



星美文旅

SMI Culture & Travel Group Holdings Limited

星美文化旅遊集團控股有限公司

SEHK Stock Code : 2366

2018 INTERIM REPORT



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Chien-Chiang (*Chairman*)
M. YAO Qinyi
Ms. LI Kai

Independent Non-executive Directors

Mr. RAO Yong
Mr. LIU Xianbo
Mr. ZHAO Xuebo

BOARD COMMITTEES

Audit Committee

Mr. RAO Yong (*Chairman*)
Mr. LIU Xianbo
Mr. ZHAO Xuebo

Remuneration Committee

Mr. RAO Yong (*Chairman*)
Mr. LIU Xianbo
Mr. ZHAO Xuebo

Nomination Committee

Mr. LIU Xianbo (*Chairman*)
Mr. RAO Yong
Mr. ZHAO Xuebo

AUTHORISED REPRESENTATIVES

Ms. YAO Qinyi
Ms. LI Kai

COMPANY SECRETARY

Ms. Lai Wai Ha
(resigned on 8 June 2018)
Ms. Lo Wai Sum
(appointed on 8 June 2018)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite A1, 9th Floor, One Capital Place
No. 18 Luard Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

CORPORATE INFORMATION

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

Loong & Yeung

As to Bermuda 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 2018 (the "Period")) to the shareholders of the Company. These results have been reviewed by the Company's audit committee.

Business Review

The Group is principally engaged in the investment in the production and distribution of films, investment in the production and distribution of television 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, tourism and online ticketing platform operation.

In the first half of 2018, the Chinese film and television market continued to develop rapidly. According to the statistics of National Film Bureau, as at 30 June 2018, box office revenue of the country in the first half of the year was RMB32 billion, representing a year-on-year increase of 17.82%. The total number of people watching movies was about 900 million, representing an increase of 15.34% over the same period last year. A total of 242 films were released while domestic films accounted for 59.2% of total box office revenue. There were 9 films with box office revenue over RMB1 billion, including 5 domestic films. There were 41 films with box office revenue over RMB100 million, including 19 domestic films. Looking at the first half of 2018, domestically produced films led in box office receipts which climbed sharply from the same period last year.

The Group's business development benefited from the prosperity of the Chinese film and television market. In the first half of 2018, the Group continued to focus on film and television investment. The performance of the Group's main business is expected to continue to develop.

During the Period, the Group's film and television investment business came to fruition. The TV series "Shahai Veterans" invested by the Group was broadcasted during prime time on CCTV in March 2018, demonstrating the Group's investment and creativity level in TV dramas. The investment of the 48-episode TV series "Forging Knife 2" was launched in February 2018 and post-production was completed in May 2018. It is expected to be broadcasted this year. With the co-operation of National Defense University, the high-budget documentary "Forward! Forward! Forward!" has been completed and is expected to be broadcasted on TV stations during the year.

CHAIRMAN'S STATEMENT

During the Period, in light of the strong consumption market in Mainland China, the Group also actively expanded business in the cultural tourism industry which is favored by the state government, contemplated tourism projects and seek investment targets conducive to the Group's future growth. Moreover, as to the cultural and entertainment industry, the Group actively expands online ticketing services, including ticket sales for movies, concerts and travels. The business performance has steadily advanced. As a result, the Group's market share in Mainland China has gradually increased and its overall profitability and prospects have further improved.

Business Outlook

Since the beginning of this year, new policies of reform and opening of Mainland China have been introduced very frequently, thereby significantly driving the sustainable and high-quality development of the economy. The cultural and entertainment industry will continue to grow. At the same time, competition will intensify and the Group's development path will be full of challenges.

Looking ahead to the future, the Board of Directors will, on one hand, continue to leverage the advantages of industry resources, actively develop high-quality film and television projects, increase investment and produce attractive films and programmes to achieve good business performance for the Group and, on the other hand, under the development blueprint, the Group will continue to expand the revenue sources of IP development, online ticketing services and tourism, enhance the Group's brand value and improve its strength in resource integration and operation.

