recorded the then highest-ever national viewership rating of 23.8% in Korea, thereby strengthening HB Entertainment's bargaining power with local television stations. HB Entertainment had, during the year under review, produced three television dramas, namely "*Beautiful Love, Wonderful Life*", "*Partners for Justice 2*" and "*Big Issue*", and all three had achieved commendable results. In particular, "*Beautiful Love, Wonderful Life*", which made its debut in September, had hit the highest national viewership at 28.3% during the year under review and topped the national viewership ranking for seven consecutive weeks between November and mid-December 2019. The final episode aired in March 2020 reached the highest national viewership at 31.5%.

The Group will continue producing and financing quality films and television dramas, as well as seeking opportunities of collaboration with elite and world-renowned film studios in North America, Europe, South Korea, etc. Though the revenue of the Entertainment and Media Operations was approximately HK$2,736,000 (2018: HK$1,139,000) due to the lack of theatrical release of new films by the Group during the year under review, the Entertainment and Media Operations had achieved a turnaround with a segment profit of approximately HK$5,476,000 (segment loss in 2018: HK$21,118,000), thanks to the share of profit of approximately HK$4,934,000 during the year under review (share of loss in 2018: HK$1,234,000) from its associate, as well as reducing provision of asset impairment during the year under review.

The operation of "Bayhood No. 9 Club" and the proceeds hence derived from membership, green fee and food and beverages was the major source of revenue for the healthcare and wellness services. Originally concentrating on high-end customers, it has gradually reinvented its position by extending its target customer group to the mid-end ones. The competition in the healthcare and wellness market remains stiff, and, coupled with the disposal of the Group's 51% equity interest in SHJT in May 2018 to an independent third party, a period-to-period drop in revenue from the relevant operations during the year under review by 11% to approximately HK$96,590,000 (2018: HK$108,029,000), and a decrease in segment loss of 20% to approximately HK$12,132,000 (2018: HK$15,254,000), were recorded.

Business Review

The growth of the Chinese economy has slackened in 2019 against the backdrop of the tension in Sino-American relationship and a worldwide economic downturn. Whilst the PRC's annual Gross Domestic Product ("GDP") grew to some RMB99 trillion, an increase of 6.1% compared with last year, the GDP per capita has surpassed the US$10,000 mark and stood at US$10,276. The average per capita disposable income was RMB30,733, with that of the urban residents being RMB42,359. The standard of consumption continued to rise, and the average per capita spending rose by 5.5% from the previous year to approximately RMB21,559. Thanks to the ever-improving quality of living in the PRC, more emphasis has now been attached to the quality of the cultural and entertainment consumption, as evidenced by the year-on-year growth of 12.9% in the average per capita spending on educational, cultural and entertainment to RMB2,513.

According to the statistics of China Film Administration, the gross box office in the country reached RMB64.266 billion (i.e. a year-on-year growth of 5.4%) in 2019. During the year under review, the total attendance of the urban cinemas had recorded a mild growth, as compared with last year, to 1.727 billion, while the total number of cinema screens across the country soared by 9,708 to 69,787, further cementing the PRC's leading status in the aspect. The audience has been placing more emphasis on quality and concentrating on watching reputable movies, as demonstrated by the facts that the growth of the gross box office had outpaced that of the attendance of the urban cinemas, and that the top ten movies with best box office performance had racked up as much as RMB28.582 billion which amounted to 44.5% of the total box office receipts in the PRC during the year. At the same time, the word-of-mouth effect has become even more apparent for the newly released films, hence intensifying the polarisation of the box office performance: those with limited quality were weeded out by the market and the audience soon after they were out in theatres. As for the genres of films, the box office of traditional comedies and action movies is on the wane but the animation and science-fiction films are gaining in popularity. In view of such, the Group has been investing actively in the popular film genres during the year under review, so as to keeping pace with the latest trend of the market while giving weight to the quality of the movies.

