



**hmv** 數碼中國集團  
**Digital China Group**

**HMV Digital China Group Limited**

(Incorporated in Bermuda with limited liability)  
(formerly known as China 3D Digital Entertainment Limited)  
(GEM Stock Code : 8078)

Annual Report  
**2015-2016**



**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the Directors of HMV Digital China Group Limited (formerly known as “China 3D Digital Entertainment Limited”) (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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# Financial Summary

Annual financial results and positions for the five years from 2012.

## Results

	2016 HK\$'000	For the year ended 30 June			
		2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Revenue	<b>228,228</b>	111,176	199,717	70,018	17,718
Loss before taxation	<b>(184,270)</b>	(96,594)	(15,672)	(20,930)	(8,831)
Taxation	<b>3,131</b>	(36)	–	(13)	–
Loss for the year	<b>(181,139)</b>	(96,630)	(15,672)	(20,943)	(8,831)
Attributable to:					
Owners of the Company	<b>(182,704)</b>	(97,094)	(15,664)	(21,237)	(9,102)
Non-controlling interests	<b>1,565</b>	464	(8)	294	271
	<b>(181,139)</b>	(96,630)	(15,672)	(20,943)	(8,831)

## Assets and Liabilities

	2016 HK\$'000	As at 30 June			
		2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Total assets	<b>551,843</b>	421,002	415,102	283,370	211,725
Total liabilities	<b>(261,242)</b>	(143,599)	(146,926)	(40,166)	(24,205)
	<b>290,601</b>	277,403	268,176	243,204	187,520
Owners of the Company	<b>288,839</b>	278,017	267,691	239,864	185,034
Non-controlling interests	<b>1,762</b>	(614)	485	3,340	2,486
	<b>290,601</b>	277,403	268,176	243,204	187,520

## Directors

### Executive Directors

Shiu Stephen Junior (*Chairman*)  
Sun Lap Key, Christopher  
Lee Wing Ho, Albert  
Chau Sai Ho, Charles

### Independent Non-executive Directors

Chan Chi Ho  
Kam Tik Lun  
Tam Kwok Ming, Banny

### Company Secretary

To Chi

### Compliance Officer

Lee Wing Ho, Albert

### Authorised Representatives

Shiu Stephen Junior  
Lee Wing Ho, Albert

### Audit Committee

Kam Tik Lun (*Chairman*)  
Chan Chi Ho  
Tam Kwok Ming, Banny

### Remuneration Committee

Kam Tik Lun (*Chairman*)  
Shiu Stephen Junior  
Chan Chi Ho  
Tam Kwok Ming, Banny

### Nomination Committee

Shiu Stephen Junior (*Chairman*)  
Kam Tik Lun  
Chan Chi Ho  
Tam Kwok Ming, Banny

### Auditor

ZHONGHUI ANDA CPA Limited  
Unit 701, 7/F  
Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Principal Office

7/F  
Zung Fu Industrial Building  
1067 King's Road  
Quarry Bay, Hong Kong

### Registrar (*in Bermuda*)

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

### Principal Registrar

Tricor Secretaries Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

### Banker

DBS Bank (Hong Kong) Limited  
G/F, The Center  
99 Queen's Road Central  
Central, Hong Kong

### Website

<http://www.china3d8078.com>

### GEM Stock Code

8078

# Chairman's Statement

On behalf of the board of directors of the Company (the "Board" or the "Directors"), I hereby present to the shareholders the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2016.

## Change of Company Name

The Company has changed its name from "China 3D Digital Entertainment Limited" to "HVM Digital China Group Limited" and has adopted the Chinese name of "HVM 數碼中國集團有限公司" as the secondary name of the Company to replace the existing Chinese name of "中國3D數碼娛樂有限公司" with effect from 2 August 2016.

## Change of Stock Short Names

The stock short names for trading in the shares on the Stock Exchange has been changed from "CHINA 3D DIGIT" to "HVM DIGIT CHINA" in English and from "中國3D數碼" to "HVM數碼中國" in Chinese, both with effect from 9:00 a.m. on 14 September 2016. The stock code of the Company on the Stock Exchange will remain unchanged as "8078".

## REVIEW OF OPERATIONS

The Group reported total revenue of approximately HK\$228.2 million for the year ended 30 June 2016, compared with approximately HK\$111.2 million for the year ended 30 June 2015. For the year ended 30 June 2016, a loss of approximately HK\$181.1 million was recorded whilst in the last year, a loss of approximately HK\$96.6 million was recorded. The loss is mainly attributable to impairment loss on film rights and administrative expenses for the year ended 30 June 2016.

An analysis of the Group's revenues and results by reportable segments are set out in note 7 to the consolidated financial statement.

## PROSPECTS

After the completion of the acquisition of HVM M&E Limited in August 2016, the name of the Company has been changed from "China 3D Digital Entertainment Limited" to "HVM Digital China Group Limited" in order to promote and strengthen the Company's corporate image, and enable the Group to better identify and obtain business opportunities for its future development.

The Board is of the view that Hong Kong shall remain as a major market to develop and revitalize the "HVM" brand, and a strategic bridgehead to tap into the Asia-Pacific market, especially The People's Republic of China (the "PRC"), in the foreseeable future. The Group is consolidating the market presence of "HVM" in Hong Kong and the PRC, which can further enhance the brand value of "HVM" and help to gain immediate access to the well-established retail network in Hong Kong, a market which the "HVM" brand has over twenty (20) years of operating history.

The Group intends to continue developing and streamlining its entertainment, movie production and distribution businesses. The Group would strengthen and continue its strategy in revitalizing the "HVM" brand into a lifestyle brand by enhancing the product mix and creating an integrated entertainment platform in order to establish an integrated online and offline business ecology in the entertainment and lifestyle sector.

In addition, the Company also plans to leverage on the widely recognized brand name of "HVM" to develop an over-the-top ("OTT") broadcasting channel. The Directors are of the view that the broadcasting market in Hong Kong is entering into a new era which the traditional free-licensed television broadcasting will soon be taken over by OTT broadcasting. The Company intends to develop the OTT broadcasting channel under the brand of "HVM", which customers will be offered with a wide varieties of films, pop songs and TV series, etc. over the Internet.

The Group is operating cinemas in Xiamen, Guangzhou, Jieshi and Chongqing in PRC, which has started generating incomes to the Group. In addition, the Company intends to continue expanding its cinema operation by (a) renting more space and acquiring more advance equipment etc. to expand the existing cinemas; and (b) setting up or acquiring additional cinemas in different provinces in PRC.

## **PROSPECTS (CONTINUED)**

The Company is going to operate an additional cinema in Quanzhou in PRC. This movie theatre in Quanzhou is expected to have six film houses inside with an aggregate of about 850 seats. The relevant design and construction documents have been submitted to the landlord for the commencing of decoration. Hence, the operation of the cinema is expected to commence during the second quarter of 2017.

The Directors believe that it will provide an opportunity for the Company to be successful in cinema operation in PRC.

The Group will continue to develop its existing business such as artists and model management, entertainment and money lending. In addition, the Group will maintain a continuous production and launch of movies, and continue to acquire the movie distribution rights in the market. And to cope with the fast changing market, the Group will put more focus on the newly developed filmed entertainment and new media exploitations.

## **APPRECIATION**

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, clients and staff members for their support in the past years. I would also like to express my personal appreciation to my fellow board members for their continuous valuable contributions.

**Shiu Stephen Junior**

*Chairman*

Hong Kong  
30 September 2016

# Management Discussion and Analysis

## OPERATION REVIEW

The Company and its subsidiaries (collectively the “Group”) reported total revenue of approximately HK\$228.2 million for the year ended 30 June 2016 (the “Year”), compared with approximately HK\$111.2 million for the previous fiscal year. A loss of approximately HK\$181.1 million was recorded (2015: approximately HK\$96.6 million). The loss is mainly due to impairment loss on film rights and administrative expenses for the year ended 30 June 2016.

An analysis of the Group’s revenues and results by reportable segment are set out in note 7 to the consolidated financial statements.

### Artiste Management Services and Music Production

The revenue of this business segment for the Year was approximately HK\$93.6 million in 2016 and HK\$84.5 million in 2015.

### Distribution and Production of Films and Television Programmes

The revenue of this business segment for the Year was approximately HK\$95.6 million in 2016 and HK\$13.1 million in 2015.

### Money Lending

The revenue of this business segment for the Year was approximately HK\$8.9 million in 2016 and HK\$4.2 million in 2015.

### Operation of Cinemas

The revenue of this business segment for the Year was approximately HK\$30.1 million in 2016 and HK\$9.3 million in 2015.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, total borrowing of the Group (excluding payables) amounted to approximately HK\$153.6 million (2015: HK\$68.1 million). The Group’s gearing ratio (expressed as a percentage of total borrowing over total assets) was 27.84% in 2016 and 16.20% in 2015.

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations, fund raising and the borrowings (mainly including other borrowings, convertible bonds, promissory note payable and finance lease payables), to finance its operation. The promissory note payable is denominated in Hong Kong dollars, unsecured, interest-free and has a fixed repayment term.

Other than disclosed above, the Group has no other external borrowings. The Group’s bank and cash held on hand were mainly denominated in Hong Kong dollars. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and would take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the Year.

## **CHARGES ON GROUP'S ASSET**

As at 30 June 2016, except for the pledged bank deposits of approximately HK\$8.1 million to secure a guarantee granted by a bank in the PRC, the Group has no other asset pledged to bank to secure the bank borrowing granted to the Group (2015: HK\$6 million).

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2016, the Group had 188 (2015: 93) full-time and part-time employees. The total employee remuneration, including that of the Directors, for the year ended 30 June 2016 amounted to approximately HK\$27.2 million (2015: approximately HK\$19.9 million). The Group remunerates its employees based on their performance, experience and the prevailing commercial practice. To provide incentives or rewards to the employees, the Company has adopted a new share option scheme on 9 July 2014. No option was outstanding during the Year.

## **CAPITAL STRUCTURE**

During the Year, the capital structure of the Company has changed as follows:

### **Placing of new shares under specific mandate announced on 20 July 2015**

On 8 September 2015 and 18 September 2015, the Company completed the first tranche placing of 403,000,000 new shares of the Company and the second tranche placing of 397,000,000 new shares of the Company at the placing price of HK\$0.25 per placing share respectively.

The reasons of the placing are for (i) the expansion of the money lending business of the Company by increasing the amount of loans and advances to customers; (ii) expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; (iii) for investment and/or production of movies and/or acquire the distribution rights of movies; and (iv) general working capital and for development of the Group's business.

The closing price per share as quoted on the Stock Exchange on 20 July 2015 was HK\$0.63. The aggregate net proceeds from the placing amount to approximately HK\$195 million and were applied as approximately (i) HK\$99 million were used for the expansion of the money lending business of the Company; (ii) HK\$35 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (iii) HK\$52 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (iv) HK\$9 million for general working capital and for development of the Group's business.

### **Bonus issue of shares announced on 15 September 2015**

On 20 October 2015, the ordinary resolutions were passed by the shareholders to approve the Company to implement bonus issue (the "Bonus Issue"). The Company was approved to issue three (3) bonus shares for every one (1) share held by the Qualifying Shareholders whose names appear on the register of members of the Company on the record date. The bonus shares credited as fully paid at par by way of capitalisation of share premium.

The Bonus Issue was completed on 13 November 2015 and a total of 2,874,568,668 bonus shares were issued on 13 November 2015. After the completion of the Bonus Issue, the number of shares in issue has increased to 3,832,758,224 shares.

## **CAPITAL STRUCTURE (CONTINUED)**

### **The acquisition of 40% of the issued share capital of Starz Holdings Limited and involving the issued of convertible bonds under specific mandate announced on 14 December 2015**

On 14 December 2015 and 6 January 2016, the Company entered into a sale and purchase agreement and a supplemental agreement with Mr. Stephen Chau (“Mr. Chau”), the shareholder of the Starz Holdings Limited respectively (“Starz Holdings”), pursuant to the Company acquired and Mr. Chau disposed its shares, representing 40% of the issued share capital of Starz Holdings. The payment methods of the consideration were (i) HK\$6,600,000 payable in cash plus the adjustment amount; and (ii) HK\$7,000,000 payable in the form of convertible bond.

Starz Holdings has numerous famous subsidiaries such as Starz People (HK) Limited and Starz Entertainment Company Limited (Starz Holdings together with its subsidiaries, collectively called “Starz”). Starz is one of Asia’s most progressive full service modeling and talent agencies. It specializes in promoting fresh faces and outstanding new talent within the fashion and entertainment sectors in Asia and overseas, positioned at the forefront of international model and artiste management. It boasts a highly experienced and dedicated team and also excellent relationships with a vast array of prominent international and local models, artistes, celebrities and professional athletes. Starz credited with diversified ages, types, and nationalities of prominent models and artistes, including Pakho Chau, Shiga Lin and Jeannie Chan and arranged them local and overseas jobs including advertisements, publications, television commercials, fashion exhibits, music videos, image consultations, promotional activities and casting services. Details of the acquisition were disclosed in the circular dated 18 January 2016.

The shareholders approved the acquisition on special general meeting on 2 February 2016 and the convertible bonds was issued to Mr. Chau on 21 April 2016.

### **The acquisition of interests in HMV M&E Limited announced on 14 March 2016**

On 14 March 2016, the Company entered into a sale and purchase agreement with Action Key Investments Limited (“Action Key”), one of the shareholders of HMV M&E Limited (“HMV M&E”), pursuant to which the Company acquired and Action Key disposed its shares, representing approximately 81.63% of the issued share capital of the HMV M&E at a consideration of HK\$408,150,000 which were satisfied by allotment and issue of 1,118,219,178 consideration shares to Action Key or its nominee at an issue price of HK\$0.365 per consideration share at completion (the “Acquisition I”).

On 1 April 2016, the Company entered into a sale and purchase agreement with WiL Fund I, L.P. (“WiL Fund”), the other shareholder of HMV M&E, pursuant to the Company acquired and WiL Fund disposed its shares, representing approximately 18.37% of the issued share capital of HMV M&E at a consideration of HK\$91,850,000 which were satisfied by allotment and issue of 251,643,835 consideration shares to WiL Fund at an issue price of HK\$0.365 per consideration share at completion (the “Acquisition II”).

HMV M&E is the sole beneficial owner of the issued share capital of each of its subsidiaries, namely, HMV Marketing Limited (“HMV Marketing”), Simply Sino Limited (“Simply Sino”), Smiley Bee Limited (“Smiley Bee”) and Linkenway Limited (“Linkenway”) (the “Target Subsidiaries”). HMV M&E has no business activity other than being an investment holding company of its subsidiaries and injection of shareholder’s loans to the target group (“including HMV M&E and Target Subsidiaries”) (the “Target Group”) for its business.

The Target Group is principally engaged in the entertainment and media business and other ancillary business including the operation of the retail stores under the brand “HMV”.

HMV Marketing is the owner of the retailing business of “HMV” through physical retail stores in Hong Kong and has an exclusive, irrevocable, royalty-free and perpetual licence to use the name “HMV”, the various HMV trade marks and the trade mark applications and HMV domain names for the purpose of conducting businesses in the PRC, Hong Kong and Singapore.

## **CAPITAL STRUCTURE (CONTINUED)**

### **The acquisition of interests in HMV M&E Limited announced on 14 March 2016 (continued)**

Each of Simply Sino and Smiley Bee is an investment holding company and has no business activity save and except (i) Simply Sino has advanced a loan in the amount of HK\$25,000,000 to a subsidiary of the Company; and (ii) Smiley Bee has advanced a loan in the amount of HK\$3,000,000 to a third party independent from Action Key and its connected persons. Linkenway is an investment holding company and the holder of certain rights of an intellectual property. Details of the Acquisition I and II were disclosed in the announcements dated 14 March 2016, 1 April 2016 and the circular dated 24 June 2016 respectively.

The Acquisition I and Acquisition II were completed on 3 August 2016. 1,118,219,178 consideration shares were issued to the nominee of Action Key and 251,643,835 consideration shares were issued to WiL Fund on 3 August 2016 respectively.

### **The acquisition of approximately 4% of the issued share capital of Prime Focus World N.V. announced on 24 March 2016**

On 24 March 2016, the Company entered into a sale and purchase agreement with AID Partners Visual Entertainment, L.P. (“AID”), the shareholder of Prime Focus World N.V. (“Prime Focus”), pursuant to which the Company acquired and AID disposed its shares, representing 4% of the issued share capital of Prime Focus at a consideration of US\$13,619,726, which were settled and discharged by the allotment and issue of 259,106,982 ordinary shares of the Company at the issue price of HK\$0.410 per ordinary share of the Company at completion.

Prime Focus is a subsidiary of Prime Focus Limited, a company incorporated in India and listed on the National Stock Exchange and Bombay Stock Exchange under the symbol PFOCUS and 532748. Prime Focus and its subsidiaries are the world’s largest provider of value-added creative and technical services for 2D to 3D content conversion, visual effects (“VFX”) and animation services to studios and production houses across the world. In addition to the highly successful 3D conversion business, Prime Focus also provides world-class VFX services to major studios. Details of the acquisition were disclosed in the announcement dated 24 March 2016 and the circular dated 29 June 2016.

The acquisition was completed on 29 July 2016 and 259,106,982 ordinary shares were issued to the nominee of AID on 29 July 2016.

## **MEMORANDUM OF UNDERSTANDING**

### **Memorandum of Understanding in respect of possible disposal announced on 19 October 2015**

On 19 October 2015, the Company entered into a non-legally binding memorandum of understanding (the “MOU”) with an independent third party (the “Investor”), pursuant to which the Company intends to dispose 51% of the issued share capital of CineUnited Circuits Company Limited (“CineUnited”), an indirect wholly-owned subsidiary of the Company (CineUnited together with its subsidiaries, collectively the “Target Group”) for a total consideration of HK\$62,220,000 payable in cash (the “Possible Disposal”).

