



SMI Culture Group Holdings Limited

星美文化集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 2366)

Interim Report **2014**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. HAO Bin (*Chairman*)
(appointed on 7th June 2014)
Mr. YUAN Xin
Mr. CHAN Chi To, Antony
Mr. KONG Dalu
(appointed on 7th June 2014)
Mr. CHEN Hai
(resigned on 16th May 2014)

Non-executive Directors

Mr. CHI Chenxi
Ms. HU Gin Ing
Dr. LIN Junbo
(Retired on 6th June 2014)

Independent Non-executive Directors

Mr. DU Jiang
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. JIANG Jinsheng

BOARD COMMITTEES

Audit Committee

Mr. DU Jiang (*Chairman*)
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. JIANG Jinsheng

Remuneration Committee

Mr. DU Jiang (*Chairman*)
Mr. LIU Xianbo
Mr. WU Chien-Chiang
Mr. JIANG Jinsheng

Nomination Committee

Mr. LIU Xianbo (*Chairman*)
Mr. DU Jiang
Mr. WU Chien-Chiang
Mr. JIANG Jinsheng

Executive Committee

Mr. YUAN Xin (*Chairman*)
Mr. HAO Bin
(appointed as member on 7th June 2014)
Mr. CHAN Chi To, Antony
Mr. CHEN Hai
(resigned as member on 16th May 2014)

AUTHORISED REPRESENTATIVE

Mr. YUAN Xin
Mr. CHAN Chi To, Antony

COMPANY SECRETARY

Ms. MUI Ngar May

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P O Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F., Prosperity Tower,
No. 39 Queen's Road Central,
Central, Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8/F, Prince's Building,
Central, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (HK) Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre,
Town Place, 33 Lockhart Road,
Wanchai, Hong Kong

LEGAL ADVISERS

As to Hong Kong Law
Michael Li & Co.

As to Cayman Islands Law
Conyers Dill & Pearman

As to PRC Law
Allbright Law Offices

STOCK CODE

2366

WEBSITE

<http://www.smiculture2366.com>

CHAIRMAN'S STATEMENT

The chairman (the "Chairman") of the board (the "Board") of directors (the "Director(s)") of SMI Culture Group Holdings Limited (the "Company") is pleased to present the report (including the unaudited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the six months ended 30 June 2014) to the shareholders of the Company. These results have been reviewed by the Company's audit committee.

Business Review

During the six months ended 30 June 2014, the Group continued to refine both its business and financing structure. Notwithstanding the effect on the reform of the governing authorities of the PRC television and film industry, the Group's sales activities on television drama and related business resumed momentum during the period.

In August 2013, the Group introduced a new major shareholder, SMI Corporation Limited ("SMI"). As a publicly listed company on the Hong Kong Stock Exchange (Stock Code: 00198), SMI brings with it exceptionally rich market experience that will inevitably be beneficial to the Group's business development.

The Group is principally engaged in the provision of media services including television programmes related services, television advertising services, outdoor advertising services, other public relations services in the PRC and the investment in the production of films and television programmes.

During the period under review, the Company has invested in the production of certain films and television programmes and is currently in the progress of preliminary negotiation with a number of producers in relation to investment in productions of films and television programmes.

The Company believes that investment in the production of films and television programmes will be one of the most significant principal business activities in the future. Following the invested films and television programmes targeted to be on-air by the end of this year, the Company is expected to have breakthrough in performance.

CHAIRMAN'S STATEMENT

As mentioned above, the Board had made various important and far-reaching moves in the business and financial development of the Company. Drastic it may seem to be, the Board believes that these decisions will strengthen the financial position of the Company so that it can have a sustainable development and move towards to goal to become a leading player in the cultural and entertainment industry in the Greater China region.

Business Prospect

The Group has been striving to become one of the leading entertainment media industry players in the Greater China region. In view of the unsatisfactory performance of the Group in the past 2 years, the Group has been actively looking for attractive investment opportunities and strive to extend its business reach and enhance profitability to maximize its shareholder's value. Therefore, the Group is planning to acquire 35% stake in a movie town in Huairou District, Beijing, which is principally engaged in provision of the television programme and film production facilities leasing and other ancillary services. The acquisition would allow the Group to benefit and it also represents a good opportunity for the Group to enhance its existing business by utilising the production facilities of the movie town.

In addition, with a view to leveraging on the growing appetite for quality films and television programmes, seizing the opportunities brought by the development of the Chinese cultural and media industry and capitalising on its investment and production expertise in its existing business of investment in, and planning, production and distribution of television programme series, the Group has decided to continue to enhance its core focus on investing into high-quality television programmes and at the same time seek breakthroughs in the horizontal expansion into the film sector in order to achieve further advancement given the continuous growth in the film industry in the PRC.

The Company started to invest in the production of certain films and television programmes in early 2014. The entertainment consumption in the PRC is undergoing unprecedented growth and that it is imperative for the Group to enhance its revenue sources by investing further in productions of films and television programmes and therefore, as aforesaid, the Company has identified the investment opportunities with respect to certain films and television programmes.

CHAIRMAN'S STATEMENT

Following the implementation of more and more new favourable national policies regarding the development of the cultural and media industries, there are changing dynamics in the cultural, media and mobile internet industries with new trends, new models and a new operating environment. By taking advantage of the resources of the new management and the competitive edges in the market, the Company will enter a novel stage of development.

The next initiative of the Company is to speed up market expansion by increasing its investment in digital contents, digital entertainment and filming facilities. The plan is aimed at enhancing the Company's core competitiveness and profitability, establishing an innovative business model for the sustainable development of a digital media company and maximising the investment return of the shareholders.

As for the content business, the Company will focus on the production and distribution of films, television dramas, micro films and internet dramas, the set up of a copyright database, the development of a five-channel broadcast network incorporating virtual cinemas, mobile applications, network, television and outdoor media, so as to maximise the revenue from copyright distribution.

Regarding the digital entertainment business, the Company will leverage on the valuable opportunities presented by the rapidly-developing mobile internet and to achieve strong profit growth in this sector. Building on its remarkable capability of offering content products and ample resources from advertising clients, the Company will actively expand into the mobile video business and develop a market network comprising mainly mobile users and covering new media terminals such as IPTV, DTV and PC. This will allow the Company to scale up its base of high-valued clients.

In respect of the production facilities, it is the plan of the Company to invest in a production facility, invest in the construction of ancillary facilities and pursue business partnership. By doing so, the Company intends to expand its business scope to include venue booking, pre- and post-production, programme distribution, special and motion effects, props and backdrop, education and training, artist talent management, tourism, hotel catering and organisation of fashion events, with an aim to establish a comprehensive cultural media conglomerate which can take the revenue of the production facilities to a whole new level. Looking forward, the Company will strive to expand the scale of its performing operating assets and boost its return of investment by identifying suitable sites to construct a new production facility incorporating elements of cultural tourism.

CHAIRMAN'S STATEMENT

Appreciation

The planning and determination for the Group's important moves is never easy. I am profoundly grateful to my fellow Directors for their unceasing support to the Board while together with our management team that made the implementation of these decisions possible. Besides, this statement cannot end without expressing my heartfelt thanks to all our stakeholders which includes business partners, shareholders, suppliers and employees, etc for their dedication and support to the Group during the reporting period and we look forward to their continued support for the betterment of our business in the years to come.

On behalf of the Board
SMI Culture Group Holdings Limited
Hao Bin
Chairman of the Board of Director

Hong Kong, 29 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The unaudited consolidated turnover of the Group was approximately HK\$51.7 million for the six months ended 30 June 2014, representing a decrease of 46.5% compared to HK\$96.7 million for the six months ended 30 June 2013. During the current interim period, the majority of the turnover came from the Group's TV advertising business of approximately HK\$46.6 million (2013: HK\$96.7 million) and TV program related income of approximately HK\$5.1 million (2013: nil). Gross loss for the period was HK\$17.5 million (2013: HK\$31.6 million) were resulted mainly from the amortisation of the Group's intangible assets of HK\$17.3 million (2013: HK\$34.1 million). Loss for the six months ended 30 June 2014 was HK\$30.3 million (2013: HK\$419.4 million). The loss for the current period was mainly arrived at after charging administrative and other operating expenses of HK\$20.0 million (2013: HK\$25.9 million); finance costs of HK\$1.4 million (2013: HK\$54.6 million) and share of loss from an associate of nil (2013: HK\$1.1 million).

Change of Company Name

On 6 December 2013, the Board proposed to change the name of the Company from "Qin Jia Yuan Media Services Company Limited 勤+緣媒體服務有限公司" to "SMI Culture Group Holdings Limited 星美文化集團控股有限公司". The change of name was approved at the extraordinary general meeting of the Company on 10 January 2014 and took effect on 16 January 2014 upon the issuance of the Certificate of Incorporation on Change of Name by the Registrar of Companies in the Cayman Islands.

Liquidity and Financial Resources

During the current interim period, the management of the Company has consistently managed its cash level and other financial resources in a prudent manner in order to meet the liabilities falling due and the loan covenants as stipulated by its creditors. As at 30 June 2014, the Group's cash level stood at approximately HK\$5.6 million (31 December 2013: HK\$5.0 million). The balances are mainly in Hong Kong Dollar and Renminbi. During the six months ended 30 June 2014, the Group financed its operations mainly through internally generated resources and external borrowings. As at 30 June 2014, the Group had working capital calculated by current assets less current liabilities of approximately HK\$353.6 million (31 December 2013: HK\$365.1 million) and the current ratio slightly decreased to 2.2 against current ratio of 2.3 as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2014, the Group had total borrowings in aggregate of approximately HK\$34.0 million (31 December 2013: HK\$42.2 million) mainly comprised of loan from a shareholder of approximately HK\$21.0 million and other borrowings of approximately HK\$13.0 million.

On 8 August 2014, the Company proposed a share consolidation of two shares into one consolidated share and rights issue of eight rights shares for every consolidated share at a subscription price of HK\$0.35 per rights share. The share consolidation and the rights issue are subject to approval by the shareholders at the forthcoming extraordinary general meeting.

The gearing ratio (expressed as a percentage of total borrowings over total equity) was approximately 4.1% (31 December 2013: 5.0%).

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in either Hong Kong Dollar or Renminbi. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

Employees

As at 30 June 2014, the Group had a total employees of 43 (31 December 2013: 62). Employees' remuneration packages are reviewed regularly and are commensurate with the prevailing market level and with reference to the performance and experience of individual employee. The Group also provides its employees retirement schemes, medical and dental care insurance and share option scheme benefits.

Contingent Liabilities

As at 30 June 2014, the Company has not issued any guarantees to banks in respect of banking facilities granted to its subsidiaries (31 December 2013: Nil).

Details of pending litigation are set out in note 23 to the unaudited interim financial statements.

CORPORATE GOVERNANCE

Corporate Governance Practices

During the six months period ended 30 June 2014, the Company had complied with the code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except the following deviations:

Code provision A.2.1 of the CG Code provides that the roles and responsibilities of chairman and chief executive officer should be divided. During the period, the chairman of the Company had not been filled until the position has been filled by Mr. HAO Bin (Mr. Hao”) since 7 June 2014. Mr. Hao takes the responsibilities of the chairman as specified in the CG Code on overall strategic planning and development of the Group and effective functioning of the Board.

The chief executive officer of the Company has been vacant from 23 October, 2013. Until the appointment of new chief executive officer, the Executive Committee continues to oversee the day-to-day management of the business and operations of the Group.

Code provision E.1.2 of the CG Code requires the chairman of the Board to attend the annual general meeting. Since the new Chairman has not been appointed until 7 June 2014, Mr. CHAN Chi To Antony, the executive director of the Company, has been elected by other directors present to act as the chairman of the annual general meeting of the Company held on 6th June 2014 in accordance with the articles of association of the Company.

Compliance With Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company, having made specific enquiry, confirms that all directors complied throughout the six months ended 30 June 2014 with the Model Code. The relevant employees who, because of their office in the Company, are likely to be in possession of inside information, have been requested to comply with the provisions of the Model Code.

CORPORATE GOVERNANCE

Changes of Directors' Information Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of directors' information of the Company since the date of the 2013 annual report until the date of this interim report are as follows:

1. Ms. HU Gin Ing appointed as independent non-executive directors of New Heritage Holdings Ltd, a company listed on the Stock Exchange, with effect from 15 May 2014 and chief financial officer of Acer Inc., a company listed in the Taiwan Stock Exchange, with effect from 1 May 2014.
2. In addition to the director's fee of HK\$240,000 per annum payable to Mr. Hao as announced on 16 May 2014, Mr. Hao is entitled to receive a basic salary of HK\$720,000 per annum with discretionary bonus for acting as chairman of the Board with effect from 7 June 2014.

Save for the information disclosed above and as at the date of this interim report, the Company is not aware of any other change in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

GENERAL INFORMATION

Interim Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2014 (2013: nil).

Share Option Scheme

The Company adopted a share option scheme by written resolutions of the shareholders passed on 13 June 2004 (the “old share option scheme”). Taking into account of the old share option scheme expired on 13 June 2014, the Company terminated the old share option scheme and adopted the new share option scheme (the “new share option scheme”) pursuant to the ordinary resolution passed by the shareholders at the annual general meeting held on 6 June 2014 which complies with Chapter 17 of the Listing Rules. The old share option scheme was terminated and all outstanding options granted thereunder shall continue to be valid until 13 June 2014. Movement of options granted under the old share option scheme is set out below.

The purpose of the new share option scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the Group’s operations. The Company is of the view that the eligible participants are persons who may contribute to the growth and development of the Group through their services or investments. Whether the Company will grant any options to any of the eligible participants depends on many factors such as their interest in the shares, their business/working relationship with the Group, and their contribution that has or may have made to the Group etc. The general principle is the same for all eligible participants.

The rules of the new share option scheme provide that the Company may specify certain eligible participants to whom options shall be granted, the number of shares subject to each option and the date on which the options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the new share option scheme. There is no performance target specified in the new share option scheme though the Company may specify such performance target at the time of grant. The Company considers that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage eligible participants to acquire proprietary interests in the Company.

During the period ended 30 June 2014, no options were granted, exercised, cancelled or lapsed under the new share option scheme since its adoption.

GENERAL INFORMATION

During the six months ended 30 June 2014, no option has been granted (2013: nil) to participants to subscribe for shares of the Company and the movements of the share options granted under the old share option scheme were as follows:

Grantees	Date of grant	Exercise period	Number of share options					Percentage of total issued share capital of the Company as at 30 June 2014	
			Exercise price per share as at 30 June 2014	As at 1 January 2014	Grant during the period	Exercise during the period	Lapsed/ cancelled during the period		
			HK\$		(Note 3)	(Note 3)			
Consultant (Note 1)	21 December 2009	15 January 2010 to 13 June 2014	43,8576	18,585	—	—	(18,585)	—	—
Other participants (Note 2)	21 December 2009	7 January 2010 to 13 June 2014	43,8576	18,585	—	—	(18,585)	—	—
	15 March 2007	15 March 2007 to 13 June 2014	55,1534	208,467	—	—	(208,467)	—	—
Total				245,637	—	—	(245,637)	—	—

1. Dr. Wong Ying Ho, Kennedy, BBS, JP, resigned as Director on 29 November 2010 and was appointed as consultant of the Company. His interests in share options to subscribe for 18,585 shares of the Company were reclassified under the category of consultant. His options had been lapsed on 14 June 2014.
2. Other participants include the former director, Mr. Tsiang Hoi Fong, as he remains as director of certain subsidiaries of the Group. His options had been lapsed on 14 June 2014.
3. During the six months ended 30 June 2014, no options were granted, exercised or cancelled under the old share option scheme.

GENERAL INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 30 June 2014, none of the Directors or chief executives have interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and as known to the Company.

Discloseable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2014, the interests and short positions of those persons (other than a Director or chief executive of the Company disclosed above) holding 5% or more in the shares and underlying shares of the Company which (i) have been notified to the Company and recorded in the register required to be kept under Section 336 of the SFO; and (ii) informed the Company by the respective shareholders were as follows:

Name of Substantial Shareholder	Capacity	Nature of interest	Total number of Shares held	Approximate percentage of total issued share capital of the Company	Note
SMI Investment (HK) Limited	Beneficial owner	Beneficial interest	167,097,281	29.70%	Note 1
SMI Corporation Limited	Interested in controlled corporation	Corporate interest	167,097,281	29.70%	Note 1
Mr. Qin Hui	Interested in controlled corporation	Corporate interest	167,097,281	29.70%	Note 2
Loyal Concept Limited	Beneficial owner	Beneficial interest	91,026,342	16.18%	Note 3
Hanny Holdings Limited	Interested in controlled corporation	Corporate interest	91,026,342	16.18%	Note 3
Hong Kong Xinhu Investment Co., Limited	Beneficial owner	Beneficial interest	6,657,538	1.18%	Note 4
Xinhu Zhongbao Co., Limited	Interested in controlled corporation	Corporate interest	6,657,538	1.18%	Note 4

GENERAL INFORMATION

- Note 1* SMI Investment (HK) Limited is wholly-owned by SMI Corporation Limited (“SMI Corporation”), the shares of which are listed on the Stock Exchange. SMI Investment (HK) Limited is the beneficial owner of 167,097,281 shares. SMI Corporation is deemed to be interested in such 167,097,281 shares through SMI Investment (HK) Limited under the SFO. The Company was informed by SMI Corporation on 5 August 2014 that its interest had been increased to 168,597,281 shares through SMI Investment (HK) Limited, representing 29.97% of total issued share capital of the Company.
- Note 2* According to Individual Substantial Shareholder Notice filed by Mr. Qin Hui on 25 September, 2013, Mr. Qin is deemed to be interested in 167,097,281 shares through his 76.79% control in SMI Corporation. His interest in shares had been changed through SMI Corporation as disclosed in note 1 above.
- Note 3* Loyal Concept Limited is indirectly wholly-owned by Hanny Holdings Limited, the shares of which are listed on the Stock Exchange. Loyal Concept Limited is the beneficial owner of 91,026,342 shares. Hanny Holdings Limited is deemed to be interested in such 91,026,342 shares through Loyal Concept Limited under the SFO.
- Note 4* According to the Corporate Substantial Shareholder Notices filed by Hong Kong Xinhua Investment Co., Limited (“HK Xinhua”) and Xinhua Zhongbao Co., Limited (“Xinhua Zhongbao”) in July 2012, HK Xinhua was indirectly wholly-owned by Xinhua Zhongbao, the shares of which are listed on Shanghai Stock Exchange and HK Xinhua was the beneficial owner of 332,876,894 shares. Xinhua Zhongbao is deemed to be interests in such shares through HK Xinhua under the SFO. Such 332,876,894 shares were adjusted by share consolidation and rights issue in March 2013 to 6,657,538 shares. The Company was informed by Xinhua Zhongbao on 4 August 2014 that the total number of shares held by HK Xinhua was 39,945,228 shares after subscription of rights shares under the rights issue made in March 2013, representing 7.10% of the total issued share capital of the Company. The Company did not receive any corporate substantial shareholder notices from HK Xinhua and Xinhua Zhongbao reporting their current shareholding.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company has not redeemed any of its listed securities during the six months ended 30 June 2014.

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 June 2014.

Review of Interim Report

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2014 before they were tabled for the Board's review and approval and are of the opinion that such report complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Turnover	4	51,688	96,661
Direct costs		(69,174)	(128,222)
Gross loss		(17,486)	(31,561)
Other revenue	5(a)	71	110
Other net income	5(b)	8,402	(320)
Impairment loss:			
– intangible assets		–	(289,364)
– other financial assets		–	(15,954)
Administrative and other operating expenses		(19,958)	(25,915)
Loss from operations		(28,971)	(363,004)
Share of loss of an associate		–	(1,074)
Finance costs	6(a)	(1,425)	(54,587)
Loss before taxation	6	(30,396)	(418,665)
Income tax income/(expense)	7	97	(784)
Loss for the period		(30,299)	(419,449)
Attributable to:			
Equity shareholders of the Company		(28,256)	(418,141)
Non-controlling interests		(2,043)	(1,308)
Loss for the period		(30,299)	(419,449)
Loss per share			
Basic	9(a)	\$(0.05)	\$(5.82)
Diluted	9(b)	\$(0.05)	\$(5.82)

The notes on pages 21 to 44 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 — unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Loss for the period	(30,299)	(419,449)
Other comprehensive income for the period		
Items that may be reclassified subsequently to income statement:		
Exchange gain/(loss) on translation of financial statements of foreign operations	326	(116)
	326	(116)
Total comprehensive income for the period	(29,973)	(419,565)
Attributable to:		
— Equity shareholders of the Company	(27,930)	(418,257)
— Non-controlling interests	(2,043)	(1,308)
Total comprehensive income for the period	(29,973)	(419,565)

The notes on pages 21 to 44 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 – unaudited
(Expressed in Hong Kong dollars)

		At 30 June 2014 \$'000	At 31 December 2013 \$'000
	Note		
Non-current assets			
Fixed assets		1,452	902
Intangible assets	10	436,287	455,124
Goodwill		21,076	21,076
Interest in an associate		—	—
Other financial assets	11	15,954	15,954
		474,769	493,056
Current assets			
Inventories	12	457,962	460,995
Accounts receivable	13	28,856	27,244
Prepayments, deposits and other receivables		140,139	112,830
Amount due from an associate		6,182	5,245
Cash and cash equivalents	14	5,636	4,994
		638,775	611,308
Assets classified as held for sale		—	31,766
		638,775	643,074
Current liabilities			
Obligation under finance leases	15	(235)	—
Loan from a shareholder	16(a)	(21,039)	—
Other loans	16(b)	(13,026)	(42,232)
Accruals and other payables	17	(194,765)	(179,564)
Current taxation		(56,117)	(56,188)
Convertible notes	18	—	—
		(285,182)	(277,984)
Net current assets		353,593	365,090

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 — unaudited
(Expressed in Hong Kong dollars)

		At 30 June 2014 \$'000	At 31 December 2013 \$'000
	<i>Note</i>		
Total assets less current liabilities		828,362	858,146
Non-current liabilities			
Obligation under finance leases	15	(372)	—
Deferred tax liabilities		(6,285)	(6,468)
		(6,657)	(6,468)
NET ASSETS		821,705	851,678
CAPITAL AND RESERVES			
Share capital	19	438,795	438,795
Reserves		382,555	410,485
Total equity attributable to equity shareholders of the Company		821,350	849,280
Non-controlling interests		355	2,398
TOTAL EQUITY		821,705	851,678

The notes on pages 21 to 44 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 — unaudited
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the company											
	Share capital \$'000	Share premium \$'000	General reserve \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Exchange reserve \$'000	Equity component of convertible notes \$'000	Warrant reserve \$'000	Retained earnings/ (Accumulated losses) \$'000	Total \$'000	Non-controlling interests \$'000	Total \$'000
Balance at 1 January 2013	365,662	981,343	666	95	4,679	(20,856)	54,371	5,392	(407,186)	984,166	3,442	987,608
Loss for the period	—	—	—	—	—	—	—	—	(418,141)	(418,141)	(1,308)	(419,449)
Other comprehensive income	—	—	—	—	—	(116)	—	—	—	(116)	—	(116)
Total comprehensive income for the period	—	—	—	—	—	(116)	—	—	(418,141)	(418,257)	(1,308)	(419,565)
Issue of new shares upon rights issue (note 19(iii))	36,566	122,021	—	—	—	—	—	—	—	158,587	—	158,587
Capital reorganisation (note 19(iv))	(329,096)	—	—	—	—	—	—	—	329,096	—	—	—
Early redemption of convertible notes	—	—	—	—	—	—	(13,593)	—	10,593	(3,000)	—	(3,000)
Balance at 30 June 2013	73,132	1,103,364	666	95	4,679	(20,972)	40,778	5,392	(465,638)	721,496	2,134	723,630
Balance at 1 January 2014	438,795	1,092,929	—	95	13,198	966	—	5,392	(702,095)	849,280	2,398	851,678
Loss for the period	—	—	—	—	—	—	—	—	(28,256)	(28,256)	(2,043)	(30,299)
Other comprehensive income	—	—	—	—	—	326	—	—	—	326	—	326
Total comprehensive income for the period	—	—	—	—	—	326	—	—	(28,256)	(27,930)	(2,043)	(29,973)
Balance at 30 June 2014	438,795	1,029,929	—	95	13,198	1,292	—	5,392	(730,351)	821,350	355	821,705

The notes on pages 21 to 44 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 — unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Net cash used in operating activities	(19,382)	(18,367)
Net cash (used in)/generated from investing activities	(276)	195
Net cash generated from financing activities	20,300	33,450
Net increase in cash and cash equivalents	642	15,278
Cash and cash equivalents at beginning of period	4,994	35,830
Cash and cash equivalents at end of period	5,636	51,108

The notes on pages 21 to 44 form part of these financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They were authorised for issuance on 29 August 2014.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 December 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which term collectively includes HKASs and Interpretations issued by the HKICPA.

These interim financial statements are unaudited, but have been reviewed by the audit committee of the Company. The financial information relating to the year ended 31 December 2013 that is included in the interim financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's head office and principal place of business in Hong Kong. The auditor has expressed an unqualified opinion on those financial statements in their report dated 28 March 2014.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months period ended 30 June 2014 are the same as those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities;
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities;
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets;
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting; and
HK(IFRIC) — Int 21	Levies

The application of the above new Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3 SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resources and assess performance of the segment. For the periods presented, management has determined that no operating segment should be presented as the Group is only engaged in media related services. The Group's assets located and operating revenues derived from activities outside the People's Republic of China (the "PRC") are less than 10 per cent of the Group's assets and operating revenues, respectively. No geographical area information has been presented accordingly.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 TURNOVER

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
TV advertising income	46,632	96,661
TV program related income	5,056	—
	51,688	96,661

5 OTHER REVENUE AND OTHER NET INCOME

(a) Other revenue

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Interest income	5	110
Others	66	—
	71	110

(b) Other net income

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Gain on disposal of subsidiaries	8,404	37
Gain on disposal of fixed assets	—	85
Net exchange loss	(2)	(442)
	8,402	(320)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Interest on bank advances and other borrowings wholly repayable within five years	1,425	21,326
Interest on other borrowings wholly repayable after five years	—	163
Effective interest on convertible notes (Note)	—	33,098
Total finance costs	1,425	54,587

Note: For the period ended 30 June 2013, included in the amount is effective interest of approximately \$26,515,000 resulting from early redemption of the interest bearing convertible notes in the aggregate principal amount of \$150,000,000 due 2014 and 2015 issued by the Company to Smart Peace Development Limited and Star Group International Investment Limited respectively (notes 18(g) and 18(j)). These convertible notes are fully redeemed in the year ended 31 December 2013.

(b) Other items

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Amortisation of intangible assets	17,262	34,075
Depreciation of fixed assets	333	2,849

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 INCOME TAX INCOME/(EXPENSE)

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Current taxation — Hong Kong Profits Tax	—	—
Current taxation — Outside Hong Kong	86	1,002
Deferred taxation	(183)	(218)
	(97)	784

- (a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 June 2014.

No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2014 and 2013 as the Group did not earn any income subject to Hong Kong Profits Tax.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 INCOME TAX INCOME/(EXPENSE) *(continued)*

(b) The provision for PRC income tax is made as follows:

- For subsidiaries which are foreign investment enterprises located and operated in Shenzhen, the PRC, and approved for establishment prior to 16 March 2007 by the State Administration of Industrial and Commerce, the Corporate Income Tax Law of the PRC provides a five-year transition period during which the transitional rates are 18%, 20%, 22%, 24% and 25% for the years ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards, respectively. The PRC corporate income tax rate applicable to these subsidiaries is 25% for the six months ended 30 June 2013 and the periods thereafter. Profits of other subsidiaries established in the PRC are subject to PRC corporate income tax at 25%.
- Foreign enterprises with permanent establishment in the PRC are subject to PRC corporate income tax at a rate of 25% on a deemed profit basis on their PRC sourced income.

8 DIVIDENDS

No final dividend in respect of year ended 31 December 2013 and no interim dividend of six months ended 30 June 2014 were paid and declared during the current period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of \$28,256,000 (2013: \$418,141,000) and the weighted average number of 562,558,000 ordinary shares in issue during the period (2013: 71,818,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June 2014 '000	Six months ended 30 June 2013 '000
Issued ordinary shares at 1 January	562,558	4,687,981
Effect of rights issue	—	249,379
Effect of share consolidation	—	(4,865,542)
Weighted average number of ordinary shares at 30 June	562,558	71,818

(b) Diluted loss per share

The diluted loss per share for the six months ended 30 June 2014 and 2013 are the same as the basic loss per share as the outstanding share options, equity settled share-based transactions and conversion options for the convertible notes during the periods have anti-dilutive effect to the basic loss per share. The then status of condition was assumed unchanged and thus the condition of reset and adjustment were not met.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 INTANGIBLE ASSETS

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Purchased licence rights	411,145	429,253
Customer contract costs	25,142	25,871
	436,287	455,124

Purchased license rights with carrying value of \$302,710,000 as of 30 June 2013 were pledged for convertible notes with outstanding principal amount of \$75,000,000 (note 18(d)).

11 OTHER FINANCIAL ASSETS

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Available-for-sale equity securities — Unlisted	15,954	15,954

12 INVENTORIES

The inventories as at 30 June 2014 represent the cost of acquisition of certain scripts, synopses, publication rights, copyrights and editing rights. They are carried at the lower of cost and net realisable value.

No inventories were written off nor provided for during the period ended 30 June 2014 (2013: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 ACCOUNTS RECEIVABLE

The following is an ageing analysis of accounts receivable:

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Current	28,856	27,244

The credit terms offered by the Group are in accordance with the terms specified in each agreement entered into with the relevant customers, ranging from 3 to 15 months. Subject to negotiations, extended credit terms are available for certain major customers with well-established operating records. An ageing analysis of the receivable is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. As at 31 December 2013 and 30 June 2014, the Group assessed that all of the debtors and receivables are neither past due nor impaired.

14 CASH AND CASH EQUIVALENTS

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Cash at bank and in hand	5,636	4,994
Cash and cash equivalents in the balance sheet	5,636	4,994
Bank overdrafts	—	—
Cash and cash equivalents in the condensed consolidated cash flow statement	5,636	4,994

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 OBLIGATION UNDER FINANCE LEASES

As at 30 June 2014, the Group leases certain fixed assets. Such assets are generally classified as finance leases as the ownership of the assets will be transferred to the Group by the end of the lease terms.

As at 30 June 2014, future lease payments are due as follows:

	Minimum lease payments \$'000	Interest \$'000	Present value \$'000
Not later than one year	255	20	235
Later than one year and not later than five years	384	12	372
	639	32	607

The present value of future lease payments are analysed as:

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Current liabilities	235	—
Non-current liabilities	372	—
	607	—

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 LOAN FROM A SHAREHOLDER AND OTHER LOANS

(a) Loan from a shareholder

As at 30 June 2014, loan from a shareholder to the Group of \$21,039,000 (31 December 2013: Nil) is unsecured, interest-bearing at 10% per annum.

(b) Other loans

The other loans borrowed by the subsidiaries of the Company, are all repayable within one year, of which nil (31 December 2013: \$29,206,000) is secured while the remaining amount of \$13,026,000 (31 December 2013: \$13,026,000) is unsecured and interest-bearing at market prime rate per annum.

17 ACCRUALS AND OTHER PAYABLES

All accruals and other payable are expected to be settled within one year or payable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES

	Liability \$'000	Equity component of convertible \$'000	Warrant reserve \$'000	Total \$'000
At 1 January 2013	124,501	54,371	5,392	184,264
Effective interest for the year	40,219	—	—	40,219
Redemption of convertible notes	(164,720)	(54,371)	—	(219,091)
At 31 December 2013	—	—	5,392	5,392
At 1 January 2014	—	—	5,392	5,392
Effective interest for the period	—	—	—	—
Redemption of convertible notes	—	—	—	—
At 30 June 2014	—	—	5,392	5,392

- (a) During the year ended 30 September 2009, the Company entered into subscription agreements with Smart Peace Development Limited (“Smart Peace”), a wholly owned subsidiary of CCB International Asset Management Limited, and Star Group International Investment Limited (“Star Group”) pursuant to which the Company agreed to issue up to \$100,000,000 unlisted convertible notes (the “Notes to Smart Peace”) and unlisted warrants with exercise monies not more than \$100,000,000 to Smart Peace, and to issue up to \$50,000,000 unlisted convertible notes (the “Notes to Star Group”) and unlisted warrants with exercise monies not more than \$25,000,000 to Star Group (collectively, the “2009 Notes”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES *(continued)*

(a) *(continued)*

On 15 May 2009 and 7 August 2009, two tranches of the Notes to Smart Peace with principal amounts of \$50,000,000 each (“Tranche 1 Smart Peace Note” and “Tranche 2 Smart Peace Note”) were issued to Smart Peace. The Notes to Smart Peace bear interest at a rate of 5% per annum and handling fee of 3.5% per annum, payable semi annually in arrear with the first payment of interest and handling fee to be made on the date falling six months from the date of issue of such convertible notes.

On 18 November 2009 and 19 March 2010, two tranches of the Notes to Star Group with principal amounts of \$25,000,000 each (“Tranche 1 Star Group Note” and “Tranche 2 Star Group Note”) were issued to Star Group. The Notes to Star Group bear interest at a rate of 6-month Hong Kong Interbank Offered Rate (“HIBOR”) per annum and handling fee of 3.5% per annum, payable monthly in arrear.

The 2009 Notes will be redeemed at 100% of the principal amount plus any accrued and unpaid interest and handling fee, together with a redemption premium calculated at 6-month HIBOR plus 2.5% per annum of the principal amount on the maturity date, being the end of the fifth year from the date of issue. The 2009 Notes holders can, after the expiry of the first anniversary of the date of issue of the respective 2009 Notes, require the Company to redeem in whole or in part of the 2009 Notes plus any accrued and unpaid interest and handling fee, together with a redemption premium at 1.5% per annum, 6-month HIBOR plus 2% per annum, and 6-month HIBOR plus 2.5% per annum during the second, third and fourth year up to the maturity date since the issue date of the 2009 Notes, respectively.

The 2009 Notes are convertible into the Company’s ordinary shares at any time from the day falling on the 180th day after the date of issue up to the fifth business day prior to the maturity date at a conversion price of \$1.7014 per share (subject to reset and adjustment). On 31 December 2010, in accordance with the respective terms and conditions of the 2009 Notes, the conversion price of the 2009 Notes was reset to \$1.3778 per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES *(continued)*

- (b) During the year ended 30 September 2010, the Company entered into a subscription agreement with First Media Holdings, Limited (“First Media”) pursuant to which the Company agreed to issue up to \$120,892,924 unlisted convertible notes (the “First Media Notes”) and unlisted warrants (the “First Media Warrants”) to purchase additional 11,380,942 ordinary shares of the Company.

On 8 July 2010, the two series of the First Media Notes with principal amounts of \$30,223,231 (“Series A Notes”) and \$90,669,693 (“Series B Notes”) were issued to First Media.

The Series A Notes are non interest-bearing. The Series B Notes bear interest at a rate of 7% per annum. Interest is capitalised quarterly and payable in kind when First Media exercises the conversion option or redemption option.

The First Media Notes will be redeemed at 100% of the principal amount plus uncapitalised interest accrued. First Media is entitled at any time after the first anniversary of the date of issue to redeem the First Media Notes at an amount equal to the principal amount of the First Media Notes subject to redemption plus uncapitalised interest accrued.

The First Media Notes are convertible into the Company’s ordinary shares at any time from the date of issue of the First Media Notes to the maturity date, which is five years from the date of issue, at a conversion price of \$1.3278 per share (subject to reset and adjustments, and automatic conversion features in accordance with the subscription agreement with First Media).

- (c) On 13 December 2010, the Series A Notes with principal amount of \$30,223,231 was automatically converted into 22,760,000 ordinary shares at a conversion price of \$1.3278 per ordinary share in accordance with the subscription agreement with First Media. The remaining balances were settled in cash pursuant to the terms and conditions of the Series A Notes.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES *(continued)*

- (d) A fixed charge over the entire amount of issued share capital of the Company and guarantee given by certain subsidiaries of the Company are pledged for the 2009 Notes with outstanding principal amount of \$75,000,000 at 30 June 2013. At 30 June 2013, the aggregate net assets held by those subsidiaries amounted to \$3,384,000, consisting of purchased license rights with carrying value of \$302,710,000 which have been pledged to the aforesaid convertible notes by means of a debenture over all assets of such subsidiary which owns the purchased license rights as of 30 June 2013.
- (e) As a result of the rights issue of the Company which was completed in February 2012, the conversion prices of Series B Notes and 2009 Notes were adjusted to \$0.7161 and \$0.7431 respectively, and the subscription prices of First Media Warrants and warrants of 2009 Notes were adjusted to \$0.7161 and \$1.1110 respectively.
- (f) On 27 February 2012, the Company entered into a redemption deed with First Media to provide the Company with the rights, with the agreement of First Media, to redeem the Series B Notes on 2 April 2012 or such a later day that the Company and First Media may agree. The redemption price comprised of (i) the outstanding principal amount of the Series B Notes of \$90,699,693, (ii) an amount of \$10,627,000 representing the premium on early redemption, and (iii) all accrued interest.

The terms of the Series B Notes have been substantially modified by the redemption deed dated 27 February 2012 to the effect that the repayment amount would no longer be the principal amount plus accrued interest, but rather principal, plus redemption premium and accrued interest. Accordingly, there was an increase in the one-off finance costs (effective interest of \$50,000,000 and a one-off early redemption premium of \$10,627,000) for the fifteen months ended 31 December 2012.

On the same date, the fair value of the Series B Notes was remeasured as a result of the modification and a fair value gain of \$40,937,000 was recognised in profit or loss for the fifteen months ended 31 December 2012.

On 28 May 2012, the redemption of the Series B Notes was completed and no effective interest on the Series B Notes will be incurred thereafter.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 CONVERTIBLE NOTES *(continued)*

- (g) On 5 February 2013, the Company entered into a deed of undertaking with Smart Peace and Star Group, which requested the Company to redeem \$25,000,000 and \$12,500,000 respectively of the principal amounts of the convertible notes, together with any redemption premium and interests, to be paid on 3 April 2013. The actual redemption of these convertible notes issued to Smart Peace was completed on 29 April 2013 and 30 April 2013 for the principal amounts of \$20,000,000 and \$5,000,000 respectively. The actual redemption of these convertible notes issued to Star Group was completed on 10 May 2013, 16 May 2013 and 24 May 2013 for the principal amounts of \$5,000,000, \$5,000,000 and \$2,500,000 respectively.
- (h) As a result of the rights issue of the Company which was completed in March 2013, the conversion price of 2009 Notes was adjusted to \$7.11, and the subscription prices of First Media Warrants and warrants of 2009 Notes were adjusted to \$6.85 and \$10.63 respectively.
- (i) The Company received redemption notices on 10 July 2013 from Smart Peace and Star Group to redeem in full the remaining principals of \$75,000,000 and \$37,500,000 on 15 August 2013 and 9 August 2013 respectively. The actual redemption of these convertible notes was completed on 9 August 2013. The redemption amount comprised of the outstanding principal amount of \$112,500,000 and redemption premium and accrued interest of \$20,556,000.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 SHARE CAPITAL

Note	At 30 June 2014		At 31 December 2013	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
Authorised:				
Ordinary shares of US\$0.1 each	1,000,000	780,000	1,000,000	780,000
Issued and fully paid:				
At 1 January 2014/ 1 January 2013	562,558	438,795	4,687,981	365,662
Issue of new shares upon rights issue (i)	—	—	937,596	402,229
Capital reorganisation (ii)	—	—	(4,219,183)	(329,096)
Share consolidation (iii)	—	—	(843,836)	—
At 30 June 2014/ 31 December 2013	562,558	438,795	562,558	438,795

Notes:

(i) Issue of new shares upon rights issue

On 27 March 2013, the Company completed a rights issue pursuant to which 468,798,074 shares of US\$0.01 each were issued in the proportion of one rights share for every one ordinary share at a subscription price of \$0.35 per rights share. These newly issued shares rank pari passu in all respects with the existing ordinary shares. As a result of the rights issue, total consideration, net of related expenses, of \$158,587,000 was received. In addition, \$36,566,000 was credited to share capital and \$122,021,000 was credited to the share premium account.

On 7 August 2013, the Company completed a rights issue pursuant to which 468,798,070 shares of US\$0.1 each were issued in the proportion of five rights share for every one ordinary share at a subscription price of \$0.78 per rights share. These newly issued shares rank pari passu in all respects with the existing ordinary shares. As a result of the rights issue, total consideration, net of related expenses, of \$355,228,000 was received. In addition, \$365,663,000 was credited to share capital and \$10,435,000 was debited to the share premium account.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 SHARE CAPITAL (continued)

(ii) Capital reorganization

On 26 February 2013, the number of the Company's ordinary shares decreased by 4,219,182,674 to 468,798,074 as a result of a capital reorganization which comprised: (i) share consolidation whereby every ten issued and unissued shares of par value of US\$0.01 each was consolidated into one consolidated share of par value of US\$0.1 each; and (ii) reduction of issued share capital of the Company by the cancellation of US\$0.09 on each of the then issued consolidated shares such that the nominal value of each issued consolidated share was reduced from US\$0.1 to US\$0.01.

(iii) Share consolidation

On 9 July 2013, the number of the Company's ordinary shares decreased by 843,836,533 to 93,759,615 as a result of a share consolidation whereby every ten issued and unissued shares of par value of US\$0.01 each was consolidated into one consolidated share of par value of US\$0.1 each.

(iv) Terms of unexpired and unexercised share options at the balance sheet date are as follows:

Exercise period	Adjusted/original exercise price (Note)	Number of options outstanding	
		At 30 June 2014	At 31 December 2013 (Note)
15 March 2007 to 13 June 2014	\$55.1534/\$2.05	—	208,467
7 January 2010 to 13 June 2014	\$43.8576/\$1.63	—	18,585
15 January 2010 to 13 June 2014	\$43.8573/\$1.63	—	18,585
Outstanding at 30 June 2014/31 December 2013		—	245,637

Each option entitles the holder to subscribe for one ordinary share in the Company.

Note: The exercise price and number of outstanding share options were adjusted upon completion of the rights issue in the proportion of five rights share for every one existing share in August 2013.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 COMMITMENTS

(a) Commitments under operating leases

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Within one year	1,959	1,500
After one year but within five years	3,453	—
	5,412	1,500

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(b) Other commitments

Pursuant to the terms of the relevant agreements dated 30 August 2000 and 30 March 2001, the Group agreed to procure the required funding to a production house for the production of 6,000 hours of television programs. During the six months ended 30 June 2014, the Group did not procure any funding for the production of such television programs (2013: \$Nil). The total funding required for the remaining 5,713 hours (2013: 5,713 hours) is to be determined when individual projects for television program production are agreed and therefore is not quantifiable as at 30 June 2014.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 COMMITMENTS *(continued)*

(b) Other commitments *(continued)*

Pursuant to a supplementary agreement dated 11 November 2002 to the above agreements, should the production house not eventually receive the agreed funding in full, (1) the Group shall pay the shortfall in full, following which the Group will be entitled to the rights in relation to the relevant television program. If the Group cannot be entitled to such rights after paying the shortfall, the television production house shall repay the shortfall to the Group together with interest at a rate of 10% one year after the first round broadcasting of the television program; or (2) the Group shall pay an amount up to 15% of the shortfall, following which the production house will be entitled to the rights in relation to the relevant television program.

Pursuant to certain agreements of investment in film production and television programmes, the amount contracted but not provided for in the consolidated financial statements amounted to \$11,880,000.

21 CONTINGENT LIABILITIES

As at 30 June 2014, the Company has not issued any guarantees to banks in respect of banking facilities granted to its subsidiaries (31 December 2013: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Transactions with related parties

		Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
	<i>Note</i>		
Rental expenses paid and payable to related companies	(i)	—	613
Interest expense payable on loan from a shareholder	(ii)	686	164

Notes:

- (i) This represents rental expenses paid and payable in respect of leasing arrangements entered into with companies that are controlled by Dr. WONG Yu Hong, Philip, a director of the Company until 21 March 2012, and Dr. LEUNG Anita Fung Yee Maria, a director of the Company until 1 September 2013, and Hanny Group Management Limited ("Hanny"), a fellow subsidiary of Loyal Concept Limited, which is a substantial shareholder of the Company.
- (ii) This represents interest expenses paid and payable in respect of loans amounting to \$21,039,000 which was borrowed from a substantial shareholder, SMI Corporation Limited. These loans are repayable within one year and bear annual interest rate at 10%.

The interest expense for the six months ended 30 June 2013 represents interest expenses paid and payable in respect of loans amounting to \$10,364,000 which was borrowed from a substantial shareholder, Loyal Concept Limited. These loans are repayable within one year and bear annual interest rate at market prime rate. The loan was repaid during the year ended 31 December 2013.

The directors are of the opinion that the above transactions were all carried out in the ordinary course of business.

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in note 16(a).

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 PENDING LITIGATION

An action was commenced by a business partner against a subsidiary of the Group in December 2013 in Beijing People's Court in respect of an alleged settlement of sums payable to this business partner of approximately RMB29,460,000 (equivalent to approximately \$37,400,000), plus interest thereon.

The directors have confirmed that no settlement had been reached by the parties and no judgement on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the merits of the claim. But as of the date of this report, the possible outcome of the legal action is still uncertain.

The directors are of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's financial position.

24 POST BALANCE SHEET EVENTS

On 8 August 2014, the Company announced the followings:

Proposed change of domicile

The Company proposes to change the domicile of the Company from the Cayman Islands to Bermuda by way of deregistration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The implementation of the change of domicile will not affect the continuity of the Company and its listing status.

Proposed cancellation of share premium account

The Company proposes to cancel the entire amount standing to the credit of the share premium account of the Company and to transfer the credit arising from such cancellation to an account of the Company designated as the contributed surplus account of the Company before the change of domicile becoming effective. As at 30 June 2014, the Company has a credit balance of approximately \$1,092,929,000 standing in its share premium account.

An account of the Company designated as the contributed surplus account of the Company, subject to the approval of the shareholders at the extraordinary general meeting by way of special resolution, shall be the contributed surplus account of the Company within the meaning of the Bermuda Companies Act upon the change of domicile becoming effective.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 POST BALANCE SHEET EVENTS *(continued)*

Proposed capital reorganisation

The Company proposes to implement the capital reorganisation after the change of domicile becoming effective which involves the following:

- (i) the proposed share consolidation whereby every two (2) issued and unissued existing shares of US\$0.10 each in the existing share capital of the Company be consolidated into one (1) consolidated share of US\$0.20 each;
- (ii) the total number of consolidated shares in the issued share capital of the Company immediately following the share consolidation will be rounded down to a whole number and any fraction in the issued share capital of the Company arising from the share consolidation will be cancelled;
- (iii) the proposed re-denomination whereby the authorised and issued consolidated shares be re-denominated (at the exchange rate of US\$1.0 to \$7.8) to \$780,000,000 and \$438,795,000, respectively, such that the par value of each consolidated share will be changed from US\$0.20 to \$1.56;
- (iv) the proposed capital reduction whereby the par value of each issued adjusted share be reduced from \$1.56 to \$0.10 by cancelling the capital paid-up thereon to the extent of \$1.46 on each of the issued adjusted shares;
- (v) the proposed diminution and increase whereby subject to and forthwith upon the capital reduction taking effect, all the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital arising from the capital reduction) be cancelled and forthwith upon such cancellation, the authorised share capital of the Company be increased to \$1,000,000,000 by the creation of such number of additional new shares as shall be sufficient to increase the authorised share capital of the Company to \$1,000,000,000 divided into 10,000,000,000 new shares;
- (vi) the credits arising from the capital reduction, which amounted to approximately \$410,667,000 based on the number of the existing shares in issue on the date of this report, be transferred to the contributed surplus account; and

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 POST BALANCE SHEET EVENTS *(continued)*

Proposed capital reorganisation *(continued)*

- (vii) the amount standing to the credit of the contributed surplus account be applied to set off the accumulated losses of the Company by the amount of such credit or be applied in any other manner as may be permitted under the by-laws of the Company and all applicable laws of Bermuda.

Proposed rights issue

The Company proposed to issue 2,250,230,736 to 2,251,214,560 new ordinary shares of \$0.10 each by way of a rights issue in the proportion of eight rights shares for every ordinary share then held by qualifying shareholders at a subscription price of \$0.35 per rights share after the completion of the proposed capital reorganisation per above.