The film market of North America remained the largest one in the world in 2019. Despite the total box office dropping year-on-year by 3.6% to US$11.45 billion, it is still the second highest annual box office in history. In terms of global box office, the top ten best-performing films in 2019 were all distributed by movie studios from Hollywood. Amongst them, the box office receipts of "*Avengers:*

Endgame" and "*Fast & Furious Presents: Hobbs & Shaw*" in the PRC reached RMB4.248 billion and RMB1.434 billion respectively, thus clearly showcasing the continuous dominance of Hollywood movies in the worldwide market and their strong appeal in the Chinese market. Such popularity is an important business expansion indicator with regard to the investment in development or the participation in production of Hollywood movies, as well as the hoard of a vast array of premium overseas intellectual properties ("IP").

Meanwhile, for the film market of Korea in 2019, four out of the top ten best-performing movies in terms of box office receipts were Korean ones, according to the figures released by the Korean Film Council. Amongst these four films, the action comedy "*Extreme Job*" had even outperformed "*Avengers: Endgame*" as the former racked up more than 16 million in audience number and KRW139.6 billion in cumulative box office, turning itself into a history maker by becoming the second best performer ever in terms of audience number and attaining the highest ever box office receipts in Korea. "*Parasite*", the fifth-ranked film on the list, went on to become the first film in a language other than English to win the Best Picture in the Academy Awards and the first Korean film to be awarded Palme d'Or at the Cannes Film Festival. These accolades reflect the fact that the Korean films are not only acclaimed by the local audience but also recognized by the international film market. With their compelling and exciting potential, it is hopeful that the Korean films will be gaining more popularity across the Asia-Pacific region and even the world. The Group continues to be optimistic about the demand for Korean films and television dramas in Korean and overseas markets. By investing in HB Entertainment, co-establishing the Huayi-Warner Contents Fund with Warner Bros. Korea Inc. ("Warner Bros. Korea"), and making direct investment in high-quality projects of Korean movies and television dramas, the Group had made an early deployment in the field and such moves are expected to proffer considerable returns to the Company in the long run.

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

The growth of the Chinese film market has slowed down in 2019 due to structural adjustment, with the excellent ones outcompeting the rest. The audience has been placing more emphasis on quality and theme, meaning that enrichment in quality and reputation is the key to success in the box office. During the year under review, the Group had entered into a Cooperation Framework Agreement with HBI with a view to reinforcing the Group's deployment in the film market. The two parties will collaborate in investing in and launching media and entertainment projects, which include the ones from Hollywood and the PRC, and some will be screened in succession in year 2020 and 2021.

The Group has all along been paying heed to the trend of the film market and the evolvement of taste of the audience, as well as actively looking for opportunities in commencing media and entertainment projects in North America. During the year under review, the Group's joint investment in and production of "*Moonfall*" with HBI, its parent company, have already been put in place and the Group also obtained the distribution rights of the film in the PRC. "*Moonfall*" is a Hollywood science-fiction and disaster epic directed by Roland Emmerich, the director of "*2012*", "*The Day After Tomorrow*" and "*Independence Day*" series. A production in partnership with Centropolis Entertainment, Street Entertainment, HBI and the Company, the film narrates that the moon is driven out of orbit by a mysterious force and collides toward the Earth, bringing doomsday to the Earth due to gravitational imbalance. Amid desperation, a seemingly disorganized squad decides to fight the final battle to protect the Earth and humankind. Currently in pre-production stage, "*Moonfall*" is targeting a global release in 2021.

"*Cherry*", another movie invested in and co-produced by the Group, is an adaptation from Nico Walker's semi-autobiographical novel under the same title. It tells the story of the author who, after joining the American army in his youth, serving as an army medic in Iraq and retiring from military, suffered from post-traumatic stress disorder (PTSD) due to his experience in the battlefield. He became a drug addict, and, to satisfy his desire for drugs, he degenerated into a bank robber. Arrested and confined to prison in 2011, Nico Walker is expected to be released in 2020 and "*Cherry*" is the publication of his writings in jail. This film is the first movie directed by the Russo Brothers (Anthony Russo and Joe Russo) since "*Avengers: Endgame*", and is starred by Tom Holland who featured in the "*Spiderman*" series. With the completion of production in October 2019 and the post-production stage currently on-going, "*Cherry*" is targeting a global release in the second half of 2020.