As at the date of this Annual Report, the MOU has been expired and will not be proceed.

### **Joint Investment Agreement announced on 23 October 2015 and 9 May 2016**

On 23 October 2015, the Company announced to build a long-term strategic co-operation with iQIYI Motion Pictures (“iQIYI”). Both parties agreed to co-invest, produce and distribution of movies.

On 9 May 2016, the Company entered into a legally binding joint investment agreement (the “Joint Investment Agreement”) with iQIYI pursuant to which the Group and iQIYI agreed to co-invest, produce and distribute the first movie tentatively named 《Death Notify “暗黒者”》 (the “Movie”) in the PRC and internationally. Pursuant to the Joint Investment Agreement, the investment amount of the Movie is approximately RMB80 million, the Group will contribute 60% and the iQIYI will contribute 40% to the production and distribution of the Movie.

## MEMORANDUM OF UNDERSTANDING (CONTINUED)

### Joint Investment Agreement announced on 23 October 2015 and 9 May 2016 (continued)

By entering into the Joint Investment Agreement, the Company and iQIYI established a strategic cooperative relationship by starting of the cooperation of this Movie, other movies project will be followed onwards. According to the Joint Investment Agreement, iQIYI will be responsible for the promotion and distribution of the Movie in PRC; while the Company will be responsible for obtaining the copyright of the script for the Movie, obtaining the necessary approvals from respective authorities, production and distribution of the Movie in worldwide.

According to the Joint Investment Agreement, each of the Company and iQIYI is entitled to the intellectual property rights of various components of the Movie in accordance with their respective contribution to the total investment of the production and distribution of the Movie. In addition, the Company and iQIYI is entitled to a distribution agent fee in an amount representing 60% or 40% of the total net income derived from distribution of the Movie in regions outside the PRC and in the PRC respectively.

iQIYI is the largest video platform in the PRC. In addition to its online movie library which boasts the largest storage of movies in the PRC, according to iResearch mUserTracker's latest data, as at July 2015, the monthly user coverage of iQIYI has reached 219 million, ranking at fourth in China's mobile internet market in terms of amount of users per month, behind only to WeChat, QQ and Taobao. In terms of length of usage, the monthly total effective usage time of iQIYI has reached 1,816 million hours, behind only to WeChat and QQ. In the area of video viewing, iQIYI is first in almost every statistical category including average users per day, monthly users, average length of usage per day and monthly length of usage. Details of the Joint Investment Agreement was disclosed in the announcement dated 9 May 2016.

### Memorandum of Understanding in respect of possible subscription and possible acquisition announced on 27 October 2015

On 27 October 2015, the Company entered into a non-legally binding memorandum of understanding (the "MOU") with (i) vfxNova Digital Productions Limited (the "Target Company"), pursuant to the Company intends to subscribe 10% ordinary shares as enlarged by subscription of the Target Company for a consideration of HK\$10,000,000 payable in cash (the "Possible Subscription") and (ii) Mr. Victor Wong ("Mr. Wong"), the shareholder of the Target Company, pursuant to the Company intends to acquire and Mr. Wong intends to dispose its shares, representing 20% of the then issued share capital as enlarged by subscription of the Target Company for a consideration of HK\$20,000,000 payable in cash (the "Possible Acquisition"). After completion of the Possible Subscription and Possible Acquisition, the Company will hold an aggregate 30% of the issued share capital of the Target Company.

The Target Company is one of Asia's most advanced digital visual creation companies which provides full production services from consultancy, filming, animation, visual-effects, 2/3D conversion, post-production and etc. for feature films and TV commercials. The Target Company participated in a number of movies including *Rise of the Legend*, *Cold War*, *Let the Bullets Fly*, *From Vegas to Macau*, and Hollywood blockbuster films such as *Ironman* and *Diehard 4*. The Target Company won numerous industry accolades in the visual effects and digital filming categories in many local and international prestigious film festivals, including the Best Visual Effects in the 34th Hong Kong Film Awards, and major awards in Taiwan Golden Horse Awards and New York Film Festival.

As at the date of this Annual Report, there is no definitive agreement that has been signed and finalized.

### Framework Agreement announced on 26 January 2016

On 26 January 2016, the Company entered into a framework agreement (the "Framework Agreement") with China 33 Media Group Limited, a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8087) (the "Investor"), setting out the major terms of cooperation between the parties for the proposed joint investment in the production of a total of 12 movies (collectively, "Movies" and each a "Movie") which are expected to be distributed in Hong Kong and the PRC with a total investment amount of about RMB485 million.

The Framework Agreement has been terminated and will not be proceed.

## **MEMORANDUM OF UNDERSTANDING (CONTINUED)**

### **Memorandum of Understanding in respect of possible acquisition announced on 7 September 2016**

On 7 September 2016, the Company entered into a non-legally binding memorandum of understanding (the “MOU”) with Mr. Lam Wing Kwan Ringo, Mr. Chan Kin Pong, Mr. Luo Jianguang, Mr. Martin Wong, Mr. Chu Kar Cheong, Mr. Duncan Chiu and Sunny Way Limited (collectively, the “Vendors”), being the shareholders of Anyplex Holding Limited (the “Target Company” and/or “Anyplex”), pursuant to which the Company intends to acquire and the Vendors intends to sell 100% of the issued share capital of the Target Company (the “Possible Acquisition”). The consideration will be (i) HK\$5,500,000 payable in cash; and (ii) HK\$41,000,000 payable by way of consideration shares to be allotted and issued by the Company, which shall be subject to the formal agreement to be entered into between the Company and the Vendors in respect of the Possible Acquisition.

The Target Company is one of the pioneer OTT (over-the-top) VOD operators in Greater China providing legitimate content as early as 2009 and is based in Hong Kong. The Target Company is serving the global Chinese community through partnership with leading Telco and mobile carriers in Hong Kong and Taiwan. It licensed up-to-date and all-time-hits movies from leading studios in Hollywood. Customers can register an Anyplex account and enjoy their personal theater anytime anywhere via multiple devices including smart phones, tablets, personal computers, smart TVs.

As at the date of this Annual Report, there is no definitive agreement that has been signed and finalized.

## **COMMITMENTS**

Total commitments of the Group as at 30 June 2016 was approximately HK\$424.5 million (2015: approximately HK\$399.1 million).

## **CONTINGENT LIABILITIES**

On 20 October 2015, a new tenancy agreement was jointly entered into by Mark Glory International Enterprise Limited (“Mark Glory”), an indirectly wholly-owned subsidiary of the Company and Top Euro Limited (“Top Euro”), an indirect wholly-owned subsidiary of Easy Repay Finance & Investment Limited (stock code: 8079) with Wit Way Enterprises Limited in relation to the lease of the premises. The duration of the tenancy agreements is for two years commencing from 1 November 2015 to 31 October 2017 with a monthly rental of HK\$325,000 inclusive of management charges (equivalent to HK\$3,900,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by Mark Glory and Top Euro in equal shares.

If either party fails to fulfill their leasing obligations under the agreement, the other party will obligate to pay the other party’s outstanding contingent rental liability amounting to HK\$1,950,000 per annum. The taking up of the contingent rental liability constitutes a provision of financial assistance under the GEM Listing Rules.

## **LITIGATION**

The Group has three pending litigations as below and in the opinion of the Board, it is premature to predict the outcome.

### **A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015**

A writ of summons (the “Writ”) was issued against the Company by Green Giant Investments Limited (“Green Giant”) on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the “Note”) or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant.

## LITIGATION (CONTINUED)

### **A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015 (continued)**

Green Giant claims the principal amount of the Note of HK\$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The court has made an order in terms of the plaintiff's application is granted and final judgement is granted to the plaintiff as per its summons on 21 January 2016. The Company submitted the documents to commence the appeal and won the appeal on 13 July 2016. Green Giant and the Company be arranged to re-fix the hearing in future.

In the opinion of the Directors, the Note payable of HK\$14,160,000 is properly recognized as at 30 June 2015 and 30 June 2016, as such, the Directors did not consider that the litigation to have any significant impact on the Group's financial position and operations.

### **A writ of summons was issued against Champion Peak Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 21 July 2016**

A writ of summons (the "Writ") was issued against Champion Peak Corporation Limited ("Champion Peak"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 21 July 2016. It was alleged in the Writ that TVB claims against Champion Peak the sum of HK\$935,000, being the outstanding additional shooting fees from 16 March 2015 to 1 June 2015. Champion Peak will file and serve a Defence in October 2016.

### **A writ of summons was issued against New Noble Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 19 August 2016**

A writ of summons (the "Writ") was issued against New Noble Corporation Limited ("New Noble"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 19 August 2016. It was alleged in the Writ that TVB claims against New Noble the sum of HK\$278,000, being the agreed fee for the subject shooting days, including the shooting of the main film, the "making-of" video and the roller feature from 14 July 2013 to 30 August 2013. New Noble will file and serve a Defence in October 2016.

## EVENTS AFTER THE REPORTING PERIOD

### **Share and Connected Transaction relating to acquisition of the Target Group announced on 29 July 2016**

On 29 July 2016, Creative Projects Company Limited, a wholly-owned subsidiary of the Company (the "Purchaser"), and Fugu Enterprises Inc. and Mr Kwong Kwan Yin, Roy (the "Vendors") entered into the Stock Purchase Agreement. The consideration for the acquisition is the sum of HK\$18,000,000, which shall be settled by the Purchaser by cash payable to the Vendors of HK\$8,000,000 and by issue of 11,494,252 consideration shares at the issue price of HK\$0.87 per consideration share of the Company.

Pursuant to the Stock Purchase Agreement, the Purchaser agreed to purchase and the Vendors agreed to sell the sale shares, representing 51% of the entire issued share capital of Celestial Talent International Limited (the "Target Company"). Upon completion, Target Company and its subsidiaries (the "Target Group") will become the subsidiaries of the Company.

The Target Company is an investment holding company incorporated in BVI with limited liability and has no business activity. The Target Company is the sole beneficial owner of the issued share capital of (i) Access Max International Limited, (ii) Unison Associates International Limited, (iii) GZ Mania Management Limited and (iv) GME Casting Studio Limited. GZ Mania Management Limited and GME Casting Studio Limited are principally engaged in artiste management services and music production. Each of Access Max International Limited and Unison Associates International Limited is an investment holding company incorporated in BVI and has no business activities.

## **EVENTS AFTER THE REPORTING PERIOD (CONTINUED)**

### **Share and Connected Transaction relating to acquisition of the Target Group announced on 29 July 2016 (continued)**

Fugu Enterprises Inc. interested in approximately 12% of the issued share capital of a subsidiary of the Company and Mr Kwong Kwan Yin, Roy is a director of a subsidiary of the Company and has interested in approximately 8% of the issued share capital of a subsidiary of the Company.

The Vendors are regarded as connected persons of the Company under the GEM Listing Rules. The acquisition constitutes connected transaction of the Company.

Details of the Share and Connected Transaction relating to the acquisition of the Target Company were disclosed in the announcement dated 29 July 2016.

### **The acquisition of Panorama Group and involving the issue of consideration shares under specific mandate announced on 10 August 2016**

On 10 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the “Purchaser”) and the Company entered into the Sale and Purchase Agreement with Well Charm International Development Limited (the “Vendor I”) and Mr Fung Yu Hing Allan (the “Vendor II”) (collectively the “Vendors”), pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase 140 ordinary shares of Panorama Entertainment Group Limited (“PEGL”), representing 70% of the issued share capital in PEGL (the “Sale Shares I”), and 70 ordinary shares of each of Parkway Management Limited (“PW”) and Panorama Corporation Limited (“PCL”), representing 70% of the issued share capital in each of PW and PCL (the “Sales Shares II”), at an aggregate consideration of HK\$35,000,000, which shall be satisfied by the issue and allotment of aggregate 48,275,862 consideration shares at an issue price of HK\$0.725 per consideration share at completion in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, PEGL and its subsidiaries, PW and PCL, (the “Panorama Group”) is indirectly owned subsidiaries of the Company. Upon Completion of the acquisition of Sale Shares I by the Purchaser, Vendor I still owns 30% of the issued share capital of PEGL, and after the acquisition of Sale Shares II by the Purchaser, Vendor II still owns 30% of the issued share capital of each of PW and PCL.

Vendor I is an investment holding company incorporated in Hong Kong with a limited liability. Vendor II, is the founder of the Panorama Group, who set up the Panorama Group for an initial aim of distributing quality motion pictures in VHS and LD home video format in Hong Kong. Vendor II has been an experienced and famous film producer and businessman in Hong Kong and responsible for the Panorama Group’s overall strategic planning, formulation of corporate policies, overall management and acquisition of film rights.

PEGL is a company incorporated in BVI with limited liability and is wholly-owned by Vendor I. PEGL is the sole beneficial owner of the issued share capital of each of its subsidiaries, namely Panorama Distributions Company Limited (“PDL”) and Panorama Entertainment Company Limited (“PEC”). The principal activities of PDL is distribution of video products; and the principal activities of PEC is holding of film rights.

PW is a company incorporated in Hong Kong with limited liability and is wholly-owned by Vendor II. The principal activities of PW is holding of film rights. PCL is a company incorporated in Hong Kong with limited liability and is wholly owned by Vendor II. The principal activities of PCL is distribution of video products.

Details of the acquisition were disclosed in the announcement dated 10 August 2016.

## **EVENTS AFTER THE REPORTING PERIOD (CONTINUED)**

### **The acquisition and involving the issue of consideration shares under specific mandate on 11 August 2016**

On 11 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the “Purchaser”) and the Company entered into the Sale and Purchase Agreement with Mr. Fung Yu Hing Allan (the “Vendor I”), Mr. Wong Wing Kwong Kelvin (the “Vendor II”), Ingate International Company Limited, (the “Vendor III”), (Vendor I, Vendor II and Vendor III, collectively the “Vendors”), pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase in aggregate of 70,000 ordinary shares of Parkway Licensing Company Limited (“PLC”), of the issued share capital in PLC, representing approximately 70% in aggregate of the issued share capital of PLC. The considerations for the Acquisition is in the sum of HK\$7,000,000, which will be settled by the Purchaser by cash payable to the Vendors of HK\$1,000,000 and remaining HK\$6,000,000 by issue of an aggregate 8,275,861 consideration shares at the issue price of HK\$0.725 per consideration share of the Company in accordance with the terms and conditions of the Sale and Purchase Agreement.

Upon completion, PLC will become indirectly owned subsidiary of the Company. After completion of the acquisition, Vendor I still owns 15% of the issued share capital of PLC; Vendor II still owns 3% of the issued share capital of PLC and Vendor III still owns 12% of the issued share capital of PLC.

Vendor I is the founder of the Panorama Group, who set up the Panorama Group for an initial aim of distributing quality motion pictures in VHS and LD home video format in Hong Kong. Vendor I has been an experienced and famous film producer and businessman in Hong Kong and responsible for the Panorama Group’s overall strategic planning, formulation of corporate policies, overall management and acquisition of film rights.

Vendor II is the head of strategic development department and is responsible for overseeing the sales and marketing of the PLC. Vendor III is an investment holding company incorporated in Hong Kong with limited liability.

PLC is a company incorporated in Hong Kong with limited liability. The principal activities of PLC in general trading of movie and comics related toys and figures. Details of the acquisition were disclosed in the announcement dated 11 August 2016.

# Biographies of Directors and Senior Executives

## EXECUTIVE DIRECTOR (CHAIRMAN)

**SHIU STEPHEN JUNIOR**, aged 41, joined the Company in July 2010. Mr. Shiu is the Chairman of the Company and the Nomination Committee and the member of Remuneration Committee of the Company. Mr. Shiu has over 16 years' experience in entertainment, advertising, promotion and communication, film distribution and movies production. Currently, Mr. Shiu is also a director of various private companies which are engaged in the business of entertainment and movies production.

## EXECUTIVE DIRECTOR AND COMPLIANCE OFFICER

**LEE WING HO, ALBERT**, aged 46, joined the Company in February 2011. Mr. Lee holds a Bachelor of Arts from Trinity Western University, Canada, and a Master of Business Administration from South Eastern University, United States of America. Mr. Lee is a Certified Facility Manager and is a member of International Facility Management Association and The Hong Kong Institute of Real Estate. Mr. Lee has over 22 years of experience in real estate and leasing management, cinemas consultancy as well as in the fields of movie production and distribution in Hong Kong and the PRC.

## EXECUTIVE DIRECTOR

**SUN LAP KEY, CHRISTOPHER**, aged 49, joined the Company since 1 October 2011. Mr. Sun holds a Master of Arts in Film and TV Fiction from The Northern Media School of Sheffield Hallam University, Sheffield, United Kingdom. Mr. Sun has more than 28 years' experience in the fields of media, TV commercials and film production. Mr. Sun had been acting as the Chief Editor of the "Automobile" of SCMP Magazines Publishing (HK) Limited, Creative Director of "FM104" Metro Finance Channel of Metro Broadcast Corporation Limited, Senior Producer of Chinese Channel, Satellite Television Asian Region Limited as well as a director of the world's first category feature film in 3-D "3D Sex and Zen Extreme Ecstasy". Currently, Mr. Sun is a Film Director of HD Mobile Broadcast of Video Channel Productions Limited. Mr. Sun is a course tutor in Hong Kong Baptist University.

