



2017

INTERIM REPORT

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



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Chien-Chiang (*Chairman*)
(*re-designated from independent non-executive director to executive director and appointed as Chairman on 28 July 2017*)

Mr. YUAN Xin
(*appointed on 6 April 2017*)

Mr. KONG Dalu

Ms. YAO Qinyi

Mr. HUANG Zhengchao
(*appointed on 29 June 2017*)

Mr. ZHONG Naixiong (*ex-Chairman*)
(*resigned on 28 July 2017*)

Independent Non-executive Directors

Mr. RAO Yong
(*appointed on 20 January 2017*)

Mr. LIU Xianbo

Mr. ZHAO Xuebo
(*appointed on 28 July 2017*)

Mr. DU Jiang
(*resigned on 20 January 2017*)

BOARD COMMITTEES

Audit Committee

Mr. RAO Yong (*Chairman*)
(*appointed on 20 January 2017*)

Mr. LIU Xianbo

Mr. ZHAO Xuebo
(*appointed on 28 July 2017*)

Mr. WU Chien-Chiang
(*ceased on 28 July 2017*)

Mr. DU Jiang (*ex-Chairman*)
(*ceased on 20 January 2017*)

Remuneration Committee

Mr. RAO Yong (*Chairman*)
(*appointed on 20 January 2017*)

Mr. LIU Xianbo

Mr. ZHAO Xuebo
(*appointed on 28 July 2017*)

Mr. WU Chien-Chiang
(*ceased on 28 July 2017*)

Mr. DU Jiang (*ex-Chairman*)
(*ceased on 20 January 2017*)

Nomination Committee

Mr. LIU Xianbo (*Chairman*)
Mr. RAO Yong
(*appointed on 20 January 2017*)

Mr. ZHAO Xuebo
(*appointed on 28 July 2017*)

Mr. WU Chien-Chiang
(*ceased on 28 July 2017*)

Mr. DU Jiang
(*ceased on 20 January 2017*)

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. KONG Dalu
Ms. YAO Qinyi

COMPANY SECRETARY

Ms. MUI Ngar May

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

40/F., Sunlight Tower,
248 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited (formerly known as 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
Wing Lung Bank Limited
DBS Bank (HK) Limited

LEGAL ADVISERS

As to Hong Kong Law

Vivien Teu & Co LLP
Loong & Yeung

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" or "SMI") 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 2017 (the "Period")) 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, production and distribution of films; the investment, production and distribution of television (TV) dramas; the creation, production and distribution of new media contents; the production and distribution of online and film advertisements; the agency operation for film directors, scriptwriters and artists; and the tourism business.

Currently, investment in film and TV drama remains to be the main business of the Group. The development of the investment in film and TV drama business has matured and contributed significantly to the Group's results. Relying on the favorable conditions of the industry and the maturing market, the Group continued to actively develop the film investment business during the Period.

According to the preliminary figure of the The Film Bureau of the State Administration of Press, Publication, Radio, Film and Television of The People's Republic of China* (國家新聞出版廣電總局電影局), as of 30 June 2017, the national total box office receipts in the first half of the year amounted to RMB27.175 billion, representing a growth of 10.49% as compared with RMB24.594 billion in the same period of last year. A total of 221 films were shown in the first half of this year, which is 36 more than that in the same period of last year. In particular, 169 were domestic films, representing a year-on-year growth of 17.36%. The number of audience was 781 million, representing a year-on-year growth of 8.02%. Despite the slowdown in the overall growth rate when comparing with the previous year, the growth momentum has remained strong.