The Board of Directors considers that the potential of cultural entertainment and tourism consumption in the domestic market will continue to be substantial in the future. It believes that given the rich resources and the Group's proven management ability, future business performance and competitiveness are poised for further growth, thereby generating considerable investment returns to Shareholders.

CHAIRMAN'S STATEMENT

Appreciation

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

24 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the six months ended 30 June 2018, the unaudited consolidated turnover of the Group was approximately HK\$80.4 million (2017: HK\$132.2 million). Profit for the Period was HK\$2 million (2017: HK\$1.4 million), administrative expenses were HK\$15.4 million (2017: HK\$19.2 million), impairment loss for intangible assets was HK\$0.6 million (2017: HK\$4.1 million), impairment loss for film rights investments was HK\$0.4 million (2017: Nil), gain on fair value change of the embedded derivatives was HK\$10.4 million (2017: HK\$27.4 million), provision for inventories was HK\$1.9 million (2017: HK\$12.5 million), finance costs was HK\$35.3 million (2017: HK\$29.6 million) and income tax expense was HK\$1.7 million (2017: HK\$11.0 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 2018, the Group's cash level stood at approximately HK\$3.3 million (31 December 2017: HK\$6.1 million). The balances are mainly denominated in Hong Kong Dollar and Renminbi. During the six months ended 30 June 2018, 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 2018, the Group had working capital calculated by current assets less current liabilities of approximately HK\$595.6 million (31 December 2017: HK\$586.2 million) and the current ratio decreased to 1.6 against current ratio of 1.7 as at 31 December 2017.

Gearing ratio (expressed as a percentage of the Group's total borrowings net of pledged deposits over total equity) was approximately 72.0% (31 December 2017: 72.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 30 June 2018, the Group and the Company did not have any significant contingent liabilities.

Borrowings Structure

As at 30 June 2018, the total borrowings of the Group amounted to HK\$566,190,000 (31 December 2017: HK\$572,123,000). As at 30 June 2018, details of the Group's loan notes, convertible loan notes, embedded derivatives and debentures are set out in note 15 to the consolidated financial statements.

Mortgages and Charges

As at 30 June 2018, 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 17 to the unaudited interim financial statements.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total staff of 23 employees (31 December 2017: 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.

CORPORATE GOVERNANCE

Corporate Governance Practices

During the six months ended 30 June 2018, 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 separated. The position of the chief executive officer of the Company has been vacant for the period before 7 May 2018. During the period, the executive Directors continued to oversee the day-to-day management of the business and operation of the Group until Mr. Hao Bin was appointed as the Company’s chief executive officer on 7 May 2018.

Code provision E.1.2 of the CG Code requires the chairman of the board to attend the annual general meeting. Due to other business commitments, Mr. Wu Chien-Chiang, the chairmen, could not attend the annual general meeting of the Company held on 31 May 2018.

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 2018 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 2018 (2017: 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.

Pursuant to the share option scheme the Directors may, at their discretion, invite any full time or part time employees and Directors, consultants and advisers of the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares representing up to a maximum in nominal value of 30% of the issued share capital of the Company from time to time. The total number of shares available for issue under the share option scheme and other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of adoption of the share option scheme unless further shareholders’ approval has been obtained. The total number of shares to be issued upon exercise of the options to be granted (including both exercised and outstanding options) in any 12 months’ period up to the date of grant to a substantial shareholder or an independent non-executive Director or their associates would not exceed 0.1% of the shares in issue or an aggregate value of HK\$5,000,000 unless further shareholders’ approval has been obtained; and to each other eligible person would not exceed 1% of the shares in issue. The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part time), Directors, consultants and advisers of the Group and to promote the success of the business of the Group. The share option scheme shall be valid and effective for a period of ten years from 6 June 2014 (the “Scheme Period”). The exercise price of options shall be determined by the Board and shall not be less than the highest of the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the options and the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of offer and the nominal value of a share of the Company. An option may be exercised at any time during a period being not more than ten years from the date of grant and expiring at the close of business on the last day of such period but subject to the provisions of early termination hereof. There is no specific minimum period under the share option scheme for which an option must be held or the performance target which must be achieved before an option can be exercised.