## EXECUTIVE DIRECTOR

**CHAU SAI HO, CHARLES**, aged 36, joined the Company in 15 February 2016. Mr. Chau holds a Bachelor of Arts from University of Toronto, Canada. Mr. Chau was credit risk officer at The Royal Bank of Scotland's private banking division, assisted to manage onshore and offshore client assets in excess of 10 billion Hong Kong dollar. Mr. Chau has over 15 years of extensive experience in finance and real estate; he was project manager of boutique hotel TUVE in Hong Kong, in charge of tender and builder's work. Prior joining the Company, Mr. Chau was Head of Investor Relations at International Standard Resources Holdings Limited (stock code: 91), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited with primary business focus on natural gas exploitation and production in Anhui, China.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**CHAN CHI HO**, aged 40, joined the Company in July 2010. Mr. Chan is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan holds a Bachelor of Engineer in Civil Engineering from The University of Hong Kong and a Bachelor of Law from The University of London. Mr. Chan is a member of Hong Kong Institute of Engineers. Mr. Chan was a project engineer of Maunsell AECOM and has more than 16 years' experience in the planning, design and project management of infrastructure facilities in Hong Kong, Mainland China and overseas. Currently, Mr. Chan is also a managing director of EDM Construction Limited with vast experience in managing interior fitting out and decoration construction projects in different aspects such as residential, commercial, hotel and institutional.

# Biographies of Directors and Senior Executives (Continued)

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**KAM TIK LUN**, aged 40, joined the Company in July 2010. Mr. Kam is the Chairman of the Audit Committee and the Remuneration Committee and the member of Nomination Committee of the Company. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Postgraduate Diploma in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom and a Master of Laws in International Corporate and Financial Law from The University of Wolverhampton, United Kingdom. Mr. Kam is a member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Kam has over 13 years' experience in the financial markets. Mr. Kam has vast experience in providing business consultancy, business valuation services, financial analysis and corporate advisory. Mr. Kam is also an independent non-executive director of Easy Repay Finance & Investment Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**TAM KWOK MING, BANNY**, aged 53, joined the Company in November 2011. Mr. Tam is the member of Audit Committee, Remuneration Committee and Nomination Committee. Mr. Tam is a practicing Certified Public Accountant in Hong Kong, an associate of The Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Tam has over 20 years' professional experience in accounting and auditing field and has been working in various positions including partner and practicing director in various accounting firms. Currently, Mr. Tam is a partner of YATA Certified Public Accountants. Mr. Tam is also an independent non-executive director of Inner Mongolia Yitai Coal Company Limited (stock code: 3948 and 900948 SH), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange.

The Board presents their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30 June 2016 (the “Year”).

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities and other particular of the Company’s subsidiaries are set out in note 44 to the consolidated financial statements.

## **BUSINESS REVIEW**

The business review of the Company is as set out in the section of “Management Discussion and Analysis” on page 6 to 14 of this Annual Report.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 32.

The Directors do not recommend the payment of any dividend for the Year (2015: Nil).

## **FINANCIAL SUMMARY**

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years is set out on page 2.

## **PROPERTY, PLANT AND EQUIPMENT**

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

## **SUBSIDIARIES**

Particulars of the Company’s principal subsidiaries are set out in note 44 to the consolidated financial statements.

## **SHARE CAPITAL**

Details of the movements in the share capital of the Company during the Year are set out in note 37 to the consolidated financial statements.

## **RESERVES**

Details of the movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 35 and note 38 to the consolidated financial statements respectively.

## **CONVERTIBLE BOND**

Details of the movements in the Company’s convertible bond during the Year are set out in note 32 to the consolidated financial statements.

## **DISTRIBUTABLE RESERVES OF THE COMPANY**

Details of the movements in distributable reserves of the Company during the Year are set out in note 38 to the consolidated financial statements respectively.

# Directors' Report (Continued)

## DONATION

During the Year, no donation has been made (2015: Nil).

## DIRECTORS

The Directors of the Company during the Year and up to the date of this report were:

### Executive Directors:

Mr. Shiu Stephen Junior (*Chairman*)  
 Mr. Sun Lap Key, Christopher  
 Mr. Lee Wing Ho, Albert  
 Mr. Chau Sai Ho, Charles (appointed on 15 February 2016)

### Independent Non-executive Directors:

Mr. Chan Chi Ho  
 Mr. Kam Tik Lun  
 Mr. Tam Kwok Ming, Banny

Subject to the service agreements/letters of appointment hereinafter mentioned, the term of office of each Director, including the Independent Non-executive Directors, is the period up to his/her retirement by rotation in accordance with the Bye-laws of the Company.

In accordance with Bye-law 87(1) and 87(2) of the Company's Bye-Laws, Mr. Lee Wing Ho, Albert, Mr. Chau Sai Ho, Charles and Mr. Kam Tik Lun shall retire at the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election at the AGM.

## DIRECTORS' SERVICES CONTRACTS

Each of Mr. Shiu Stephen Junior, Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert and Mr. Chau Sai Ho, Charles has entered a service agreement with the Company to serve as an Executive Director for an initial term of two years commencing from their date of appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Each of the current Independent Non-executive Directors has entered a letter of appointment with the Company for a term of two years commencing on the following dates respectively, with all the term being renewed automatically for successive term of one year each commencing from the date next after the expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party:

<b>Name of Directors</b>	<b>Commencing date</b>
Mr. Chan Chi Ho	2 July 2010
Mr. Kam Tik Lun	13 July 2010
Mr. Tam Kwok Ming, Banny	15 November 2011

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

### Directors' interests in contracts

Save as disclosed in note 42 to the consolidated financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of the subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## EMOLUMENT POLICY

A remuneration committee of the Company was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Shiu Stephen Junior	Beneficial owner	141,920	0%

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## SHARE OPTION SCHEME, DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the special general meeting of the Company held on 9 July 2014, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 9 July 2014. Details of the share option scheme are set out in note 41 to the consolidated financial statements.

No option was outstanding as at the Year.

## **INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

So far as known to the Directors, as at 30 June 2016, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any interests or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

## **MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the Group's five largest customers accounted for approximately 42.09% of the Group's turnover for the year ended 30 June 2016. The Group's largest customer accounted for approximately 14.44% of the Group's turnover for the year ended 30 June 2016.

The five largest suppliers of the Group accounted for approximately 47.35% of its cost of sale for the year ended 30 June 2016. The largest supplier of the Group accounted for approximately 20.49% of its cost of sale for the year ended 30 June 2016.

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers stated above.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **CONNECTED TRANSACTIONS**

Saved as disclosed in note 42 to the consolidated financial statements, no other connected transactions were entered by the Group under the GEM Listing Rules.

## **PRE-EMPTIVE RIGHTS**

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

## **COMPETING INTERESTS**

As of the date of this report, Mr. Shiu Stephen Junior ("Mr. Shiu"), the Chairman and Executive Director of the Company, holds directorship in One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold directly as to 60% equity interests in ODMP. The business of ODMP may constitute competition with the business of the Group.

Save as disclosed above, the Directors believe that none of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the “Required Standard of Dealings”) of the GEM Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Year.

As of the date of this report, the Board of Directors of the Company comprises Executive Directors who are Mr. Shiu Stephen Junior, Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert, Mr. Chau Sai Ho, Charles; and Independent Non-executive Directors who are Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny.

## **CORPORATE GOVERNANCE**

The Company has complied with most of the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules (“Code”) throughout the Year. Please refer to the Corporate Governance Report on page 23 to 29 of this annual report for details.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company maintained the prescribed public float under the GEM Listing Rules.

## **CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to the GEM Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES**

Except for those disclosed on pages 8 to 9, there was no material acquisition or disposal of subsidiaries during the Year.

## **FOREIGN EXCHANGE EXPOSURE**

The Group’s transactions during the Year were mainly denominated in Renminbi, HK Dollars and US Dollars. Risk on exposure to fluctuation in exchange rates was insignificant to the Group.

## **CONTRACTS OF SIGNIFICANCE**

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

## **AUDITOR**

The consolidated financial statements for the years ended 30 June 2016, 2015 and 2014 were audited by ZHONGHUI ANDA CPA Limited whose term of office will expire upon the annual general meeting. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company for the subsequent year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**HMV Digital China Group Limited**

**Shiu Stephen Junior**

*Chairman*

Hong Kong

30 September 2016

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

The Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of its corporate governance policy. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

## THE BOARD

The Board is entrusted with the overall responsibility for promoting the success of the Company by directing and supervising the Company's business and affairs. The ultimate responsibility for the day to day management of the Company is delegated to the Chairman and the senior management of the Company. In practice, the Board takes responsibilities for decision making in all major matters of the Company. The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the Group and the Board has the full support of them to discharge its responsibilities.

As at 30 June 2016, the Board comprised seven Directors (four Executive Directors and three Independent Non-executive Directors). The biographies of the current Directors are set out on pages 15 to 16 of this report under the "Biographies of Directors and Senior Executives" section.

All Directors should participate in continuing professional development to develop and refresh their skills to ensure that they have appropriate understanding of the business and operations of the Group and that they are sufficiently aware of their responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

The existing Directors are continually updated with legal and regulatory developments, the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development for Directors will be arranged where necessary.

The Company has also continually updated Directors on the latest development regarding the GEM Listing Rules and other regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Company Secretary of the Company (the "Company Secretary") would ensure all Board members work effectively and provided timely, reliable and sufficient information on issues to be discussed at Board meetings. Company Secretary is also responsible for setting the agenda for each Board meeting, taking into account any matters proposed by the Directors. The Board members are properly briefed about the issues discussed and the meeting material is dispatched to the Directors before the meetings.

The experienced management team implements the decisions from the Board and proposes management and investment proposals for the Board to approve. The team assumes full accountability to the Board for all operations of the Group.

# Corporate Governance Report (Continued)

## **THE BOARD (CONTINUED)**

The Independent Non-executive Directors who bring in strong expertise, contribute a more impartial view and make independent judgement on issues to be discussed at Board meetings.

The Company has received a confirmation of independence from each of the Independent Non-executive Directors. The Board considers each of them to be independent by reference to the factors stated in the GEM Listing Rules. The Independent Non-executive Directors have been expressly identified as such in all corporate communications of the Company that disclose the names of Directors.

## **Appointment and Succession Planning of Directors**

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Bye-laws.

Code A.4.1 stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election and Code A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

All Independent Non-executive Directors are appointed and entered a letter of appointment with the Company for a term of two years and renewable automatically for successive terms of one year unless terminated by three-month notice in writing served by either party. Pursuant to the Company's Bye-laws, all Directors of the Company, regardless of his/her term of appointment, if any, are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy is subject to re-election by shareholders at the first general meeting after his/her appointment. The Company in practice will observe Code A.4.2 and will ensure that any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment.

## **Chairman and Chief Executive Officer**

Code A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual.

Mr. Shiu Stephen Junior is the Chairman and Chief Executive Officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and department heads, the Board considers that vesting the roles of both Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It is in the best interest of the Group to maintain the current practice for continuous efficient operations and development of the Group.

The Board has set up the Audit Committee, Remuneration Committee and Nomination Committee on 30 September 2004, 20 June 2005 and 1 April 2012 respectively. The Committees comprise a majority of Independent Non-executive Directors and have clear written terms of reference. Details of these three Committees are set out in the paragraphs "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

## THE BOARD *(CONTINUED)*

The Board held fourteen meetings during the Year with the attendance of each Director as follows:

<b>Name of Directors</b>	<b>Attendance/Number of board meetings held during the Year</b>	<b>Attendance/Number of general meetings held during the Year</b>
<i>Executive Directors:</i>		
Shiu Stephen Junior	14/14	4/4
Sun Lap Key, Christopher	13/14	3/4
Lee Wing Ho, Albert	7/14	3/4
Chau Sai Ho, Charles (appointed on 15 February 2016)	4/4	–
<i>Independent Non-executive Directors:</i>		
Chan Chi Ho	13/14	3/4
Kam Tik Lun	13/14	4/4
Tam Kwok Ming, Banny	13/14	1/4

There was 1 additional Board meeting held for normal course of business during the Year.

Directors have access to the advice and services of the Company Secretary for ensuring that the Board procedures and all applicable rules and regulations are followed. Draft and final versions of the minutes of Board meetings and Board committee meetings, drafted in sufficient details by the secretary of the meetings, were circulated to the Directors for their comment and record respectively. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Directors. There is a procedure agreed by the Board to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules.

Upon the specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Year.

The Company also has established written guidelines on no less exacting terms than the Required Standard of Dealings (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of any unpublished inside information of the Company.

# Corporate Governance Report (Continued)

## AUDIT COMMITTEE

The Audit Committee now consists of three Independent Non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny. They possess accounting and other professional expertise. The Board has adopted a revised terms of reference on 26 March 2012 as to conform to the amended GEM Listing Rules and are posted on the websites of the Company and the Stock Exchange. The major responsibility of the Audit Committee include: (i) to review the financial information of the Group such as annual, half-year and quarterly results prior to recommending to the Board's approval; (ii) review and monitor financial reporting principles and practices; (iii) to be primarily responsible for making recommendations to the Board on the appointment and reappointment and removal of external auditor; and (iv) to oversee the financial reporting system and internal control procedures of the Group.

The Audit Committee convened five meetings during the Year with the attendance of each member as follows:

<b>Name of Committee members</b>	<b>Date of Nomination</b>	<b>Director's Attendance</b>	<b>Attendance rate</b>
Kam Tik Lun ( <i>Chairman</i> )	13 July 2010	5/5	100%
Chan Chi Ho	2 July 2010	5/5	100%
Tam Kwok Ming, Banny	15 November 2011	5/5	100%

## REMUNERATION COMMITTEE

The Remuneration Committee now consists of four members, namely Mr. Shiu Stephen Junior, an Executive Director and the Chairman of the Company, Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny. The Remuneration Committee is chaired by Mr. Kam Tik Lun. The major responsibilities of the Remuneration Committee include: (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors' and senior management and on the establishment of a formal and transparent procedure for developing such remuneration policy; (ii) to review and determine the remuneration packages of the executive directors and senior management and to ensure that no director is involved in deciding his own remuneration; and (iii) to review and make recommendations to the Board about the overall remuneration policy of the Company.

Details of the remuneration of each of the Directors for the Year are set out in note 12(a) to the consolidated financial statements.

The Remuneration Committee convened four meetings during the Year with the attendance of each member as follows:

<b>Name of Committee members</b>	<b>Director's Attendance</b>	<b>Attendance rate</b>
Kam Tik Lun ( <i>Chairman</i> )	4/4	100%
Shiu Stephen Junior	4/4	100%
Chan Chi Ho	4/4	100%
Tam Kwok Ming, Banny	4/4	100%

## NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012 and has adopted the terms of reference of Nomination Committee in full compliance with the provisions set out in the Code.

The Nomination Committee currently comprises four members: one Executive Director, Mr. Shiu Stephen Junior (Chairman), and three Independent Non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny.

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will base the priority of the criteria in the procedure (such as appropriate experience, personal skills and time commitment, etc) to identify and recommend proposed candidates to the Board.

The Nomination Committee convened two meetings during the Year with the attendance of each member as follows:

<b>Name of Committee members</b>	<b>Director's Attendance</b>	<b>Attendance rate</b>
Shiu Stephen Junior ( <i>Chairman</i> )	2/2	100%
Kam Tik Lun	2/2	100%
Chan Chi Ho	2/2	100%
Tam Kwok Ming, Banny	2/2	100%

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the Year.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 30.

## INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. The internal control system is implemented to minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business to safeguard the interests of the shareholders and the assets of the Company. The system can only provide reasonable but not absolute assurance against misstatements or losses. During the Year, the Board has conducted a review of the effectiveness of the internal control system of the Company.

## LIABILITY INSURANCE FOR THE DIRECTORS

The Company has in force appropriate insurance coverage on Director's and officer's liabilities arising from the Group's business. The Company reviews the extent of insurance coverage on an annual basis.

# Corporate Governance Report (Continued)

## SHAREHOLDERS' RIGHTS

The Company maintains an on-going dialogue with its shareholders through various channels including announcements and annual, interim and quarterly reports published on its website at [www.china3d8078.com](http://www.china3d8078.com) and the Company's general meetings. All shareholders are encouraged to attend general meetings and they may put to the Board any enquiries about the Group through its website at [www.china3d8078.com](http://www.china3d8078.com) or in writing sent to the principal office of the Company at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong.

The directors, company secretary or other appropriate members of senior management respond to enquiries from shareholders promptly. The Chairman, chairman of board committees (or their respective delegates) and external auditor attend the annual general meeting and are available to answer questions raised by shareholders. Shareholders may also access the Company's corporate website for the Group's information.

Pursuant to Bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business (including any proposals) specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner. Voting of general meetings are by way of a poll. Details of poll voting procedures are explained to shareholders at general meetings to ensure that shareholders are familiar with such procedures.

Under code provision A.6.7 independent non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

## RELATIONSHIP AMONG MEMBERS OF THE BOARD

There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship.

## INVESTOR RELATIONS

The Company maintains a website at [www.china3d8078.com](http://www.china3d8078.com) where information and updates on the Company's business developments and operations, list of Directors and their role and function, constitutional documents, terms of reference of the Board and its committees, procedures for nomination of directors for election, shareholders' rights and communication policy, corporate governance practices, announcements, circulars and reports released to the Stock Exchange and other information are posted. Information on the Company's website will be updated from time to time.

There was no significant change in the Company's constitutional documents during the Year.

## ENVIRONMENTAL ISSUES

The Company is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental policies to ensure its projects meet the required standards and ethics in respect of environmental protection.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the accounts of the Company. As at the Year, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditor on financial reporting are set out in the Independent Auditor's Report attached to the Company's Financial Statements for the Year.

The Board has regularly reviewed the effectiveness of the Company's internal control system with an aim to safeguard the shareholders' interests and the Company's assets. The purpose is to provide reasonable, but not absolute, assurance against material misstatements, errors, losses or fraud, and to manage rather than eliminate risks of failure in achieving the Company's business objectives.

## AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the consolidated financial statements. Members of the Committee are of the view that the Company's auditor, ZHONGHUI ANDA CPA Limited is independent and recommended to the Board to re-appoint it as the Company's external auditor at the forthcoming annual general meeting.

