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中國傳媒影視控股有限公司*

China Media and Films Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

FIRST QUARTERLY REPORT 2014

* For identification purpose only



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

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of China Media and Films Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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 in this report misleading.

UNAUDITED QUARTERLY RESULTS

The board (the “Board”) of Directors of China Media and Films Holdings Limited (“the Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2014, together with the comparative unaudited figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Turnover	3	948	7,304
Cost of sales		(690)	(5,493)
Gross profit		258	1,811
Other revenue and other income	4	137	79
Administrative expenses		(3,671)	(4,329)
Finance costs	5	—	(186)
Share of results of joint ventures		(723)	19
Gain on disposal of subsidiaries		56	—
Loss before tax	6	(3,943)	(2,606)
Income tax expense	7	—	—
Loss for the period attributable to owners of the Company		(3,943)	(2,606)
Total comprehensive loss attributable to owners of the Company		(3,943)	(2,606)
Dividend		—	—
Loss per share	8		
— Basic and diluted		HK(0.78) cent	HK(0.52) cent



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the GEM of the Stock Exchange since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F, Shun Tak Centre West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The unaudited condensed consolidated statement of profit or loss and other comprehensive income (the "Unaudited Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and joint ventures are provision of artists management, and film production and film distribution.

2. Basis of preparation and consolidation

The Unaudited Consolidated Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountant. In addition, the Unaudited Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the Unaudited Consolidated Results is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

The preparation of Unaudited Consolidated Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. Basis of preparation and consolidation (continued)

All significant intercompany transactions, balances and unrealised gain on transaction with the Group have been eliminated on consolidation.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2013.

3. Turnover

	For the three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Artist management	948	7,304

4. Other revenue and other income

	For the three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Bank interest income	71	13
Consultancy fee income	66	66
	137	79

5. Finance costs

	For the three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Effective interest expenses on convertible loan notes	—	186

6. Loss before tax

Loss from operations has been arrived at after charging:

	For the three months ended 31 March	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	131	131
Minimum lease payments under operating leases on land and buildings	1,122	1,148
Staff costs (including directors' remuneration)		
Salaries and allowances	2,270	2,190
Pension scheme contributions	64	48

7. Income tax expense

No provision of Hong Kong Profits Tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period under review. (2013: Nil).

8. Loss per share

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2014 of approximately HK\$3,943,000 (2013: HK\$2,606,000) and the weight average of 505,650,000 shares in issue during the three months ended 31 March 2014 and 2013.

For the three months ended 31 March 2014 and 2013, the computation of diluted loss per share does not assume the conversion of the outstanding convertible loan notes since their conversion would result in an anti-dilutive effect in loss per share.

9. Reserves

	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Convertible loan notes reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2013	47,383	28,294	2,381	(358)	77,700	—	77,700
Net loss for the period	—	—	—	(2,606)	(2,606)	—	(2,606)
Other comprehensive income for the period	—	—	—	—	—	—	—
Total comprehensive loss for the period	—	—	—	(2,606)	(2,606)	—	(2,606)
At 31 March 2013	47,383	28,294	2,381	(2,964)	75,094	—	75,094
At 1 January 2014	47,383	28,294	4,265	(10,805)	69,137	9	69,146
Net loss for the period	—	—	—	(3,943)	(3,943)	—	(3,943)
Other comprehensive income for the period	—	—	—	—	—	—	—
Total comprehensive loss for the period	—	—	—	(3,943)	(3,943)	—	(3,943)
Release of non-controlling interests upon disposal of subsidiaries	—	—	—	—	—	(9)	(9)
At 31 March 2014	47,383	28,294	4,265	(14,748)	65,194	—	65,194



DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2014 (2013: Nil).

CHANGE IN DIRECTORS

On 28 March 2014, Mr. Cheng Yang has resigned as executive Director, chief executive officer, chairman, compliance officer and authorised representative of the Company and Ms. Jiang Di has resigned as executive Director and vice president of the Company. On the same day, Mr. Heung Wah Keung has been appointed as executive Director, chairman and authorised representative of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review


Artist Management

During the period under review, the revenue contributed by such segment was approximately HK\$948,000 (2012: HK\$7,304,000), representing a decrease of approximately 87.0% due to the tough business competition as compared with the period ended 31 March 2013.

The gross profit margin increased to approximately 27.2% (2013: 24.8%). The stable gross profit margin in such segment was in line with the management's expectation.