GENERAL INFORMATION

During the six months ended 30 June 2018, 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 2018, 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 2018, 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 2018
SMI Investment (HK) Limited (Note 1)	Beneficial owner	829,185,517	–	63.01%
Ever Ascend Investments Limited (“Ever Ascend”) (Note 2)	Beneficial owner	9,072,037	111,111,112	9.13%

Note 1: SMI Investment (HK) Limited is wholly-owned by SMI Holdings Group Limited (“SMI Holdings”). SMI Holdings is owned directly or indirectly as to approximately 69.15% 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: Ever Ascend is wholly-owned by Huarong International Financial Holdings Limited (“Huarong Financial”) through Linewear Assets Limited. Camellia Pacific Investment Holding Limited, a corporation wholly-owned by China Huarong International Holdings Limited (“China Huarong”), held 51% interest in Huarong Financial. China Huarong is owned as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. (“Huarong Zhiyuan”) and as to 88.1% by Huarong Real Estate Co., Ltd. (“Huarong Real Estate”) whereas each of Huarong Zhiyuan and Huarong Real Estate is wholly-owned by China Huarong Asset Management Co., Ltd. (“Huarong Asset Management”). Ministry of Finance of the PRC (中華人民共和國財政部) is the direct controlling shareholder (holding 63.36%) of Huarong Asset Management. Accordingly, each of Linewear Assets Limited, Huarong Financial, Camellia Pacific Investment Holding Limited, China Huarong, Huarong Real Estate, Huarong Asset Management and Ministry of Finance of the PRC (中華人民共和國財政部) is deemed to be interested in the 9,072,037 shares and the 111,111,112 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 and 5 September 2016.

GENERAL INFORMATION

Save as disclosed above, as at 30 June 2018, 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 2018.

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 2018.

Review of Interim Results

The audit committee of the Company has reviewed the interim financial results for the six months ended 30 June 2018 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 2018 — unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Revenue	3	80,407	132,234
Cost of sales		(24,139)	(67,156)
Gross profit		56,268	65,078
Other income	4(a)	4	33
Other expense	4(b)	(4,082)	(14,691)
Impairment losses recognized for the following items:			
– Intangible assets		(560)	(4,119)
– Film rights investments	12	(406)	–
Provision of inventories	11	(1,859)	(12,477)
Fair value change of the embedded derivatives		10,391	27,397
Selling expenses		(5,305)	–
Administrative expenses		(15,439)	(19,217)
Finance costs	5(a)	(35,308)	(29,551)
Profit before taxation	5	3,704	12,453
Taxation	6	(1,719)	(11,022)
Profit for the Period		1,985	1,431
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		(1,495)	5,096
Total comprehensive income for the Period		490	6,527

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 — unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Profit (Loss) for the Period attributable to:			
Owners of the Company		1,987	2,411
Non-controlling interests		(2)	(980)
		1,985	1,431
Total comprehensive income (expenses) attributable to:			
Owners of the Company		492	7,507
Non-controlling interests		(2)	(980)
		490	6,527
Earnings (loss) per share (HK\$)			
– basic	8	0.002	0.003
– diluted		0.002	(0.018)

The notes on pages 19 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 — unaudited (Expressed in Hong Kong dollars)

		At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		1,048	2,387
Goodwill	9	95,721	95,721
Intangible assets	10	107,708	115,223
		204,477	213,331
Current assets			
Inventories	11	184,071	185,926
Film rights investments	12	810,211	810,617
Trade and other receivables	13	440,234	323,327
Amount due from a shareholder	16	66,399	91,918
Amounts due from a related company	16	35,277	35,746
Cash and cash equivalents		3,253	6,128
		1,539,445	1,453,662
Current liabilities			
Trade and other payables	14	199,268	124,080
Amounts due to directors	16	948	943
Amounts due to fellow subsidiaries	16	18,744	13,320
Tax provisions		158,707	156,952
Loan notes	15	449,513	448,725
Convertible loan notes	15	109,726	108,813
Embedded derivatives	15	4,194	14,585
Debentures	15	2,757	–
		943,857	867,418
Net current assets		595,588	586,244

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 — unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Total assets less current liabilities		800,065	799,575
Non-current liabilities			
Deferred tax liabilities		13,671	13,671
Net assets		786,394	785,904
Capital and reserves			
Share capital		13,160	13,160
Other reserves		774,903	774,411
Equity attributable to owners of the Company		788,063	787,571
Non-controlling interests		(1,669)	(1,667)
Total equity		786,394	785,904

The notes on pages 19 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 — unaudited (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the company								Total	
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Other reserve	Retained profits	Sub-total		Non-controlling interests
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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
Balance at 1 January 2018	13,160	555,107	95	11,961	28,326	(395)	179,317	787,571	(1,667)	785,904
Profit for the period	-	-	-	-	-	-	1,987	1,987	(2)	1,985
Other comprehensive income	-	-	-	-	(1,495)	-	-	(1,495)	-	(1,495)
Total comprehensive income for the period	-	-	-	-	(1,495)	-	1,987	492	(2)	490
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2018	13,160	555,107	95	11,961	26,831	(395)	181,304	788,063	(1,669)	786,394

The notes on pages 19 to 34 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 — unaudited (Expressed in Hong Kong dollars)

	Six months ended 30 June 2018 \$'000	Six months ended 30 June 2017 \$'000
Net cash from operating activities	3,074	178,863
Investing activities		
Payment for purchase of intangible assets	–	(5,758)
Other net cash flows arising from investing activities	4	(888)
Net cash from/(used in) investing activities	4	(6,646)
Financing activities		
Increase in debentures	2,743	–
Repayment of other loans	–	(125,576)
Placement of shares	–	145,500
Finance cost paid	(7,201)	(26,979)
Net cash used in financing activities	(4,458)	(7,055)
Net decrease (increase) in cash and cash equivalents	(1,380)	165,162
Cash and cash equivalents at beginning of period	6,128	408,794
Effect of foreign exchange rate changes	(1,495)	5,096
Cash and cash equivalents at end of period	3,253	579,052

The notes on pages 19 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 2018 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 2017, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 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 2017 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 29 March 2018.

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 2017, 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 2018.

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:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration
Amendment to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)

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.

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.

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
 - advertising income
- Ticketing system and IT technical service
 - Agency fee income
 - IT technical service

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 2018

	Film investment HK\$'000	Television program related business HK\$'000	Ticketing system and IT technical service HK\$'000	Total HK\$'000
Revenue	68,355	2,177	9,875	80,407
Segment profit/ (loss)	47,925	(7,002)	(723)	40,200
Fair value change of the embedded derivatives				10,391
Finance costs				(35,308)
Unallocated expenses				(11,579)
Profit before taxation				3,704

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 2017

	Film investment HK\$'000	Television program related business HK\$'000	Total HK\$'000
Revenue	23,741	108,493	132,234
Segment profit	(10,504)	44,721	34,217
Unallocated revenue			3
Fair value change of the embedded derivatives			27,397
Finance costs			(29,551)
Unallocated expenses			(19,613)
Profit before taxation			12,453

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 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Interest income	4	33

(b) Other expense

	Six months ended 30 June 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Net exchange loss	(4,082)	(13,118)
Others	-	(1,573)
	(4,082)	(14,691)

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 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Interest on:		
Loan notes	29,463	13,779
Convertible notes	5,764	4,810
Other borrowing	–	10,962
Debentures	81	–
Total finance costs	35,308	29,551

(b) Other items

	Six months ended 30 June 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Amortisation of intangible assets	6,955	5,972
Depreciation of fixed assets	1,387	292,534

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 TAXATION

	Six months ended 30 June 2018 HK\$'000	Six months ended 30 June 2017 HK\$'000
Current taxation – Hong Kong Profits Tax	–	–
Current taxation – Outside Hong Kong	1,719	11,022
	1,719	11,022

- (a) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended 30 June 2018.