ZHONGHUI ANDA CPA Limited has rendered audit services and certain non-audit services to the Company for the Year and the remuneration paid/payable to it by the Company is set out as follows:

	<b>Fee</b>	
	HK\$'000	HK\$'000
Statutory audit services:		
– Current		710
Non-statutory audit services:		
– Tax advisory services	115	
– Others	200	315
<b>Total</b>		<b>1,025</b>

# Independent Auditor's Report



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
HMV Digital China Group Limited (formerly known as "China 3D Digital Entertainment Limited")**  
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of HMV Digital China Group Limited (formerly known as China 3D Digital Entertainment Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 102, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Directors' responsibility for the consolidated financial statements**

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

## **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## Basis for qualified opinion

(a) *Corresponding figures*

Included in the Group's investment at fair value through other comprehensive income as at 30 June 2014 was an investment in Dragonlott Holdings Limited ("DHL") of approximately HK\$46,674,000 in which the Group holds 13.28% equity interests. The directors of the Company have not been provided with any financial or other relevant information of DHL from the management of DHL and therefore it was unable to determine the fair value of the investment in DHL. The investment in DHL was fully written off during the year ended 30 June 2015. We have not been provided with sufficient audit evidence as to whether the other comprehensive loss arising from the written off of the investment in DHL should be recorded in the prior years. However, we are satisfied that the investment in DHL is fairly stated as at 30 June 2015. Any adjustment to this figure might have a consequential effect on the Group's other comprehensive loss for the year ended 30 June 2015.

(b) *Revenue and distribution costs of a firm*

As explained in note 8 to the consolidated financial statements, the directors of the Company had not been provided with sufficient information regarding the revenue from box office takings and the related distribution costs of a film. As such, we had not been provided with sufficient evidence in relation to the audit of the amounts of revenue and trade receivable from box office takings and the related distribution costs and other payables of the film. There are no other satisfactory audit procedures that we could adopt to determine the amounts of revenue from box office takings and the related distribution costs of the film for the year ended 30 June 2016 and the corresponding trade receivable and other payables as at 30 June 2016. Any adjustment to these figures might have a consequential effect on the results for the year and net assets as at 30 June 2016.

## Qualified opinion

In our opinion, except for the possible effects on the matter described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Material uncertainty relating to the going concern basis

Without further qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately HK\$181,139,000 for the year ended 30 June 2016 and as at 30 June 2016 the Group had net current liabilities of approximately HK\$16,805,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

### ZHONGHUI ANDA CPA Limited

Certified Public Accountants

### Ng Ka Lok

Practising Certificate Number P06084

Hong Kong, 30 September 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	8	228,228	111,176
Other income	9	1,800	696
Cost of film production and distribution		(140,705)	(47,190)
Cost of artiste management services and music production		(78,594)	(74,282)
Cost of cinema operation		(15,450)	(4,231)
Selling and distribution costs		(19,470)	(17,481)
Administrative expenses		(130,288)	(64,008)
Finance costs	10	(10,814)	(4,989)
Change in fair value of investments at fair value through profit or loss		(17,688)	3,116
Change in fair value of derivative financial instruments		(2,349)	–
Share of results of associates		1,057	577
Share of results of a joint venture		3	22
Loss before taxation	11	(184,270)	(96,594)
Income tax credit/(expense)	13	3,131	(36)
<b>Loss for the year</b>		<b>(181,139)</b>	(96,630)
<b>Other comprehensive loss:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(1,888)	(54)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Changes in fair value of investments at fair value through other comprehensive income		(640)	(54,842)
<b>Total other comprehensive loss for the year, net of tax</b>		<b>(2,528)</b>	(54,896)
<b>Total comprehensive loss for the year</b>		<b>(183,667)</b>	(151,526)
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company		(182,704)	(97,094)
Non-controlling interests		1,565	464
		(181,139)	(96,630)
<b>Total comprehensive (loss)/profit for the year attributable to:</b>			
Owners of the Company		(185,232)	(151,990)
Non-controlling interests		1,565	464
		(183,667)	(151,526)
<b>Loss per share</b>			(Restated)
Basic and diluted	15	HK(5.73) cent	HK(20.69) cent

# Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	54,318	15,663
Intangible assets	17	3,621	–
Interest in associates	18	27,658	5,467
Interest in a joint venture	19	110	107
Investments at fair value through other comprehensive income	20	18,787	21,976
Prepayments, deposits and other receivables	21	60,549	83,636
Film rights and films production in progress	22	173,520	196,009
Loans receivables	23	214	7,626
Deferred tax assets	24	3,124	–
		<b>341,901</b>	330,484
<b>Current assets</b>			
Inventories	25	214	60
Loans receivables	23	38,199	43,505
Trade receivables	26	15,172	3,971
Prepayments, deposits and other receivables	21	74,451	16,228
Investments at fair value through profit or loss	27	27,728	–
Pledged bank deposits	28	8,070	6,032
Bank and cash balances	28	46,108	20,722
		<b>209,942</b>	90,518
<b>Current liabilities</b>			
Trade payables	29	21,391	9,621
Accruals, deposits received and other payables	30	70,739	63,952
Other borrowings	31	118,372	49,728
Convertible bonds	32	2,000	2,000
Promissory note payable	33	14,160	14,160
Finance lease payables	34	85	365
Tax payables		–	9
		<b>226,747</b>	139,835
<b>Net current liabilities</b>		<b>(16,805)</b>	(49,317)
<b>Total assets less current liabilities</b>		<b>325,096</b>	281,167
<b>Non-current liabilities</b>			
Accruals, deposits received and other payables	30	12,497	–
Finance lease payables	34	1,980	1,823
Provision for asset retirement	35	2,887	1,941
Convertible bonds	32	5,919	–
Derivative financial instruments	36	11,099	–
Deferred tax liabilities	24	113	–
		<b>34,495</b>	3,764
<b>NET ASSETS</b>		<b>290,601</b>	277,403

# Consolidated Statement of Financial Position (Continued)

**As at 30 June 2016**

	Notes	<b>2016 HK\$'000</b>	2015 HK\$'000
<b>Capital and reserves</b>			
Share capital	37	<b>38,328</b>	1,582
Reserves		<b>250,511</b>	276,435
<hr/>			
Equity attributable to owners of the Company		<b>288,839</b>	278,017
Non-controlling interests		<b>1,762</b>	(614)
<hr/>			
<b>TOTAL EQUITY</b>		<b>290,601</b>	277,403

The consolidated financial statements on pages 32 to 102 were approved and authorised for issue by the board of directors on 30 September 2016 and are signed on its behalf by:

Approved by:

**Shiu Stephen Junior**  
*Director*

**Lee Wing Ho, Albert**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Notes	Attributable to owners of the Company									Non-controlling interests	Total
		Share capital	Share premium*	Investment revaluation reserve*	Contributed surplus*	Foreign currency translation reserve*	Convertible bond equity reserve*	Share-based payment reserve*	Accumulated losses*	Sub-total		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2014		4,026	181,881	(14,591)	102,180	109	766	-	(6,680)	267,691	485	268,176
Total comprehensive loss for the year		-	-	(54,842)	-	(54)	-	-	(97,094)	(151,990)	464	(151,526)
Issue of shares upon placing	37	34,146	112,706	-	-	-	-	-	-	146,852	-	146,852
Transaction cost attributable to issue of shares		-	(3,967)	-	-	-	-	-	-	(3,967)	-	(3,967)
Bonus issue	37	115,261	(115,261)	-	-	-	-	-	-	-	-	-
Capital reorganisation	37	(159,657)	-	-	159,657	-	-	-	-	-	-	-
Share-based payments	41	-	-	-	-	-	-	3,984	-	3,984	-	3,984
Issue of shares upon exercise of share options	37	7,806	8,850	-	-	-	-	(3,984)	-	12,672	-	12,672
Lapse of convertible bond		-	-	-	-	-	(766)	-	766	-	-	-
Acquisition of partial interest in a subsidiary	43(a)	-	-	-	-	-	-	-	37	37	(484)	(447)
Capital injection by a non-controlling shareholder of a subsidiary		-	-	-	-	-	-	-	-	-	19	19
Disposal of partial interest in a subsidiary	18	-	-	-	-	-	-	-	2,738	2,738	(1,098)	1,640
At 30 June 2015 and 1 July 2015		1,582	184,209	(69,433)	261,837	55	-	-	(100,233)	278,017	(614)	277,403
Total comprehensive loss for the year		-	-	(640)	-	(1,888)	-	-	(182,704)	(185,232)	1,565	(183,667)
Issue of shares upon placing	37	8,000	192,000	-	-	-	-	-	-	200,000	-	200,000
Transaction cost attributable to issue of shares		-	(5,158)	-	-	-	-	-	-	(5,158)	-	(5,158)
Bonus issue	37	28,746	(28,746)	-	-	-	-	-	-	-	-	-
Acquisition of a subsidiary	43(b)	-	-	-	-	-	-	-	-	-	323	323
Disposal of investments at fair value through other comprehensive income		-	-	10,210	-	-	-	-	(10,210)	-	-	-
Disposal of partial interest in a subsidiary	43(c)	-	-	-	-	-	-	-	1,212	1,212	488	1,700
Contributed surplus reduction		-	-	-	(261,837)	-	-	-	261,837	-	-	-
At 30 June 2016		38,328	342,305	(59,863)	-	(1,833)	-	-	(30,098)	288,839	1,762	290,601

Note:

\* These reserve accounts comprise the consolidated reserve of approximately HK\$250,511,000 (2015: approximately HK\$276,435,000) in the consolidated statement of financial position.

# Consolidated Statement of Changes in Equity (Continued)

**For the year ended 30 June 2016**

## **Share Premium**

According to the Bermuda Companies Act 1981, the funds in the share premium account of the Company are not distributable to the shareholders of the Company. The share premium account may be applied by the Company in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; or in writing off the preliminary expenses of the Company, or the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; or in providing for the premiums payable on redemption of any shares or of any debentures of the Company.

## **Investment Revaluation Reserve**

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of investments at fair value through other comprehensive income. This amount will not be reclassified to profit or loss.

## **Contributed Surplus**

The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition and capital reduction transferred from share capital to contributed surplus account of the Company. Pursuant to a special resolution passed at a special general meeting held on 17 June 2015, the directors are authorised to apply any credit balance in the contributed surplus account of the Company in accordance with the bye-laws of the Company and all applicable laws. During the year ended 30 June 2016, the directors of the Company resolved to set-off and eliminate the accumulated losses of the Company in the amount of approximately HK\$261,837,000 with the contributed surplus account.

## **Foreign Currency Translation Reserve**

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income. Accumulated foreign currency translation reserve is reclassified to profit or loss upon the disposal of the foreign operations.

## **Convertible Bond Equity Reserve**

Under HKAS 32, convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bond equity reserve until the bonds are either converted (in which case it is transferred to share premium) or the bonds are redeemed (in which case it is released directly to retained earnings).

# Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before tax	(184,270)	(96,594)
Adjustments for:		
Amortisation of film rights	27,027	24,231
Amortisation of intangible assets	40	–
Depreciation of property, plant and equipment	4,617	3,479
Equity-settled share-based payments	–	3,984
Finance costs	10,814	4,989
Impairment loss of film rights	47,565	16,472
Impairment loss of trade receivables	390	133
Impairment loss of deposit and other receivables	100	–
Impairment loss of loan receivables	3,500	–
Impairment loss of prepayment	25,101	–
Impairment loss of goodwill	3,664	–
Written off of trade receivables	129	253
Written off of other receivables	111	686
Loss on written off of property, plant and equipment	–	83
Acquisition of investments at fair value through profit or loss	(58,725)	–
Proceeds on disposal of financial assets at fair value through profit or loss	13,309	8,195
Bank interest income	(18)	(19)
Interest income from pledged bank deposits	(171)	(172)
Gain on disposal of property, plant and equipment	(23)	–
Change in fair value of investments at fair value through profit or loss	17,688	(3,116)
Change in fair value of derivative financial instruments	2,349	–
Share of results of associates	(1,057)	(577)
Share of results of a joint venture	(3)	(22)
Operating loss before working capital change	(87,863)	(37,995)
Change in inventories	(154)	81
Change in loan receivables	9,218	(37,094)
Change in trade receivables	(11,716)	8,266
Change in prepayments, deposits and other receivables	(57,558)	61,153
Change in trade payables	11,737	(2,370)
Change in accruals, deposits received and other payables	18,897	1,994
Change in amount due from a joint venture	–	20
Cash used in operations	(117,439)	(5,945)
Income taxes paid	(9)	(40)
<b>Net cash used in operating activities</b>	<b>(117,448)</b>	<b>(5,985)</b>

# Consolidated Statement of Cash Flows (Continued)

For the year ended 30 June 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from investing activities</b>			
Additional costs incurred in and prepayment for film rights and films production in progress		(27,224)	(95,600)
Purchase of property, plant and equipment	43(d)	(42,931)	(9,027)
Proceeds from disposal of property, plant and equipment		85	–
Acquisition of investments at fair value through other comprehensive income		(3,321)	(22,302)
Disposal of investments at fair value through other comprehensive income		5,870	–
Acquisition of associates		(6,600)	(3,250)
Acquisition of a club membership		(2,930)	–
Bank interest received		18	19
Interest income from pledged bank deposits		171	172
Increase in pledged bank deposits		(2,038)	(172)
Capital injection by non-controlling shareholder of a subsidiary		–	19
<b>Net cash used in investing activities</b>		<b>(78,900)</b>	<b>(130,141)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowings		67,772	12,294
Repayment of other borrowings		(26,728)	(20,000)
Repayment of finance lease payables		(723)	–
Proceeds from issue of shares, net of transaction costs		194,842	142,885
Proceeds from exercise of share options		–	12,672
Acquisition of a subsidiary	43(b)	(3,704)	–
Acquisition of partial interest in a subsidiary	43(a)	–	(447)
Disposal of partial interest in a subsidiary	43(c)	1,700	–
Interest paid		(9,976)	(4,394)
<b>Net cash generated from financing activities</b>		<b>223,183</b>	<b>143,010</b>
<b>Net increase in cash and cash equivalents</b>			
Effect of changes in foreign exchange rate		(1,449)	(48)
Cash and cash equivalents at beginning of year		20,722	13,886
<b>Analysis of cash and cash equivalents</b>			
Bank and cash balances		46,108	20,722

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2016

## 1. GENERAL INFORMATION

The Company is incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. Its shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is 7/F, Zung Fu Industrial Building, 1067 King’s Road, Quarry Bay, Hong Kong.

The Company is an investment holding company.

The principal activities of the Company and its subsidiaries (the “Group”) are set out in the segment information in note 7 to the consolidated financial statements.

## 2. BASIS OF PREPARATION – GOING CONCERN

The Group incurred a loss of approximately HK\$181,139,000 for the year ended 30 June 2016. As at 30 June 2016, the Group has net current liabilities and cash and bank balances of approximately HK\$16,805,000 and HK\$46,108,000 respectively. In addition, as at 30 June 2016, the Group has total operating lease and capital commitments of approximately HK\$424,527,000, out of which approximately HK\$39,981,000 would require cash outflows in the coming year.

In order to improve the Group’s operating performance and alleviate its liquidity risk, the management is implementing measures to control costs and contain capital expenditures. With the anticipated positive cash flows from (i) HMV M&E Limited and its subsidiaries acquired on 3 August 2016; (ii) the films broadcasting and licensing of the corresponding rights; (iii) placing of shares and (iv) artiste management services fee, the Directors expect that the Group’s cash flows and financial position will be improved in the coming twelve months. In the opinion of the Directors, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Meanwhile, the consolidated financial statements do not account for a film distribution transaction which is explained in note 8 to the consolidated financial statements in details.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 July 2015. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective except for the early adoption of HKFRS 9 (2009) in the year ended 30 June 2015. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

# Notes to the Consolidated Financial Statements (Continued)

**For the year ended 30 June 2016**

## **4. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with HKFRSs issued and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by certain financial instruments which are carried at their fair values. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to these financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### **Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company’s share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Consolidation (continued)

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

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

### Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

### Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Associates *(continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Joint arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

### Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Property, plant and equipment

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

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates are as follows:

Leasehold improvements	Over the shorter of unexpired lease term or 20%
Computer equipment	33.33%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### Film rights and films production in progress

Film rights include the unamortised cost of completed theatrical films and television episodes, rights acquired or licensed from outsiders for exhibition and other exploitation of the films.

Film rights are stated at cost less subsequent accumulated amortisation and accumulated impairment loss.

Amortization of film rights is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are three to five years.

Films production in progress represents theatrical films and television services in production and is stated at cost incurred to date, less any identified impairment losses. Costs included all direct costs associated with the production of films. Costs are transferred to film rights upon completion.

An impairment loss is made when there has been a change in the estimate used to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Leases

(i) *Operating leases*

*The Group as lessee*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated over the shorter of the lease term and their estimated useful lives.

### Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

### Intangible assets

Intangible assets acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The principal annual rates are as follows:

Management contract	Over the unexpired contract period of 3 years
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### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost
- Investments at fair value through profit or loss
- Investments at fair value through other comprehensive income

#### *(i) Financial assets at amortised cost*

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less any impairment. An allowance for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of assets. The amount of the allowance is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the assets at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### *(ii) Investments at fair value through profit or loss*

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition as described below.

Investments at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Interest income and dividend income is recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

### Financial assets (continued)

#### *(iii) Investments at fair value through other comprehensive income*

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that is not held for trading as at fair value through other comprehensive income.

Investments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. On derecognition of an investment, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Convertible bonds

#### (a) *Compound instrument*

Convertible bond which entitles the holder to convert the bond into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity

#### (b) *Combined instrument*

Convertible bond which entitles the holder to convert the bond into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and derivative components. At the date of issue, the fair values of the derivative components are determined using an option pricing model. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Artiste management services fee income is recognised when the services are provided.
- (b) Income from film production and licensing of corresponding rights is recognised when the production is completed and released and the amount can be measured reliably.
- (c) Income from the distribution of films is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.
- (d) Income from box office takings is recognised when the services have been rendered to the buyers.
- (e) Interest income from a financial asset (including money lending) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- (f) Handling charge income is recognised when earned.