In addition, during the year under review, the Group has financed and co-produced "*Extinct*", an original animated comedy aiming for family viewing. The story involves a species of fluffy animals called "Flummels" living in the Galápagos Islands in the 19th Century. Op and Ed, Flummels and siblings to each other, accidentally time-travel to modern-day Shanghai and discover that Flummels will become extinct. The duo therefore decide to travel back in time and save their race by crossing swords with the "evil forces". "*Extinct*" is directed by David Silverman (the director of "*The Simpsons Movie*" and "*Monsters, Inc.*" who has been honoured with four Emmy Awards) and the voice cast features Zazie Beetz (who has starred in "*Deadpool 2*" and "*Geostorm*"). The film is now at the post-production stage and is expected to open in theatres in the second half of 2020 throughout the PRC and the world.

In 2018, the Group had acquired 50% of the right of distribution in the PRC for four films produced in Europe and America. These four films, to be distributed in the PRC in collaboration with HBI, involve different genres such as mystery, biography, science fiction, action and fantasy adventure. One of them, titled "*Radioactive*", was produced by STUDIOCANAL, directed by Marjane Satrapi and starring Rosamund Pike (who appeared as the Bond girl in "*Die Another Day*"), Anya Taylor-Joy (the leading actress in "*Split*") and Sam Riley (the famous English actor and singer). Earlier premiered as the Closing Night Gala at the 2019 Toronto International Film Festival, the film is a biopic of Marie Curie, the two-time winner of the Nobel Prizes in Physics and Chemistry, and covers the important discoveries and stories of Marie Curie and her husband Pierre Curie in the early 20th century. The Group will respond to the latest situation in relation to the outbreak of COVID-19 and determine the appropriate timing of theatrical release for "*Radioactive*" in the PRC.

With regard to the Korean market, the Group remains optimistic about the demand for Korean films and television dramas in Korean and overseas markets. During the year, the Group has invested in and co-produced "*Space Sweepers*", the first science-fiction feature film project in Korea, as well as secured its distribution right in the PRC. The film is directed by Jo Sung-hee (the director of "*A Werewolf Boy*" and "*The Phantom Detective*") and is starring superstars like Song Joong-ki (the leading actor of "*Descendants of the Sun*" and "*The Battleship Island*"), Kim Tae-ri (the leading actress of "*The Handmaiden*" and "*1987: When the Day Comes*") and outstanding actors such as Yu Hae-jin and Jin Seon-kyu (who featured in "*Extreme Job*" which nabbed the top spot at the Korean box office in 2019). The shooting of the film, began in July 2019, was already completed and the post-production stage is currently taking place. It is expected to be screened in Korea in the summer of 2020. With a production budget of KRW24 billion (equivalent to approximately HK$160 million) and the first reunion of Song Joong-ki and Jo Sung-hee since "*A Werewolf Boy*", the film is expected to become the talk of the town in the summer of 2020. Concurrently, the Huayi-Warner Contents Fund, which was jointly established by the Group, Warner Bros. Korea et al., has financed three Korean films during the year under review, namely "*Jesters: The Game Changers*", "*The Battle of Jangsari*" and "*Bring Me Home*", hence further enriching the Group's film projects in the country. The Group hopes to identify more top-rated and fitting investment projects through the Huayi-Warner Contents Fund and will actively look for opportunities to cooperate with Korean producers on investing directly in premium Korean film projects.