Pending Litigation

On 30 May 2011, China Star Management Limited, an indirect wholly-owned subsidiary of the Company, issued a Writ of Summons to claim against Tang's Workshop Limited ("Tang's Workshop") for the sum of HK\$127,500, being the fees charged for the services rendered and material supplied to Tang's Workshop. At the date of this report, the litigation has yet to be settled.



Share of Results of Joint Ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition of profits or losses and movements in other comprehensive income.

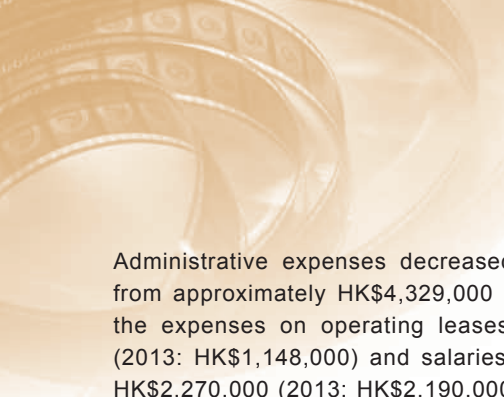
China Star Film Group Limited ("China Star Film Group"), a joint venture, is principally engaged in film production and distribution. During the period under review, China Star Film Group did not have any additional film rights and the share of its losses approximately HK\$723,000 was recorded (2013: profit of HK\$19,000). China Star Film Group has two films in the preproduction phase. Due to the scheduling of the film casts and revision to the scripts, shooting of these two films has been delayed, and its completion date and the release date of the said films have not been determined.

In early August 2012, Eternity Investment Limited ("Eternity") (stock code: 764), a company listed on the Main Board of the Stock Exchange, became a substantial shareholder of the Company by acquiring an approximately 29% shareholding interest in the Company. Given that Eternity has engaged in film distribution business in the People's Republic of China ("PRC") since 2001, the acquisition of 29% equity interest in the Company by Eternity presents a good opportunity for the Group to form a strategic alliance with Eternity by leveraging its expertise, network and connections in the film distribution industry in the PRC.

Financial Review

The revenue of the Group was approximately HK\$948,000 for the three months ended 31 March 2014 (2013: HK\$7,304,000), and it was generated from the provision of artist management and film distribution, representing a decrease of 87.0% as compared with the three months ended 31 March 2013.

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review.




Administrative expenses decreased by 15.2% to approximately HK\$3,671,000 from approximately HK\$4,329,000 in prior period. It was mainly attributed from the expenses on operating leases amounted to approximately HK\$1,122,000 (2013: HK\$1,148,000) and salaries and allowances amounted to approximately HK\$2,270,000 (2013: HK\$2,190,000).

The operating leases, as the rental expenses paid to shareholder, is a facility sharing agreement (“Agreement”) dated 30 April 2012 entered into between Golden Island Catering Group Company Limited (“Golden Island”), a wholly-owned subsidiary of Culture Landmark Investment Limited (“Culture Landmark”), and our subsidiary. Pursuant to the Agreement, the aggregate annual fees payable for each of the two years ending 31 March 2014 will be subject to the cap amount of HK\$4,800,000, being the maximum annual amount payable. Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction of the Company. For details of the continuing connected transaction, please refer to the announcement dated 30 April 2012. The Agreement has expired on 31 March 2014.

During the period under review, loss for the period attributable to owners of the Company was approximately HK\$3,943,000 (2013: HK\$2,606,000), which was mainly attributed from the administrative expenses amounted to approximately HK\$3,671,000 (2013: HK\$4,329,000) and the share of losses of joint ventures amounted to HK\$723,000 (2013: profit of HK\$19,000).

Future Plans

For film production and distribution, the Company has completed the acquisition of China Star Movie Limited on 17 April 2014 and Directors consider that the acquisition will enable the Company to further develop our film production business. China Star Movie Limited just finalises the preproduction phase of one film. On 8 May 2014, a framework agreement has been entered into between China Star Movie Limited and an independent third party (“Film Distributor”). Pursuant to the framework agreement, the Film Distributor will be responsible for the investment of a series of three films to be produced by China Star Movie Limited and their film distributions in Mainland China. It is preliminary agreed that the first film of the series will be released and distributed in Mainland China in the Chinese New Year in 2016.



We will remain cautious of the Group's business outlook. However, regardless of the aforementioned, strengthening and developing the business of the Group are of almost importance so as to prepare ourselves for the upcoming challenges and opportunities. Meanwhile, we will continue to identify other appropriate investment opportunities to penetrate into other business sectors.

Events after the Reporting Period

- (a) On 3 April 2014, the Company entered into a conditional placing agreement with Kingston Securities Limited, pursuant to which the Company has conditionally agreed to place, through Kingston Securities Limited, on a best effort basis, up to 100,000,000 new shares to currently expected not less than six independent investors at a price of HK\$0.23 per new share. The new shares are allotted and issued under the general mandate granted to the Directors by shareholders at the annual general meeting of the Company held on 16 May 2013. Please refer to the Company's announcement dated 3 April 2014 for more details.

The placing of 100,000,000 new shares was completed on 15 April 2014 and raised net proceeds of approximately HK\$22,100,000 for used in the Group's working capital, capital expenditures and general corporate purposes.

- (b) On 9 April 2014, the Company proposed to change the English name of the Company from "China Media and Films Holdings Limited" to "China Star Cultural Media Group Limited" and the Chinese name of the Company "中國星文化產業集團有限公司" will be adopted to replace "中國傳媒影視控股有限公司" for identification purpose only. Please refer to the Company's announcement dated 9 April 2014 and circular dated 8 May 2014 for more details.
- (c) On 14 April 2014, the Company and China Star Entertainment Holding Limited entered into the sales and purchase agreement, pursuant to which the Company has conditionally agreed to acquire and the China Star Entertainment Holding Limited has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK\$4,340,000 in cash. The acquisition was completed on 17 April 2014. Please refer to the Company's announcement dated 14 April 2014 for more details.

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- (d) On 24 April 2014, the Company entered into a conditional placing agreement with Kingston Securities Limited, pursuant to which the Company has conditionally agreed to place, through Kingston Securities Limited, on a best effort basis, up to 300,000,000 new shares to currently expected not less than six independent investors at a price of HK\$0.28 per new share. The new shares will be allotted and issued under the specific mandate subject to shareholders' approval at the special general meeting of the Company. Please refer to the Company's announcement dated 24 April 2014 for more details.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 March 2014, none of the Director, or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 6 March 2002. The scheme expired on 5 March 2012 and the Company intends to adopt of a new share option scheme on the next annual general meeting. There is no outstanding share options as at 31 March 2014 and no share options had been granted during the three months ended 31 March 2014.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan, at no time during the three months ended 31 March 2014 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK\$0.01 each of the Company

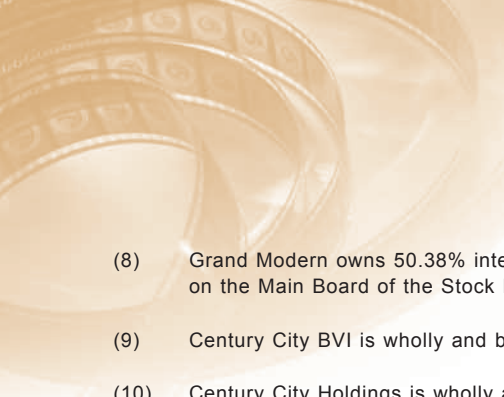
Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Culture Landmark	Interest of controlled corporation (Note 1)	232,366,016	12,731,006	245,097,022	48.47%
New Asia Media Development Limited ("New Asia Media")	Beneficial owner (Note 1)	232,366,016	12,731,006	245,097,022	48.47%

Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Eternity	Interest of controlled corporation (Note 2)	146,640,000	—	146,640,000	29.00%
Riche (BVI) Limited	Interest of controlled corporation (Note 2)	146,640,000	—	146,640,000	29.00%
Riche Advertising Limited	Beneficial owner (Note 3)	146,640,000	—	146,640,000	29.00%
Mr. Lo Yuk Sui ("Mr. Lo")	Interest of controlled corporation (Note 4)	35,247,161	—	35,247,161	6.97%
Secure Way Technology Limited ("Secure Way")	Interest of controlled corporation (Note 4)	35,247,161	—	35,247,161	6.97%
Net Community Limited ("Net Community")	Interest of controlled corporation (Note 5)	35,247,161	—	35,247,161	6.97%
Century Digital Holdings Limited ("Century Digital")	Interest of controlled corporation (Note 6)	35,247,161	—	35,247,161	6.97%
Grand Modern Investments Limited ("Grand Modern")	Interest of controlled corporation (Note 7)	35,247,161	—	35,247,161	6.97%
Century City International Holdings Limited ("Century City International")	Interest of controlled corporation (Note 8)	35,247,161	—	35,247,161	6.97%

Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Century City BVI Holdings Limited ("Century City BVI")	Interest of controlled corporation (Note 9)	35,247,161	—	35,247,161	6.97%
Century City Holdings Limited ("Century City Holdings")	Interest of controlled corporation (Note 10)	35,247,161	—	35,247,161	6.97%
Aikford Financial Services Limited ("Aikford")	Beneficial owner (Note 11)	35,247,161	—	35,247,161	6.97%

Notes:

- (1) New Asia Media, a company which is wholly and beneficially owned by Culture Landmark, a company listed on the Main Board of the Stock Exchange, is the beneficial owner of 232,366,016 shares of the Company and zero-coupon convertible loan notes due 24 September 2015 in the principal amount of HK\$6,200,000 issued by the Company carrying the right to convert into a total of 12,731,006 shares of the Company at the prevailing conversion price of HK\$0.487 per share (subject to adjustment).
- (2) Riche (BVI) Limited is wholly and beneficially owned by Eternity.
- (3) Riche Advertising Limited is the beneficial owner of 146,640,000 shares of the Company and is wholly and beneficially owned by Riche (BVI) Limited.
- (4) Secure Way is wholly and beneficially owned by Mr. Lo.
- (5) Net Community is wholly and beneficially owned by Secure Way.
- (6) Century Digital is wholly and beneficially owned by Net Community.
- (7) Grand Modern is wholly and beneficially owned by Century Digital.

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- (8) Grand Modern owns 50.38% interest in Century City International, a company listed on the Main Board of the Stock Exchange.
 - (9) Century City BVI is wholly and beneficially owned by Century City International.
 - (10) Century City Holdings is wholly and beneficially owned by Century City BVI.
 - (11) Aikford is the beneficial owner of 35,247,161 shares of the Company and is wholly and beneficially owned by Century City Holdings.

Save as disclosed above, at 31 March 2014, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

At 31 March 2014, none of the Directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

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

During the three months ended 31 March 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.



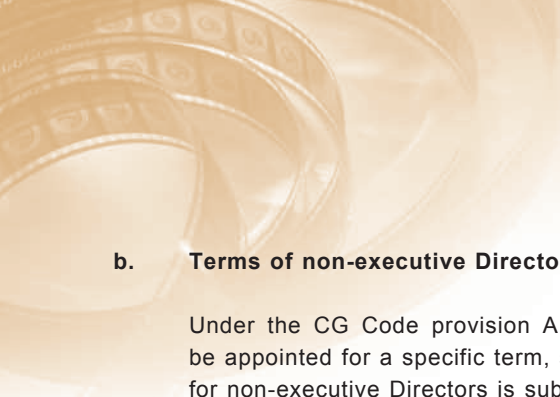
CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

The Company has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules for the three months ended 31 March 2014, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives) and A.4.1 (specific terms of non-executive Directors).

a. Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Cheng Yang as executive Director on 28 March 2014, Mr. Heung Wah Keung has taken up the roles of the chairman of the Company. The Company still looks for appropriate person to fill the vacancy as Chief Executive Officer. Mr. Heung Wah Keung has been assuming the roles of Chief Executive Officer of the Company. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.



b. Terms of non-executive Directors

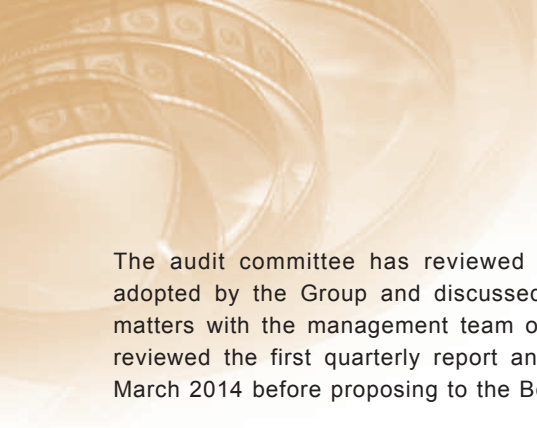
Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2014, 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 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

AUDIT COMMITTEE

The audit committee consists of three members, namely Mr. Yip Tai Him (chairman of the audit committee), Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, all being independent non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.



The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee has reviewed the first quarterly report and results for the three months ended 31 March 2014 before proposing to the Board for approval.

By Order of the Board
China Media and Films Holdings Limited
Heung Wah Keung
Chairman

Hong Kong, 13 May 2014

As at the date of this report, the Board comprises Mr. Heung Wah Keung and Mr. Leung Wai Man as executive Directors; and Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching as independent non-executive Directors.