### Employee benefits

#### *(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(b) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

The Group also participates in a defined contribution retirement scheme organized by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

#### *(c) Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Taxation *(continued)*

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Segment reporting

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

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

### Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Provisions and contingent liabilities

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

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. KEY ESTIMATES AND CRITICAL JUDGEMENTS

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) *Impairment loss in respect of films production in progress*

The management of the Group reviews an aging analysis at each end of the reporting period, and identifies the slow-moving films production in progress that is no longer suitable for use in production. The management estimates the net realisable value for such films production in progress based primarily on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at the end of the reporting period and makes allowances for any films production in progress that production is no longer proceeded.

(b) *Amortisation and impairment on film rights*

The Group determines the estimated useful lives, residual values and related amortisation charges for the Group's film rights. This estimate is based on the historical experience of the actual useful lives and residual values of film rights. The Group will revise the amortisation charge where useful lives and residual values are different to those previously estimated. The Group tests annually whether the film rights have suffered any impairment. The recoverable amount of the film rights has been determined on the basis of fair value using discounted cash flow method.

(c) *Impairment loss in respect of trade receivables and loans receivables*

The policy for impairment loss in respect of trade receivables and loans receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) *Useful lives of property, plant and equipment*

In accordance with HKAS 16 "Property, Plant and Equipment", the Group estimates the useful lives of property, plant and equipment to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 5. KEY ESTIMATES AND CRITICAL JUDGEMENTS (CONTINUED)

### Key sources of estimation uncertainty (continued)

(e) *Asset retirement obligations*

The Group evaluates and recognises, on a regular basis, the present value of the obligations which arise from future reinstatement of leased premises use as cinema upon the end of lease terms. To establish the present value of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate.

(f) *Fair value of derivative component*

As disclosed in note 36 to the financial statements, the fair values of the derivative component of the convertible bond at the date of issue and the end of the reporting period were determined using option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative component in the period in which such determination is made.

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(a) *Going concern*

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the anticipated positive cash flow from (i) HMV M&E Limited and its subsidiaries acquired on 3 August 2016, (ii) the films broadcasting and licensing of the corresponding rights (iii) placing of shares and (iv) artiste management services fee, the Directors expect that the Group's cash flows and financial position will be improved in the coming twelve months. Details are explained in note 2 to consolidated financial statements.

(b) *Artiste management services fee income*

Certain artiste contracts for services are contracted for a period and include general terms which artistes are required to comply during the contract periods. In the opinion of Directors, it is not probable that the artistes will breach the general terms. As such, revenue is recognised when the artistes provide the services.

(c) *Accounting for an associate*

Although the Group owns 55% of the equity interest in GME Holdings Limited ("GME Holdings"), GME Holdings is treated as an associate because the Group is not able to control the relevant activities of GME Holdings as a result of the shareholders' agreement between the Group and other shareholders of GME Holdings.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as part of its business transactions, assets and liabilities are principally denominated in United States dollars ("US\$") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

#### *Sensitivity analysis*

As Hong Kong dollars is pegged to US\$, the currency risk associated with US\$ and HK\$ is considered minimal. The Directors of the Company are of the opinion that the Group's exposures to currency risk associated with US\$ is minimal. Accordingly, no sensitivity analysis is presented.

The Group mainly exposes to the effect of fluctuation in HK\$ against RMB.

The following table details the group entities sensitivity to a 5% increase and decrease in functional currency of the relevant group entities against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the reporting date on a 5% change in foreign currency rates. A positive number below indicates a decrease in loss where functional currency of the relevant group entities weakens 5% against the relevant foreign currency. For a 5% strengthen of functional currency of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the loss or profit, and the balance below would be negative.

	2016 HK\$'000	2015 HK\$'000
RMB	893	50

### (b) Interest rate risk

The Group's other borrowings of approximately HK\$118,372,000 (2015: HK\$48,441,000) bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 6. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (c) Price risk

The Group's investments classified as investments at fair value through other comprehensive income and investments at fair value through profit or loss are measured at fair value at the end of each reporting period and expose the Group to price risk. The management of the Group manages this exposure by maintaining a portfolio of investments with different risk profiles.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to price risk of the listed investments at the end of the reporting period.

If prices had been 5% higher/lower, the Group's consolidated loss after tax for the year would decrease/increase by HK1,386,000 (2015: HK\$nil) as the price of investments at fair value through profit or loss of HK27,728,000 (2015: HK\$nil) had been 5% higher/lower. The consolidated other comprehensive loss would decrease/increase approximately HK\$939,000 (2015: approximately HK\$1,099,000) as the price of investments at fair value through other comprehensive income of approximately HK\$18,787,000 (2015: approximately HK\$21,976,000) had been 5% higher/lower.

### (d) Credit risk

The carrying amount of the loans receivables, trade and other receivables, investments and cash and bank balances included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on investments and cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2016 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables and loan receivables. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (e) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 month or repayable on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-5 years HK\$'000	Over 5 years HK\$'000	Total	
								Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>At 30 June 2016</b>									
Trade payables	21,391	-	-	-	-	-	-	21,391	21,391
Accruals and other payables	29,123	-	-	-	-	33	12,464	41,620	41,620
Other borrowings	10,552	69,619	16,283	27,500	-	-	-	123,954	118,372
Convertible bonds	2,000	-	-	7,000	-	-	-	9,000	7,919
Promissory note payable	14,160	-	-	-	-	-	-	14,160	14,160
Finance lease payables	50	100	450	600	600	1,199	2,248	5,247	2,065
	<b>77,276</b>	<b>69,719</b>	<b>16,733</b>	<b>35,100</b>	<b>600</b>	<b>1,232</b>	<b>14,712</b>	<b>215,372</b>	<b>205,527</b>

	Less than 1 month or repayable on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-5 years HK\$'000	Over 5 years HK\$'000	Total	
								Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>At 30 June 2015</b>									
Trade payables	9,621	-	-	-	-	-	-	9,621	9,621
Accruals and other payables	15,802	-	-	-	-	-	-	15,802	15,802
Other borrowings	16,941	501	34,059	-	-	-	-	51,501	49,728
Convertible bond	2,000	-	-	-	-	-	-	2,000	2,000
Promissory note payable	14,160	-	-	-	-	-	-	14,160	14,160
Finance lease payables	53	106	476	635	635	1,112	-	3,017	2,188
	<b>58,577</b>	<b>607</b>	<b>34,535</b>	<b>635</b>	<b>635</b>	<b>1,112</b>	<b>-</b>	<b>96,101</b>	<b>93,499</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 6. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (f) Categories of financial instruments

	At 30 June	
	2016 HK\$'000	2015 HK\$'000
Financial assets:		
Investments at fair value through profit or loss	27,728	–
Investments at fair value through other comprehensive income	18,787	21,976
Financial assets at amortised cost (including bank and cash balances)	154,490	99,999
Financial liabilities:		
Financial liabilities at amortised costs	203,462	91,311

### (g) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (g) Fair values (continued)

(a) Disclosures of level in fair value hierarchy

Fair value measurements using:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 30 June 2016</b>				
<b>Recurring fair value measurements:</b>				
Investments at fair value through other comprehensive income				
Listed equity securities in Hong Kong	18,787	–	–	18,787
Investments at fair value through profit or loss				
Listed equity securities in Hong Kong	27,728	–	–	27,728
Derivative financial instruments	–	11,099	–	11,099
	<b>46,515</b>	<b>11,099</b>	<b>–</b>	<b>57,614</b>

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 30 June 2015</b>				
<b>Recurring fair value measurements:</b>				
Investments at fair value through other comprehensive income				
Listed equity securities in Hong Kong	21,976	–	–	21,976
	21,976	–	–	21,976

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

Description	Valuation technique	Inputs	Rate	Fair value 2016 HK'000
Derivative financial Instruments	Binomial model	Expected Volatility	104.51%	11,099
		Discount rate	11.31%	
		Expected dividend yield	0%	

During the year, there was no changes in the valuation techniques used.

# Notes to the Consolidated Financial Statements (Continued)

**For the year ended 30 June 2016**

## **7. SEGMENT INFORMATION**

The Group has five reportable segments as follows:

- Artiste management services and music production
- Distribution and production of films and television programmes
- Money lending
- Operation of cinemas
- Securities and bonds investment

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different expertises and marketing strategies. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" ("CODM") to make decisions about resource allocation to the segments and assess their performance.

Information regarding the above segment is reported below.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 7. SEGMENT INFORMATION (CONTINUED)

### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Artiste management services and music production		Distribution and Production of films and television programmes		Money lending		Operation of cinemas		Securities and bonds investment		Total	
	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000
REVENUE:												
Revenue from external customers	93,647	84,536	95,562	13,102	8,961	4,200	30,058	9,338	-	-	228,228	111,176
RESULTS:												
Segment (loss)/profit	(3,850)	3,893	(83,771)	(60,125)	1,814	3,066	(32,677)	(18,713)	(17,688)	3,116	(136,172)	(68,763)
Bank interest income											18	19
Interest income from pledged bank deposits											171	172
Unallocated corporate expenses											(38,533)	(23,632)
Finance costs											(10,814)	(4,989)
Share of results of associates											1,057	577
Share of results of a joint venture											3	22
Loss before taxation											(184,270)	(96,594)
Income tax credit/(expense)											3,131	(36)
Loss for the year											(181,139)	(96,630)

The accounting policies on segment reporting are the same as the Group's accounting policies. Segment results represent the profit earned by or loss incurred from each segment without allocation of unallocated corporate expenses, bank interest income, interest income from pledged bank deposits, finance costs, share of results of associates and share of results of a joint venture and taxation. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 7. SEGMENT INFORMATION (CONTINUED)

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Artiste management services and music production		Distribution and Production of films and television programmes		Money lending		Operation of cinemas		Securities and bonds investment		Total	
	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000
ASSETS:												
Segment assets	55,369	10,197	240,915	269,487	55,175	51,964	79,937	38,817	46,515	21,976	477,911	392,441
Interest in a joint venture											110	107
Interest in associates											27,658	5,467
Unallocated corporate assets											46,164	22,987
Total assets											551,843	421,002
LIABILITIES:												
Segment liabilities	48,487	11,507	53,940	51,627	35,716	6,117	31,427	8,371	10,372	12,441	179,942	90,063
Unallocated corporate liabilities											81,300	53,536
Total liabilities											261,242	143,599

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than other non-current financial asset, and unallocated head office and corporate assets as these assets are managed on a group basis; and
- all liabilities are allocated to reportable segments other than current tax liabilities, convertible bonds, promissory note, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 7. SEGMENT INFORMATION (CONTINUED)

### (c) Other segment information

The following is an analysis of the Group's other segment information for the current and prior year:

	Artiste management services and music production		Distribution and Production of films and television programmes		Money lending		Operation of cinemas		Securities and bonds investment		Total	
	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000
Capital expenditure	33	604	906	866	-	-	53,816	11,721	-	-	54,555	13,191
Depreciation of property, plant and equipment	264	287	638	539	-	-	3,683	2,045	-	-	4,585	2,871
Amortisation of film rights	-	-	27,027	24,231	-	-	-	-	-	-	27,027	24,231
Amortisation of intangible assets	40	-	-	-	-	-	-	-	-	-	40	-
Impairment loss of film rights	-	-	47,565	16,472	-	-	-	-	-	-	47,565	16,472
Impairment loss of goodwill	3,664	-	-	-	-	-	-	-	-	-	3,664	-
Impairment loss of loan receivables	-	-	-	-	3,500	-	-	-	-	-	3,500	-
Impairment loss of trade receivables	-	-	390	133	-	-	-	-	-	-	390	133
Impairment loss of deposit and other receivables	-	-	100	-	-	-	-	-	-	-	100	-
Impairment loss of prepayment	-	-	25,101	-	-	-	-	-	-	-	25,101	-

### (d) Geographical information

The Group's operations are located in Hong Kong and the PRC.

The Group's revenue from external customers classified in accordance with geographical location of customers during the reporting period and information about the non-current assets, except deferred tax assets, classified in accordance with geographical location of the assets at the end of the reporting period are detailed below.

	Revenue from customers		Non-current assets	
	2016 HK'000	2015 HK'000	2016 HK'000	2015 HK'000
Hong Kong (place of domicile)	85,993	41,769	275,354	310,036
The PRC	135,248	58,734	63,423	20,448
Taiwan	216	-	-	-
Japan	-	410	-	-
Other Asian countries (note (a))	6,271	6,370	-	-
North America (note (b))	291	3,834	-	-
European countries (note (c))	209	46	-	-
Other areas	-	13	-	-
	<b>228,228</b>	111,176	<b>338,777</b>	330,484

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 7. SEGMENT INFORMATION (CONTINUED)

### (d) Geographical information (continued)

Notes:

- (a) Other Asian countries mainly included Brunei, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, Russia and Laos.
- (b) North America included the United States and Canada.
- (c) European countries mainly included Italy, the United Kingdom, Germany, France, Switzerland, Poland, Netherlands and Belgium.

### (e) Information about major customers

Revenue from two (2015: two) customers under artiste management services and music production segment and distribution and production of films and television programmes (2015: artiste management services and music production segment) contributing over 10% of the total revenue of the Group for the year ended 30 June 2016 which amounted to approximately HK\$23,400,000 and approximately HK\$32,956,000 (2015: HK\$23,531,000 and HK\$13,335,000) respectively.

## 8. REVENUE

	2016 HK\$'000	2015 HK\$'000
Artiste management services fee income and music production	93,647	84,536
Films production and licensing of the corresponding rights (Note)	95,562	13,102
Interest income and handling charge income from money lending	8,961	4,200
Cinema operation income	30,058	9,338
	<b>228,228</b>	111,176

Note:

During the year, the Group signed cooperating distribution agreements (the "Agreements") with independent third parties (the "Investors") in relation to a distribution right of an overseas film (the "Film") to be distributed in the People's Republic of China (the "PRC"). According to the terms of the Agreements, (1) the Group and the Investors would share revenue and distribution costs of the Film on the basis of percentage of ownership on the film distribution right; and (2) one of the investor (the "Distributor") has the obligation to manage the distribution of the Film in the PRC, including but not limited to collect and check the information about the box office takings and related distribution costs regularly.

The film was broadcast in April and May 2016 in the PRC. Up to the date of this report, the Distributor has yet to finalize and provide the box office takings and related distribution costs incurred for the year ended 30 June 2016. As such, the Group is unable to estimate reliably the box office takings and related distribution costs, trade receivables and other payables and to account for the transactions in the consolidated financial statements for the year ended 30 June 2016.

The Directors of the Company estimate the expected profit from the Film will be in the range of HK\$nil to approximately HK\$12,000,000. The Group is required to share loss if the Film incurred loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 9. OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Bank interest income	18	19
Interest income from pledged bank deposits	171	172
Gain on disposal of property, plant and equipment	23	–
Others	1,588	505
	<b>1,800</b>	696

## 10. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest on other borrowings wholly repayable within one year	9,976	3,550
Interest on bank overdraft	–	844
Interest on convertible bonds	134	65
Imputed interest on promissory note payable	–	407
Finance cost on asset retirement obligations	104	53
Finance cost on finance lease liabilities	600	70
	<b>10,814</b>	4,989

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 11. LOSS BEFORE TAXATION

The Group's loss before taxation is stated after charging/(crediting):

	2016 HK\$'000	2015 HK\$'000
Staff costs (including Directors' remuneration):		
Salaries, allowances and other benefits in kind	26,148	15,262
Retirement benefits scheme contributions	1,070	692
Equity-settled share-based payments	–	3,984
<b>Total staff costs</b>	<b>27,218</b>	<b>19,938</b>
Auditors' remuneration	710	580
Amortisation of film rights*	27,027	24,231
Amortization of intangible assets	40	–
Impairment loss of goodwill	3,664	–
Cost of inventories recognised as expenses**	872	540
Depreciation of property, plant and equipment	4,617	3,479
Impairment loss of film rights*	47,565	16,472
Impairment loss of trade receivables	390	133
Impairment loss of deposit and other receivables	100	–
Impairment loss of loan receivables	3,500	–
Impairment loss of prepayment	25,101	–
Written off of trade receivables	129	253
Written off of other receivables	111	686
Minimum lease payments under operating leases:		
– Land and building	17,410	8,352
Loss on written off of property, plant and equipment	–	83
Exchange (gain)/loss	(1)	245
Change in fair value of investments at fair value through profit or loss	17,688	(3,116)
Change in fair value of derivative financial instruments	2,349	–
Gain on disposal of property, plant and equipment	(23)	–

\* Included in "Cost of film and television programmes production and distribution" of the consolidated statement of profit or loss.

\*\* Included in "Cost of cinema operation" of the consolidated statement of profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 12. DIRECTORS', SENIOR MANAGERMENTS' AND EMPLOYEES' REMUNERATION

### (a) Directors' emoluments

For the year ended 30 June 2016					
Note	Fees HK\$'000	Salaries HK\$'000	Share-based payments HK\$'000	Retirement benefits scheme HK\$'000	Total emoluments HK\$'000
<b>Executive Directors:</b>					
	–	1,200	–	18	1,218
	150	650	–	18	818
	150	500	–	18	668
(i)	–	89	–	–	89
<b>Independent Non-executive Directors:</b>					
	150	–	–	–	150
	150	–	–	–	150
	150	–	–	–	150
	<b>750</b>	<b>2,439</b>	<b>–</b>	<b>54</b>	<b>3,243</b>
For the year ended 30 June 2015					
	Fees HK\$'000	Salaries HK\$'000	Share-based payments HK\$'000	Retirement benefits scheme HK\$'000	Total emoluments HK\$'000
	–	1,200	411	18	1,629
	150	260	411	12	833
	150	358	–	18	526
<b>Independent Non-executive Directors:</b>					
	150	–	–	–	150
	150	–	–	–	150
	150	–	–	–	150
	<b>750</b>	<b>1,818</b>	<b>822</b>	<b>48</b>	<b>3,438</b>

# Chief executive of the Company

No directors waived any remuneration during the year (2015: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year (2015: Nil).