HB Entertainment, in which the Group holds a stake of 31%, is principally engaged in production of and investment in films and television dramas, as well as management of artistes, in South Korea. "*Beautiful Love, Wonderful Life*", a production of HB Entertainment, premiered on 28 September 2019 and attained spectacular results. The television drama, directed by Han Joon-Seo (the director of "*Becoming a Billionaire*") and co-written by Bae Yoo-Mi and Goo Ji-won (the screenwriters of "*Should We Kiss First?*" and "*Home for Summer*" respectively), narrates a story of young people who, in spite of failing to fulfil their dreams after painstaking efforts, learn to appreciate the rugged life once again and seek small blisses along their journeys. It topped the national viewership ranking for seven consecutive weeks between November and December 2019, recording the highest national viewership at 28.3% (up to 31 December 2019). Its final episode aired in March 2020 reached the highest national viewership at 31.5%, and is deservingly hailed as one of the most popular Korean television dramas in 2019. During the 2019 KBS Drama Awards, Oh Min-suk, Seol In-ah and Kim Jae-young, who all starred in "*Beautiful Love, Wonderful Life*", were awarded the Best Actor in a Serial Drama, the Best Actress in a Serial Drama and the Newcomer Actor Award respectively. On the other hand, "*Sky Castle*", another television drama produced by HB Entertainment, made its debut in November 2018. Starring excellent actors and actresses like Yum-Jung-ah, Yoon Se-ah, Lee Tae-ran and Choi Won-young, the story mocks the contemporary helicopter parents who put their ambition upon their children. Considered as a fascinating masterpiece, it had soon become the talk of every town, conquering the first place of the chart of ratings and became the most talk-about drama for many weeks. In addition, when the last episode of "*Sky Castle*" was aired on 1 February 2019, it surpassed the previous record (18.68%) set by "*Guardian: The Lonely and Great God*" in 2017 and became the highest-rated

Korean drama ever (23.8%). Besides, "*Partners for Justice 2*" and "*Big Issue*", the two television dramas produced by HB entertainment and aired during the year under review, have also achieved commendable performance. In particular, "*Partners for Justice 2*" has been able to inherit the huge popularity of its prequel. Directed by Noh Do-chu and Han Jin-sun (the directors of "*Partners for Justice*" and "*My Contracted Husband, Mr. Oh*" respectively), the production team includes Min Jue-un and Won Yeong-sil who are the screenwriters of the prequel. The story is about the doubts which the protagonist still harbours about a case from the previous season, and by disclosing more facts on his own he has aroused vigorous reverberations. The drama has achieved a laudable nationwide viewing rate of 10.1% at its peak, according to the viewership statistics of TNmS in Korea.

(2) *Healthcare and Wellness Services*

During the year under review, the Group's healthcare and wellness services focused on the operations of "Bayhood No. 9 Club", a healthcare and wellness centre which the Group continues to operate on a lease basis. It is one of the top green health clubs in the PRC with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia's first PGA-branded golf academy, offering high-end enterprises and individual clients professional and excellent healthcare and wellness services. The membership of "Bayhood No. 9 Club" remained steady during the year under review, and the healthcare and wellness services contributed approximately HK$96,590,000 in revenue to the Group in 2019, marking a drop of 11% as compared to the corresponding period last year. The major reason was the drastic decrease in rental income due to completion of the Group's disposal of its 51% equity interest in SHJT to an independent third party in May 2018.

In the face of fierce market competition and mounting pressure of rising operating costs, the business environment of the healthcare and wellness services had become more challenging. Even though the healthcare and wellness services, generally speaking, can be regarded as self-sustaining at present, the Group intends to concentrate its resources on the development of its core Entertainment and Media Operations. There will not be further investment in the healthcare and wellness services in the future as a result. The Management will continue endeavouring to step up its efforts in cost controls, so as to maintain the profit margin and stable operations of the healthcare and wellness services. In order to support the all-out efforts in running the Entertainment and Media Operations and to reinforce the expansion of the core business of the Group, however, the possibility of future resources integration cannot be ruled out.

Business Outlook

Looking ahead to 2020, the Group expects that, given the successive completion of entertainment and media projects which it had financed and produced, the season of harvest is now on the horizon. It is anticipated that five movies of the Group will be screened across the globe and in the PRC during the year 2020 and 2021, including productions directed by famous Hollywood directors and films enthusiastically talked about in Korea. The Group is confident that these productions will attain success and significantly boost the Group's revenue generated from the Entertainment and Media Operations.

In terms of the medium/long-term development, the PRC film market is growing quickly: with a compound annual growth rate of 9.4% over the next five years, the PRC is expected to become the largest film market in the world with revenue reaching US$15.5 billion by 2023. While the five most successful films in 2019 enveloped 30% of the box office receipts of the year, the number of Chinese films which grossed between RMB500 million and RMB1 billion had recorded a significant fall on a year-to-year basis. The increased polarisation in box office receipts is a reflection of the rise of the audience's demand for premium content. With reputation playing a more important role in determining the performance of the box office, quality content will become the core driver of the market. At the moment, the number of screens for the Chinese film market is fast approaching 70,000, and such growth will further stimulate and lend an impetus to the development of the market.

