INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE MEMBERS OF TELEVISION BROADCASTS LIMITED

(incorporated in Hong Kong with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

QUALIFIED OPINION

What we have audited

The consolidated financial statements of Television Broadcasts Limited (the "Company") and its subsidiaries (the "Group") set out on pages 124 to 212, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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BASIS FOR QUALIFIED OPINION

As further disclosed in notes 13(b) and 14 to the consolidated financial statements, as at 31 December 2018, the Group held a US$23 million (approximately HK$180 million) principal amount 9.5% unsecured redeemable fixed coupon bonds due in April 2020 (the "Fixed Coupon Bonds") and a US$83 million (approximately HK$650 million) principal amount 7.5% secured redeemable convertible bonds due in May 2020 (the "Convertible Bonds") (or collectively "Bonds"), both were issued by SMI Holdings Group Limited ("SMI", and together with SMI's subsidiaries hereinafter referred to as "SMI Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Fixed Coupon Bonds are recognised as financial assets at amortised cost while the Convertible Bonds are recognised as financial assets at fair value through profit or loss, both of which are classified as non-current assets in the consolidated statement of financial position. Under the subscription agreement of the Convertible Bonds and a related share charge agreement with SMI dated 7 May 2018, the Convertible Bonds are secured by way of a priority charge against 100% of the issued share capital of SMI International Cinemas Limited ("SMI International", an indirect wholly owned subsidiary of SMI) (the "Collateral"). Based on the 2017 annual report of SMI, SMI International is an investment holding company that owns 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"). Chengdu Runyun and its subsidiaries (together, the "Chengdu Runyun group") operates SMI's principal business as cinema operators in a number of cities in the People's Republic of China ("PRC").

Trading of SMI's shares has been suspended on the Stock Exchange since 3 September 2018 and has not been resumed as at the date of this report. The suspension of trading of SMI's shares for a period of more than ten consecutive trading days has triggered an event of default for both Bonds in accordance with the respective subscription agreements. SMI has made announcements that since its trading suspension, SMI and certain of its subsidiaries have defaulted in certain borrowings. SMI has also announced that it is in negotiations with its lenders and creditors in relation to debt restructuring including conversion of debts to equity.

As further described in note 13(b), management performed an impairment assessment of the Fixed Coupon Bonds using lifetime expected credit loss model, which estimated the eventual shortfall of cash recoverable from the Fixed Coupon Bonds. Based on management's impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180 million was recognised for the year ended 31 December 2018. The impairment assessment used key inputs based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors in view of SMI's recent announcements.

In addition, management performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the assessment performed on the Fixed Coupon Bonds as described in note 13(b) and the suspension of trading of SMI's shares, management considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, management has determined to perform a fair value assessment on the Collateral. Management has engaged an independent external valuer to perform a valuation of the Chengdu Runyun group using the discounted cash flow model under the income approach, which is further described in note 14. The fair value assessment has adopted certain key operating assumptions provided by SMI, including number of cinemas, cinema attendance rates, ticket price, market discount rate and terminal growth rates. Based on the fair value assessment, the Group recognised a fair value loss of HK$320 million on the Convertible Bonds for the year ended 31 December 2018.

Management considered that the information used in the above assessments represented the best available estimates despite the lack of latest financial and other information of SMI Group and Chengdu Runyun group. Management expects the Bonds are to be realised more than 12 months after 31 December 2018.

As of the date of this report, SMI has not announced its audited results for the year ended 31 December 2018 nor provided more details in its announcements about the extent of its liabilities and pledge of its assets against borrowings or its current status of operations. Management was not able to provide other sources of information nor were we able to have access to SMI, SMI International and Chengdu Runyun group to obtain collaborative evidence. We were therefore unable to obtain sufficient appropriate audit evidence we considered necessary to assess or corroborate the appropriateness of the key inputs and key assumptions adopted by management in their assessments, which included but not limited to (i) the latest audited financial information of SMI, SMI International and Chengdu Runyun group as at and for the year ended 31 December 2018; (ii) the latest equity interest of SMI International in Chengdu Runyun; (iii) other evidence to assess the current status and extent of SMI Group's pledge of assets, extent of its borrowings and the status of its debt restructuring; and (iv) other key operating assumptions about SMI Group and Chengdu Runyun group, which would impact the results of the impairment assessment of the Fixed Coupon Bonds and the fair value assessment of the Convertible Bonds.

Given the above scope limitation, there were no other satisfactory procedures that we could perform to determine whether the classification of financial assets at amortised cost of the Fixed Coupon Bonds and the financial assets at fair value through profit or loss of the Convertible Bonds as non-current assets were appropriate; and whether any adjustments to the carrying values of the Fixed Coupon Bonds carried at nil balance and the Convertible Bonds of HK$330 million and the corresponding impairment charge of HK$180 million and fair value loss of HK$320 million recognised respectively for the year then ended were necessary.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter identified in our audit is related to the programme costs and film rights.

Key Audit Matter	How our audit addressed the Key Audit Matter
Programme costs and film rights *Refer to notes 2, 4(d) and 24 of the consolidated financial statements* The programme costs and film rights recognised as an expense for the year ended 31 December 2018 was HK$1,810 million, representing the amortisation charges in respect of the programme cost and film rights, which constituted the largest single expense item charged to the consolidated income statement. In determining the allocation, timing and amount of the recognition of the programme costs and film rights, significant judgements and estimates were considered by the Group, in particular the following aspects: • Allocation of programme costs and film rights to each of the terrestrial broadcasting, digital new media and licensing and distribution market platforms with reference to their respective economic benefits brought to the Group. • Timing and amount of amortisation based on the expected consumption pattern, number of planned transmissions or duration of the license period, whichever is more relevant and prevailing.	We assessed whether the accounting policy of the Group in respect of the amortisation of programme costs and film rights was reasonable. This assessment included benchmarking the policy against industry practice. We also tested whether the accounting policy was consistently applied year on year. We gained an understanding of the rationale behind the basis of allocation and amortisation pattern and tested the design and implementation of controls over the recognition, allocation and amortisation of the programme costs and film rights. We also evaluated the Group's assessment as to whether the existing allocation and amortisation were in line with the consumption pattern and economic benefit in which the programme costs and film rights were consumed by reference to past experience and the consumption rate for similar types of programmes, and assessing the reasonableness of the projected viewership of the programmes that would likely be achieved over the broadcasting period. We obtained management's full list of programmes and film rights, checked the completeness of the list by agreeing the list to the records in the programmes system and tested the calculation of the amortisation for a sample of programmes and film rights. We found the assumptions and judgements made by the Group in respect of the allocation and amortisation of the programme costs and film rights to be supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the classification and carrying values of the investments in the Fixed Coupon Bonds and Convertible Bonds as at 31 December 2018 and the corresponding impairment charge and fair value loss recognised in the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the classification and carrying values of the investments in the Fixed Coupon Bonds and Convertible Bonds as at 31 December 2018 and the corresponding impairment charge and fair value loss recognised in the year as described in the Basis for Qualified Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

The engagement partner on the audit resulting in this independent auditor's report is Yau Lai Ting, Cecilia.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2019