Note

(i) Appointed as an executive director on 15 February 2016.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 12. DIRECTORS', SENIOR MANAGERMENTS' AND EMPLOYEES' REMUNERATION *(CONTINUED)*

### (b) Employees' emoluments

The five highest paid individuals for the year included three directors (2015: two) whose emoluments are set out in (a) above. The emoluments of the two (2015: three) individuals of which two (2015: two) are senior management are as follows:

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Salaries and other benefits	<b>1,698</b>	1,605
Retirement benefits scheme contributions	<b>36</b>	42
Equity-settled share-based payments	–	791
	<b>1,734</b>	2,438

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	<b>2016</b>	2015
Nil – HK\$1,000,000	<b>2</b>	3

During the year, no emoluments (2015: Nil) were paid by the Group to the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 13. INCOME TAX (CREDIT)/EXPENSE

	2016 HK\$'000	2015 HK\$'000
Current tax:		
Hong Kong		
– Charge for the year	–	36
Deferred tax (note 24)	<b>(3,131)</b>	–
	<b>(3,131)</b>	36

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss as follows:

	2016 HK\$'000	2015 HK\$'000
Loss before taxation	<b>(184,270)</b>	(96,594)
Hong Kong Profits Tax at 16.5% (2015: 16.5%)	<b>(30,405)</b>	(15,938)
Tax effect of share of results of a joint venture	<b>(1)</b>	(4)
Tax effect of share of results of associates	<b>(174)</b>	(95)
Tax effect of expenses non-deductible for tax purpose	<b>10,846</b>	8,853
Tax effect of income not taxable for tax purpose	<b>(54)</b>	(60)
Tax effect of tax losses not recognised	<b>19,139</b>	7,799
Tax effective of utilisation of tax losses previously not recognised	<b>(1,348)</b>	(222)
Effect of different tax rate of subsidiaries operating in other jurisdictions	<b>(1,408)</b>	(1,000)
Tax effect of other temporary differences not recognised	<b>274</b>	706
Over-provision in prior years	–	(3)
Tax (credit)/charge for the year	<b>(3,131)</b>	36

## 14. DIVIDEND

The Directors of the Company did not recommend the payment of any dividend for the years ended 30 June 2016 and 2015.

## 15. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$182,704,000 (2015: approximately HK\$97,094,000) and the weighted average number of 3,186,091,557 (2015: 469,205,349 (restated)) ordinary shares of the Company in issue during the year.

The weighted average number of shares for the purposes of calculating basis and diluted loss per share for the year ended 30 June 2015 has been adjusted and restated to reflect the bonus issue occurred during the year.

As the exercise of the Group's outstanding convertible bonds for the years ended 30 June 2016 and 2015 would be anti-dilutive, no diluted loss per share was presented.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST:						
At 1 July 2014	2,698	1,060	1,373	3,067	1,062	9,260
Exchange realignment	(6)	–	(2)	(2)	–	(10)
Additions	6,825	705	1,127	3,929	605	13,191
Written off	(233)	–	–	–	–	(233)
At 30 June 2015 and 1 July 2015	9,284	1,765	2,498	6,994	1,667	22,208
Exchange realignment	(403)	(6)	(57)	(176)	–	(642)
Additions	28,370	221	12,036	2,537	718	43,882
Disposals	–	–	–	–	(617)	(617)
At 30 June 2016	37,251	1,980	14,477	9,355	1,768	64,831
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 July 2014	1,916	248	426	187	443	3,220
Exchange realignment	(4)	–	–	–	–	(4)
Provided during the year	1,607	255	477	867	273	3,479
Eliminated on written off	(150)	–	–	–	–	(150)
At 30 June 2015 and 1 July 2015	3,369	503	903	1,054	716	6,545
Exchange realignment	(72)	(1)	(11)	(10)	–	(94)
Provided during the year	1,802	388	992	1,100	335	4,617
Eliminated on disposals	–	–	–	–	(555)	(555)
At 30 June 2016	5,099	890	1,884	2,144	496	10,513
CARRYING AMOUNTS:						
At 30 June 2016	32,152	1,090	12,593	7,211	1,272	54,318
At 30 June 2015	5,915	1,262	1,595	5,940	951	15,663

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 17. INTANGIBLE ASSETS

	<b>Club membership</b> HK\$'000	<b>Management contract</b> HK\$'000	<b>Total</b> HK\$'000
Cost:			
At 1 July 2015	–	–	–
Additions	2,930	–	2,930
Acquisition of a subsidiary (note 43 (b))	–	731	731
At 30 June 2016	2,930	731	3,661
Accumulated amortization:			
At 1 July 2015	–	–	–
Charged for the year	–	40	40
At 30 June 2016	–	40	40
Carrying amounts:			
At 30 June 2016	2,930	691	3,621
At 30 June 2015	–	–	–

The Group's club membership of HK\$2,930,000 (2015: HK\$nil) at 30 June 2016 is assessed as having indefinite useful life because there is no time limit that the Group can enjoy the services provided by that club.

The recoverable amounts of the club membership is determined on the basis of fair value less costs of disposal by reference to market price as at 30 June 2016 (level 3 fair value measurements).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 18. INTEREST IN ASSOCIATES

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Unlisted investments:		
Share of net assets	<b>7,559</b>	2,217
Goodwill	<b>20,099</b>	3,250
	<b>27,658</b>	5,467

The following table shows information of associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

	Starz Holdings Limited	Vision Lion Limited	GME Holdings Limited
Principal place of business	Hong Kong	Hong Kong	Hong Kong
Country of incorporation	BVI	Hong Kong	Hong Kong
Principal activities	Model management	Holding of a cruiser	Artiste management
% of ownership interests	40%	25%	55%
	HK\$'000	HK\$'000	HK\$'000
At 30 June 2016:			
Non-current assets	8,329	11,250	–
Current assets	9,614	1	6,949
Non-current liabilities	(1,294)	–	–
Current liabilities	(5,794)	(16)	(6,203)
Net assets	10,855	11,235	746
Group's share of net assets	4,341	2,808	410
Goodwill	16,849	2	3,248
Group's share of carrying amount of interests	21,190	2,810	3,658

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 18. INTEREST IN ASSOCIATES (CONTINUED)

	Vision Lion Limited	GME Holdings Limited
	HK\$'000	HK\$'000
At 30 June 2015:		
Non-current assets	13,000	–
Current assets	2	9,487
Current liabilities	(9)	(11,361)
Net assets/(liabilities)	12,993	(1,874)
Group's share of net assets/(liabilities)	3,248	(1,031)
Goodwill	2	3,248
Group's share of carrying amount of interests	3,250	2,217

	Starz Holdings Limited	Vision Lion Limited	GME Holdings Limited
	HK\$'000	HK\$'000	HK\$'000
	Period from 21 April 2016 to 30 June 2016	Year ended 30 June 2016	Year ended 30 June 2016
	HK\$'000	HK\$'000	HK\$'000
Year ended 30 June 2016:			
Revenue	6,877	–	12,758
Profit/(loss) from operations	139	(1,758)	2,619
Profit and total comprehensive income/(loss) for the period/year	139	(1,758)	2,619

	Vision Lion Limited	GME Holdings Limited
	Period from 16 June 2015 to 30 June 2015	Period from 6 May 2015 to 30 June 2015
	HK\$'000	HK\$'000
Year ended 30 June 2015:		
Revenue	–	3,079
Profit from operations	–	1,048
Profit and total comprehensive income for the period	–	1,048

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 18. INTEREST IN ASSOCIATES *(CONTINUED)*

Note:

### (a) Disposal of 20% interest in a subsidiary as a consideration for acquisition of an associate

On 4 May 2015, GME Innotainment, Inc. (formerly known as Great China Mania Holdings Inc.), an independent third party of the Group, and GME China Entertainment Limited ("GME"), a wholly-owned subsidiary of the Company, entered into an agreement in relation to the acquisition of 55% of the issued share capital of GME Holdings Limited by GME, which was satisfied by the allotment and issue of 2,500 new shares of GME at a consideration of approximately HK\$19,000, representing 20% of the enlarged issued share capital of GME, as the consideration of the acquisition.

The effect of change in the ownership interests of GME on the equity attributable to owners of the Company during the year is summarised as follows:

	HK\$'000
Disposal of 20% interest in a subsidiary	1,098
Fair value of 20% interest in a subsidiary for acquiring 55% interest in GME Holdings	1,640
	<hr/>
Movement in parent equity	2,738

### (b) Acquisition of Starz Holdings Limited ("Starz Holdings")

On 14 December 2015, Mr. Stephen Chau, an independent third party of the Group, and Double Spirit Development Limited, a wholly-owned subsidiary of the Company, entered into an agreement in relation to the acquisition of 40% of the issued share capital of Starz Holdings Limited, which was satisfied by cash consideration of HK\$6,600,000 and convertible bonds of HK\$7,000,000 issued by the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 19. INTEREST IN A JOINT VENTURE

	2016 HK\$'000	2015 HK\$'000
Unlisted investments in Hong Kong: Share of net assets	110	107

Details of the Group's joint venture at 30 June 2016 and 2015 are as follows:

The summarised financial information in respect of the Group's joint venture which is accounted for using equity method is set out below:

Name	Principal place of business and country of incorporation	Percentage of ownership interest		Principal activities												
		2016	2015													
Mustard Seed Entertainment Company Limited	Hong Kong	50%	50%	Provision for consultancy service												
<table> <thead> <tr> <th></th> <th style="text-align: right;">2016 HK\$'000</th> <th style="text-align: right;">2015 HK\$'000</th> </tr> </thead> <tbody> <tr> <td><b>At 30 June:</b> Carrying amount of interest</td> <td style="text-align: right;">110</td> <td style="text-align: right;">107</td> </tr> <tr> <td><b>Year ended 30 June:</b> Revenue</td> <td style="text-align: right;">50</td> <td style="text-align: right;">550</td> </tr> <tr> <td>Profit and total comprehensive income for the year</td> <td style="text-align: right;">6</td> <td style="text-align: right;">45</td> </tr> </tbody> </table>						2016 HK\$'000	2015 HK\$'000	<b>At 30 June:</b> Carrying amount of interest	110	107	<b>Year ended 30 June:</b> Revenue	50	550	Profit and total comprehensive income for the year	6	45
	2016 HK\$'000	2015 HK\$'000														
<b>At 30 June:</b> Carrying amount of interest	110	107														
<b>Year ended 30 June:</b> Revenue	50	550														
Profit and total comprehensive income for the year	6	45														

## 20. INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016 HK\$'000	2015 HK\$'000
Listed securities – Equity securities listed in Hong Kong, at fair value	18,787	21,976

Notes:

These investments are designated as at fair value through other comprehensive income in order to avoid volatility to the profit or loss arising from the changes in fair values of the investments.

The fair values of listed securities are based on current bid prices.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 HK\$'000	2015 HK\$'000
Prepayments	(a)	113,374	81,721
Deposits and other receivables		46,827	18,143
Less: Impairment loss		(25,201)	–
		<b>135,000</b>	99,864

The amounts of prepayments, deposits and other receivables are analysed for reporting purpose as follow:

		2016 HK\$'000	2015 HK\$'000
<b>Non-current portion</b>			
Prepayments	(a)	47,721	76,083
Deposits	(b)	12,828	7,553
		<b>60,549</b>	83,636
<b>Current portion</b>			
Prepayments	(a)	40,552	5,638
Deposits		181	4,364
Other receivables	(c)	33,718	6,226
		<b>74,451</b>	16,228
		<b>135,000</b>	99,864

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes:

- (a) Prepayments mainly represent upfront payments for film productions, distribution rights and prepaid administrative expenses. As at 30 June 2016 and 2015, the amounts of prepayments, deposits and other receivables that were expected to be released within twelve months from the end of the reporting period was classified as current assets. The remaining balances were classified as non-current assets.

Non-current portion of prepayments mainly comprised of prepayments for film production costs.

The amounts of prepayments at the end of the reporting period are analysed for reporting purpose as follows:

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Prepayments, net of impairment loss for:		
Acquisition of film distribution rights	<b>5,981</b>	33,764
Film and television programmes production costs	<b>35,428</b>	32,524
Film promotion costs	<b>322</b>	2,360
Artiste fee	<b>40,380</b>	9,657
Opening of cinemas	–	1,186
Investment	<b>5,425</b>	–
Others	<b>737</b>	2,230
	<b>88,273</b>	81,721
Less: Non-current portion	<b>(47,721)</b>	(76,083)
Current portion	<b>40,552</b>	5,638

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of prepayments, deposits and other receivables mentioned above. The Group does not hold any collateral over these balances.

The movements in the provision for impairment of prepayment, deposits and other receivables are as follows:

	<b>2016</b> <b>HK\$'000</b>
Provision for the year and at 30 June	<b>25,201</b>

Provision for impairment of prepayment, deposits and other receivables of approximately HK\$25,201,000, included impairment of prepayment of approximately HK\$22,147,000 (2015: nil) because the Group withdrew investments in certain films or decided not to proceed certain films production.

- (b) Non-current portion of deposits comprised of rental deposits for cinemas leased by the Group in the PRC. The anticipated lease terms of the cinema is over twelve months from the end of the reporting period.
- (c) Current portion of other receivables included a payment of HK\$14,160,000 to High Court in respect of a legal proceeding (Note 46).

Other receivables of approximately HK\$11,306,000 (2015: HK\$nil) are denominated in RMB.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 22. FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

	Film rights HK\$'000	Films production in progress HK\$'000	Total HK\$'000
<b>Cost:</b>			
At 1 July 2014	147,252	94,226	241,478
Additions	7,508	63,738	71,246
Transfer to film rights	13,200	(13,200)	–
At 30 June 2015 and 1 July 2015	167,960	144,764	312,724
Additions	9,675	42,428	52,103
Transfer to film rights	40,382	(40,382)	–
At 30 June 2016	218,017	146,810	364,827
<b>Accumulated amortisation and impairment:</b>			
At 30 June 2014	76,012	–	76,012
Charge for the year	24,231	–	24,231
Impairment loss recognised	16,472	–	16,472
At 30 June 2015 and 1 July 2015	116,715	–	116,715
Charge for the year	27,027	–	27,027
Impairment loss recognised	47,565	–	47,565
At 30 June 2016	191,307	–	191,307
Carrying values:			
At 30 June 2016	26,710	146,810	173,520
At 30 June 2015	51,245	144,764	196,009

- (a) The Group carried out reviews of the recoverable amount of its film rights with average useful life of three to five years in 2016 with regard to the market conditions of the Group's products. These assets are used in the Group's production of films and television programmes segment. The review led to the recognition of an impairment loss of approximately HK\$47,565,000 (2015: approximately HK\$16,472,000) that have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their fair value less cost of disposal using discounted cash flow method (Level 3 fair value measurement). The discount rate used was 17.9% (2015: 15.8%).
- (b) Film production in progress represents films under production. The Directors of the Company assess its recoverability and no impairment loss has been recognised for the years ended 30 June 2016 and 2015. The estimated recoverable amount was determined based on the best estimation of the management on expected future revenue less the relevant costs arising from the distribution and sub-licensing of the film products.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 23. LOANS RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Loans receivables	41,913	51,131
Less: Impairment loss	(3,500)	–
	<b>38,413</b>	51,131
Analysed as:		
Non-current assets	214	7,626
Current assets	38,199	43,505
	<b>38,413</b>	51,131

The movements in the provision for impairment of loans receivables during the year are as follows:

	2016 HK\$'000
Provision for the year and at 30 June	<b>3,500</b>

As at 30 June 2016, loan with principal amount of approximately HK\$22,600,000 is guaranteed by an independent third party and secured by zero coupon convertible bonds (the "Zero Coupon CB") of HK\$58,000,000 which is due in December 2016 and issued by a Hong Kong listed company to the borrower. Zero Coupon CB of HK\$14,500,000 is used to secured a borrowing of HK\$8,000,000 of the Group as at 30 June 2016 (note 31).

As at 30 June 2016, certain term loans with principal amount of HK\$ nil (2015: approximately HK\$12,297,000) are secured by customers' pledged properties at fair value of HK\$ nil (2015: approximately HK\$21,050,000).

All loans receivables are denominated in HK\$ and carried at fixed effective interest ranging from 5% to 36% (2015: 10% to 36%) per annum and with the terms ranging from 30 days to 4 years (2015: 30 days to 20 years).

The following is an aging analysis for the loans receivables, based on loan drawn down date, at the end of the reporting period:

	2016 HK\$'000	2015 HK\$'000
0 to 30 days	3	10,012
31 to 90 days	–	–
91 to 180 days	4,294	–
181 to 365 days	34,116	38,640
Over 365 days	–	2,479
	<b>38,413</b>	51,131

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 23. LOANS RECEIVABLES (CONTINUED)

At the end of the reporting period, the aging analysis of loans receivables that were neither individually nor collectively considered to be impaired is as follow:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	15,813	51,129
Less than 60 days past due	–	2
61 to 90 days past due	–	–
91 to 180 days past due	22,600	–
	<b>38,413</b>	51,131

## 24. DEFERRED TAX ASSETS/(LIABILITIES)

The following are the major deferred tax liabilities and assets recognised by the Group.

	Intangible assets HK\$'000	Deferred rent HK\$'000	2016 HK\$'000
At 1 July	–	–	–
Acquisition of a subsidiary (note 43 (b))	(120)	–	(120)
Credited to consolidated profit or loss	7	3,124	3,131
At 30 June	(113)	3,124	3,011

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2016 HK\$'000
Deferred tax liabilities	(113)
Deferred tax assets	3,124
	<b>3,011</b>

At the end of the reporting period, subject to agreement by tax authorities, the Group has unused tax losses of approximately HK\$259,385,000 (2015: HK\$152,582,000) available for offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future income stream. At 30 June 2016, approximately HK\$9,325,000 (2015: HK\$7,075,000) included in the above unused tax losses will expire in 2020. Other tax losses may be carried forward indefinitely.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 25. INVENTORIES

	<b>2016 HK\$'000</b>	2015 HK\$'000
Finished goods	<b>214</b>	60

## 26. TRADE RECEIVABLES

	<b>2016 HK\$'000</b>	2015 HK\$'000
Trade receivables	<b>15,172</b>	3,971

- (a) The Group allows credit periods of up to 60 days to its trade debtors. Based on the repayment pattern of the debtors of the Group, trade receivables which are past due but not impaired are eventually recoverable. The management of the Group closely monitors the credit quality of debtors and considers the trade receivables that are neither past due nor impaired to be of a good credit quality with reference to their repayment history. The Group does not hold any collateral over these balances.
- (b) At the end of the reporting period, the aging analysis of the trade receivables, based on invoice date and net of impairment losses, is as follows:

	<b>2016 HK\$'000</b>	2015 HK\$'000
0 to 90 days	<b>14,732</b>	2,147
91 to 180 days	<b>111</b>	10
181 days to 365 days	<b>143</b>	345
Over 365 days	<b>186</b>	1,469
	<b>15,172</b>	3,971

- (c) As of 30 June 2016, trade receivables of approximately HK\$613,000 (2015: HK\$2,449,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	<b>2016 HK\$'000</b>	2015 HK\$'000
Neither past due nor impaired	<b>14,559</b>	1,522
0 -90 days past due	<b>231</b>	625
91 - 120 days past due	<b>53</b>	10
181 -365 days past due	<b>143</b>	345
Over 365 days past due	<b>186</b>	1,469
	<b>613</b>	2,449
	<b>15,172</b>	3,971

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 26. TRADE RECEIVABLES (CONTINUED)

(d) The movements in the provision for impairment of trade receivables during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 July	133	–
Provision for the year	390	133
At 30 June	523	133

(e) As explained in note 8 to the consolidated financial statements, the Group is unable to estimate reliably the revenue from the box office takings of the Film and therefore the trade receivables at the end of reporting period. As such, this trade receivables balance of approximately HK\$15,172,000 does not include the receivable amount arising from the Film.

## 27. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK\$'000	2015 HK\$'000
Equity securities listed in Hong Kong, at fair value	27,728	–

The fair values of the financial assets are based on current bid prices.

## 28. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
RMB	13,345	9,356
US\$	967	4,983
HK\$	39,862	12,411
Others	4	4
	54,178	26,754
Less: Pledged bank deposits	(8,070)	(6,032)
	46,108	20,722

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Regulations.

Bank balances carry interest at market rates at approximately 0.01% (2015: 0.01%) per annum.

At 30 June 2016, the Group pledged fixed deposit of approximately HK\$8,070,000 (2015: approximately HK\$6,032,000) to a bank to secure a guarantee of approximately RMB6,454,000 (2015: RMB4,500,000) provided by the bank. The deposits are in RMB and at fixed interest rate of 2.1%-3.9% per annum (2015: 3.5% per annum) and therefore are subject to foreign currency risk and fair value interest rate risk.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 29. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2016 HK\$'000	2015 HK\$'000
0 – 90 days	18,797	6,548
91 – 180 days	2,410	1,355
181 -365 days	50	48
Over 365 days	134	1,670
	<b>21,391</b>	9,621

## 30. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	Notes	2016 HK\$'000	2015 HK\$'000
Accruals		21,649	5,536
Deposits received	(b)	41,616	48,150
Other payables	(a)	19,971	10,266
		<b>83,236</b>	63,952

The amounts of accruals, deposits received and other payables are analysed for reporting purpose as follow:

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current portion</b>			
Other payables	(a)	12,497	–
<b>Current portion</b>			
Accruals		21,649	4,589
Deposits received	(b)	41,616	49,097
Other payables	(c)	7,474	10,266
		<b>70,739</b>	63,952
		<b>83,236</b>	63,952

Notes:

- (a) The amount represents accrued effective rent payables.
- (b) The amount represents mainly the deposits received for film distribution and provision of artiste services. Deposits received of approximately HK\$4,500,000 (2015: approximately HK\$3,750,000) is guaranteed by a Director of the Company.
- (c) Other payables include amount due to an associate of approximately HK\$1,311,000.
- (d) As explained in note 8 to the consolidated financial statements, the Group is unable to estimate reliably the distribution costs of the Film and therefore the other payables at the end of reporting period. As such, this other payables balance of approximately HK\$19,971,000 does not include the payables amount arising from the Film.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 31. OTHER BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Secured	63,000	30,000
Unsecured	55,372	19,728
	<b>118,372</b>	49,728

Other borrowings of HK\$63,000,000 (2015: HK\$30,000,000) are secured by the followings:

	2016 HK\$'000	2015 HK\$'000
Personal guaranteed by a director	30,000	30,000
HK\$14,500,000 Zero Coupon CB (note 23)	8,000	–
25% of equity interest in a subsidiary	25,000	–
	<b>63,000</b>	30,000

Interest rate of other borrowings are as follows:

	2016 HK\$'000	2015 HK\$'000
Interest free	–	1,287
3% per month	–	3,000
5% per annum	25,000	–
8% per annum	1,777	–
9% per annum	3,000	3,000
10% per annum	62,000	30,000
11% per annum	–	12,441
12% per annum	18,595	–
15% per annum	8,000	–
	<b>118,372</b>	49,728

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 32. CONVERTIBLE BONDS

	Notes	2016 HK\$'000	2015 HK\$'000
Convertible bonds classified as			
Compound instrument	(a)	2,000	2,000
Combined instrument	(b)	5,919	–
		<b>7,919</b>	2,000

The movement of the liability component of the convertible bond for the years ended 30 June 2016 and 2015 is set out below:

	2016 HK\$'000	2015 HK\$'000
At 1 July	2,000	1,947
Issue of convertible bond	5,785	–
Interest charged for the year	134	65
Interest paid for the year	–	(12)
At 30 June	<b>7,919</b>	2,000

Notes:

- (a) The bond bears interest from the date of issue at a rate of the HIBOR plus 2% per annum and matured on 20 October 2014.

The adjusted price at 20 October 2014, date of mature, was HK\$0.610.

The interest charged for the year was calculated by applying an effective interest rate of 11.37% to the liability component for prior years before maturity.

- (b) On 21 April 2016, the Group issued zero coupon convertible bonds with a nominal value of HK\$7,000,000. The bonds are convertible at the option of the bond holders into fully paid ordinary shares with a par value of HK\$0.01 each on or after 21 April 2016 up to and including 31 December 2017 at an initial conversion price of HK\$0.3735 per share. Any convertible bonds not converted will be redeemed on 3 December 2017 at the principal amount.

The issue of the convertible bonds has been split between the liability and derivative components as follows:

	2016 HK\$'000
Fair value of convertible bonds	14,535
Derivative component	(8,750)
Liability component at date of issue	5,785
Interest charged	134
Liability component at 30 June 2016	<b>5,919</b>

The interest charged for the year is calculated by applying an effective interest rate of 11.92% to the liability component for the two month period since the bonds were issued.

The Directors estimate the fair values of the liability component of the convertible bonds at 30 June 2016 approximate to be approximately HK\$5,919,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 33. PROMISSORY NOTE PAYABLE

On 18 January 2010, the Company issued a promissory note (the "Note") to settle part of the consideration in the acquisition of the investments in Dragonlott Holdings Limited ("DHL").

The amount is unsecured and interest free. The principal sum of HK\$14,160,000 is to be repaid on the date falling five years from 18 January 2010. The fair value of HK\$10,834,000 on initial recognition is measured by computing the present value of estimated future cash flows at the effective interest rate of 5.5%.

During the year, imputed interest of HK\$ nil (2015: HK\$407,000) was charged to the consolidated profit or loss.

## 34. FINANCE LEASE PAYABLES

	<b>Minimum lease payments 2016 HK\$'000</b>	<b>Present value of minimum lease payments 2016 HK\$'000</b>	Minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2015 HK\$'000
Within one year	600	85	635	365
In the second to fifth years, inclusive	2,399	613	2,382	1,823
After five years	2,248	1,367	–	–
	<b>5,247</b>	<b>2,065</b>	3,017	2,188
Less: Future finance charges	<b>(3,182)</b>	<b>N/A</b>	(829)	N/A
Present value of lease obligations	<b>2,065</b>	<b>2,065</b>	2,188	2,188
Less: Amount due for settlement within 12 months (shown under current liabilities)		<b>(85)</b>		(365)
Amount due for settlement after 12 months		<b>1,980</b>		1,823

It is the Group's policy to lease certain of its equipment's under finance leases. The lease term is 10 years. At 30 June 2016, the average effective borrowing rate was 25% (2015: 12.37%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 35. PROVISION FOR ASSET RETIREMENT

Under the terms of the tenancy agreements signed with landlords, the Group shall vacate and re-instate the leased cinema premises at the Group's cost upon expiry of the relevant tenancy agreements in 13 to 19 years. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred. Movements of provision for asset retirement are as follows:

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
At 1 July	<b>1,941</b>	–
Additions	<b>951</b>	1,888
Finance cost on asset retirement obligations (note 10)	<b>104</b>	53
Exchange realignment	<b>(109)</b>	–
At 30 June	<b>2,887</b>	1,941

## 36. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Embedded derivatives in convertible bonds	<b>11,099</b>	–

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 37. SHARE CAPITAL

	Number of shares		Amount	
	2016 '000	2015 '000	2016 HK\$'000	2015 HK\$'000
Ordinary shares of HK\$0.01 each (2015: HK\$0.01 each)				
<b>Authorised:</b>				
At the beginning of the year	<b>20,000,000</b>	20,000,000	<b>200,000</b>	100,000
Share consolidation (note (b))	–	(16,000,000)	–	–
Increase (note (b))	–	4,000,000	–	100,000
Capital reorganisation (note (d), (f))	–	12,000,000	–	–
At the end of the year	<b>20,000,000</b>	20,000,000	<b>200,000</b>	200,000

Ordinary shares of HK\$0.01 each  
(2015: HK\$0.01 each)

	Number of shares		Amount	
	2016 '000	2015 '000	2016 HK\$'000	2015 HK\$'000
<b>Issued and fully paid:</b>				
At the beginning of the year	<b>158,189</b>	805,226	<b>1,582</b>	4,026
Issue of shares upon placing (note (a), (c), (e), (h))	<b>800,000</b>	2,644,900	<b>8,000</b>	34,146
Bonus issue (note (b), (i))	<b>2,874,568</b>	4,610,453	<b>28,746</b>	115,261
Share consolidation (note (b))	–	(1,844,181)	–	–
Capital reorganisation (note (d), (f))	–	(6,382,612)	–	(159,657)
Issue of share upon exercise of share options (note (g))	–	324,403	–	7,806
At the end of the year	<b>3,832,757</b>	158,189	<b>38,328</b>	1,582

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 37. SHARE CAPITAL (CONTINUED)

Notes:

For the year ended 30 June 2015

- (a) On 5 June 2014, the Company entered into a placing agreement to place a maximum number of 1,500,000,000 shares in a maximum of 4 tranches (in which each tranche shall not be less than 375,000,000 placing shares) to not less than six independent placees at a price of HK\$0.07 per share.

On 31 July 2014, the Company completed the placing, in which 1,500,000,000 shares were placed to not less than six placees at HK\$0.07 per share by one single tranche. The net proceeds of approximately HK\$102,216,000 were raised from the placing.

- (b) By ordinary resolutions dated 1 September 2014, the Company implemented (i) share consolidation whereby every five issued and unissued share of par value of HK\$0.005 each be consolidated into one share of par value of HK\$0.025; (ii) to increase the authorised share capital of the Company from HK\$100,000,000 divided into 4,000,000,000 shares to HK\$200,000,000 divided into 8,000,000,000 shares by the creation of an additional 4,000,000,000 shares; and (iii) bonus issue of new shares on the basis of ten bonus shares for every one share.

The share consolidation and increase in authorised share capital were become effective on 2 September 2014.

On 22 September 2014, the Company completed the bonus issue, in which, the share premium reduction for the year ended 30 June 2015 of approximately HK\$115,261,000 was credited to share capital and the same amount was debited to the share premium account.

- (c) On 1 December 2014, the Company entered into a placing agreement to place a maximum number of 1,013,100,000 shares to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons at the placing price of HK\$0.027 per share.

On 12 December 2014, the Company completed the placing, in which 1,013,100,000 placing shares were issued at a placing price of HK\$0.027 each. The net proceeds of approximately HK\$26,592,000 were raised from the placing.

- (d) By a special resolution dated 13 January 2015, the Company implemented capital reorganisation which involves (i) every ten issued and unissued shares of HK\$0.025 each be consolidated into one consolidated share of HK\$0.25; (ii) the existing issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.24 on each of the issued consolidated shares such that the nominal value of each issued consolidated share be reduced from HK\$0.25 to HK\$0.01 (the "Capital Reduction"); (iii) each of the authorised but unissued shares of HK\$0.25 each (including those arising from the Capital Reduction) be sub-divided into 25 shares of HK\$0.01 each; and (iv) the credit arising from the Capital Reduction of approximately HK\$153,329,000 be transferred to the contributed surplus account of the Company.

- (e) On 1 April 2015, the Company entered into a placing agreement to place a maximum number of 131,800,000 shares to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons at the placing price of HK\$0.11 per placing share.

On 17 April 2015, the Company completed the placing, in which 131,800,000 placing shares were issued at a placing price of HK\$0.11 each. The net proceeds of approximately HK\$14,077,000 were raised from the placing.

- (f) By a special resolution dated 17 June 2015, the Company implemented capital reorganisation which involves (i) every five issued and unissued shares of HK\$0.01 each be consolidated into one share of HK\$0.05 each; (ii) the existing issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.04 on each of the issued consolidated shares such that the nominal value of each issued share be reduced from HK\$0.05 to HK\$0.01 (the "Second Capital Reduction"); (iii) each of the authorised but unissued shares of HK\$0.05 each (including those arising from the Second Capital Reduction) be sub-divided into five shares of HK\$0.01 each; and (iv) the credit arising in the books of the Company from the Second Capital Reduction (being approximately HK\$6,328,000) be credited to the contributed surplus account of the Company and the Directors be authorised to apply any credit balance in the contributed surplus account of the Company in accordance with the byelaws of the Company and all applicable laws (including the application of such credit balance to set off against the accumulated losses of the Company).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 37. SHARE CAPITAL (CONTINUED)

Notes: (continued)

For the year ended 30 June 2015 (continued)

- (g) During the year, approximately 304,128,000 and 20,275,000 (adjusted for the effect of share consolidation on 17 June 2015) share options were exercised at the subscription price of HK\$0.025 and HK\$0.25 per share respectively (note 41), resulting in the issue of approximately 304,128,000 and 20,275,000 additional ordinary shares of HK\$0.025 and HK\$0.01 each respectively for a total cash consideration of approximately HK\$12,672,000, out of which approximately HK\$7,806,000 and HK\$8,850,000 were recorded in share capital and share premium respectively.

For the year ended 30 June 2016

- (h) On 20 July 2015, the Company entered into a placing agreement to place a maximum number of 800,000,000 shares in a maximum of 2 tranches (in which each tranche shall not be less than 400,000,000 placing shares) to not less than six independent placees at a price of HK\$0.25 per share.

On 8 September 2015, the Company completed the placing, in which 403,000,000 shares were placed to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons at HK\$0.25 per share by the first tranche. The net proceeds of approximately HK\$98,073,000 were raised from the placing.

On 18 September 2015, the Company completed the placing, in which 397,000,000 shares were placed to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons at HK\$0.25 per share by the second tranche. The net proceeds of approximately HK\$96,769,000 were raised from the placing.

- (i) By a special resolution dated 20 October 2015, the Company issued three bonus shares for every one share held. The issued share capital of the Company was therefore increased from 958,189,556 shares of HK\$0.01 each to 3,832,758,224 shares of HK\$0.01 each accordingly.