Besides, according to the latest report titled "New Era of China's Film Industry" under its China Culture & Entertainment Report Series, Deloitte points out that, driven by a concerted government incentivising policy, inflow of sizable amount of capital and a growth in audience in recent years, the PRC film industry will gradually expand in scale. The box office receipts of the PRC market is already the strongest driver of the growth in global box office receipts. At the same time, the investment in new theatres will gradually expand to second- and third-tier cities, and the trend of mild growth in the export of Chinese movies will remain. The attraction brought by such continuous growth, nevertheless, means that competition in the field of film production will intensify. Against the backdrop of rapid expansion of the PRC film market, the Group has long since optimized its market footprint. Through the collaboration with HBI in producing and distributing more appealing productions with first-rate content, the Group looks forward to embracing the forthcoming new era in which the PRC becomes the largest film market in the world.

With American films, in particular Hollywood blockbusters, dominating the market during the year under review, it is envisaged that such worldwide supremacy will continue in the coming few years. The Group has been actively seeking global opportunities for investing in prime films and television dramas, and has already confirmed its investment in several film projects, including "*Moonfall*", the Hollywood science-fiction and disaster epic. The Group will continue developing projects with top-notch film studios and producers in North America and Europe, etc., so that different works may be presented to the audience continuously.

In recent times Korean movies have been attaining success after success. The feats of overwhelming Hollywood productions in box office and swooping away numerous prestigious awards are the indicators that Korean films are well received in the market and audience both locally and internationally, including the PRC. The Group believes that high-quality Korean films and television dramas will be in strong demand in Korean as well as in other Asian markets. Therefore, the Group will invest in those prime projects in the future and step up its efforts in hoarding up quality Korean IP. As there are signs of the Korean entertainment and culture staging a comeback in the Chinese market, the Group will seize the chance and introduce preeminent Korean films and television dramas into the PRC.

The theatrical release of films in the PRC and some other countries/regions is currently affected by the outbreak of COVID-19. The Group will closely monitor the latest development of the epidemic and coordinate with the global distributors to set appropriate theatrical release slots in the PRC and other countries/regions. The Group does not expect there will be long-term material adverse impact to the Group's global production and distribution of films. On the other hand, the repercussion of the epidemic on the Healthcare and Wellness Services operation is confined to the affiliated food and beverage operations thus far, as the 18-hole golf course in the "Bayhood No. 9 Club" is closed in the winter season as it has been in prior years. Subject to the then development of the epidemic, "Bayhood No. 9 Club" is set to re-open in phases since the end of March 2020. The Group will continuously monitor the development of the epidemic, evaluate its potential impact on the Group's Healthcare and Wellness Services operation, and formulate corresponding measures.

Environmental & Social Responsibilities

a) ***Environmental responsibilities***

Committed to building an "eco-friendly" enterprise, the Group strictly abides by — throughout its daily operations — laws and regulations on environmental protection in jurisdictions where its operations are located. In addition to implementing various environmental management actions, we also use fertilizer and pesticide products that comply with national standards in relation to environmental protection, so as to ensure that exhaust gas, sewage and office waste are properly recycled and processed, with a view to minimizing the environmental impact of our business operations.

The Group embeds the concept of green environmental protection into its activities, actively promotes environmental awareness, advocates the idea of "energy saving and emission reduction", improves the efficiency of the resource utilization, with the aim of minimizing damage to the environment while reducing operating costs. In the course of our operation, we strictly abide by relevant laws and regulations on environmental protection where we do business and have formulated corresponding environmental management systems, actively deliver environmental protection messages, enhance environmental awareness among employees, customers as well as other stakeholders, thus fulfilling our shared 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, to stay updated on demands and expectations of relevant stakeholders, and to keep improving its mechanism for stakeholder engagement, aiming to deliver synergistic growths in social and economic benefits.