* for identification purpose only

CHAIRMAN'S STATEMENT

Riding on the growth momentum of the Chinese film and TV drama market, SMI has held on its development targets by focusing on the film investment business which has continued to contribute to the overall results for the Period. The Group has invested in and produced a number of films during the year, which included the 2017 New Year movie *Cook Up A Storm* (《決戰食神》) starred by Nicholas Tse and Jung Yong-hwa. The movie was produced by the Group jointly with Emperor Motion Pictures and Wanda Media, and was one of the domestic films scheduled for the Lunar New Year holidays. *77 Heartbreaks* (《原諒他77次》), a simple romance movie, invested by the Group jointly with Emperor Motion Pictures and iQiYi Pictures, directed by Herman Yau, starred by Charlene Choi and Pakho Chau, has accumulated a total box office receipts of approximately RMB6 million, after one week since its release on 15 June 2017. As of 19 July 2017, the total box office revenue was well over RMB75 million. A better result is expected at the final box office settlement, which will further extend the market influence of the Group's brand name.

With stable development in the business of film and TV investment, the Group has also started its active involvement in the development of the tourism business. The Group engages in domestic tourism business and is committed fully to the cultural and tourism industry which is actively promoted by the government, with an aim to capturing the enormous market opportunities driven by the increasing consumption power in the country.

Prospects

Due to the sustained economic development, the dominance of a sizable consumer market and the supports from government policies, the Chinese entertainment-cum-media industry remains at a stage of rapid development. The film industry will be the fastest growing industry in China in the next 5 years. As predicted by Entgroup Film Research Report* (藝恩電影智庫), China's annual box office receipts in 2017 will surpass that of the United States, and China will take the leading position in the global box office market with its total number of audience likely to reach 1.93 billion.

Facing the rapid development of the Chinese film industry and the opportunities presented in the global market, the Group is among the first to have successfully established a sizable business mix comprising film, TV and new media contents. It is believed that the Group will be able to yield bountiful results in the next half of the year and onwards.

* for identification purpose only

CHAIRMAN'S STATEMENT

Looking ahead, the Board is committed to producing commercial hits that can deliver positive messages to the society, on the foundation of its prominent market position and ample resources. Further effort will be made in increasing investments in movies with influence implications that will bring the Chinese films to a new horizon. Meanwhile, the Group will continue to implement its business development plan, which includes further efforts in promoting its businesses in tourism and entertainment, broadening its income sources, fully capturing the Group's brand value and consolidating resources.

The Board considers that the consumption potentials in relation to the cultural tourism industry in China will remain to be enormous, and apart from the lucrative film and TV investment projects, cultural tourism business will become a key performance driver for the Group in the future and will bring remarkable returns to the shareholders.

Appreciation

Following the resignation of Mr. Zhong Naixiong on 28 July 2017, I succeeded him as the chairman of the Group. I would like to take this opportunity to thank Mr. Zhong for his whole-hearted contributions to the Company in the past.

Besides, my sincerest gratitude is extended to the management and staff for their dedicated efforts, and to the business partners and shareholders for their staunch support. They have made it possible for the Group to overcome hardship and achieve outstanding performance. Lastly, I would like to wish the Group continuing success in the future.

On behalf of the Board
SMI Culture & Travel Group Holdings Limited
WU Chien-Chiang
Chairman of the Board of Directors

30 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the six months ended 30 June 2017, the unaudited consolidated turnover of the Group was approximately HK\$132.2 million (2016: HK\$397.1 million). Profit for the period was HK\$1.4 million (2016: HK\$31.9 million), administrative expenses were HK\$19.2 million (2016: HK\$21.1 million), impairment loss for intangible assets was HK\$4.1 million (2016: HK\$5.6 million), gain on fair value change of the embedded derivatives was HK\$27.4 million (2016: HK\$ nil), provision for inventories was HK\$12.5 million (2016: HK\$15.5 million), finance costs was HK\$29.6 million (2016: HK\$10.4 million) and income tax expense was HK\$11.0 million (2016: HK\$31.2 million).

Liquidity and Financial Resources

During the current period, the Group has consistently managed its liquidity and 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 2017, the Group's cash level stood at approximately HK\$579.1 million (31 December 2016: HK\$408.8 million). The balances are mainly denominated in Hong Kong Dollar and Renminbi. During the six months ended 30 June 2017, with cash in hand and banking and other facilities available, the Group has sufficient financial resources to satisfy its commitments and working capital requirements. As at 30 June 2017, the Group had working capital calculated by current assets less current liabilities of approximately HK\$706.6 million (31 December 2016: HK\$481.8 million) and the current ratio increased to 1.8 against current ratio of 1.5 as at 31 December 2016.

Gearing ratio (expressed as a percentage of the Group's total borrowings net of pledged deposits over total equity) was approximately 73.2% (31 December 2016: 139.3%).

Contingent Liabilities

As at 30 June 2017, the Group and the Company did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings Structure

As at 30 June 2017, the total borrowings of the Group amounted to HK\$572,484,000 (31 December 2016: HK\$786,365,000). Loan notes of an aggregate principal amount of HK\$450,000,000 with fixed coupon rate of 5% per annum, with the guarantee by SMI Holdings Group Limited ("SMI Holdings"), were outstanding as at 30 June 2017. The loan notes will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. Convertible notes of an aggregate principal amount of HK\$110,000,000 at a conversion price of HK\$0.675 per share with fixed coupon rate of 5% per annum, with the guarantee by SMI Holdings, were outstanding as at 30 June 2017. If the convertible notes have not been converted, they will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. No early redemption is allowed. All the borrowings of the Group are short-term in nature falling due within one year.

Mortgages and Charges

As at 30 June 2017, the Group had no significant mortgages and charges.

Exposure to Foreign Exchange Risk

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 arises.

Events after the Reporting Period

Detail of the events after the reporting period are set out in note 18 to the unaudited interim financial statements.

Employees and Remuneration Policies

As at 30 June 2017, the Group had a total staff of 18 employees (31 December 2016: 18 employees). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonus payments are discretionary and determined according to the Group's performance and the performance of the individual employees. The Group also provides employee benefits including retirement schemes, medical and dental insurance and share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Outlook

At present, while Chinese film market has entered a golden period of prosperous development, China's box office is expected to surpass that of the United States and become the global champion of box office receipts. With increasing influence of domestic films in the film market, 143 domestic films were released in the first half of 2017, representing an increase of nearly 20% over last year.

In March 2017, China introduced the Film Industry Promotion Law (《電影產業促進法》), which has significant influence on regulating the operation of the business and encouraging the creation of films. At a new starting point, the developments of the Chinese film industry and film market are expected to soar. With the strong growth momentum of the box office receipts and the support of favorable policies, the Group will continue to actively invest in film projects in the second half of the year.

In addition, Cook Up A Storm (《決戰食神》), a New Year movie starred by Nicholas Tse and Jung Yong Hwa in 2017, was produced by the Group jointly with Emperor Motion Pictures and Wanda Media, and was one of the films scheduled for the Lunar New Year holidays. Furthermore, the simple romance movie 77 Heartbreaks (《原諒他77次》), directed by Herman Yau and starred by Charlene Choi and Pakho Chau, was invested by the Group jointly with Emperor Motion Pictures and iQIYI Pictures, which accumulated a total box office receipts of approximately RMB6 million, after one week since its release on 15 June 2017. As of 19 July 2017, the total box office revenue of the film has exceeded RMB75 million. A better result is expected at the final box office settlement, which will further extend the market influence of the Group's brand name.

Looking ahead, the development of the film market will continue to be driven by the increasingly sophisticated and diversified theaters and more attractive domestic films. In addition to the focus on investment in and distribution of films, TV dramas, micro-movies and internet dramas, the Group will also leverage on its corporate advantages to capture the opportunity in expanding its presence in the business in relation to the cultural industry, and make further effort in promoting its businesses in tourism and entertainment, broadening its income sources and strengthening the strategic development of the Group.

Based on the above blueprint for future development, the Group will actively identify appropriate financing methods and investment opportunities to create greater investment returns for its shareholders and take a step further towards a leading position in the cultural industry in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Prospect

Due to the sustained economic development, the dominance of a sizable consumer market and the supports from government policies, the Chinese entertainment-cum-media industry remains at a stage of rapid development. The film industry will be the fastest growing industry in China in the next 5 years. As predicted by Entgroup Film Research Report* (藝恩電影智庫), China's annual box office receipts in 2017 will surpass that of the United States, and China will take the leading position in the global box office market with its total number of audience likely to reach 1.93 billion.

Facing the rapid development of the Chinese film industry and the opportunities presented in the global market, the Group is among the first to have successfully established a sizable business mix comprising film, TV and new media contents. It is believed that the Group will be able to yield bountiful results in the next half of the year and onwards.

Looking ahead, the Board is committed to producing commercial hits that can deliver positive messages to the society, on the foundation of its prominent market position and ample resources. Further effort will be made in increasing investments in movies with influence implications that will bring the Chinese films to a new horizon. Meanwhile, the Group will continue to implement its business development plan, which includes further efforts in promoting its businesses in tourism and entertainment, broadening its income sources, fully capturing the Group's brand value and consolidating resources.

The Board considers that the consumption potentials in relation to the cultural tourism industry in China will remain to be enormous, and apart from the lucrative film and TV investment projects, cultural tourism business will become a key performance driver for the Group in the future and will bring remarkable returns to the shareholders.

CORPORATE GOVERNANCE

Corporate Governance Practices

During the six months period ended 30 June 2017, 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 should be divided. The position of the chief executive of the Company has been vacant since the resignation of Mr. Jiang Feng as president on 11 November 2016. Until filling the position of chief executive, the executive Directors continue 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 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 2017. 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 2017 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.

GENERAL INFORMATION

Interim Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2017 (2016: 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 interests in the shares, their business/working relationships with the Group, and their contributions that have 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 Directors 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 share option scheme. There is no performance target specified in the share option scheme though the Directors may specify such performance target at the time of grant. The Directors 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

During the six months ended 30 June 2017, no options were outstanding, granted, exercised, cancelled or lapsed under the share option scheme since its adoption.

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.

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

As at 30 June 2017, 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.

Discloseable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2017, 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:

GENERAL INFORMATION

Long Position in shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Number of shares interested	Number of underlying shares interested pursuant to convertible bonds (Note 3)	Approximate percentage of total issued shares as at 30 June 2017
SMI Investment (HK) Limited (Note 1)	Beneficial owner	632,512,184	—	54.64%
Ever Ascend Investments Limited ("Ever Ascend") (Note 2)	Beneficial owner	9,587,038	111,111,111	10.43%

Note 1: SMI Investment (HK) Limited is wholly-owned by SMI Holdings. SMI Holdings is owned directly or indirectly as to approximately 62.00% by Mr. Qin Hui himself. Accordingly, each of Mr. Qin Hui and SMI Holdings is deemed to be interested in those shares held by SMI Investment (HK) Limited under the SFO.

Note 2: Ministry of Finance of the PRC (中華人民共和國財政部) is the direct controlling shareholder (holding 67.75%) of China Huarong Asset Management Co., Ltd. China Huarong Asset Management Co., Ltd. is the indirect controlling shareholder of Huarong International Financial Holdings Limited, which in turn is the indirect controlling shareholder of Ever Ascend. Huarong International Financial Holdings Limited, China Huarong Asset Management Co. Ltd. and Ministry of Finance of the PRC (中華人民共和國財政部) are deemed to have the same interest of 9,587,038 shares in the Company and 111,111,111 underlying shares in the Company through unlisted equity derivatives with physically settled as those owned by Ever Ascend by virtue of the SFO.

Note 3: The terms of the convertible bonds for underlying shares are set out in the announcement made by the Company on 8 August 2016.

Save as disclosed above, as at 30 June 2017, 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.

GENERAL INFORMATION

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 2017.

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 2017.

Review of Interim Results

The audit committee of the Company has reviewed the interim financial results for the six months ended 30 June 2017 before it was tabled for the Board's review and approval and are of the opinion that such interim financial information 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 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Revenue	3	132,234	397,105
Cost of sales		(67,156)	(271,460)
Gross profit		65,078	125,645
Other income	4(a)	33	166
Other expense	4(b)	(14,691)	(10,109)
Impairment loss recognised in respect of intangible assets		(4,119)	(5,574)
Fair value change of the embedded derivatives		27,397	—
Provision of inventories		(12,477)	(15,524)
Administrative expenses		(19,217)	(21,110)
Finance costs	5(a)	(29,551)	(10,419)
Profit before taxation	5	12,453	63,075
Taxation	6	(11,022)	(31,203)
Profit for the period		1,431	31,872
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		5,096	1,929
Total comprehensive income for the period		6,527	33,801

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Profit (Loss) for the period attributable to:			
Owners of the Company		2,411	22,716
Non-controlling interests		(980)	9,156
		1,431	31,872
Total comprehensive income (expenses) attributable to:			
Owners of the Company		7,507	24,645
Non-controlling interests		(980)	9,156
		6,527	33,801
Earnings (loss) per share (HK\$)	8		
– basic		0.003	0.028
– diluted		(0.018)	0.028

The notes on pages 21 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Non-current assets			
Property, plant and equipment		3,623	390
Intangible assets	9	72,281	82,372
		75,904	82,762
Current assets			
Inventories	10	183,043	226,849
Film rights investment	11	378,590	397,643
Trade and other receivables	12	412,754	444,368
Bank balances and cash		579,052	408,794
		1,553,439	1,477,654
Current liabilities			
Trade and other payables	13	122,189	68,337
Tax payable		152,164	141,142
Loan notes	14(i)	448,358	445,531
Convertible notes	14(ii)	107,950	159,573
Embedded derivatives	14(ii)	16,176	55,685
Other borrowing	14(iii)	—	125,576
		846,837	995,844
Net current assets		706,602	481,810

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
NET ASSETS		782,506	564,572
CAPITAL AND RESERVES			
Share capital	15	11,577	8,620
Share premium and reserves		772,725	556,768
Equity attributable to owners of the Company		784,302	565,388
Non-controlling interests		(1,796)	(816)
		782,506	564,572

The notes on pages 21 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 — unaudited (Expressed in Hong Kong dollars)

Attributable to equity shareholders of the company

	Capital						Retained profits	Sub-total	Non-controlling interests	Total
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Other reserve				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2016	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
Balance at 30 June 2016	8,101	190,417	95	11,961	1,806	—	312,135	524,515	3,448	527,963
Balance at 1 January 2017	8,620	234,241	95	11,961	(1,514)	(395)	312,380	565,388	(816)	564,572
Profit (loss) for the period	—	—	—	—	—	—	2,411	2,411	(980)	1,431
Other comprehensive income	—	—	—	—	5,096	—	—	5,096	—	5,096
Total comprehensive income (expenses) for the period	—	—	—	—	5,096	—	2,411	7,507	(980)	6,527
Issue of shares upon conversion of convertible notes	814	65,093	—	—	—	—	—	65,907	—	65,907
Placement of shares	2,143	143,357	—	—	—	—	—	145,500	—	145,500
Balance at 30 June 2017	11,577	442,691	95	11,961	3,582	(395)	314,791	784,302	(1,796)	782,506

The notes on pages 21 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited (Expressed in Hong Kong dollars)

	Six months ended 30 June 2017 \$'000	Six months ended 30 June 2016 \$'000
Net cash from/ (used in) operating activities	178,863	(272,332)
Investing activities		
Payment for purchase of intangible assets	(5,758)	—
Other net cash flows arising from investing activities	(888)	(357)
Net cash used in investing activities	(6,646)	(357)
Financing activities		
Increase in loans from shareholders	—	15,150
Increase in other loans	—	250,000
Repayment of other loans	(125,576)	—
Placement of shares	145,500	—
Finance cost paid	(26,979)	—
Net cash (used in)/from financing activities	(7,055)	265,150
Net increase (decrease) in cash and cash equivalents	165,162	(7,539)
Cash and cash equivalents at beginning of period	408,794	21,160
Effect of foreign exchange rate changes	5,096	1,929
Cash and cash equivalents at end of period	579,052	15,550

The notes on pages 21 to 34 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 for the six months ended 30 June 2017 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”).

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 2016, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 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 31 March 2017.

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.

The accounting policies applied are consistent with those of the Group's annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") effective for the financial year ending 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are relevant for the preparation of the Group's condensed consolidated financial statement:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above amendments to HKFRSs in the current interim period has had no material impact on the Group's results and financial position.

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.

Segment information reported externally was analysed on the basis of the following operating divisions, which are stated as follows:

- Television program related business — sales of editing rights
— licensing income from
purchased license rights
- Film investment — investment in film rights

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(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 2017

	Film investment HK\$'000	Television program related business HK\$'000	Total HK\$'000
Revenue	23,741	108,493	132,234
Segment profit/(loss)	(10,504)	44,721	34,217
Unallocated incomes			27,400
Finance costs			(29,551)
Unallocated expenses			(19,613)
Profit before taxation			12,453

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(Expressed in Hong Kong dollars)

3 REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

For the period ended 30 June 2016

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

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), 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

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Interest income	33	2
Others	—	164
	33	166

(b) Other expense

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Net exchange loss	(13,118)	(10,109)
Others	(1,573)	—
	(14,691)	(10,109)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Interest on:		
loan notes	13,779	—
convertible notes	4,810	—
other borrowing	10,962	—
bank advances	—	7,500
loan from a shareholder	—	2,919
Total finance costs	29,551	10,419

(b) Other items

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Amortisation of intangible assets	5,972	7,213
Depreciation of fixed assets	292,534	68

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 TAXATION

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Current taxation — Hong Kong Profits Tax	—	—
Current taxation — Outside Hong Kong	11,022	31,203
	11,022	31,203

- (a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2016: 16.5%) to the six months ended 30 June 2017.

No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2017 and 2016 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 DIVIDENDS

No final dividend in respect of year ended 31 December 2016 and no interim dividend of six months ended 30 June 2017 were paid and declared during the current period.

8 EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June 2017 HK\$'000	Six months ended 30 June 2016 HK\$'000
Earnings for the purposes of calculating basic earnings per share:		
Profit for the period attributable to owners of the Company	2,411	22,716
Effect of dilutive potential ordinary shares:		
Interest on convertible notes and fair value change of embedded derivatives	(22,587)	—
Earnings (loss) for the purpose of calculating diluted earnings (loss) per share	(20,176)	22,716

Weighted average number of ordinary shares

	Six months ended 30 June 2017 '000	Six months ended 30 June 2016 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	919,815	810,058
Effect of dilutive potential ordinary shares: convertibles notes	187,723	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,107,538	810,058

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 INTANGIBLE ASSETS

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Purchased licence rights	72,281	82,372

10 INVENTORIES

The inventories as at 30 June 2017 represent the cost of 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 HK\$12,477,000 was recognised for the period ended 30 June 2017 (2016: HK\$15,524,000) due to the continuous unsatisfactory results from the sale of these works.

11 FILM RIGHTS INVESTMENT

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
As at 1 January	397,643	100,619
Additions	5,758	582,882
Recognised as an expense included in cost of sales	(24,811)	(285,858)
As at 30 June/As at 31 December	378,590	397,643

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 period/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)

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Trade receivables	146,080	352,818
Deposits, prepayments and other receivables	266,674	91,550
	412,754	444,368

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

Trade receivables from the licensing income are usually received within 180 days from the date of signing of the contracts.

Trade receivables from film investment income are usually received within 90 days after receipt of box office certificate and profit sharing confirmation.

The following is an aging analysis of trade receivables presented based on the invoice date, contract date or receipt of box office certificate and profit sharing confirmation, as appropriate, at the end of the reporting period:

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
0-30 days	93,641	1,104
31-90 days	24,904	93,988
Over 90 days	27,535	257,726
	146,080	352,818

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 TRADE AND OTHER PAYABLES

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

The aging analysis of the Group's trade payables based on the invoice date at the end of the reporting period is as follows:

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
0-30 days	61	386
31-60 days	—	459
Over 60 days	2,098	5,243
	2,159	6,088

14 BORROWINGS

(i) Loan notes

The Group did not issue nor repay any loan notes during the current period. The maturity dates of the loan notes have been extended for one year to August 2018.

(ii) Convertible notes and embedded derivatives

The Group did not issue nor repay any convertible notes during the current period. The maturity dates of the convertible notes have been extended for one year to August and October 2018.

On 10 February 2017, a convertible note holder exercised the conversion rights to the extent of the principal amount of HK\$30,000,000 of the convertible notes at a conversion price of HK\$0.675 per share, and a total of 44,444,444 ordinary shares were then issued.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 BORROWINGS (continued)

(ii) Convertible notes and embedded derivatives (continued)

On 15 March 2017, a convertible note holder exercised the conversion rights to the extent of the principal amount of HK\$25,000,000 of the convertible notes at a conversion price of HK\$0.675 per share, and a total of 37,037,037 ordinary shares were then issued.

(iii) Other borrowing

The Group had fully repaid the other borrowing during the current period (31 December 2016: HK\$125,576,000).

15 SHARE CAPITAL

Note	At 30 June 2017		At 31 December 2016	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	100,000,000	1,000,000	100,000,000	1,000,000
Issued and fully paid:				
At 1 January 2017/				
1 January 2016	861,910	8,620	810,058	8,101
Issue of conversion shares (i)	81,481	814	51,852	519
Issue of new shares upon placement (ii)	214,285	2,143	—	—
At 30 June 2017/				
31 December 2016	1,157,676	11,577	861,910	8,620

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SHARE CAPITAL (continued)

Notes:

(i) Issue of conversion shares

On 11 November 2016, a convertible note holder elected to exercise the conversion rights to the extent of the principal amount of HK\$35,000,000 of the convertible note, for the conversion of 51,851,851 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.675 per share. The conversion was completed on 21 November 2016 and the premium on issue of shares amounting to approximately HK\$43,824,000 was credited to the Company's share premium amount.

On 10 February 2017, a convertible note holder elected to exercise the conversion rights to the extent of the principal amount of HK\$30,000,000 of the convertible note, for the conversion of 44,444,444 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.675 per share. The conversion was completed on 10 February 2017 and the premium on issue of shares amounting to approximately HK\$36,050,000 was credited to the Company's share premium amount.

On 15 March 2017, a convertible note holder elected to exercise the conversion rights to the extent of the principal amount of HK\$25,000,000 of the convertible note, for the conversion of 37,037,037 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.675 per share. The conversion was completed on 15 March 2017 and the premium on issue of shares amounting to approximately HK\$29,043,000 was credited to the Company's share premium amount.

(ii) Issue of new shares upon placement

A placement of 214,285,000 shares, with par value of HK\$0.01, of the Company at a price of HK\$0.70 per share was made with independent investors during the current period. The placement was completed on 30 June 2017 and the premium on the issue of ordinary shares amounting to HK\$143,357,000 net of issue costs of HK\$4,500,000 was credited to the Company's share premium account. The net proceeds was used for the repayment of liabilities and general working capital of the Company.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 COMMITMENTS

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:

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Within one year	4,591	—

The Group leases one property 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.

17 RELATED PARTY TRANSACTIONS

The Group had no significant transactions and balances with related parties during the current period.

18 EVENT AFTER THE REPORTING PERIOD

On 24 July 2017, the Company as the purchaser and SMI Holdings as the vendor entered into an agreement in relation to the purchase of the 100% equity interest and the loan amounting to approximately RMB31,842,000 (equivalent to approximately HK\$36,300,000) owed by the target group to SMI Holdings for a total consideration of RMB150,000,000 (equivalent to approximately HK\$171,000,000). Details of the transaction are disclosed in the Company's announcements dated on 24 July 2017 and 14 August 2017. As at the date of this report, the transaction has not yet been completed.