On 13 November 2015, the Company completed the bonus issue, in which, the share premium reduction for the year ended 30 June 2016 of approximately HK\$28,746,000 was credited to share capital and the same amount was debited to the share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, retained profits and other reserves) and includes some forms of subordinated debts.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

### (a) Statement of Financial Position of the Company

	30 June 2016 HK\$'000	30 June 2015 HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	1,859	1,544
Intangible asset	2,930	–
Interests in subsidiaries	59	78
Investments at fair value through other comprehensive income	15,487	20,658
Prepayments, deposits and other receivables	3,425	19,916
Film rights and films production in progress	–	1,303
	<b>23,760</b>	43,499
<b>Current assets</b>		
Prepayments, deposits and other receivables	43,780	470
Amounts due from subsidiaries	285,249	313,442
Bank and cash balances	15,271	5,483
	<b>344,300</b>	319,395
<b>Current liabilities</b>		
Accruals, deposits received and other payables	4,181	956
Amount due to subsidiaries	43,140	24,885
Other borrowings	49,377	43,580
Convertible bonds	2,000	2,000
Promissory note payable	14,160	14,160
	<b>112,858</b>	85,581
<b>Net current assets</b>	<b>231,442</b>	233,814
<b>Total assets less current liabilities</b>	<b>255,202</b>	277,313
<b>Non-current liabilities</b>		
Derivative financial instruments	11,099	–
Convertible bonds	5,919	–
	<b>17,018</b>	–
<b>NET ASSETS</b>	<b>238,184</b>	277,313
<b>Capital and reserves attributable to owners of the Company</b>		
Share capital	38,328	1,582
Reserves	199,856	275,731
<b>TOTAL EQUITY</b>	<b>238,184</b>	277,313

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

### (b) Statement of reserves of the Company

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Contributed surplus HK\$'000	Convertible bond equity reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2014	181,881	(12,265)	102,180	766	-	(23,956)	248,606
Total comprehensive loss for the year	-	(7,732)	-	-	-	(127,128)	(134,860)
Issue of shares upon placing	112,706	-	-	-	-	-	112,706
Transaction cost attributable to issue of shares	(3,967)	-	-	-	-	-	(3,967)
Bonus issue	(115,261)	-	-	-	-	-	(115,261)
Capital reorganisation	-	-	159,657	-	-	-	159,657
Share-based payments	-	-	-	-	3,984	-	3,984
Issue of shares upon exercise of share options	8,850	-	-	-	(3,984)	-	4,866
Lapse of convertible bond	-	-	-	(766)	-	766	-
At 30 June 2015 and 1 July 2015	184,209	(19,997)	261,837	-	-	(150,318)	275,731
Total comprehensive loss for the year	-	(1,098)	-	-	-	(232,873)	(233,971)
Issue of shares upon placing	192,000	-	-	-	-	-	192,000
Transaction cost attributable to issue of shares	(5,158)	-	-	-	-	-	(5,158)
Bonus Issue	(28,746)	-	-	-	-	-	(28,746)
Disposal of investments at fair value through other comprehensive income	-	10,210	-	-	-	(10,210)	-
Contributed surplus reduction	-	-	(261,837)	-	-	261,837	-
At 30 June 2016	342,305	(10,885)	-	-	-	(131,564)	199,856

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 39. OPERATING LEASE COMMITMENTS

### The Group as lessee

At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	17,286	11,376
In the second to fifth years inclusive	77,318	56,427
After five years	221,368	225,241
	<b>315,972</b>	293,044

Operating lease payments represent rentals payable by the Group for certain of its offices and cinemas. Leases are negotiated for an average term of one to twenty one years (2015: one to twenty two years) and rentals are fixed over the lease terms and do not include contingent rentals.

## 40. OTHER COMMITMENTS

	2016 HK\$'000	2015 HK\$'000
<b>Amount contracted for but not provided in the consolidated financial statements in respect of:</b>		
Film production cost	96,757	62,740
Guaranteed sum to be paid under various distributors' agreements	1,622	42,612
Investment	10,176	–
Equipment	–	688
	<b>108,555</b>	106,040

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 41. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 9 July 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The share option scheme adopted on 26 August 2004 was terminated on 9 July 2014. No option had been granted under the share option scheme adopted on 26 August 2004.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

No share option is granted during the year ended 30 June 2016.

Details of the specific categories of options granted during the year ended 30 June 2015 were as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercise period</b>	<b>Exercise price</b> HK\$
15 December 2014	N/A	15 December 2014 to 14 December 2015	0.25

The exercise price was adjusted for the effect of capital reorganisation on 13 January 2015 (note 37(d)). Options are forfeited if the employee leaves the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 41. SHARE OPTION SCHEME (CONTINUED)

Details of the share options outstanding during the year ended 30 June 2015 were as follows:

		2015	
	Number of share options	Weighted average exercise price HK\$'000	Weighted average share price at date of exercise HK\$'000
Outstanding at the beginning of the year	–		
Granted during the year	506,880,000	0.025	
Exercised before capital reorganisation	(304,128,000)	0.025	0.024
Capital reorganisation (note 37(d))	(182,476,800)		
Exercised after capital reorganisation	(20,275,200)	0.25	0.25
Outstanding at the end of the year	–		
Exercisable at the end of the year			–

The estimated fair values of the options granted on 15 December 2014 were HK\$ 3,984,000.

These fair values were calculated using the Trinomial Model. The inputs into the model are were follows:

	2015
Weighted average share price	0.024
Weighted average exercise price	0.025
Expected volatility	91.33%
Expected exercise multiples of directors	2.8x
Expected exercise multiples of employees	2.2x
Risk free rate	0.11%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 246 days. Expected exercise multiples of directors and employees were assumed by the management of the Company.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 42. MATERIAL RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties during the year:

	2016 HK\$'000	2015 HK\$'000
Management fee paid to an associate (note (i))	2,880	1,300
Consultancy fee paid to a joint venture (note (ii))	50	550
Film production cost paid to an associate (note (i))	800	–
Film production cost paid to directors (note (iii))	120	3,650

The balances with related parties at the end of the reporting period are as follows:

	2016 HK\$'000	2015 HK\$'000
<b>Balances with related companies</b>		
Prepayments	3,000	1,000
<b>Balances with directors</b>		
Prepayments	2,270	650
<b>Balances with a related person</b>		
Prepayments	1,000	–

Notes:

- (i) The amount represents upfront payment for management fee and film productions paid to GME Holdings Limited, an associate of the Company.
- (ii) The amount represents consultancy service provided by Mustard Seed Entertainment Company Limited, a joint venture of the Company.
- (iii) The amount represents upfront payment for film productions paid to the directors of the Company.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Acquisition of interests from non-controlling interests

During the year ended 30 June 2015, Peak Lion Group Limited (“Peak Lion”), a directly wholly-owned subsidiary of the Company, acquired 6.9% interests in Creative Projects Company Limited (formerly known as Proletariate Institute Limited) (“Creative”) at a consideration of approximately HK\$447,000 from independent third parties. The carrying amount of the 6.9% interests in Creative on the date of acquisition was approximately HK\$484,000. The Group recognised an decrease in non-controlling interests of approximately HK\$484,000 and a increase in equity attributable to owners of the parent of approximately HK\$37,000.

The effect of change in the ownership interests of Creative on the equity attributable to owners of the Company during the year ended 30 June 2015 were summarised as follows:

	2015 HK\$'000
Carrying amount of non-controlling interest acquired	484
Consideration paid	(447)
	<hr/>
Movement in parent equity	37

### (b) Acquisition of a subsidiary

During the year ended 30 June 2016, Markwin Investment Limited, an indirectly non wholly-owned subsidiary of the Company, acquired 85% interests in Artery Production Limited (“Artery”) at a consideration of HK\$4,000,000 from independent third parties.

The fair value of the identifiable assets and liabilities of Artery acquired as at its date of acquisition is as follows:

	Notes	HK\$'000
Net assets acquired:		
Intangible assets	17	731
Trade receivables		4
Other receivables		168
Bank and cash balances		296
Trade payables		(33)
Accruals, deposits received and other payables		(387)
Deferred tax liabilities	24	(120)
		<hr/>
		659
Goodwill on acquisition (note)		3,664
Non-controlling interest		(323)
		<hr/>
Satisfied by:		
Cash		4,000
		<hr/>
Net cash outflow arising on acquisition:		
Cash consideration paid		4,000
Cash and cash equivalents acquired		(296)
		<hr/>
		3,704

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (b) Acquisition of a subsidiary (Continued)

Note:

The recoverable amounts of Artery are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). Cash flow projection was based on financial budget covering a five-year period approved by management. The discount rate used for the value-in-use calculation was 18.5%. Management determined the budgeted gross margin based on past performances. The Group reviewed the recoverable amount of goodwill and impairment of goodwill of approximately HK\$3,664,000 is resulted.

If the acquisition had been completed on 1 July 2015, total Group's revenue for the year would have been approximately HK\$230,784,000, and loss for the year would have been approximately HK\$184,152,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2016, nor is intended to be a projection of future results.

### (c) Disposal of 20% interest in a subsidiary

On 8 March 2016, the Company disposed 20% of the issued share capital of GME China Entertainment Limited ("GME China"), an indirectly non wholly-owned subsidiary of the Company, at a consideration of HK\$ 1,700,000 to an independent third party.

The effect of change in the ownership interests of GME China on the equity attributable to owners of the Company during the year ended 30 June 2016 were summarised as follows:

	<b>2016 HK\$'000</b>
Increase in non-controlling interest	<b>488</b>
Consideration paid	<b>(1,700)</b>
	<b>(1,212)</b>
Movement in parent equity	<b>(1,212)</b>

### (d) Major non-cash transactions

- (i) Additions to property, plant and equipment during the year of HK\$nil (2015: HK\$2,276,000) were financed by finance leases.
- (ii) As at 30 June 2016, prepayment of HK\$27,600,000 to an independent third party is financed by borrowing, with interest rate of 10% per annum, of HK\$27,600,000 from that independent third party.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 44. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 30 June 2016 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation/ registration/ operations</b>	<b>Issued and fully paid share capital</b>	<b>Percentage of ownership interest</b>	<b>Principal activities</b>
New Smart International Creation Limited	Hong Kong	HK\$1	100%	Production and distribution of film
Champion Peak Corporation Limited	Hong Kong	HK\$1	100%	Production of film
China 3D Digital Products Limited	Hong Kong	HK\$1	100%	Production of film
Eastern Master Corporation Limited	Hong Kong	HK\$1	100%	Production of film
Fantastic Union Limited	Hong Kong	HK\$1	100%	Production of film
Good Lead Corporation Limited	Hong Kong	HK\$1	100%	Production of film
Good Time Investment Limited	Hong Kong	HK\$1	100%	Production of film
Joyful Excellence Limited	Hong Kong	HK\$1	100%	Production of film
New Jumbo Corporation Limited	Hong Kong	HK\$1	100%	Production of film
New Modern Corporation Limited	Hong Kong	HK\$1	100%	Production of film
New Noble Corporation Limited	Hong Kong	HK\$1	100%	Production of film
New Pioneer Corporation Limited	Hong Kong	HK\$1	100%	Production of film
New Star International Develop Limited	Hong Kong	HK\$1	100%	Production of film
Source Hunter Corporation Limited	Hong Kong	HK\$1	100%	Production of film
China 3D Digital Distribution Limited	Hong Kong	HK\$1	100%	Distribution of films
Red Rich Investment Limited	Hong Kong	HK\$1	100%	Distribution of films
Smooth Success Development Limited	Hong Kong	HK\$1	100%	Distribution of films
CineUnited Circuits Company Limited	Hong Kong	HK\$100	100%	Cinema investment in the PRC

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 44. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at 30 June 2016 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Issued and fully paid share capital	Percentage of ownership interest	Principal activities
Markwin Investment Limited	Hong Kong	HK\$20	60%	Artiste management
Quick Money Finance Limited	Hong Kong	HK\$1	100%	Money lending
Beijing Hua Hao Ying An Yule Consulting Company* 北京華浩盈安娛樂諮詢有限公司	PRC	RMB4,032,190	100%	Provision for consultancy service
Ying Lian Cinema (Chong Qing) Company Limited* 映聯影業(重慶)有限公司	PRC	RMB16,509,617	100%	Operation of cinema in the PRC
Empire Fame Limited	Hong Kong	HK\$1	100%	Production of film
Asian Rich Limited	Hong Kong	HK\$1	100%	Production of film
Golden Full Corporation Limited	Hong Kong	HK\$1	100%	Production of film
Smart Mega Corporation Ltd	Hong Kong	HK\$1	100%	Production of film
Kingcool Inc Limited	Hong Kong	HK\$1	100%	Production of film
King Universe Inc. Limited	Hong Kong	HK\$1	100%	Production of film
Union Rico Limited	Hong Kong	HK\$1	100%	Production of film
Creative Projects Company Limited (formerly known as Proletariate Institute Limited)	Hong Kong	HK\$5,500,000	100%	Property investment
GME China Entertainment Limited	BVI	US\$12,500	60%	Investment holding
GME China Entertainment (HK) Limited	Hong Kong	HK\$1	60%	Investment holding
Artery Production Limited	Hong Kong	HK\$10,000	51%	Artiste management
Golden Chinny Limited	Hong Kong	HK\$1	100%	Production of film
Horizon Coast Limited	Hong Kong	HK\$1	100%	Production of film
Double Spirit Development Limited	Hong Kong	HK\$1	100%	Production of film
Union Kingwell Limited	Hong Kong	HK\$1	100%	Artiste management
Master Scene Limited	Hong Kong	HK\$1	100%	Production of film

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

\* For identification purpose only

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 45. CONTINGENT LIABILITIES

On 20 October 2015, a new tenancy agreement was jointly entered into by Mark Glory International Enterprise Limited ("Mark Glory"), an indirectly wholly-owned subsidiary of the Company and Top Euro Limited ("Top Euro"), an indirect wholly-owned subsidiary of Easy Repay Finance & Investment Limited (stock code: 8079) with Wit Way Enterprises Limited in relation to the lease of the premises. The duration of the tenancy agreements is for two years commencing from 1 November 2015 to 31 October 2017 with a monthly rental of HK\$325,000 inclusive of management charges (equivalent to HK\$3,900,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by Mark Glory and Top Euro in equal shares.

If either party fails to fulfill their leasing obligations under the agreement, the other party will obligate to pay the other party's outstanding contingent rental liability amounting to HK\$1,950,000 per annum.

## 46. LITIGATIONS

The Group has three pending litigations as below and in the opinion of the Board, it is premature to predict the outcome.

### **A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015**

A writ of summons (the "Writ") was issued against the Company by Green Giant Investments Limited ("Green Giant") on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the "Note") or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant.

Green Giant claims the principal amount of the Note of HK\$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The court has made an order in terms of the plaintiff's application granted and granted final judgement to the plaintiff as per its summons on 21 January 2016. The Company submitted the documents to commence the appeal successfully on 13 July 2016. Green Giant and the Company will arrange to re-fix the hearing in future.

In the opinion of the Directors, the Note payable of HK\$14,160,000 is properly recognized as at 30 June 2015 and 30 June 2016, as such, the Directors did not consider that the litigation have any significant impact on the Group's financial position and operations.

### **A writ of summons was issued against Champion Peak Corporation Limited by Television Broadcasts Limited on 21 July 2016**

A writ of summons (the "Writ") was issued against Champion Peak Corporation Limited ("Champion Peak"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 21 July 2016. It was alleged in the Writ that TVB claims against Champion Peak the sum of HK\$935,000, being the outstanding additional shooting fees from 16 March 2015 to 1 June 2015. Champion Peak will file and serve a Defence in October 2016.

### **A writ of summons was issued against New Noble Corporation Limited by Television Broadcasts Limited on 19 August 2016**

A writ of summons (the "Writ") was issued against New Noble Corporation Limited ("New Noble"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 19 August 2016. It was alleged in the Writ that TVB claims against New Noble the sum of HK\$278,000, being the agreed fee for the subject shooting days, including the shooting of the main film, the "making-of" video and the roller feature from 14 July 2013 to 30 August 2013. New Noble will file and serve a Defence in October 2016.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 30 June 2016

## 47. EVENTS AFTER THE REPORTING PERIOD

### (a) Acquisition of HMV M&E Limited (“HMV M&E”)

On 3 August 2016, the Group completed the acquisition of 100% of the issued share capital of HMV M&E by issuing 1,118,219,178 ordinary shares of the Company. HMV M&E was principally engaged in the entertainment and media business and other ancillary business including the operation of the retail stores under the brand “HMV”. Details of the acquisition of HMV M&E were disclosed in the circular dated 24 June 2016. No financial information is disclosed in these consolidated financial statements as HMV M&E is still preparing its financial information.

### (b) Acquisition of Prime Focus World N.V. (“Prime Focus”)

On 29 July 2016, the Group completed the acquisition of 4% of the issued share capital of Prime Focus by issuing 259,106,982 ordinary shares of the Company. Prime Focus was principally engaged in provision of value-added creative and technical services for 2D to 3D content conversion, visual effects and animation services to studios and production houses. Details of the acquisition of Prime Focus was disclosed in the circular dated 29 June 2016.

### (c) Acquisition of Celestial Talent International Limited (“Celestial”)

On 29 July 2016, Creative Projects Company Limited, a wholly-owned subsidiary of the Company (the “Creative Projects”), and Fugu Enterprises Inc. and Mr Kwong Kwan Yin, Roy (the “Vendors”) entered into the stock purchase agreement (“Stock Purchase Agreement”). Pursuant to the Stock Purchase Agreement, Creative Projects agreed to purchase and the Vendors agreed to sell 51% of the issued share capital of Celestial at a consideration of HK\$18,000,000 which shall be satisfied by cash consideration of HK\$8,000,000 and issuing 11,494,252 ordinary shares the issue price of HK\$0.87 per ordinary share. The acquisition of Celestial has not completed at the date of this report. Details of the acquisition were disclosed in the announcement dated 29 July 2016.

### (d) Acquisition of Panorama Entertainment Group Limited (“PEGL”), Parkway Management Limited (“PW”) and Panorama Corporation Limited (“PCL”)

On 10 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the “Bright Jumbo”) and the Company entered into sale and purchase agreement with Well Charm International Development Limited and Mr Fung Yu Hing Allan (collectively the “Vendors I”), pursuant to which the Vendors I agreed to sell and Bright Jumbo agreed to purchase 70% of the issued share capital of each of PEGL, PW and PCL at an aggregate consideration of HK\$35,000,000, which shall be satisfied by issuing 48,275,862 ordinary shares at issue price of HK\$0.725 per ordinary share. The acquisition of PEGL, PW and PCL has not completed at the date of this report. Details of the acquisition were disclosed in the announcement dated 10 August 2016.

### (e) Acquisition of Parkway Licensing Company Limited (“PLC”)

On 11 August 2016, Bright Jumbo and the Company entered into a sale and purchase agreement with Mr. Fung Yu Hing Allan, Mr. Wong Wing Kwong Kelvin, Ingate International Company Limited (collectively the “Vendors II”), pursuant to which the Vendors II agreed to sell and Bright Jumbo agreed to purchase 70% of the issued share capital of PLC at an aggregate consideration of HK\$7,000,000, which shall be settled by cash consideration of HK\$1,000,000 and issuing 8,275,861 ordinary shares of the Company at issue price of HK\$0.725 per ordinary share. The acquisition of PLC has not completed at the date of this report. Details of the acquisition were disclosed in the announcement dated 11 August 2016.

## 48. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 September 2016.