The Group adheres to a "people-centric" talent strategy, attaches importance to the recruitment and cultivation of talents, and is committed to building core competitiveness with excellent staff teams. The Group and the businesses under its management have complied with the laws and regulations relating to human resources management where their operations are located, they adhere to legal and compliant employment and have established corresponding systems: safety drills are conducted on regular basis to enhance safety awareness among employees and their ability to cope with dangers; regular trainings are provided to employees and clear promotion channels are put in place to help them realize individual potential and achieve long-term career development; various employee activities are organized regularly to enhance their physical and mental health. We also create a safe and comfortable office environment, attach importance to employees' occupational health and safety, offer generous salary and holiday benefits, as well as safeguard the legitimate rights and interests of our employees, thus achieving growth along with employee development.

Striving to ensure product and service quality from the source, the Group has put 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. To ensure a sustainable supply chain, the Group also regularly evaluates the compliance of suppliers, as well as the fulfilment of their environmental and social responsibilities, while promptly terminating cooperation with suppliers that underperform in service standards and securing additional suppliers of excellent performance.

The Group is committed to providing customers with a satisfactory experience through the delivery of premium services and quality products. The Group attaches great importance to requests and suggestions made by its customers, we have therefore set up a number of channels, including group chats on WeChat and customer hotlines, so as to collect and follow up on customer feedback in a timely manner, with a view to ensuring that their requests are properly addressed. The Group conducts thorough investigation and analysis at the early stage of its media investment, and it has also established a Greenlight Committee responsible for reviewing investment projects.

The Group safeguards the legitimate rights and interests of shareholders, customers as well as other stakeholders. 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.

Having acknowledged its corporate social responsibilities, the Group continues to care for vulnerable groups. In forms such as donations and the provision of employment opportunities, the Group fully leverages on its strengths in resource reserve to support the development of local communities and give back to the society.

As a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"), the Group strictly complies with the disclosure requirements of SEHK. Our Environmental, Social and Governance (ESG) Report for the year will be disclosed separately. As one of the platforms that we use to communicate with stakeholders, the ESG report will deliver a comprehensive view on what the Group has accomplished in the establishment of environmental, social and governance systems, as well as its performance during 2019.

FINANCIAL REVIEW

Continuing Operations

Revenue for the year ended 31 December 2019 amounted to approximately HK$99,326,000 (2018: HK$109,168,000), being a 9% decrease comparing to the prior year. Revenue from the "Entertainment and Media" segment surged by 1.4 time to approximately HK$2,736,000 (2018: HK$1,139,000). However, due to the lack of theatrical release of new films by the Group during the year, the contribution to the Group's revenue still remain low at 3% (2018: 1%). As discussed in the "Business Review" section, there are a few upcoming theatrical releases planned in year 2020 and thus management expects that the contribution of revenue from the "Entertainment an Media" segment will significantly boost in year 2020. On the other hand, revenue from the "Offline Healthcare and Wellness Services" segment for the year ended 31 December 2019 amounted to approximately HK$96,590,000 (2018: HK$108,029,000), being a 11% drop comparing to the prior year, mainly due to the completion of disposal of the Group's 51% interests in Beijing Si Hai Jun Tian Trading Company Limited, a then subsidiary of the Group, in May 2018.

Cost of sales for the year ended 31 December 2019 amounted to approximately HK$60,315,000 (2018: HK$70,954,000), being a 15% decrease comparing to the prior year. The decrease in cost of sales is because: 1) there was completed film rights amortization expense and impairment expenses in relation to "Rock Dog" movie of approximately HK$1,245,000 and HK$2,253,000 respectively in the prior year, while in the current year there was no such amortization and impairment expenses included in cost of sales; and 2) the completion of disposal of the Group's 51% interests in Beijing Si Hai Jun Tian Trading Company Limited, a then subsidiary of the Group, in May 2018.

Other income and other gains, net, for the year ended 31 December 2019 amounted to approximately HK$936,000 (2018: other income and other losses, net, of approximately HK$3,887,000). The change from a net loss in the prior year to a net gain in the current year is mainly due to:1) the percentage of depreciation of Renminbi and South Korea Won against Hong Kong dollars is lower during the current year comparing to the prior year, leading to a smaller exchange losses; and 2) there was a much higher bank interest income earned during the current year.

There was no marketing and selling expenses recorded for the year ended 31 December 2019 (2018: HK$296,000), as there was no theatrical release of new films by the Group during the year.