No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2018 and 2017 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 2017 and no interim dividend of six months ended 30 June 2018 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:

	2018 HK\$'000	2017 HK\$'000
Earnings for the purposes of calculating basic earnings per share:		
Profit for the period attributable to owners of the Company	1,987	2,411
Effect of dilutive potential ordinary shares:		
Interest on convertible notes and fair value change of embedded derivatives	(4,627)	(22,587)
Earnings (loss) for the purpose of calculating diluted earnings (loss) per share	(2,640)	(20,176)

Weighted average number of ordinary shares

	Six months ended 30 June 2018 '000	Six months ended 30 June 2017 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,316,009	919,815
Effect of dilutive potential ordinary shares:		
Convertibles notes	162,963	187,723
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,478,972	1,107,538

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 GOODWILL

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Purchased goodwill	95,721	95,721

10 INTANGIBLE ASSETS

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Purchased licence rights	107,708	115,223

11 INVENTORIES

The inventories as at 30 June 2018 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\$1,859,000 was recognised for the period ended 30 June 2018 (2017: HK\$12,477,000) due to the continuous unsatisfactory results from the sale of these works.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 FILM RIGHTS INVESTMENT

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
As at 1 January	810,617	397,643
Additions	5,926	456,513
Recognised as an expense included in cost of sales	(5,926)	(37,049)
Impairment	(406)	(6,490)
As at 30 June/As at 31 December	810,211	810,617

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Trade receivables	226,179	149,469
Prepayments and deposits	14,083	9,237
Other receivables	199,972	164,621
	440,234	323,327

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 TRADE AND OTHER RECEIVABLES (continued)

The Group provides its trading customers with a credit period ranging from 0 to 270 days. These payments are from independent customers who have no recent history of default. The following is an ageing analysis of trade receivables based on the date of payment due:

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Current	83,322	27,297
Overdue for less than one month to three months	8,187	101,763
Overdue for more than three months but less than twelve months	131,110	14,663
More than one year	3,560	5,746
	226,179	149,469

14 TRADE AND OTHER PAYABLES

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Trade payables	24,950	7,770
Accrued expenses	38,347	11,610
Other payables	135,971	104,700
	199,268	124,080

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 TRADE AND OTHER PAYABLES (continued)

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 2018 HK\$'000	At 31 December 2017 HK\$'000
Current or less than one month	5,926	26
One to three months	10,690	–
Overdue for more than three months but less than twelve months	5,926	5,593
Overdue for more than twelve months but less than twenty-four months	2,408	2,151
	24,950	7,770

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 BORROWINGS

(i) Loan notes

The Group did not issue nor repay any loan notes during the current period.

(ii) Convertible notes and embedded derivatives

The Group did not issue nor repay any convertible notes during the current period and no conversion was made.

(iii) Debentures

The Group issued debentures during the current period at an interest rate of 7% per annum which were repayable within five years to seven years and six months. As at 31 December 2017, there was no debenture.

16 RELATED PARTY TRANSACTIONS

(a) Related parties balances

These amounts are unsecured, interest-free and are repayable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 RELATED PARTY TRANSACTIONS (continued)

(b) Related parties transactions

During the year, the Group entered into the following transactions with related parties:

Name of related party	Related party Relationship	Type of transaction	Transaction amount	
			At 30 June 2018 HK\$'000	At 30 June 2017 HK\$'000
Stella Mega Films Co., Ltd (星美影業有限公司)	Common Director	Film rights Income	-	23,741
Beijing Mingxiang International Cinema Mgt. Co., Ltd. (北京名翔國際影院管理有限公司)	Common director	Service income of online ticketing	2,830	-

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	At 30 June 2018 HK\$'000	At 30 June 2017 HK\$'000
Wages and salaries	5,541	3,848
Contributions on defined contribution retirement plans	-	-
	5,541	3,848

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 EVENT AFTER THE REPORTING PERIOD

On 7 and 8 August 2018, all notes were due. On 7 August 2018, convertible bonds with a principal amount of HK\$65,000,000 have expired. The Directors of the Company stated that the Company was in the process of extending the expiry date through fair negotiation.