



SMI Culture & Travel Group Holdings Limited  
星美文化旅遊集團控股有限公司

SEHK Stock Code: 2366 | 香港聯合交易所股份代號: 2366

# Interim Report **2016**



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

- Mr. WANG Fei (*Chairman*)  
(appointed as director on 11 January 2016 and as Chairman on 4 July 2016)
- Mr. JIANG Feng (*President*)  
(appointed on 29 April 2016)
- Mr. WANG Hai Yun  
(retired on 3 June 2016)
- Mr. CHAN Chi To, Antony
- Mr. KONG Dalu
- Mr. HAO Bin (*ex-Chairman*)  
(resigned on 4 July 2016)

### Independent Non-executive Directors

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

## BOARD COMMITTEES

### Audit Committee

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

### Remuneration Committee

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

### Nomination Committee

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

### Executive Committee

- Mr. WANG Fei (*Chairman*)  
(appointed as chairman on 4 July 2016)
- Mr. CHAN Chi To, Antony
- Mr. WANG Hai Yun  
(ceased to act as member on 3 June 2016)
- Mr. HAO Bin (*ex-Chairman*)  
(resigned on 4 July 2016)

## AUTHORISED REPRESENTATIVES

- Mr. WANG Fei  
(appointed on 4 July 2016)
- Mr. CHAN Chi To, Antony
- Mr. HAO Bin  
(resigned on 4 July 2016)

## COMPANY SECRETARY

- Ms. MUI Ngar May

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

# CORPORATE INFORMATION

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITORS

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
Suites 3301-04, 33/F.,  
Two Chinachem Exchange Square  
338 King's Road  
North Point  
Hong Kong

## PRINCIPAL BANKERS

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

## LEGAL ADVISERS

*As to Hong Kong Law*  
Michael Li & Co.

*As to Cayman Islands Law*  
Conyers Dill & Pearman

*As to PRC Law*  
Duan & Duan

## 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 & Travel Group Holdings Limited (the “Company”) is pleased to present this 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 2016) to the shareholders of the Company. These results have been reviewed by the Company’s audit committee.

## Business Review

The Group principally engages in the investment in the production and distribution of films, investment in the production and distribution of television (TV) dramas and creation, production and distribution of new media contents, production and distribution of online and film advertisements, agency operation for films, directors, scriptwriters and artists, and tourism.

The Group has reaped fruitful results since its business restructuring as the film and TV drama investment has had its crops ripened. By leveraging its extensive industry network and acute market insight, the Group secured various major projects during the period. Among these projects are *The Mermaid* and *Ip Man 3* which has generated excellent returns for and enhancing the brand awareness of the Group.

According to 國家電影事業發展專項資金管理委員會辦公室, total box office receipts were RMB24.582 billion from January to June 2016, representing a year-on-year growth of approximately 21%, and the number of audiences soared to 723 million. The growth momentum continued, albeit at a slower rate compared to the previous year.

While the business of film and TV investment is moving on track, the Group is stretching out into the fields of agency and tourism. By tapping into the cultural tourism industry which is actively promoted by the Chinese government, the Group seeks to grasp the opportunities brought by the strong demand for cultural travels as the increasing consumption power in the country is foreseeable.

## Business Prospects

As predicted by 藝恩電影智庫, China will surpass the United States as the world’s largest box office in 2017, and the number of audiences will reach 1.93 billion. The Group is among the first to establish a business mix comprising film, TV and new media contents. It is believed that with the rapid development of the Chinese film industry and the opportunities presented in the global market, the Group will be able to yield a bountiful harvest in the next half of the year and onwards.

# CHAIRMAN'S STATEMENT

Looking forward, the Board is committed to producing commercial hits that deliver positive messages to the society with its prominent market position and ample resources, and increasing investment in influential films that will bring the Chinese films to a new horizon. Meanwhile, the Group will pursue active business development, including its tourism and agency businesses, in order to expand its income stream and bring its brand equity and resources into full play.

In July 2016, the Group announced the proposed change of the English and Chinese names of the Company from “SMI Culture Group Holdings Limited” to “SMI Culture & Travel Group Holdings Limited” and from “星美文化集團控股有限公司” to “星美文化旅遊集團控股有限公司” to better reflect the Group’s diversification into the cultural tourism business in China and overseas. In the opinion of the Board, the consumption power in the area of cultural travels in China is enormous and apart from the lucrative film and TV investment, this business will be the new key performance driver for the Group in the future and will offer remarkable returns for the shareholders.

## Appreciation

Following the resignation of Mr. HAO Bin on 4 July 2016, I have succeeded him as chairman of the Group. I would like to take this opportunity to thank Mr. HAO for his outstanding leadership as well as his loyalty and contributions to the Company over the past years.

Besides, my sincerest gratitude is extended to the management and staff for their dedicated efforts as well as the business partners and shareholders for their staunch support. Together with them we were able to overcome hardship and achieve success. Lastly, I would like to wish the Group continuing success in the future.

On behalf of the Board  
**SMI Culture & Travel Group Holdings Limited**  
**WANG Fei**  
*Chairman of the Board of Directors*

29 August 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## Review of Operations

The unaudited consolidated turnover of the Group was approximately HK\$397.1 million for the six months ended 30 June 2016, representing a 7-fold increase compared to HK\$48.7 million for the six months ended 30 June 2015. During the current period, the turnover came from the Group's return on investment in the production of films and television programmes of HK\$387.7 million (2015: HK\$16.0 million), and TV program related income of approximately HK\$9.4 million (2015: HK\$32.7 million). Gross profit for the period was HK\$125.6 million whereas the gross profit for the six months ended 30 June 2015 was HK\$12.7 million. The increase in gross profit for the period is mainly due to revenue increased from HK\$48.7 million for the six months ended 30 June 2015 to HK\$397.1 million for the period and the amortisation of the Group's intangible assets decreased from HK\$8.7 million for the six months ended 30 June 2015 to HK\$7.2 million for the period. Profit for the six months ended 30 June 2016 was HK\$31.9 million (whereas the loss for the six months ended 30 June 2015 was HK\$24.0 million). The profit for the current period was mainly arrived at after charging administrative and other operating expenses of HK\$21.1 million (2015: HK\$10.1 million) and finance costs of HK\$10.4 million (2015: HK\$5.0 million).

## Discontinued operation

The operating results of the discontinued operation for the Period were derived from the television and other advertising which ceased on 20 March 2015 when the voluntary windup of the WFOE. This is a move to spin off the non-profitable and non-core business from the Group and the Company will reduce its operational costs. The gain on disposal of discontinued operation amounted to approximately HK\$7.5 million.

## 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 2016, the Group's cash level stood at approximately HK\$15.6 million (31 December 2015: HK\$21.2 million). The balances are mainly in Hong Kong Dollar and Renminbi. During the six months ended 30 June 2016, the Group financed its operations mainly through internally generated resources and external borrowings. As at 30 June 2016, the Group had working capital calculated by current assets less current liabilities of approximately HK\$425.6 million (31 December 2015: HK\$378.9 million) and the current ratio increased to 1.8 against current ratio of 2.6 as at 31 December 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the Group had total borrowings in aggregate of approximately HK\$315.2 million (31 December 2015: HK\$50.0 million).

The gearing ratio (expressed as a percentage of total borrowings over total equity) was approximately 60.0% (31 December 2015: 10.1%).

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 2016, the Group had a total employees of 25 (31 December 2015: 28). 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

Details of pending litigation are set out in note 22 to the unaudited interim financial statements.

# CORPORATE GOVERNANCE

## Corporate Governance Practices

During the six months period ended 30 June 2016, 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. The chief executive officer of the Company has been vacant from 23 October 2013 until the appointment of Mr. Jiang Feng as president and executive director of the Company on 29 April 2016.

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the audit, remuneration and nomination committees of the Company could not attend the annual general meeting of the Company held in June 2016. In addition, all independent non-executive Directors could not attend a special general meeting held during the period under review to approve the transaction that required independent shareholders’ approval as provided for in the said code provision.

## 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 2016 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.

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

As at the date of this interim report, the Company is not aware of any 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 2016 (2015: nil).

## Share Option Scheme

The existing share option scheme of the Company (the “share option scheme”) which complies with Chapter 17 of the Listing Rules was adopted pursuant to the ordinary resolution passed by the shareholders at the annual general meeting held on 6 June 2014.

The purpose of the 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 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.

# GENERAL INFORMATION

Movements in the Company's share options granted under the share option scheme during the period are set out below :

Participants	Date of Grant	Exercise Period	Exercise Price (Note 2)	Number of Share Options					Approximate percentage of total issued shares of the Company as at 30.6.2016	
				Outstanding as at 1.1. 2016	Granted during the period	Exercised during the period	Lapsed/			Outstanding as at 30.6.2016
							Cancelled during the period	Outstanding as at 30.6.2016		
<b>Director</b>										
Mr. Jiang Feng (Note 1)	29-4-2016	30-4-2019 to 29-4-2025	HK\$0.58	–	20,000,000	–	(20,000,000)	–	–	

Notes:

1. The 20,000,000 share options granted to Mr. Jiang Feng were lapsed as such grant of share options was subject to approval by independent shareholders of the Company by way of an ordinary resolution and the said ordinary resolution was not passed at the special general meeting held on 24 June 2016.
2. The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 April 2016) was HK\$0.58.

Save as disclosed above, during the six months ended 30 June 2016, no options were exercised or cancelled under the share option scheme since its adoption.

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

As at 30 June 2016, none of the Directors or chief executives of the Company had 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.

# GENERAL INFORMATION

## Discloseable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2016, 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:

### Long positions in shares of the Company

Name of Substantial Shareholder	Capacity	Nature of interest	Total number of Shares held	Approximate percentage of total issued shares of the Company as at 30 June 2016	Note
SMI Investment (HK) Limited	Beneficial owner	Beneficial interest	236,039,581	29.14%	Note 1
SMI Holdings Group Limited	Interested in controlled corporation	Corporate interest	236,039,581	29.14%	Note 1
Mr. Qin Hui	Interested in controlled corporation	Corporate interest	236,039,581	29.14%	Note 2
Hong Kong Xinhua Investment Co., Limited	Beneficial owner	Beneficial interest	6,657,538	0.82%	Note 3
Xinhua Zhongbao Co., Limited	Interested in controlled corporation	Corporate interest	6,657,538	0.82%	Note 3

*Note 1* SMI Investment (HK) Limited is wholly-owned by SMI Holdings Group Limited (“SMI Holdings”), the shares of which are listed on the Stock Exchange. SMI Investment (HK) Limited is the beneficial owner of 236,039,581 shares. SMI Holdings is deemed to be interested in such 236,039,581 shares through SMI Investment (HK) Limited under the SFO.

*Note 2* According to Individual Substantial Shareholder Notice filed by Mr. Qin Hui on 22 July 2015, Mr. Qin is deemed to be interested in 236,039,581 shares through his 54.42% control in SMI Holdings.

*Note 3* 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 4.93% of the total issued shares of the Company as at 30 June 2016. The Company did not receive any corporate substantial shareholder notices from HK Xinhua and Xinhua Zhongbao reporting such shareholding interests.

## GENERAL INFORMATION

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any other persons who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

### **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 2016.

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 2016.

### **Review of Interim Report**

The audit committee of the Company has reviewed the interim report for the six months ended 30 June 2016 before it was 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 AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2016 HK\$'000	Six months ended 30 June 2015 HK\$'000
<b>Continuing operations</b>			
Revenue	3	397,105	48,716
Cost of sales		(271,460)	(36,012)
Gross profit		125,645	12,704
Other income	4(a)	166	9
Other expense	4(b)	(10,109)	(688)
Impairment loss recognised in respect of:			
— Intangible assets		(5,574)	(8,078)
Allowance for inventories		(15,524)	(13,532)
Administrative and other operating expenses		(21,110)	(10,081)
Finance costs	5(a)	(10,419)	(4,991)
Profit/(loss) before taxation	5	63,075	(24,657)
Taxation	6	(31,203)	(5,429)
Profit/(loss) for the period from continuing operations		31,872	(30,086)
<b>Discontinued operation</b>			
Profit for the period from discontinued operation	7	—	6,061
<b>Profit/(loss) for the period</b>		<b>31,872</b>	<b>(24,025)</b>
<b>Other comprehensive income/(expenses)</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		1,929	(369)
Total comprehensive income/(expenses) for the period		<b>33,801</b>	<b>(24,394)</b>

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

Note	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Profit/(loss) for the period attributable to:		
Owners of the Company		
— Continuing operations	<b>22,716</b>	(30,012)
— Discontinued operation	—	6,710
Non-controlling interests		
— Continuing operations	<b>9,156</b>	(74)
— Discontinued operation	—	(649)
	<b>31,872</b>	(24,025)
Total comprehensive income/(expenses) attributable to:		
Owners of the Company		
— Continuing operations	<b>24,645</b>	(30,381)
— Discontinued operation	—	6,710
Non-controlling interests		
— Continuing operations	<b>9,156</b>	(74)
— Discontinued operation	—	(649)
	<b>33,801</b>	(24,394)
Earning/(loss) per share (HK\$)		
From continuing and discontinued operations		
— basic and diluted	<b>0.03</b>	(0.04)

The notes on pages 19 to 40 form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		553	265
Intangible assets	10	101,846	114,633
		<b>102,399</b>	114,898
<b>Current assets</b>			
Inventories	11	236,714	252,238
Film rights investment	12	101,796	100,619
Trade and other receivables	13	606,310	238,741
Bank balances and cash	14	15,550	21,160
		<b>960,370</b>	612,758
<b>Current liabilities</b>			
Trade and other payables	16	95,231	90,646
Tax payable		124,425	93,222
Loan from a shareholder	15(a)	65,150	50,000
Other loans	15(b)	250,000	—
		<b>534,806</b>	233,868
<b>Net current assets</b>		<b>425,564</b>	378,890

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

	Note	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
<b>NET ASSETS</b>		<b>527,963</b>	493,788
<b>CAPITAL AND RESERVES</b>			
Share capital	17	8,101	8,101
Share premium and reserves		516,414	491,769
<b>Equity attributable to owners of the Company</b>		<b>524,515</b>	499,870
<b>Non-controlling interests</b>		<b>3,448</b>	(6,082)
		<b>527,963</b>	493,788

The notes on pages 19 to 40 form part of these financial statements.



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

Attributable to equity shareholders of the company

	Share capital	Share premium	General reserve	Capital redemption reserve	Capital reserve	Exchange reserve	Equity component of convertible notes	Warrant reserve	(Accumulated losses)/ Retained profits	Total	Non-controlling interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2015</b>	438,795	1,092,929	–	95	11,961	693	–	5,392	(1,261,547)	288,318	(168)	288,150
Loss for the period	–	–	–	–	–	–	–	–	(23,302)	(23,302)	(723)	(24,025)
Other comprehensive income	–	–	–	–	–	(369)	–	–	–	(369)	–	(369)
Total comprehensive income for the period	–	–	–	–	–	(369)	–	–	(23,302)	(23,671)	(723)	(24,394)
Capital reorganisation (note 17(ii))	(433,189)	(1,092,929)	–	–	–	–	–	–	1,526,098	–	–	–
Placement of shares (note 17(i))	2,475	190,417	–	–	–	–	–	–	–	192,892	–	192,892
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(4,851)	(4,851)
<b>Balance at 30 June 2015</b>	8,101	190,417	–	95	11,961	324	–	5,392	241,249	457,539	(5,742)	451,797
<b>Balance at 1 January 2016</b>	8,101	190,417	–	95	11,961	(123)	–	–	289,419	499,870	(6,082)	493,788
Profit for the period	–	–	–	–	–	–	–	–	22,716	22,716	9,156	31,872
Other comprehensive income	–	–	–	–	–	1,929	–	–	–	1,929	–	1,929
Total comprehensive income for the period	–	–	–	–	–	1,929	–	–	22,716	24,645	9,156	33,801
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	374	374
<b>Balance at 30 June 2016</b>	8,101	190,417	–	95	11,961	1,806	–	–	312,135	524,515	3,448	527,963

The notes on pages 19 to 40 form part of these financial statements.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 — unaudited  
(Expressed in Hong Kong dollars)

	<b>Six months ended 30 June 2016 \$'000</b>	Six months ended 30 June 2015 \$'000
Net cash used in operating activities	<b>(270,403)</b>	(100,274)
Net cash (used in)/generated from investing activities	<b>(357)</b>	22,514
Net cash generated from financing activities	<b>265,150</b>	112,892
Net (decrease)/increase in cash and cash equivalents	<b>(5,610)</b>	35,132
Cash and cash equivalents at beginning of period	<b>21,160</b>	8,789
Cash and cash equivalents at end of period	<b>15,550</b>	43,921

The notes on pages 19 to 40 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 2016.

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 2015, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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 2015 are available from the Company’s head office and principal place of business in Hong Kong. The auditor has expressed an unmodified opinion on those financial statements in their report dated 30 March 2016.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1 BASIS OF PREPARATION *(continued)*

On 20 March 2015, the Company voluntarily wind-up of the WFOE. Since then, the principal activities of the Group are the provision of cross-media services including investment in the production and distribution of films and TV programmes and related services. These interim financial statements have been prepared and the comparative figures have been re-presented to reflect the results of the discontinued business separately.

## 2 CHANGES IN ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015. In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKFRS10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars)*

## 3 REVENUE AND SEGMENT INFORMATION

The Group's operating segments, determined based on the information reported to the chief operating decision maker ("CODM"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

During the period ended 30 June 2015, the management has determined that no operating segment should be presented as the Group is only engaged in media related services.

During the period ended 30 June 2016, the management of the Group started the film investment and distribution business and the CODM re-organised the internal reports for resources allocation and performance assessment purposes into three operating divisions, which are stated as follows:

- Television program related business — sales of editing/publishing rights, scripts and synopses as well as licensing of purchased license rights over films and television drama series
- Television and other advertising — sales of television advertising air-times in PRC
- Film investment and distribution — distribution of and investment in film rights

As described in more detail in note 7, the Group discontinued a reportable and operating segment regarding the television and other advertising during the period. Accordingly, the segment information regarding its continuing operations reported below does not include the amounts for the television and other advertising.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment revenue and results

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

*For the period ended 30 June 2016*

	<b>Films investment and distribution HK\$'000</b>	<b>Television program related business HK\$'000</b>	<b>Total HK\$'000</b>
Revenue	<b>387,701</b>	<b>9,404</b>	<b>397,105</b>
Segment profit	<b>121,037</b>	<b>8,644</b>	<b>129,681</b>
Finance costs			<b>(10,419)</b>
Unallocated expenses			<b>(56,187)</b>
Profit before taxation			<b>63,075</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 3 REVENUE AND SEGMENT INFORMATION (continued)

### Segment revenue and results (continued)

For the period ended 30 June 2015

	Films investment and distribution HK\$'000	Television program related business HK\$'000	Total HK\$'000
Revenue	15,976	32,740	48,716
Segment profit/(loss)	4,170	(18,544)	(14,374)
Finance costs			(4,991)
Unallocated expenses			(5,292)
Loss before taxation (continuing operations)			(24,657)

All of the segment revenue reported above are from external customers.

Segment profit/loss represents the profit/loss incurred by each segment without allocation of unallocated other income and unallocated expenses (which mainly include central administration costs, director's emoluments, gain on disposal of subsidiaries) and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 4 OTHER INCOME (EXPENSE)

### (a) Other income

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Gain on disposal of subsidiaries	—	—
Interest income	2	1
Others	164	8
	<b>166</b>	9

### (b) Other expense

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Net exchange loss	<b>(10,109)</b>	(688)



# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

### (a) Finance costs

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Interest on bank advances and other borrowings wholly repayable within five years	<b>7,500</b>	2,762
Loan from a shareholder	<b>2,919</b>	2,229
Total finance costs	<b>10,419</b>	4,991

### (b) Other items

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Amortisation of intangible assets	<b>7,213</b>	8,700
Depreciation of fixed assets	<b>68</b>	126

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 6 INCOME TAX EXPENSE

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Current taxation — Hong Kong Profits Tax	—	—
Current taxation — Outside Hong Kong	<b>31,203</b>	5,429
	<b>31,203</b>	5,429

- (a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 June 2016.

No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2016 and 2015 as the Group did not earn any income subject to Hong Kong Profits Tax.

- (b) The provision for PRC income tax is made as follows:
- For subsidiaries which are foreign investment enterprises located and operated in 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.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 DISCONTINUED OPERATION

On 20 March 2015, Bounty Gain, the sole shareholder of wholly foreign owned enterprise (the “WFOE”) and subsidiary of the Company, voluntarily wind-up the WFOE. The WFOE is an indirectly non-wholly-owned subsidiary of the Company.

The WFOE is a wholly foreign owned enterprise established in Guangzhou, the PRC on 15 February 2011 with a registered capital of RMB100,000 (equivalent to approximately HK\$125,000). The approved duration of operation of the WFOE is 30 years commencing from 15 February 2011.

On 11 March 2011, the Company, via a wholly-owned subsidiary, agreed to acquire the effective majority control of the WFOE, which had become an exclusive consultancy service provider principally engaging in the television advertising agency business in the PRC.

The profit for the period from the discontinued operations is analysed as follows:

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Loss of discontinued operations for the period	—	(1,443)
Gain on disposal of discontinued operation (note 18)	—	7,504
	—	6,061

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 DISCONTINUED OPERATION (continued)

The results of the discontinued operations for the period from 1 January 2015 to 20 March 2015, which have been included in the consolidated statement of profit or loss and other comprehensive income, are analysed as follows:

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Revenue	—	22,618
Cost of sales	—	(22,950)
Gross loss	—	(332)
Other income	—	2
Administrative and other expenses	—	(1,113)
Loss before taxation	—	(1,443)
Taxation	—	—
Loss for the period	—	(1,443)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 7 DISCONTINUED OPERATION *(continued)*

Profit/(loss) before taxation from discontinued operations has been arrived at after charging (crediting):

	<b>Six months ended 30 June 2016 HK\$'000</b>	Six months ended 30 June 2015 HK\$'000
Depreciation of fixed assets	—	30
Amortisation of intangible assets	—	—
Interest income	—	(2)

During the year, the Disposal Group paid HK\$nil (2015: paid HK\$23,455,000) in respect of the Group's net operating cash flows, contributed HK\$nil (2015: contributed HK\$22,013,000) to investing activities and paid HK\$nil (2015: HK\$nil) in respect of financing activities.

## 8 DIVIDENDS

No final dividend in respect of year ended 31 December 2015 and no interim dividend of six months ended 30 June 2016 were paid and declared during the current period.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 9 EARNING/LOSS PER SHARE

### (a) Basic earning/loss per share

The calculation of basic earning per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$22,716,000 (2015: loss attributable to ordinary equity shareholders of the Company of HK\$23,302,000) and the weighted average number of 810,058,000 ordinary shares in issue during the period (2015: 632,183,000 ordinary shares), calculated as follows:

#### **Weighted average number of ordinary shares**

	<b>Six months ended 30 June 2016 '000</b>	Six months ended 30 June 2015 '000
Issued ordinary shares at 1 January	<b>810,058</b>	562,558
Effect of placement of shares	<b>—</b>	69,625
Weighted average number of ordinary shares at 30 June	<b>810,058</b>	632,183

### (b) Diluted earning/loss per share

The diluted earning/loss per share for the six months ended 30 June 2016 and 2015 are the same as the basic earning/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 earning/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

	<b>At 30 June 2016 HK\$'000</b>	At 31 December 2015 HK\$'000
Purchased licence rights	<b>101,846</b>	114,633

## 11 INVENTORIES

The inventories as at 30 June 2016 represent the cost of acquisition of certain scripts, synopses, publication rights, publishing rights and editing rights purchased by the Group, which are held by the Group for re-sale in the ordinary course of business. They are carried at the lower of cost and net realisable value.

An impairment loss of 15,524,000 was recognised for the period ended 30 June 2016 (2015: HK\$13,532,000) due to the continuous unsatisfactory results from the sale of these works.

## 12 FILM RIGHTS INVESTMENT

	<b>At 30 June 2016 HK\$'000</b>	At 31 December 2015 HK\$'000
As at 1 January	<b>100,619</b>	43,243
Additions	<b>258,525</b>	77,840
Recognised as an expense included in cost of sales	<b>(257,345)</b>	(20,464)
Exchange adjustment	<b>(3)</b>	—
As at 30 June/As at 31 December	<b>101,796</b>	100,619

The costs of film rights are recognised as an expense in cost of sales based on the proportion of actual income earned from a film during the year to the total estimated income from exhibition of the film attributable to the Group, according to the profit sharing ratio specified in the film investment agreements.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 13 TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2016 HK\$'000</b>	At 31 December 2015 HK\$'000
Trade receivables	<b>418,540</b>	171,381
Deposits, prepayments and other receivables	<b>187,770</b>	67,360
	<b>606,310</b>	238,741

The Group allows an average credit period of 90-180 days to its contract sales of editing rights.

Trade customers from the licensing income are allowed a credit period of 180 days from the date of signing the contracts.

Trade receivables from film investment income are usually received within 90 days after the related films have been withdrawn from circuit.

## 14 CASH AND CASH EQUIVALENTS

	<b>At 30 June 2016 HK\$'000</b>	At 31 December 2015 HK\$'000
Cash at bank and in hand	<b>23</b>	43
Cash and cash equivalents in the condensed consolidated statement of financial position and condensed consolidated cash flow statement	<b>15,527</b>	21,117



# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 15 LOAN FROM A SHAREHOLDER AND OTHER LOANS

### (a) Loan from a shareholder

As at 30 June 2016, loan from a shareholder to the Group of HK\$65,150,000 (31 December 2015: HK\$50,000,000) is unsecured, interest-bearing at 10% per annum.

### (b) Other loans

The other loans borrowed by the subsidiaries of the Company, are unsecured and interest-bearing.

## 16 TRADE AND OTHER PAYABLES

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

## 17 SHARE CAPITAL

	Note	At 30 June 2016		At 31 December 2015	
		Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<b>Authorised:</b>					
Ordinary shares of HK\$0.01 each		1,000,000	780,000	1,000,000	780,000
<b>Issued and fully paid:</b>					
At 1 January 2016/ 1 January 2015		810,058	8,101	562,558	438,795
Placement of shares	(i)	—	—	247,500	2,475
Cancellation of Share Premium Account and Capital reorganisation	(ii)	—	—	—	(433,169)
At 30 June 2016/ 31 December 2015		810,058	8,101	810,058	8,101

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 17 SHARE CAPITAL (continued)

Notes:

### (i) Placement of shares

A placement of 112,500,000 shares of the company at a price of HK\$0.64 per share was made with independent investors on 24 March 2015. The placing price represented a discount of approximately 3.03% to closing price of \$0.66 per share on 16 March 2015, and a premium of approximately 23.33% to the five trading days average closing price of HK\$0.48 per share on and immediately preceding 13 March 2015. Subsequently, 112,500,000 new ordinary shares of the company were issued at the same price per share. The net proceeds will be used for the repayment of liabilities and general working capital of the company.

A placement of 135,000,000 shares of the company at a price of HK\$0.93 per share was made with independent investors on 23 June 2015. The placing price represented a discount of approximately 16.96% to the closing price of HK\$1.12 per share on 2 June 2015 and a discount of approximately 15.45% to the five trading days average closing price of HK\$1.10 per share up to and including 1 June 2015. The net proceeds was used for general working capital of the company or to finance any future opportunities to be identified by the company.

### (ii) Cancellation of Share Premium Account and Capital reorganization

#### **Cancellation of Share Premium Account**

The Company cancelled the entire amount standing to the credit of the share premium account of the Company and to transfer the credits arising from such cancellation to an account designated as the contributed surplus account of the Company. The Company has a credit balance of approximately HK\$1,092,929,000 standing in its share premium account. The account designated as the contributed surplus account of the Company, shall be the contributed surplus account of the Company within the meaning of the Companies Act upon the Change of Domicile becoming effective.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 17 SHARE CAPITAL (continued)

Notes: (continued)

### (ii) Cancellation of Share Premium Account and Capital reorganization (continued)

#### **Capital Reorganisation**

The Company implemented the Capital Reorganisation after the Change of Domicile becoming effective which involves the following:

- (a) the Re-denomination whereby the authorised and issued Existing Shares be redenominated (at the exchange rate of US\$1.0 to HK\$7.8) to HK\$780,000,000 and HK\$438,794,993.52, respectively, such that the par value of each Existing Share will be changed from US\$0.10 to HK\$0.78 ("Adjusted shares");
- (b) the Capital Reduction whereby the par value of each issued Adjusted Share be reduced from HK\$0.78 to HK\$0.01 by cancelling the capital paid-up thereon to the extent of HK\$0.77 on each of the issued Adjusted Shares;
- (c) the 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 HK\$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 HK\$1,000,000,000 divided into 100,000,000,000 New Shares;
- (d) the credits arising from the Capital Reduction, which amounted to approximately HK\$433,169,417 based on the number of the Existing Shares in issue on 26 January 2015, be transferred to the Contributed Surplus Account; and
- (e) 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 bye-laws of the Company and all applicable laws of Bermuda.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 17 SHARE CAPITAL (continued)

Notes: (continued)

### (iii) Capital reorganization

Terms of unexpired and unexercised share options at the end of the reporting period are as follows:

Exercise period	Adjusted/original exercise price (Note)	Number of options outstanding	
		At 30 June 2016	At 31 December 2015 (Note)
15 March 2007 to 13 June 2014	HK\$55.1534/ HK\$2.05	—	—
7 January 2010 to 13 June 2014	HK\$43.8576/ HK\$1.63	—	—
15 January 2010 to 13 June 2014	HK\$43.8573/ HK\$1.63	—	—
Outstanding at 30 June 2015/31 December 2014		—	—

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.

## 18 DISPOSAL OF SUBSIDIARIES

On 26 April 2016, the Group entered into an agreement to dispose of some other subsidiaries to an independent third party for an aggregate consideration of HK\$8. The net assets of these subsidiaries disposed were HK\$572 and a net gain on disposal of these subsidiaries of HK\$600 was recognized.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 18 DISPOSAL OF SUBSIDIARIES (continued)

On 20 March 2015, the Group entered into an agreement to dispose of two other non-wholly owned subsidiaries (“Guangzhou Qin Chuang Group”) to an independent third party through winding up a wholly foreign owned enterprise. The subsidiaries were principally engaged in the television advertising agency business in the PRC. Following the completion of such disposal, the television and other advertising business was discontinued. The discontinued operations were disclosed in note 7. The disposal of subsidiaries was completed during the year ended 31 December 2015, a net gain on the disposal of such subsidiaries of HK\$7,504,000 were recognised. The aggregate net assets of these subsidiaries at its respective dates of disposal were as follows:

### Disposal of Guangzhou Qin Chuang Group in 2015

	HK\$'000
<b>Consideration:</b>	
Consideration	13,500
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	201
Trade and other receivables	40,852
Bank balances and cash	4,136
Bank overdraft	(12,649)
Accruals and other payables	(19,940)
Tax payable	(1,753)
Net assets disposed	<u>10,847</u>
Gain on disposal of subsidiaries:	
Consideration received	13,500
Net assets disposed of	(10,847)
Non-controlling interests	<u>4,851</u>
Gain on disposal of subsidiaries	<u>7,504</u>
Net cash inflow arising on disposal of subsidiaries:	
Consideration used to set off the other payable	–
Bank overdraft disposed	12,649
Cash and cash equivalents disposed	<u>(4,136)</u>
	<u>8,513</u>

The impact of Disposal Group on the Group's results and cash flows in the current and prior periods is disclosed in note 7.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 19 COMMITMENTS

### (a) Commitments under operating leases

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2016 HK\$'000</b>	At 31 December 2015 HK\$'000
Within one year	<b>997</b>	541
In the second to fifth years inclusive	<b>548</b>	—
	<b>1,545</b>	541

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.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 20 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

	Note	Six months ended 30 June 2016 HK\$'000	Six months ended 30 June 2015 HK\$'000
Interest expense payable on loan from a shareholder	(i)	2,919	2,229

Notes:

- (i) This represents interest expenses paid and payable in respect of loans amounting to HK\$65,150,000 (2015: HK\$50,000,000) which was borrowed from a substantial shareholder, SMI Holdings Group Limited. These loans are repayable within one year and bear annual interest rate at 10%.

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 15(a).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 21 ACQUISITION OF MINORITY INTEREST

In June 2016, the Group acquired 30% of the issued share capital of subsidiary for consideration of HK\$3. This acquisition has been accounted for using the purchase method. The subsidiary is engaged in the operation of models agency business. Those subsidiaries were acquired so as to continue the expansion of movie distribution business.

	HK\$'000
<b>Consideration transferred:</b>	
Cash	—
<b>Assets acquired and liabilities recognised at the date of acquisition are as follows:</b>	
Property, plant and equipment	93
Trade and other receivables and prepayments	279
Bank balances and cash	(95)
Trade and other payables and accruals	(649)
Taxation payable	(2)
	<u>(374)</u>
<b>Goodwill arising from acquisition:</b>	
Consideration transferred	—
Net liabilities acquired	374
	<u>374</u>
<b>Net cash outflow arising on acquisition of subsidiary:</b>	
Cash consideration paid	—
Less: Cash and cash equivalents balances acquired	(95)
	<u>(95)</u>

For the impairment testing on the goodwill, the entire carrying amount of goodwill has been allocated to the CGU which constitutes the models agency business. As this business is loss making and the directors of the Company do not expect a future positive cash flow from this CGU, a full impairment loss of HK\$374,000 was recognised in the profit or loss during the year.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars)*

## 22 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 RMB30,930,000 (equivalent to approximately HK\$36,112,000), 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. As of the date of this report, the eventual 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 consolidated financial position as a provision for the potential settlement of RMB30,930,000 (equivalent to approximately HK\$36,112,000) had been made.

## 23 EVENT AFTER THE REPORTING PERIOD

On 29 July 2016, the Company announced a proposed notes in the aggregate principal sum of HK\$315,000,000 and convertible bonds with an aggregate principal amount of HK\$35,000,000 and which carry conversion rights to convert up to 51,851,851 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to normal adjustment) during the Conversion Period. Details of the notes and convertible bonds are disclosed in the Company's announcements dated on 29 July 2016. Afterwards, all conditions precedent to the Subscription Agreement have been fulfilled and that Completion of the issue of the notes and convertible bonds took place on 8 August 2016.

On 8 August 2016, the Company jointly announced a proposed notes in an aggregate principal amount of HK\$200,000,000 and convertible bonds an aggregate principal amount of HK\$100,000,000 and which carry conversion rights to convert up to 148,148,148 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to adjustment) during the Conversion Period. Details of the notes and convertible bonds are disclosed in the Company's announcements dated on 8 August 2016. Afterwards, all conditions precedent to the Subscription Agreement have been fulfilled and that Completion of notes and convertible bonds took place on 8 August 2016. Afterwards, all conditions precedent to the Subscription Agreement have been fulfilled and that Completion of the issue of the notes took place on 9 August 2016.