Administrative expenses for the year ended 31 December 2019 amounted to approximately HK$72,265,000 (2018: HK$99,111,000), being a 27% decrease comparing to the prior year. The decrease in administrative expenses during the year is mainly because there was provision for impairment of trade receivables and prepayment and other receivables of approximately HK$8,373,000 and HK$7,639,000 respectively in 2018, while provision for impairment of programmes and films production in progress was only HK$333,000 in 2019.

Share of results of an associate, representing the share of results of HB Entertainment (the Group's 31%-owned associated company which is principally engaged in production of and investment in movies and TV drama series, provision of artist management and agency services in South Korea) amounted to a profit of approximately HK$4,934,000 (2018: loss of approximately HK$1,234,000). The financial performance of HB Entertainment gradually improved following the debut of *"Sky Castle"* one of the most popular TV drama series in Korea recording a national viewership rating of 23.779% at the end of 2018. HB Entertainment has also produced three TV drama series in 2019, including *"Love is Beautiful, Life is Wonderful"* which has recorded a highest national viewership rating of 31.5%, leading to a boost in its financial performance during the year.

Finance costs, net for the year ended 31 December 2019 amounted to approximately HK$601,000 (2018: HK$11,000). The increase in finance costs during the year was mainly due to the incurrence of interests on bank borrowings of approximately HK$546,000 (2018: nil).

Discontinued Operation

The profit from discontinued operation for the year ended 31 December 2018 represented the gain on disposal (including the recycling of the relevant currency translation reserve upon disposal) of the entire shareholding in Hao You (including the Travel Channel operations) completed on 27 December 2018 amounting to approximately HK$140,763,000. Further details of the disposal are disclosed in Note 20 of this results announcement.

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 2019, the Group held cash and cash equivalents of approximately HK$198,248,000 (2018: HK$362,490,000), being a 45% decrease comparing to the balance as at 31 December 2018. The Group has invested in certain films production during the year, leading to a decrease in balance of cash and cash equivalents as at 31 December 2019.

The Group is at net current asset position of HK$276,042,000 as at 31 December 2019 (2018: HK$435,115,000). The current ratio, representing the total current assets to the total current liabilities, decreases from 37.91 as at 31 December 2018 to 1.73 as at 31 December 2019, still representing a healthy liquidity position.

The gearing ratio, representing the net debt (total borrowings and total lease liabilities less cash and cash equivalents and pledged bank deposits) to total equity, is 15% as at 31 December 2019 (2018: N/A). The Group's total interest-bearing bank borrowings as at 31 December 2019 amounted to approximately HK$44,653,000 (2018: nil) and was denominated in Chinese Renminbi. The interest-bearing bank borrowings were used to finance investments in films.

Foreign Currency Exchange Exposure

The Group has operations and investments in the PRC, 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 current year, depreciation (2018: depreciation) in Chinese Renminbi and South Korean Won against Hong Kong dollars resulted in an exchange loss of approximately HK$1,968,000 (2018: exchange loss of HK$8,798,000). 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, bank and other borrowings and internally generated cash flow to finance its operations.

During the year ended 31 December 2019 and 2018, the Company has not issued new ordinary shares.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group's secured bank and other borrowings of HK$365,682,000 (2018: nil) were secured by pledged deposits amounting to HK$370,624,000 (2018: nil).

As at 31 December 2019 and 2018, the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of 27 (2018: 26) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 396 (2018: 384) full-time employees in the PRC. In addition, the Group has entered into several joint operation arrangements to produce or distribute films. The crew members employed under such joint operation arrangements have not been included in the above statistics.

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 2019, the Company has applied the principles and met the code provisions of the Corporate Governance Code (the "CG Code") with the exception of the following deviation:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Group should be separate and should not be performed by the same individual. During the period from 1 January 2019 to the date of this results announcement, the roles of chairman ("Chairman") and chief executive officer ("CEO") have not been separated.

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

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 2019 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 2019 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 EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout year 2019.

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

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 2019 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 2020

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

Executive directors: Mr. WANG Zhongjun (Chairman), Mr. CHENG Wu (Vice Chairman), Mr. WANG Zhonglei, Mr. HU Junyi, Mr. YUEN Hoi Po
Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo